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INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY (CPS)

FOR

ROMANIA

FOR THE PERIOD 2014-2017

April 28, 2014

Central Europe and the Baltic Countries
Europe and Central Asia Region

International Finance Corporation
Europe and Central Asia Department

The last Romania Country Partnership Strategy (CPS) Report No. 48665-RO was discussed by the Board of Executive Directors on June 12, 2009, and the last Romania CPS Progress Report No. 60255-RO was dated November 28, 2011.

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
APL	Adaptable Program Loan
CAP	Common Agricultural Policy
CEM	Country Economic Memorandum
CESAR	Complementing EU Support for Agriculture Restructuring Project
CPS	Country Partnership Strategy
CPSCR	Country Partnership Strategy Completion Report
DDO	Deferred Dropdown Option
DPL	Development Policy Loan
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
EIB	European Investment Bank
ESW	Economic and Sector Work
EU	European Union
FDI	Foreign Direct Investments
FR	Functional Review
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Greenhouse Gases
GSG	General Secretariat of the Government
IBRD	International Bank for Reconstruction and Development
IACS	Integrated Administration and Control System
ICR	Implementation Completion Report
ICR ROSC	Insolvency and Creditor/Debtor Regimes Report on Observance of Standards and Codes
ICT	Information Communications Technology
IDF	Institutional Development Fund
IFC	International Finance Corporation
IFI	International Financial Institution
IL	Investment Loan
JRP	Judicial Reform Project
IMF	International Monetary Fund
INPCP	Integrated Nutrient Pollution Control Project
IPF	Investment Project Financing
MAKIS	Modernizing Agricultural Knowledge Information System
M&E	Monitoring and Evaluation
MIGA	Multilateral Investment Guarantee Agency
MTEF	Medium Term Expenditure Framework
NBR	National Bank of Romania
NPL	Non-performing Loan
OECD	Organization for Economic Cooperation & Development
PEIR	Public Expenditures and Institutional Review
PFM	Public Financial Management
PPP	Public Private Partnership
RAMP	Revenue Administration Modernization Project
RAS	Reimbursable Advisory Services
RO	Romania
SASMP	Social Assistance System Modernization Project
SDR	Special Drawing Rights
SIP	Social Inclusion Project
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
TA	Technical Assistance
US$	US Dollar
WBG	World Bank Group

CURRENCY EQUIVALENTS

Currency unit: Romanian New Lei (RON) as of February 26, 2014

US$1 = RON 3.2874

ROMANIA FISCAL YEAR	**WORLD BANK FISCAL YEAR**
January 1 - December 31	July 1 – June 30

This Country Partnership Strategy (CPS) was prepared under the guidance of Mamta Murthi (IBRD Country Director) and Tomasz Telma (IFC Regional Director). The IBRD team was led by Ismail Radwan (Country Program Coordinator) and Elisabetta Capannelli (Country Manager for Romania). The IFC team was led by Ana Maria Mihaescu (Manager, CEURO) and Kartick Kumar (Strategy Officer, CEUST). MIGA participation was led by Franciscus J. Linden (Senior Risk Management Officer).

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The Bank team would especially like to thank counterparts at the Ministry of Public Finance for their continuous support and cooperation.

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ROMANIA COUNTRY PARTNERSHIP STRATEGY FY14-17

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I. OVERVIEW

1. **The objective of this CPS is to help reduce poverty in Romania and foster sustainable income growth for the bottom 40 percent of the population.** These goals will be achieved in the context of Romania's economic convergence process within the EU and the EU2020, "smart sustainable and inclusive" agenda.

2. **The World Bank Group has forged a strong partnership of trust with Romania.** The country has become a major borrower from the WBG, and has the largest program of reimbursable advisory services (RAS). Romania also became the 173rd member of IDA in April 2014. Romania makes full use of all the Bank's instruments and IFC has an extensive program of US$600m focused on banking, infrastructure and health. The WBG is complementary to and coordinates closely with the European Commission (EC), the International Monetary Fund (IMF), and other financing institutions.

3. **EU accession has been good for growth and poverty reduction in Romania.** Between the year 2000 (when EU negotiations to join the EU began) up to the global financial crisis of 2008, Romania grew at an average of 6 percent per annum: a rate that resulted in moving from 27 to 48 percent of the EU average income per capita. The growth was shared broadly with the bottom two quintiles growing faster than the average.

4. **The financial crisis halted progress in poverty reduction and growth of incomes for the bottom forty percent, making progress on this agenda will require a more sustainable growth pattern** underpinned by job creation in areas such as manufacturing, tradable services, and energy products. Such a new growth model will in turn require: (i) a well-functioning public sector; (ii) a strong business environment, access to credit, a skilled labor force and lifelong learning to ensure participation by aging workers; and (iii) policies to reach out to excluded groups that have not been able to participate in the labor market and have not benefited from social policies, particularly marginalized communities such as the Roma.

5. **The CPS is fully aligned with the WBG's twin goals and the ECA regional strategy**. Romania remains among the poorest countries in the EU with a GDP per capita of US$8,560 in 2012 similar to countries in the Western Balkans and less than Turkey. Although poverty rates have come down significantly since joining the EU, they remain high: close to a third live below the ECA poverty line of US$5 per day. The ECA Regional Strategy supports inclusive and sustainable growth through a focus on competitiveness, inclusion, and climate change, and a renewed emphasis on governance as a cross-cutting theme.

6. **Our lending program focuses where we can contribute most to achieving the twin goals.** During the CPS period, WBG lending will consist of a single DPL (part of a programmatic series) and 1-2 Investment Project Financing (IPFs) per year only (with an initial focus on the social sectors). The strategy will focus on selective engagement in the three areas presented below. IFC and MIGA will focus efforts on the growth and social inclusion pillars. These areas are based on detailed analytical work and extensive local consultation (see Annexes 12 and 13).

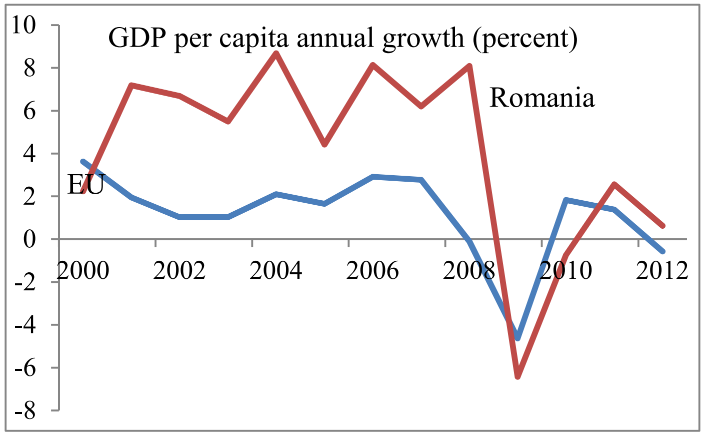
(i) Creating a 21st century government;
(ii) Growth and job creation;
(iii) Social inclusion.

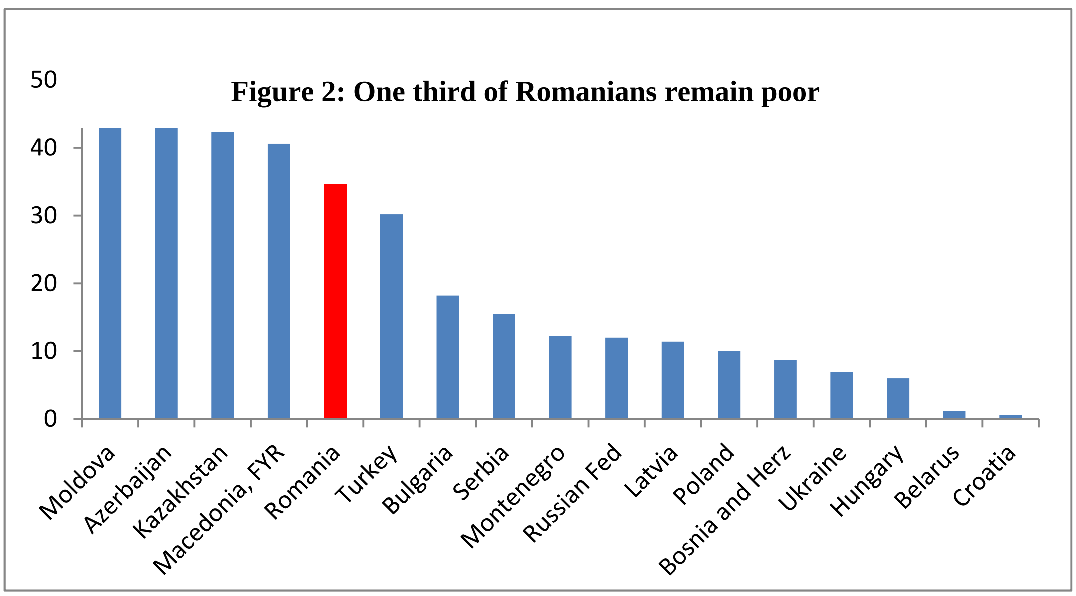
II. ROMANIA: ECONOMIC, SOCIAL AND POLITICAL CONTEXT

A. ECONOMIC AND SOCIAL CONTEXT

7. **The transformation associated with EU accession has been good for growth**. Negotiations for Romania to join the EU began on February 15, 2000. Between then and 2009, GDP per capita growth averaged more than 6 percent per annum, and per capita income (PPP) grew from about 27 percent of the EU average to 48 percent. Growth was fueled by a reallocation of labor from less productive sectors especially agriculture, to construction and services. Employment in construction grew quickly (8.3 percent per year), doubling from 4 to 8 percent of total employment, as it absorbed low-skilled migrants from rural areas who also moved into other non-tradable service sectors. Foreign direct investment, short-term debt, mainly in construction and services contributed to growth up until the crisis.

Figure 1: Romania rebounding from the crises

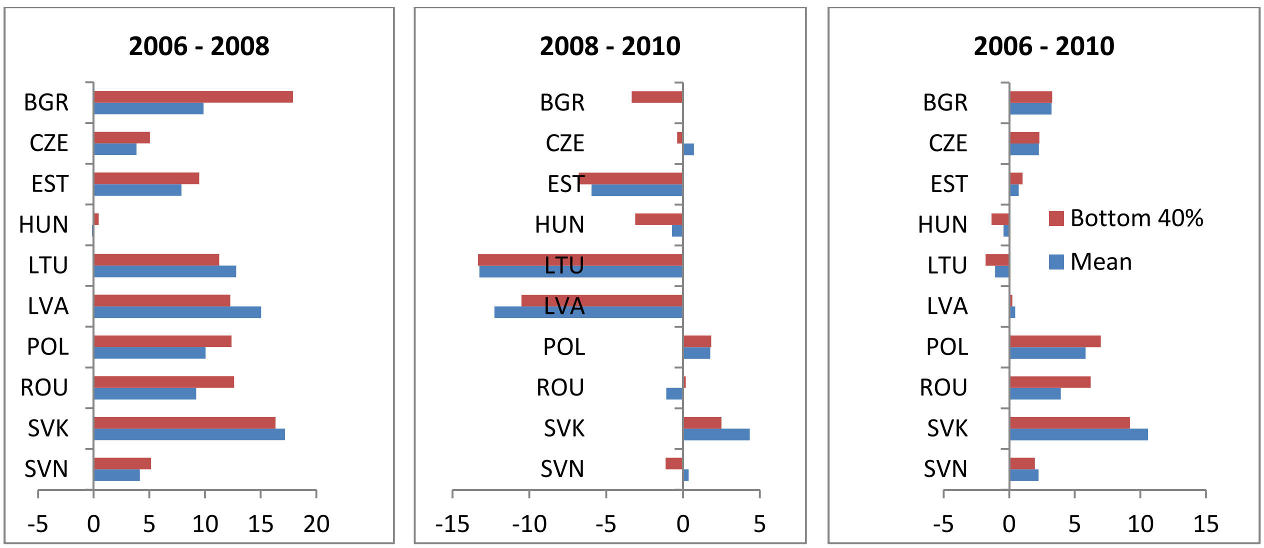




8. **Since EU accession, growth has contributed significantly to poverty reduction, but almost a third of Romanians still live in poverty**. The absolute poverty rate—based on the ECA regional poverty line of US$5 per person per day (2005 USD PPP) fell from 44 percent in 2006 to 33 percent in 2008. The sharp decline in absolute poverty over this period was observed in both rural areas (from 60 to 47 percent) and urban areas (from 24 to 17 percent). Progress was also made in terms of EU indicators of poverty and social exclusion (Table 1). Despite these successes, Romania has one of the highest levels of poverty in the EU, higher than several neighboring countries that remain outside the EU (Figure 2).

9. **While growth has favored the less well-off, the global financial crisis of 2008 triggered a severe recession in Romania, halting income growth and poverty reduction.** From 2006-2008, income growth was widely shared with the bottom 40 percent growing at an annual rate of 13 percent, compared to 9 percent for the population overall (Figure 3). However, from 2008 to 2010, average per capita household incomes fell by 1.1 percent per year. The richest 20 percent were the hardest hit and their incomes dropped, while the incomes of the bottom 40 percent stagnated, increasing by only 0.2 percent annually. Absolute poverty (as measured by the US$5/day poverty line) remained essentially unchanged between 2008 and 2010 (Figure A13). Social transfers played an important role in mitigating the impact of the crisis on the bottom 40 percent, especially through increases in pension payments. However, the growth in pension costs and other social transfers contributed to a rise in fiscal deficits that is gradually being reduced. Further fiscal challenges will come from the demographic realities of Romania's aging population, which has been exacerbated by the out-migration of younger workers.

Figure 3: Incomes in Romania grew rapidly from 2006 to 2008, especially for the poorest 40 percent



Source: 2007 – 2011 EU-SILC UDB files
Note: Annualized growth in disposable income per capita (2005 USD PPP) excluding private pensions. Bulgaria series is EU-SILC survey years 2008-2011 (income reference years 2007-2010).

10. **The crisis also resulted in high non-performing loans in the banking sector that continue to constrain private sector growth.** Recent reforms have helped rebuild capital buffers and provisioning and improved resolution of problem banks. Stress tests found that Romanian banks would remain resilient under the severe scenario of a deep depreciation of the currency and a prolonged recession, though a number of banks would have to raise additional capital. The capital adequacy ratio at about 14 percent is comfortable and provisioning covers over 90 percent of NPLs. The authorities continue to reinforce the bank resolution framework to deal with large systemic banks as well as smaller banks, and include least-cost tests and bailing-in clauses to protect taxpayer resources. The authorities also plan to ensure that the deposit guarantee fund is compliant with the draft EU Banking Resolution and Recovery Directive.

11. **A new growth model is needed to boost growth and create more productive jobs.** The boost that Romania received from increased foreign direct investment (FDI) and cheap credit associated with EU accession is now over. Much of the growth in wages and hours worked, which bolstered shared prosperity during the high growth years, was associated with a construction boom fueled by the large expansion of easy credit and public sector jobs. On the

demand side, growth was unbalanced with domestic demand playing the leading role and generating large external imbalances. While earnings from employment will need to be the basis of sustainable inclusive growth in Romania, a return to pre-crisis credit conditions is unlikely (as banking supervision is strengthened across Europe), so sectors other than construction will likely need to take the lead in creating productive employment. The crisis also revealed a lack of progress on important structural issues such as a weak public administration, the continued dominance of the state in vital infrastructure sectors and a poor business environment.

Macroeconomic outlook and debt sustainability

12. **Growth is picking up but Romania has yet to reach its potential.** After falling slightly in the summer of 2013, exports have continued an upward trend, boosted by an exceptional agriculture crop and were the driving force for growth, led by sales of machinery and transportation equipment and food items amid greater demand including from non-EU countries. At the same time, a fall in investment and low consumer demand has contributed to weaker imports bringing the current account close to balance by the end of 2013 (Annex 2). Economic growth is forecast at 2% in 2014, as exports continue to grow, albeit slower than in 2013, while consumer demand and public investment both increase (Table A2). However, growth could be even higher if Romania was to overcome some of the structural obstacles outlined later.

13. **Prudent macroeconomic management underpins the rebound.** Tight fiscal policy has reduced the budget deficit, in cash terms, to close to 2.5 percent and the country exited from the EU's excessive deficit procedures in June 2013. The commitment to continued fiscal consolidation was clearly signaled in the amended budget passed in October 2013, which tightened discretionary spending across the board. The budget envisages holding the wage bill to 7.3 percent of GDP and public pensions to 7.8 percent. However, to boost growth and provide fiscal space for co-financing of EU funded projects, the capital budget has been protected and total capital spending (including EU funds) is expected to rise from 5.8 percent of GDP in 2013 to 6.1 percent in 2015. Romania continues to target a structural deficit of 1 percent of GDP by 2015, which should reduce government debt according to national legislation (excluding temporary financing) from about 40 percent of GDP in 2013 to 36 percent by 2018. Prudent monetary and fiscal policies are expected to anchor inflation expectations, maintain fiscal buffers, and reduce public debt. Inflation fell to the lower half of the +/- 1 percent band of the 2.5 percent target during the last months of 2013 helped by lower food prices. However, inflationary pressures may come as a result of the liberalization of electricity markets (January 1st 2014) and gas markets (scheduled for July 1st, 2014), but core inflation should stay low.

14. **The external position is expected to remain comfortable.** As domestic demand recovers, the Current Account Deficit (CAD) will widen slightly, to 1.9 percent of GDP in 2014. FDI is likely to pick up and cover 80 percent of the CAD in 2014, but will remain below the pre-crisis levels of 5–6 percent of GDP. Export volumes are expected to rise by 6–7 percent in 2014–15 as conditions improve in the Eurozone, especially Germany.

15. **Though external debt is high, it is declining having peaked in 2012** at about 75.6 percent of GDP. It is projected to fall to less than 60 percent in 2018 as economic activity rebounds. Short-term external debt is also expected to drop from a peak of 17 percent of GDP in 2011 to about 11 percent. Romania will need to mobilize about €35–40 billion (about 21-26 percent of GDP) annually to meet gross external financing requirements (Table A4).

16. **Romania's public debt is among the lowest in the EU and is expected to stabilize over the medium term**, while public debt excluding temporary financing is forecast to drop further. The public-debt-to-GDP ratio is expected to ease to 35.9 percent by 2018. Public debt and debt service are well within EU Growth and Stability Pact norms. Gross public financing needs, some €16–20 billion a year, are substantial (6-10 percent of GDP) but manageable (Table A5). Further debt analysis is presented in Annex 2.

17. **Financial markets have taken note of Romania's strong macroeconomic performance.** Romania's 10-year bond yield is 5.6%, much lower than the 7.25% in 2011. Standard & Poor raised the outlook on the sovereign bond rating from "stable" to "positive" on November 22, 2013, implying a possible upgrade from the current BB+ by the end of 2014.

B. RECENT POLITICAL DEVELOPMENTS

18. **Rapidly shifting coalition politics have led to several changes in government in recent years**. In spite of government and political coalition changes, the economic policies that are at the center of the agreements with the IMF/EU and the dialogue with the World Bank are viewed as the foundation for domestic policies.

19. **The December 2012 general elections resulted in a new coalition**. The Social-Liberal Union (USL), a four-member coalition formed in February 2011 by the Social-Democratic Party (PSD), the National Liberal Party (PNL), the Conservative Party (PC) and later joined by the National Union for the Progress of Romania (UNPR) secured a 70% parliamentary majority.

20. **The USL coalition broke up in February 2014 when the PNL withdrew its ministers from the cabinet and became an opposition party**. In just two weeks, a reshuffled government secured parliamentary support from a new political alliance that included the Social Democratic Union and the Hungarians in Romania Democratic Union (UDMR) and is projected to provide continuity in government actions.

21. **European Parliamentary elections at the end of May 2014 are an important signal for the upcoming Romanian presidential elections in November 2014.** Obligations stemming from the EU membership status of Romania, such as the implementation of the *acquis communautaire*, the European Semester, and the Europe 2020 agenda for smart, sustainable and inclusive growth, constitute a solid foundation for Romania's development planning process, and EU policy directions provide a strong anchor for the content and direction of Romanian policy-making.

22. **Recent tension in the region is being closely monitored in terms of impact on economic growth in neighboring countries**. Most of Romania's trade links are with EU countries (about two-thirds of exports and over half of imports), although in recent years, as growth in the EU slowed, Romania has increased its trade links with countries in Asia. This diversification of trade is projected to mitigate potential significant adverse impacts.

23. **There is some uncertainty as to whether some topics that were high on the public agenda during the last year will remain a priority**. To date, the constitutional reform and the related regionalization and decentralization agenda have received significant political and public support. Going forward, it is anticipated that the debate related to exploitation of mineral resources (shale gas, gold) will be revived. European integration, absorption of European funds, the Europe 2020 strategy, and judicial reform are expected to remain high on the agenda, requiring specialized expertise, know-how and institution building.

24. **The challenge and opportunity for the Bank in this context, is to continue to be a reliable partner, a knowledge provider and an honest broker to Government** in supporting the design and implementation of difficult and long standing public sector reforms, complemented by flexibility, efficiency and financing support to the budget.

C. CHALLENGES TO ACHIEVING THE TWIN GOALS

25. **As explained earlier, reducing poverty and boosting shared prosperity will come from a more sustainable pattern of growth underpinned by job creation in areas such as manufacturing, tradable services, and energy products.** The Romania Country Economic Memorandum outlines such a growth model that is based on the following challenges:

(i) **Boosting economic growth and job creation by improving the business environment**: through a more flexible business environment, with less direct state involvement and better regulation and access to credit;

(ii) **Building the assets of the poor, especially their health and education endowments**: i.e. to ensure a skilled labor force with lifelong learning to ensure participation by aging workers;

(iii) **Addressing social protection and social inclusion**; including coping with the challenges of an ageing population, with better targeted social assistance programs and support to excluded groups including the Roma, that have not been able to participate in the labor market and have not benefited from social policies to support marginalized, low-income communities;

(iv) **Addressing remaining infrastructure challenges:** i.e. building a modern infrastructure for connectivity, e.g. roads and telecom, and supporting greater productivity, e.g. irrigation; and

(v) **Strengthening the public administration and service delivery system**: to produce a well-functioning public sector that is able to design and execute pro-poor growth strategies, taking advantage of the availability of significant EU funds.

26. Romania will have to achieve all these goals whilst also paying attention to gender gaps (Annex 3) and ensuring that future growth is green (Annex 4).

Boosting economic growth and job creation by improving the business environment

27. **Romania's new growth paradigm should aim to create more efficient markets and a more competitive enterprise sector** (see Annex 2)**.** Romania carried out a set of important reforms to join the EU between 2000-2007 and was rewarded with strong growth, rapid convergence, poverty reduction and shared prosperity. However, domestic consumption and the expansion of non-tradable sectors, based on cheap credit, can no longer ensure rising living standards. A sound environment for private sector investment and innovation could encourage a

substantial increase in FDI and domestic investment, particularly in export oriented and other productive sectors, to take advantage of the common EU market.

28. **Improving the business environment would stimulate job creation and growth**. Streamlining interactions between Government and business and reducing compliance costs is a priority for private sector job creation and poverty reduction. Up to EU accession, Romania was the second most active reformer according to Doing Business surveys, but the reform momentum has slowed in recent years. The OECD ranks Romania 20th out of 22 EU countries, in terms of degree to which regulations restrict competition (see Figure A15). Doing Business 2014 ranks Romania at 73rd out of 183 countries on ease of doing business and down from 56 in 2011) and among the most restrictive in the EU, and below neighboring Bulgaria (58th) and Poland (45nd). Getting electricity, obtaining construction permits and paying taxes all remain problematic in Romania (see Figure A11). Improving the investment climate for all businesses, enhancing competitiveness of key sectors and reducing the cost of compliance (especially tax) will go a long way to boosting growth. IBRD, IFC and MIGA will all collaborate on this agenda.

29. **Reducing the role of the state in the economy is also a priority,** particularly in transport, energy and communications. As of 2011, there were more than 900 SOEs of which 645 reported financial statements to the Ministry of Public Finance. The latter had revenues amounting to about 10 percent of GDP and employed 22 percent and 5 percent of the public and total labor force respectively. Their underperformance, low productivity, insufficient capital investments, and pricing distortions cause significant damage to the economy and the country. SOE arrears have been halved but remain at about 2% of GDP at end-December 2013 and account for 96% of all public sector arrears. Their financial fragility has a direct impact on actual and contingent state finances, capital markets, the banking sector and the social security system.

30. **Improving the regulatory environment for SMEs is also important to unlock Romania's growth potential.** SMEs represent an important engine for economic activity in Romania. The medium-sized group in particular produces above-average contributions to employment (21.1% as compared to 17.2% in the EU) and value added (20.6% as compared to 18.3% in the EU). However, Romania's SMEs have lower labor productivity as the regulatory burden tends to be heavier for SMEs (Table A6). Moreover, the Romanian private sector, and particularly SMEs, access to financial markets is limited as the sector is perceived to be risker. IFC will support strategic investments for small businesses and female-headed enterprises.

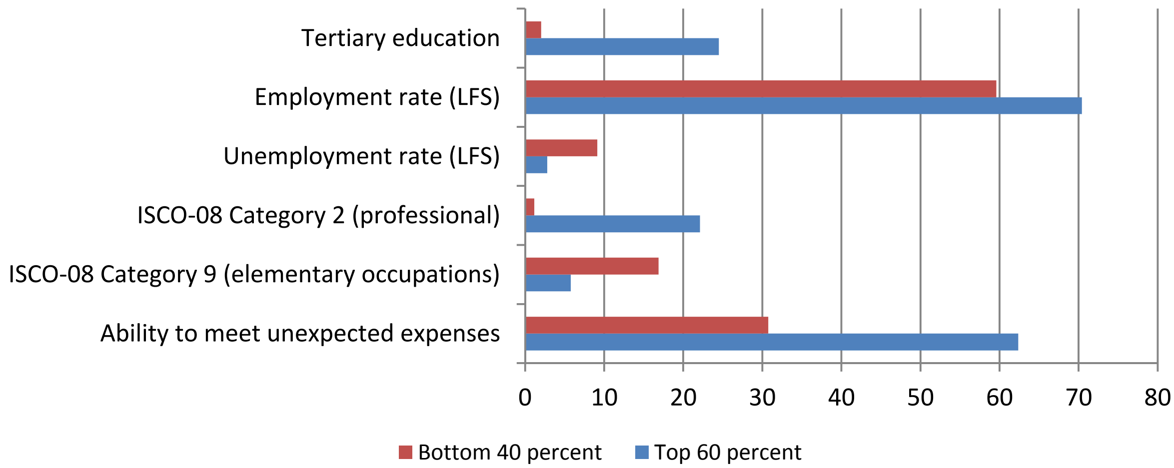
31. **In order to grow, firms will need greater access to bank finance**. However, banks remain saddled with high and rising non-performing loans (NPLs), particularly as a result of weaknesses in the corporate and domestic sectors as well as a slow write-down process. In order to ease the cost and time required to exit the market, the authorities are strengthening the bank resolution framework. IBRD and IFC are supporting increased access to credit and the ongoing efforts to strengthen the bank resolution framework.

Building the assets of the poor especially their health and education endowments

32. **Compared to the rest of the population, those in the bottom 40 percent have fewer assets, employ those assets less intensively, and tend to receive lower returns to those assets.** Human capital assets are much lower in the bottom 40 percent in Romania than other countries: i.e. only two percent have completed tertiary education (Figure 4). They have lower employment rates and those who are employed tend to work in low-skilled occupations. A large proportion of the bottom 40 percent is self-employed, often underemployed in informal, low-return enterprises.

Those in the bottom 40 percent are also highly vulnerable: only 31 percent report that they are able to meet unexpected expenses.[1] Fully engaging these groups in the growth process will require coordinated and sustained policies.

Figure 4: The bottom 40 percent has lower education, employment and salaries

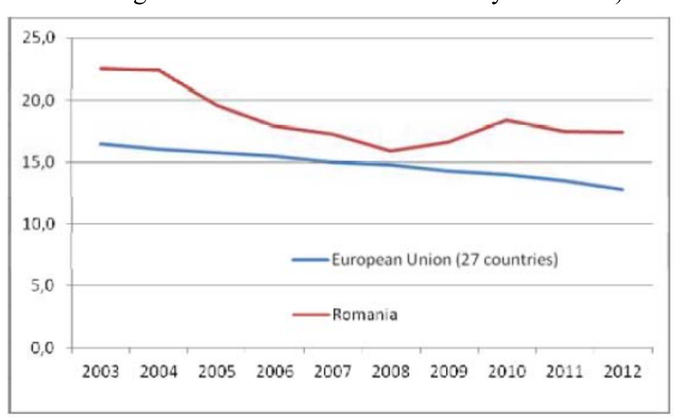


Source: World Bank staff calculations using 2011 EU-SILC
Note: Employment, unemployment, and secondary education figures are percentages of those aged 20–64. Tertiary education is percentage of those aged 25–64. Occupational data is percentage of 20–64 age group that are employed.

33. **Romania needs a highly-skilled, innovative workforce to support a competitive economy** based on increased productivity. This requires an education and training system that is effective at: (i) imparting strong cognitive and behavioral foundation skills (that are necessary for successful lifelong learning); and (ii) continuously updating technical skills in line with technological change and economic development. However, with high rates of early school leaving (Figure 5) and poor, though improving mathematics, reading and science competencies of 15 year-olds (Figure A16), there is considerable scope for improvement. As for building technical skills, Romania's gross enrolment ratio for tertiary education is low (59%) in comparison with other EU countries as is the share of adults aged 25-64 participating in lifelong learning (1.6%) with no evident gender differences. Special measures targeted at the Roma could also close the significant education gap (see later), as only 12% of Roma men and 6% of Roma women complete secondary school, the lowest rates in the whole region. The early school leaving rate for Roma aged 18-25 is a staggering 95%. This is not just

Figure 5: Early school leaving on the rise

Early leavers from education and training (% of 18-24 year olds having attained at most lower secondary education)

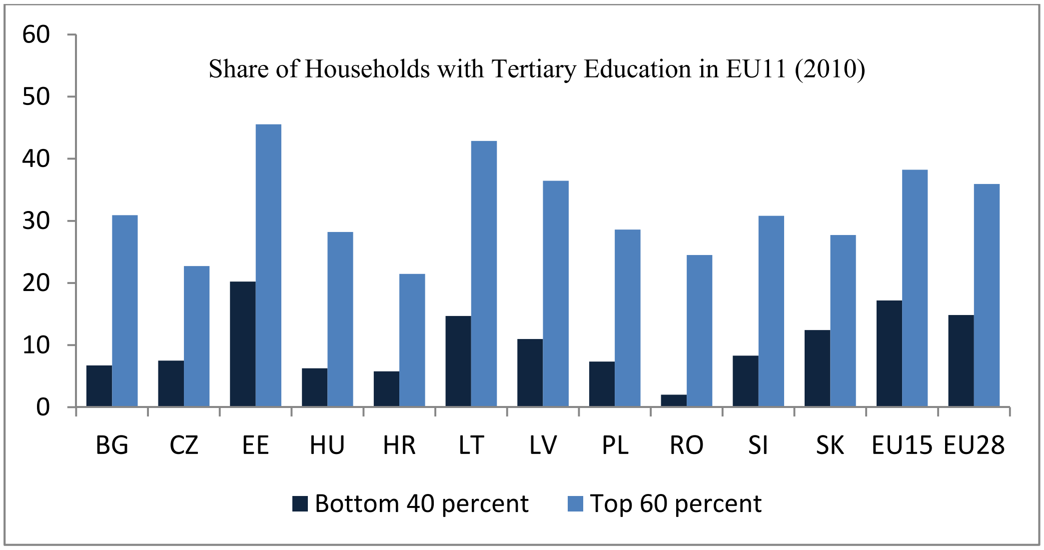


Source: Ghinararu, Davidescu, Matei

[1] Equivalent to €106 per household. The threshold amount of the unexpected expense is set equal to the monthly risk of poverty threshold for a single person household.

an equity issue but also has an impact on macroeconomic growth since the Roma are a young and growing population within an aging and shrinking society. They constitute between 8-15% of the labor market entrants a share that will continue to grow during the CPS period. It is estimated that the economic gains from ensuring that they are brought up to the standards of the non-Roma population are of the order of 3-4% of GDP.

Figure 6: The bottom 40 percent have few human capital assets in Romania



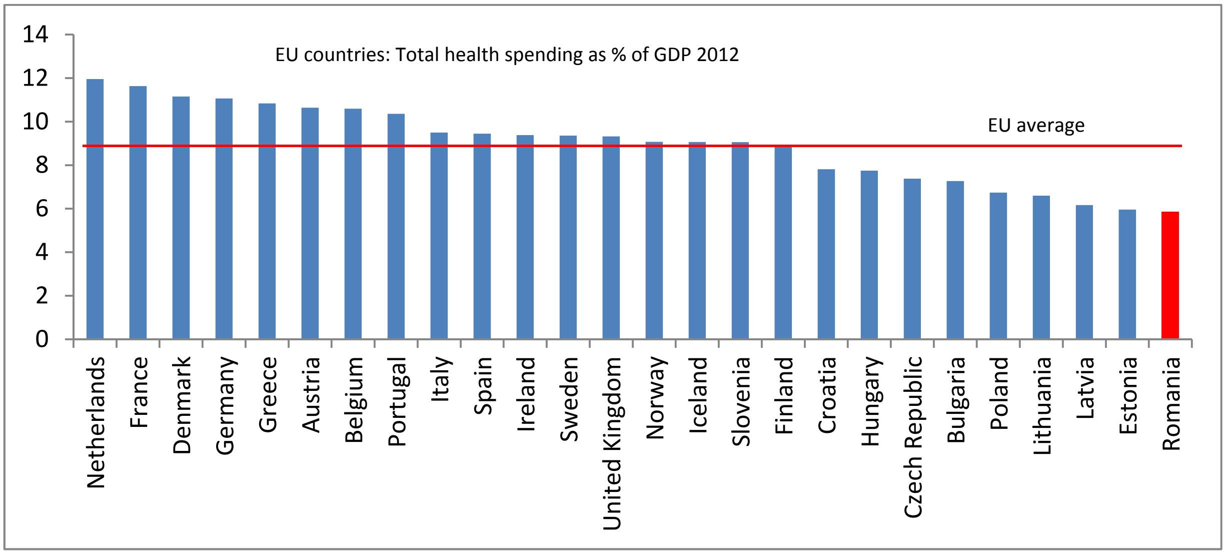
34. **The quality and relevance of tertiary education is also a challenge**: although the curriculum is based on professional qualifications universities find it difficult to keep up with changing market demand, contributing to lags in Romanian innovation and competitiveness. As in other sectors administrative capacity remains weak. Total education spending, at 4.2% of GDP, is lower than any other country in the EU except Slovakia. Scandinavian countries spend twice as much as a share of GDP. The challenge to meet the twin goals will be to increase education spending efficiency, and to improve innovation, quality, equity and relevance.

35. **Romania's demographics also present a challenge to economic growth and give further impetus to the push for a highly skilled workforce.** According to the United Nations, Romania's population is projected to decline by more than 4 million people, or almost 19%, between 2010 and 2050. The population is aging and shrinking rapidly not only due to low birth rates, but also according to a recent OECD migration report, because 2.7 million young workers have emigrated to better-paying jobs in the rest of Europe during the past decade. Emigration is particularly concentrated at the higher end of the skills distribution. Counteracting the aging population will require reforms to raise the productivity of current and future labor market cohorts and expand domestic employment opportunities.

36. **Stewardship of the Romanian health sector can also be improved.** Romania's health indicators lag well behind EU 15 and EU 27 averages. Romania has the highest infant mortality rate in the EU (9.8 per 1,000 live births, more than twice the EU rate of 4.1per 1,000). Moreover, the life expectancy gap between Romania and EU15 since 1970 has almost doubled. This gap is associated with the rising incidence of non-communicable diseases (NCDs). For example, the country has not yet benefited from the "cardiovascular revolution," which helped Western European countries achieve substantial gains in life expectancy. Romania's rate of cardiovascular disease is more than twice the EU rate. The challenges that Romania's health

system must address have also changed as a consequence of the demographic and epidemiological transition in the country (i.e. cardiovascular diseases and cancer account for three-quarters of all deaths) but the health system has failed to transform itself accordingly.

Figure 7: Smarter and more health spending is needed



37. **The health care system can be reoriented towards the needs of the bottom 40 percent by increasing the focus on access, particularly to primary and preventative care.** Other challenges to the health system include, user dissatisfaction, lack of access to quality care by the poor and other vulnerable groups (maternal mortality rates for the Roma are 15 times higher than for non-Roma), and weak financial performance. Health service delivery remains biased toward inpatient services – there are too many hospitals with too many beds, and hospital infrastructure is fragmented. Primary care is underutilized; and there is limited focus on prevention. Health financing and resource allocation mechanisms perpetuate a hospital-centric system while weak enforcement of regulations generates inefficiencies and reduces transparency.

Addressing social protection and social inclusion

38. **Romania's social protection system needs further reforms to cope with an aging population as well as more effective targeting to the poor and vulnerable.** According to the functional review of social protection, almost 84 percent of Romania's population benefit from at least one social protection program indicating that the program is not well targeted to the needy.

39. **Means-tested social assistance programs are well targeted but remain small in size compared to regressive categorical benefits** (Figure A17). Means-tested programs have seen significant budget cuts since 2010, more so than categorical benefits. The Government is now engaged in a reform of social assistance with the aim of strengthening the effectiveness of the system to expand the coverage of the poor and improve targeting effectiveness, generosity and work incentives of means-tested programs. The reforms will introduce a management information system (MIS), consolidating multiple benefits, harmonizing eligibility criteria and payment functions, and strengthening cooperation between state agencies.

40. **Pension reforms have contributed to poverty reduction, but further reforms are needed to meet the challenge of an aging population.** Following the comprehensive pension

reforms of 2011, the public pension fund deficit stabilized at 3% of GDP over a two year period. However, over the longer term, the sustainability of the public pensions system will be challenged by the aging population and shrinking labor force. Faster implementation of the legislated reforms, i.e. increasing retirement ages and contributions, will result in a more effective system that offers adequate protection to the poor and vulnerable.

41. **Reducing poverty in Romania also requires tackling endemic social exclusion and empowering marginalized communities.** Almost 2 million of Europe's 10 million Roma live in Romania[2]. Although the census reports the Roma population at 3.3%, unofficial expert estimates reported in the National Roma Integration Strategy, range up to 10% as many Roma do not self-identify. According to a recent EC-UNDP-WB 2011 report, the vast majority of the Roma population (72%) is in the bottom income quintile, a further 12% in the next quintile. More than 90 percent of the Roma are living in severe material deprivation. The majority of Roma are from large households and live in sparsely populated rural areas. Less than 5% have post-secondary education. Close to 75% live without a bathroom or sewer, while half have no piped water.

42. **Inequalities for the Roma start early** with low pre-school enrolment rates. Romania enacted legislation in 2011 that mandates one year of pre-school for all children. This is intended to equalize the level of preparation for primary education (Hungary has gone further in passing a law that calls for compulsory pre-school from age 3). Despite a minister's order 1540/2007 calling for the elimination of school segregation and monitoring by the national education ministry in years 1, V and IX, many Roma children face poor quality education and many classrooms remain segregated, with a quarter of Roma children attending mostly Roma classes. Only 12% of Roma men and 6% of Roma women complete secondary school despite the expressed wish of their parents (71% for boys and 75% for girls).

43. **Poor educational attainment contributes to poor labor market outcomes.** Less than 19% of Roma women and 42% of men are employed, many as unskilled laborers (38%). They perform mostly temporary, seasonal or occasional work, which points to massive under-employment. Only 10-15% are salaried employees. The most recent Social Inclusion Barometer (2010) indicates that the Roma are ten times more likely to be laid off than the overall population and 41% of the Roma in search of a job are not hired because of their ethnicity. For this reason, 55% of Roma workers don't have an employment contract and 45% hold only occasional or temporary jobs (versus 5% of Romanians). Under these circumstances, 72% of the Roma looking for a job are ready to work regardless of the conditions and even without legal formalities, meaning that they will not contribute to a pension fund and will not benefit from social security.

44. **Growth alone is not enough to achieve significant poverty reduction in this ethnic group as they face discrimination are often excluded from sharing the benefits of growth**. Discrimination continues to be a hurdle with 26% of Roma households reporting discrimination compared to just 3% in the non-Roma population. This is especially true when they are looking for work or housing. Tackling discrimination, intervening with an integrated solution to break inter-generational transmission of poverty and following up through the medium term is the only way to successfully address the continued social exclusion of low-income populations including the Roma. Based on demographic data, between 6 and 20% of new labor market entrants are Roma, and this share is expected to increase. A recent Bank report on the economic benefits of Roma integration estimates the benefits of productivity increases to bring Roma up to the standards of non-Roma employees at about 3-4% of Romania's GDP.

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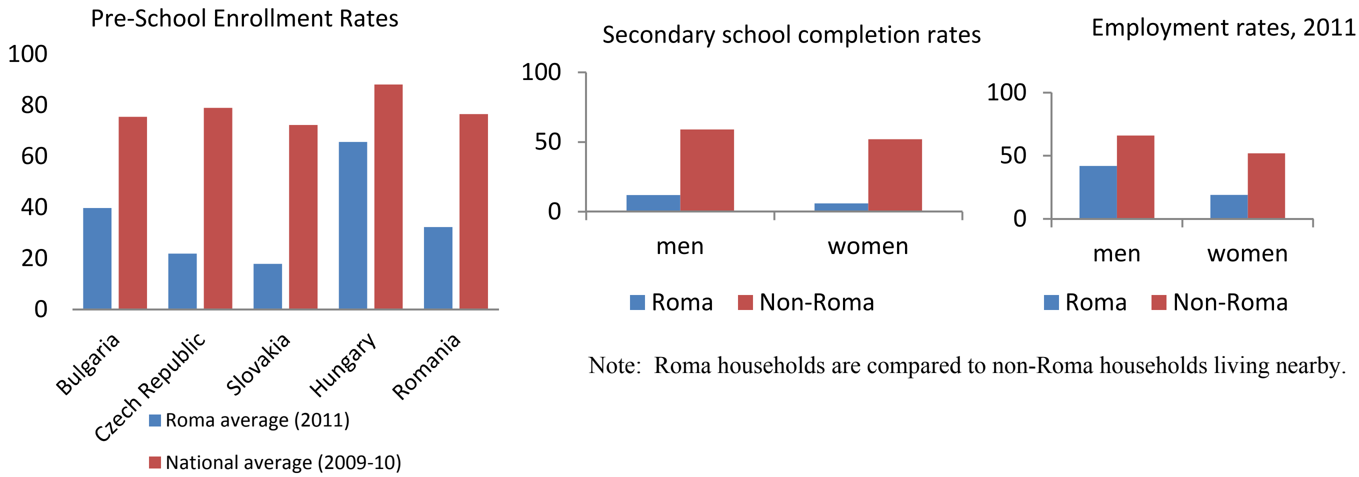
[2] An EU Framework for National Roma Integration Strategies up to 2020, data from the Council of Europe.

Figure 8: Roma inequalities start early and result in poor education and labor market outcomes



Note: Roma households are compared to non-Roma households living nearby.

Addressing remaining infrastructure challenges

45. **Greater investments in infrastructure particularly transport and energy would yield higher growth rates.** Improving roads, railways, and ports to reduce the cost of transport and trade would bolster exports and growth potential. Only 240 km of new motorways have been built over the past 20 years and only 200 km of railways have been upgraded for higher-speed trains. The result is that road and rail transport is slow, expensive and inefficient. Investments in rail are needed and the private sector could contribute to improving the management of the rail service. In addition, road-building needs to accelerate, using available but untapped EU funds.

46. **The energy sector can become a motor for growth by producing energy more reliably and efficiently**. Energy reforms are progressing rapidly. Swiftly privatizing all non-strategic companies, proceeding with IPOs in strategic companies e.g. Hidroelectrica and Oltenia in the energy sector, and improving the governance framework for SOEs is key. Equally important is the implementation of the Gas and Electricity Road Maps which would bring Romania closer to participating in a common EU energy market. Implementing the reform agenda would increase energy security and transform Romania into an important player in the regional energy market.

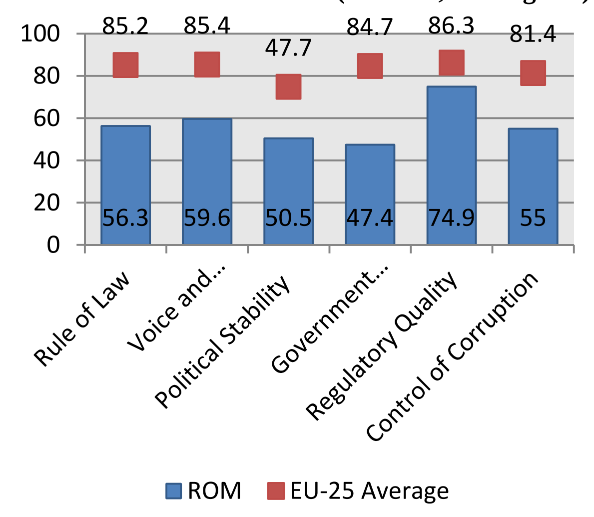
47. **Given its geographical location and endowments in terms of land, water and affordable labor force, Romania could have comparative advantage in the agriculture and the food processing sector**. Once a breadbasket for Eastern Europe, the country now imports 70 percent of its food. Agriculture accounts for only 5 percent of GDP but affects a large proportion of the population since 45% of the total lives in rural areas, one of the highest percentages within the EU, and generates 28 percent of total employment, compared to only 3 percent in the EU15[3]. Structural weaknesses have prevented capital investments and the adoption of modern techniques necessary to boost productivity and improve competitiveness thus keeping the sector well below its export potential. Romania has the lowest farm labor productivity in the EU. Romania can make use of EU agricultural policy tools to address bottlenecks in land titling, knowledge transfers and irrigation.

Strengthening public administration and service delivery

48. **A well-functioning public administration is key** to policy formulation and implementation and service delivery and is a sine qua non for achieving the twin goals in Romania. A relatively weak public administration has resulted in continued inefficiencies and poor quality public investment, and shortcomings in the programming and utilization of EU funds (see below), as well as poor oversight of state-owned enterprises that remain dominant in the energy and transport sectors and weak service delivery in the health and education sector.

49. **Romania's public administration remains below EU standards.** The European Council recommendation on Romania's national reform program of 2013 stated that, "The public administration is characterized by an inconsistent legal framework, frequent recourse to emergency ordinances, low levels of inter-ministerial cooperation and excessive bureaucracy. It is also undermined by a lack of skills, a lack of transparency in staff recruitment and high management turnover rates." A recent summary[4] of Romania's governance and public administration challenges notes that Romania is below the ECA average in many key areas of governance including voice and accountability, regulatory quality, and political stability among others. Government effectiveness is particularly low. This indicator captures perceptions of the quality of public services, civil service, policy formulation and implementation and credibility of the government's commitment to policies. Other areas highlighted for continued improvement include corruption indicators, particularly regarding petty corruption and bribes; government effectiveness, and easing business constraints. Other efforts are needed to strengthen institutions and accountability (particularly in the judiciary).

Figure 9: Governance Indicators (2011)
Scores for Romania and EU (0-lowest, 100-highest)



50. **Effectively utilizing EU funds and increasing the efficiency of public investment can also secure employment in many sectors.** EU resources represent a significant amount of

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[3] Refers to the 15 first EU member states: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

[4] 2012-2013 PEG Brief: Romania, World Bank ECA PEG Brief Series.

national resources available for productive investment in infrastructure, networks and innovation which, if well managed can strengthen both local and national businesses while improving the business environment in both agriculture and the productive sectors (see Box 1).

Box 1: Improved strategic planning of and efficiency in the use of EU Funds

Romania was allocated €20 billion in EU cohesion funds over 2007-2013 and is expected to receive €22.9 billion over 2014-2020 (with 20 percent of the spending mandated to climate change actions). However, Romania's absorption rate, as of end 2013, for social and cohesion funds (the rate at which EU resources are used) at less than 35% is the lowest in the EU. About the same amount of funds was made available for rural development and agricultural funds. The rate of absorption for such funds has improved markedly up to 67 percent at end 2013 from just 20 percent at end-2012. Romania also experienced the highest rate of financial corrections until 2013 (when EU rules are not followed the money has to be returned) at almost 20%. While further major improvements in absorption are expected until the end of 2015, it is difficult to imagine that all available funds can be absorbed. This leaves precious grant resources on the table and misses an opportunity to create fiscal space and support economic growth. The Bank is supporting efforts to address this through improved systems, supervision and better planning. The Romanian authorities are conscious of the need to improve programing and effective implementation of EU resources and have secured the Bank's assistance in this area to bring in best practices from other member states. The Bank also supports efforts to improve impact, monitoring and evaluation. Social inclusion of the most vulnerable groups particularly the Roma, would most benefit of the improved EU funds absorption and impact, responding thus to some key priorities of the EC in the area.

IFC will continue to structure projects with an emphasis on supporting Romania to utilize EU funds, building on its co-financed projects with the EU at the sub-national level. As an example, IFC finance will focus on improving the district heating for Romanian municipalities. The projects will improve the quality of life and will have significant impact on climate change. This goal is supported through RAS engagements, in particular to produce various strategies that are required by the EC before they release funds for the forthcoming Operational Programs (ex-ante conditionalities). Additional RAS engagements that will support this goal include the Public Investment Management, harmonizing state and EU funded projects for the benefit of sub-national governments, the Project Selection Models RAS and the Delivery Unit RAS. The proposed first DPL series will also support a number of key legislative and institutional changes to improve the overall system.

Gender gaps[5]

51. **Gender gaps in economic opportunities, human capital, and voice and agency exist and are magnified for excluded groups.** Romania ranks in the middle of countries assessed for gender equality in the Global Gender Gap Index by the World Economic Forum and the Gender Empowerment Measure by the UNDP. There are few indications of a gender gap in endowments, while gender gaps in access to economic opportunities and voice and agency persist. These gender gaps constrain inclusive growth, and hence poverty reduction and shared prosperity.

52. **Economic opportunities:** *Gender differences exist not just in employment, wages, and entrepreneurship, but also in pensions*. Female and male labor force participation rates are 57 percent and 72 percent, respectively, leaving a gender gap of 15 percentage points, which is larger than that in the EU. The gender pay gap is estimated to be 9.7 percent (in 2012) which

[5] In compliance with OP/BP 4.20, the CPS is informed by an assessment of the gender situation based on existing data World Bank's Gender at a Glance for Romania and GenderStats, which identified the main areas of concern for gender equality. These were covered by the European Commission (2013) report "The current situation of gender equality in Romania- Country Profile" which was deemed by the World Bank team as satisfactory, and complemented with a report with a specific focus on pensions. European Commission (2013): Gender Gap in Pensions in the EU. European Commission's 2012, a special gender analysis (Annex 3) and a gender portfolio review.

reflects occupational segregation and discrimination. Romania has set a goal of achieving 70 percent employment rate which would be difficult to reach without increasing women's employment. These rates mask an even greater inequality: only 19 percent of Roma women and 42 percent of Roma men are employed. Less than a third of business owners in Romania are women. Gender differences in the labor market can accumulate over time and result in gender gaps in pensions receipts (regardless of how equitable the pensions system is). The average gender gap in pensions payments is estimated at 12 percent (16 percent in the EU).

53. **Endowments of education and health:** *Gender gaps in education exist mainly at the tertiary level, in choice of subjects studied and among the Roma; health indicators reveal that maternal mortality is a concern especially among Roma women.* There are no major gender gaps in primary and secondary gross enrollment rates, primary completion and adult literacy rates. However, over 20 percent of the Roma are illiterate and Roma women have on average 5 years of schooling, half that of non-Roma women. Among the entire population, the female tertiary enrollment rate outpaces that of males, at 68 percent and 50 percent, respectively. Similarly to other countries in the region, gender disparities exist in educational specialization. Women constitute 90 percent of students specializing in education and over 70 percent of students studying health, humanities, and art. Female life expectancy in Romania exceeds men's by 7 years. Although the adult mortality rate is higher for men than for women, maternal mortality is still a concern and is estimated at 27 per 100,000 live births, three times the EU average. Maternal mortality for Roma women is fifteen times that for non-Roma women.

54. **Voice and agency:** *Women have limited presence in public decision making and are more likely than men to experience domestic violence.* Only 12 percent of seats in the national parliament are held by women, and only 17 percent of ministers are women. Additionally, in a UNDP/WB/EC survey for Romania, 28 percent of Roma women felt they had been discriminated against because of ethnicity, and 11 percent felt they had been on account of gender. Domestic violence is another manifestation of women's lack of voice and agency. The 2013 EU Violence against women survey reveals that 30 percent of women in Romania have experienced physical and/or sexual violence since the age of 15.

III. WORLD BANK GROUP ENGAGEMENT STRATEGY

A. GOVERNMENT STRATEGY

55. **The government has produced a comprehensive 2013 National Reform Program (NRP), a Convergence Program (CP) for 2013–16, and an associated Government Program (GP) of actions.** The objectives are to: (i) modernize public administration, (ii) increase the absorption of structural and cohesion funds, and (iii) improve the business environment. The GP details the government's macroeconomic strategy and commitment to targets under the growth and stability pact of a structural deficit of 1 percent of GDP by 2015. In October 2013, the European Council of Ministers confirmed the GP as realistic but emphasized the risks of the lack of budget financing for priority public sector projects and limited progress on SOE restructuring.

56. **The Government Program details achievements and reform plans in eight areas**: (i) enhancing social justice; (ii) managing public resources efficiently; (iii) curbing tax evasion; (iv) improving the business environment; (v) improving management of public debt; (vi) enhancing investor confidence; (vii) strengthening internal and external buffers for macroeconomic stability; and (viii) accelerating the pace of structural reforms.

57. **The Government Program covers economic, social, and political reforms, with special attention to making more efficient use of public resources and improving the functioning of markets**. It also stresses the importance of setting measurable results indicators consistent with budget allocations; helping those Romanians most affected by the crisis; accelerating structural reforms in state-owned enterprises (SOEs) and energy and capital markets; and putting in place sound cadaster and land registration systems.

58. **Romania's medium term development strategy is framed within the broader context of the EU's "Europe 2020" strategy**, which is designed around the concept of "sustainable, smart and inclusive growth". Europe 2020 proposes a set of specific targets for the EU as a whole and for each member country (Box A2).

59. **The Romanian government also completed its draft Partnership Agreement (PA), framing the use of European funds under the 2014-20 EU financing perspectives.** The draft partnership agreement identifies the following priorities for Romania: (i) competitiveness; (ii) people and society; (iii) infrastructure; (iv) resources; and (v) administration and government. For each of these areas, one or more thematic objectives was defined after providing an analysis of the current situation and highlighting development needs to be addressed, expected results and proposed actions. The PA includes indicative allocations of EU structural and cohesion funds as follows: (i) infrastructure (including transport, energy and environment) (Euro 9.5 billion); (ii) regional development (Euro 6.7 billion); (iii) human capital (Euro 4.2 billion); and (iv) private sector and competitiveness (Euro 1.2 billion). The remainder goes to administration and TA.

Table 1: Europe 2020 Targets State of Play in Romania

EU Headline Targets	National Targets for Romania under the Europe 2020 Strategy	Current
Employment rate 75 percent	70 percent of the population aged 20-64 employed	63.8 percent (2012)
R&D gross expenditure of GDP 3 percent	0.5 percent of GDP gross expenditure on R&D	0.49 percent (2013)
CO emission reduction targets – 20 percent (compared to 1990 levels)	Greenhouse gas emissions +19 percent compared to 2005 (national binding target for non-ETS sectors)	-12.84 percent (2011 compared to 2005)
Renewable energy 20 percent	24 percent (share of energy from renewable energy sources in the gross final consumption)	22.9 percent (2012)
Primary Energy Consumption	EU 2020 target of 19 percent reduction in the consumption of primary energy from the baseline.	Actual primary energy consumption down by 16.6% (2012)
Early school leaving 10 percent	Share of early school leavers under 11.3 percent	17.4 percent (2012)
Tertiary education 40 percent	At least 26.7 percent of 30-34 years old completed a tertiary education	21.8 percent (2012)
Reduction of population at risk of poverty or social exclusion 20 000 000 persons	Reduction of 580,000 people (or 2.9%) at risk of poverty or exclusion[6] after social transfers (base year 2008 out of a population of 20 million)	23.4 percent (2008) 22.6 percent (2012)

Source: Eurostat, Ministry of Environment and Climate Change, Romania's Greenhouse Gas Inventory 1989-2011, National Inventory Report, from May 2013. Romania Partnership Agreement with the EU 2014-2020.
Note: In 2011, the GHG emissions without LULUCF have decreased with 54.86% comparing with the base year level (1989)

60. **The EU Country Specific Recommendations.** As part of its strengthened economic monitoring mechanism (EU semester), the EU issues a set of policy recommendations for each

[6]The "people at risk of poverty or exclusion' target describes persons affected by at least one of the three indicators surveyed by EUROSTAT: at risk-of-poverty, severe material deprivation rate and those living in households with very low work intensity.

member country -Country Specific Recommendations (CSRs). The CSRs for Romania (see Annex 10) focus on the following priority areas: (i) fiscal consolidation; (ii) health sector reform; (iii) employment, youth and labor market; (iv) education and training; (v) public sector management; (vi) business environment; (vii) network industries; and (viii) completing the EU/IMF financial program.

61. **Romania as a part II member of IDA.** Romania has become the 173rd member of IDA in April 2014. Payment of the initial subscription (US$4.09 million) was made in December 2013. An additional optional subscription of US$1.36 million, corresponding to subscriptions to IDA 3 to IDA 16 will be paid.

B. LESSONS LEARNED FROM FY09-13

62. **The 2009-2013 CPS was devised to help mitigate the negative effects of the global economic and financial crises on Romania**. The country faced a challenge to protect the gains of almost a decade of rapid growth and poverty reduction. The authorities wanted to focus their efforts on improved economic management and the large unfinished agenda of public sector and governance reforms. The previous CPS period witnessed great progress in economic management but restoring the sources of sustainable and equitable growth proved more difficult. The CPS Completion Report (see Annex 4) assesses progress made towards the program outcomes and draws the following lessons and recommendations which were taken on board in preparing the new CPS including:

- **Lesson 1: Aligning the program to the EU strategy.** Throughout the CPS period, Romania had access to large amounts of EU grants and European Investment Bank (EIB) loans. In the next programing period, 2014-2020, Romania will be allocated funds worth €22 billion from structural and cohesion funds plus a further €18 billion in agriculture and rural development funds to support convergence and meet EU accession treaty obligations, making it especially important for Bank financing to be focused on instruments and areas not covered by EU grant resources, or where Bank interventions can improve the efficiency of spending or strengthen capacity to sustainably manage EU funded investment. Bank TA should also continue to support the EU agenda, including improving Romania's ability to use EU Funds. The new CPS FY14-17 is therefore closely aligned to such priorities and fully consistent with the Europe 2020 strategy (see Box A2).
- **Lesson 2: The Bank is a trusted partner of Romania (as well as the EC and IMF).** The Bank, in close coordination with the IMF and EC, has been able to support Romania in weathering the financial crisis and has strengthened its role of strategic adviser. It is clear that the Bank has a role to play in a new EU member country like Romania in building administrative capacity to address institutional and social issues necessary to achieve EU living and other standards. The Government and the EC and IMF have all welcomed and at times insisted on the Bank Group's involvement in Romania given the Bank's deep sectoral knowledge and reform experience.
- **Lesson 3: Multi-tranche DPLs allowed the Bank to support macro stabilization with the IMF and EC while pursuing much needed structural reforms**. The DPL program supported government reforms in fiscal and public administration management, social protection, and the financial sector. The DPL-DDO, approved during the crisis, helped consolidate progress towards macroeconomic stabilization, increased competitiveness of the energy sector and fiscal sustainability of the health care system. It also supported and

facilitated access to markets. A series of large DPLs focused on key structural reform issues will anchor the lending program under the current CPS.

- **Lesson 4: The RAS instrument proved especially effective in strengthening the Bank's partnership with Romania.** RAS requests confirmed that the Bank's knowledge services are highly valued. Demand-driven technical assistance supplied through the RAS program enhanced our role as reform advocate, neutral stakeholder and trusted adviser to the Government. The Functional Reviews provided a solid analysis of administrative capacity in various public institutions and practical recommendations to improve their performance which have been translated into Government action plans currently under implementation. The quality of the RAS work also strengthened collaboration with the European Commission and IFIs. The Bank's ability to mobilize global and local teams and to provide independent technical advice were highly sought and the RAS program allowed the Bank to go far beyond what could have been done relying solely on our own resources.
- **Lesson 5: Selectivity in investment project finance (IPF).** During the previous CPS period several projects faced insufficient budgetary allocations during implementation. This was partly due to a change of priorities due to the financial crisis. The portfolio has been restructured and is now much leaner and retains projects that can be supported within the existing constrained fiscal environment. The CPS will be highly selective with just one or two IPFs per year focused on key areas that will be mutually agreed with the authorities.
- **Lesson 6: Strengthening M&E.** A strengthened M&E framework at government level and the culture of progressive assessment and reporting of results are still lacking and thus capacity building in this area is key. For example, the M&E issue is critical to GHG emissions monitoring and reporting as required by EU and UNFCCC and will help monitor the achievements of some of the thematic objectives under the EC partnership agreement.

C. PROPOSED WORLD BANK GROUP CPS FOR ROMANIA

I. STRATEGIC OVERVIEW

Our strategic areas of engagement

63. **The overall objective of this CPS is to reduce poverty in Romania and foster sustainable income growth for the bottom 40 percent of the population.** The later will be achieved within the context of Romania's economic convergence process with the EU and the EU2020, "smart sustainable and inclusive" agenda.

64. **To achieve the twin goals, Romania needs to move to a sustainable growth model.** The Bank Group will focus efforts on increasing the growth rate with interventions in the business environment, financial sector and skills development.

65. **Social protection and the inclusion of low-income communities, especially the Roma is a priority.** The WBG has expertise in the design of social protection systems and also in designing and implementing social inclusion projects. Interventions in the latter area will build on lessons learned from the current SIP project.

66. **Romania faces an unfinished agenda in establishing the key institutions for economic and social development.** This area of interventions addresses the need to continue with this important public agenda started when Romania first started accession negotiations. The WBG will focus its interventions on public sector strengthening and health sector reform.

67. **It is envisaged that the WBG will adopt a selective approach in Romania will use the full range of WBG instruments including financing, analytical and advisory services and RAS.** This section explains what each part of the WBG will provide in support of the broad objectives outlined above. The following section explains how they come together to bring combined resources on each of the thematic topics.

- **IBRD lending resources.** In the first two years, IBRD will provide funding of the order of Euro 1 billion. Lending volumes and instruments in the outer years will depend on the country's performance and priorities, IBRD lending capacity, demand from other borrowing countries and global economic developments. The bulk of the funds will be earmarked for budget support. The first DPL series will start with a focus on fiscal effectiveness and growth. A second series of two operations in the later years will focus on the remaining structural reform program. During the CPS period, it is envisaged that about 30% of the funds made available to the country will be used for investment projects (IPF) in either one large operation (for example in FY14) or two smaller operations for each year (for example in FY15). Investment project financing in the first two years of the CPS will focus on health, education and social inclusion. The authorities have requested that the IPFs for the outer years remain tentative. These could include judicial reforms, private sector and/or an energy related project (in line with Climate Change requirements and commitments), or could target growth enabling infrastructure investments in complementarity with EU and other IFI programs. In general, all IPFs would include components to leverage EU funds and/or increase the efficiency of public sector expenditures.

- **IFC will focus on the growth and job creation agenda.** IFC will support sustainable growth and enhance economic competitiveness through selective financing of private sector projects. IFC's program during FY14-17 is expected to be in the range of US$150 million to US$250 million annually. IFC's strategy is to support the private sector with projects that can achieve significant impact in areas not covered by other IFIs. Strategic sectors include: financial markets, agriculture and infrastructure. Within financial markets, IFC will continue post-crisis support, with an emphasis on re-building the alternative financing in local currency of the capital markets jointly with the Bank. IFC will continue ongoing work with financial intermediaries to support the SME market segment, provide loans to under-served populations and provide co-financing with EU programs where appropriate. IFC will also help develop Romania's competitive advantages through select investments in primary production, food and beverage processing, and retail. IFC will also address bottlenecks to growth in areas that IBRD is not playing a role in, such as infrastructure, including through PPPs with an emphasis on climate change, innovation and new technologies especially for exporters.

- **MIGA is striving to re-engage in Romania.** MIGA has not been active in Romania since 2004. The Romanian authorities have recently expressed keen interest in MIGA's credit enhancement products. MIGA has identified relevant State-Owned Enterprises in the country's energy sector with a view to potentially providing guarantees for state-owned utilities to modernize and expand local and regional interconnection networks. The financing needs for the sector are estimated in the order of Euro 30 billion (US$41 billion) for a period of 10-15 years, and thus MIGA can only be a part of any financing solution. MIGA's credit enhancement would aim to significantly improve borrowing terms, either on international capital markets or through cross-border loans.

Table 2: IBRD and IFC Indicative Lending

IBRD *Indicative* Lending							
FY 14	US$	**FY 15**	US$	**FY 16**	US$	**FY 17**	US$
DPL 1.1 Fiscal Effectiveness & Growth	1020	DPL 1.2 Fiscal Effectiveness & Growth	950	DPL 2.1 TBC	950	DPL 2.2 TBC	950
Health Sector Reform	340	Romania Education Quality & Inclusion IPF	270	Energy IPF	250	IPF YBC	450
		Social Inclusion IPF	135	Justice IPF	200		
Total (IBRD)	**1360**		**1355**		**1400**		**1400**
IFC *Indicative* Lending							
Financial Markets	200	Financial Markets	50	Financial Markets	50	Financial Markets	50
Manuf, Ag & Services		Manuf, Ag & Services		Manuf, Ag & Services	50	Manuf, Ag & Services	
Infra/Ener	50	Infra/Ener	150	Infra/ Ener	50	Infra/Ener	50
Total (IFC)	**250**		**200**		**150**		**100**

Note: Lending volumes will depend on the country's performance and priorities, IBRD lending capacity, demand from other borrowers and global economic developments. The size and type of lending program for the outer years of the CPS will be determined jointly with the government. This will be also reflected in the CPS Progress Report. The DPLs will support the authority's reform agendas dependent on the prevailing macroeconomic context.

Prudent stewardship of our RAS portfolio

68. During the CPS period most analytical and advisory services will be supplied through demand-led RAS engagements. While it is not possible to foresee the areas or accurately estimate the size of future the RAS engagement we have presented a summary of our RAS work to date (Annex 7). The Bank's own resources for analytical work will be focused on public goods, studies to improve our own knowledge of the country's development challenges, areas where we wish take an independent view (e.g. mining), and areas that are critical for the twin goals that are not being undertaken by government or other IFIs.

69. **The RAS portfolio has grown rapidly** to 24 ongoing engagements worth a total of US$42 million this equates to approximately US$20 million per year as many of the larger RAS engagements are multi-year. RAS engagements allow the WBG to deepen our engagement in key areas that would be impossible to finance through internal resources. This growth is expected to taper especially at the start of new EU Programming Period 2014-20. The Romanian authorities have signaled that they cannot accurately assess future demand for RAS.

70. **RAS has strengthened the Bank's engagement with Romania**. RAS enhanced our role as reform advocate, neutral stakeholder and trusted adviser to the Government. Satisfaction with the quality of the Bank's work under RAS also strengthened close collaboration with the European Commission and the IMF. Several RAS engagements have supported the development of strategies that are ex-ante conditionalities for accessing EU resources. The Bank will thus contribute to medium-term development issues as well as help unlock EU resources and inform their use. As demand for RAS grew in volume and complexity, it deepened our policy dialogue and engaged us in sensitive reform areas essential for attainment of the Bank Group's goals of eliminating poverty and boosting shared prosperity such as public investment management,

Roma inclusion, regional development, climate change, competitiveness, land registration, agriculture, transport efficiency, tertiary education and early school leaving.

71. **Capacity building is an important element of our knowledge program.** Institutional capacity building is a daunting and lengthy process requiring long term political commitment. Engaging the Bank through RAS also encourages Government to focus on long term issues, sustain reforms and mitigate the backsliding to improve the functions of state. Our policy dialogue and knowledge activities foster a change of views and a focus on results and modernization of management practices in the public administration.

72. **Positive Synergy of RAS with lending and other Bank Group instruments**. RAS are often at the core of the Bank's program, providing analytical underpinnings for the ongoing DPL DDO and the new DPL series. **RAS engagements also generate knowledge** that is valuable for the Bank for cross-fertilization, including with lower-income countries e.g. Eastern Partnership and pre-accession countries as well as other important MICs such as Brazil and China. RAS plays to the strength of the World Bank Group as a global knowledge institution and is crucial to the WBG's continued transformation into an institution that generates and brokers knowledge.

Measuring the results of the proposed CPS

73. Annex 1 provides the results framework which will be used to monitor and evaluate progress in the implementation of the CPS. Some of the outcome indicators will be supported by existing investment projects and others will be supported by the Bank's knowledge program including both bank-financed and RAS activities. In cases where the WBG's engagement consists only of analytical and advisory services the results can often be no more than intermediate outcomes in a longer results chain.

The CPS followed a broad consultative process and is based on high quality diagnostic work

74. **The proposed CPS program is the result of a prolonged period of consultation with a wide variety of stakeholders.** The joint Bank / IFC team had discussions with stakeholders in government, the private sector, academia, think tanks and other interested parties. The team also traveled to various regional locations within Romania. And the CPS is informed by the recently concluded country survey and knowledge mapping exercises, (see Annex 10 for more details).

75. **The CPS is based on a large amount of high quality diagnostic work.** The CPS has drawn on analytical work produced by the WBG, Government of Romania, EU, IMF, EIB, EBRD and other stakeholders. A list of the reference sources is included in Annexes 7 and 12.

76. The WBG values stakeholders' opinions regarding the priority areas for reform and where the Bank's assistance could bring added value. Two exercises gathered stakeholder feedback:

(i) *Country Survey* which focused on the evaluation of the WBG's activities during the previous CPS period (2009-2013), but also touched on Romania's priorities and areas where the Bank should continue its support; and

(ii) *Knowledge Mapping* exercise which examined the perceived vision for Romania, referring both to needs and priorities. The findings of these two projects are complementary.

77. The analysis acts as a dashboard to support WBG's operations in Romania in the following four years. The respondents emphasized the areas where the Bank should support

Romania's reforms agenda, among which Education, Health and Governance were the most frequently mentioned all are areas included in the indicative program for the 2014-2017 period.

II. THE CPS PILLARS: IMPROVING GOVERNMENT EFFECTIVENESS, SUPPORTING GROWTH AND INCLUSION

78. The strategy proposed for the Bank Group's operations in Romania will focus on the three pillars below. Attention to gender equality will cut across these pillars, aligning with the National Strategy for Gender Equality (2014-2017) whose main areas of interventions include gender equality in the labor force and an integrated approach for gender equality among others.

(i) **Creating a 21st century government:** A well-functioning public administration that utilizes effectively all fiscal resources (including EU funds) is a pre-requisite for improved service delivery. The Bank is already working in this area including: the DPL-DOO which supports improved PFM, tax laws, and SOE performance, the Judicial Reform project and the Revenue Administration Modernization Project (RAMP). A number of RAS engagements have also provided a strong analytical base including the functional reviews and the public investment framework review. In the past year, RAS activities have been focusing on public administration reform and strengthening capacity. The Bank has also recently signed a RAS to support the establishment of a Delivery Unit at the center of government that will focus on introducing a culture of performance frameworks, tracking mechanisms and a results orientation starting with the priority areas of; job creation, energy, tax administration and public procurement. IFC's involvement in large PPPs structuring ensures transfer of best practice and capacity building at local administration levels.

(ii) **Growth and job creation:** The only sustainable way out of poverty is through private sector employment. As explained above, Romania needs to adopt a sustainable growth model creating productive jobs as well as expanding employment especially among women. This pillar will support growth and private sector job creation by focusing on: (i) education and skills, (ii) reducing the role of the state and improving the business environment. IBRD will finance an education sector IPF whose details will be determined jointly with government. IBRD and IFC are expected to collaborate on improving the business environment through TA and support of the proposed DPLs. IBRD and IFC will also collaborate on financing for enterprises and development of the capital markets. IBRD will continue to work on improved SOE governance while IFC will re-engage in privatization of SOEs, especially in the energy sector, while MIGA is also considering proposed support to strategic energy sector SOEs.

(iii) **Social inclusion** is an important part of the EU's Europe 2020 agenda and is the heart of the Bank's shared prosperity goal and also a vital ingredient for sustainable development. The authorities will focus on improving the quality of public sector interventions in health, education and social protection. Labor market interventions, formalization of civil documents and property rights as well as combatting discrimination will all play a role in addressing living standards of marginal communities. Enhancing equality of opportunity will be important as well as improving the effectiveness of safety nets and providing access to basic services. This pillar will build on previous interventions such as: Social Inclusion Project, Social Assistance Modernization Project, and the RAS reports on Roma, and Early School Leaving as well as the poverty maps. Targeting of gender analysis, actions and monitoring can improve social inclusion, contributing to shared prosperity and sustainable development: for example the Social Inclusion Project targets social assistance projects for victims of domestic violence, and the Social Assistance System Modernization Project gender disaggregates beneficiaries reached by government programs. Addressing Social Inclusion was a requirement in structuring health PPPs and in co-financing with EU projects in the sub-national sector. IFC will continue to focus on addressing these issues in the years ahead.

III. PLANNED ACTIVITIES IN CPS AREAS OF ENGAGEMENT

Pillar 1: Creating a 21st Century Government

79. Improving public sector management for efficient and effective service delivery is at the heart of achieving the twin goals and an area where the Bank has a strong comparative advantage. The Bank has been actively engaged in this area, through successive DPL series, a recently approved project, analytical work, and technical assistance, in close cooperation with the EC and the IMF. This support will continue under this CPS.

80. **Country Development Goal 1: Improving Public Administration.** Romania has gone through an impressive fiscal consolidation effort. This component will build on recent efforts with two key initiatives:

a. Improving the quality of public expenditures.
b. Strengthening Center of Government functions.

81. **Improving the quality of public expenditures:** This component will support (i) strengthening public investment management and (ii) introducing results-informed budgeting. Bank interventions could span both central and local governments, SOE governance and investment policy. Consolidation of the management controls system of EU and State operational programs would also help to increase the efficiency and transparency of EU funds absorption and of domestic investment and reduce the high level of financial corrections of the previous period.

82. **Strengthening of Center of Government functions.** Strengthening the center of the Government has been identified as one of the immediate essential tasks to overcome public sector delivery challenges. Specific issues include government-wide policy prioritization improved coordination across the government and strengthened policy implementation. The Bank will support the establishment of a central Delivery Unit to help focus political attention on a limited set of priority objectives, initially including; energy, public procurement, job creation and tax administration and to routinely track performance against results.

83. *Line of sight to the twin goals:* Improving the quality of public expenditure will allow services public services to be delivered in an efficient and cost-effective manner, allowing expenditures to be better targeted to the bottom forty percent in a manner that is fiscally sustainable over the medium term.

84. **Country Development Goal 2: Improved Health Sector Delivery.** As noted above, health outcomes in Romania lag behind EU standards. The delivery system needs to be upgraded to meet the needs of an aging population, take advantage of new health technologies and incorporate marginalized communities. Since 2009, the Bank has partnered with the EC and the IMF on the structural reform of the health care system. The reform program seeks to increase the emphasis on primary care and prevention, reduce unnecessary inpatient admission services, and develop sustainable access to higher-quality secondary ambulatory services. These reforms would lead to an increase in the quality of care and efficiency of system administration, and improved health outcomes. The proposed health sector reform investment project will focus on:

(i) streamlining hospital services; (ii) enhancing primary health care services; (iii) implementing specialized secondary ambulatory care; and (iv) improving sector governance and stewardship.

85. IFC will invest selectively, focusing on opportunities to support projects outside Bucharest, complementing the proposed IBRD IPF within the sector.

86. *Line of sight to the twin goals:* Health care interventions will enhance the effectiveness, management and modernization of the hospital network, which in turn will contribute to developing a more effective health system which can delivery improved primary care, rationalize the cost of services, improve access and accountability as well as coping with the needs of an aging society. This in turn will result in improvements in health outcomes for the bottom forty percent and increased opportunities to participate in the labor market for the elderly and vulnerable which will promote income growth for the bottom forty percent.

87. *Pillar 1 Instruments: Investment Project Lending (RAMP ongoing), Proposed DPLs, Investment Project Lending (Proposed Health Sector Reform Project FY14), IDF grant to strengthen M&E systems, IFC investments in the sector and economic and sector work much of which will be delivered through RAS.*

Pillar 2: Growth and Job Creation

88. Ensuring robust economic growth is the key to convergence, poverty reduction and shared prosperity goals. The challenge in this area is how to increase the rate of growth from 2 percent (an early estimate for 2014) to 4 to 6 percent which would be required for quicker poverty reduction and sustained income growth of the bottom 40 percent of the population. This will be especially difficult in the context of an aging and shrinking population. The solution is increased competition and competitiveness. Action will be required on several fronts but the WBG will focus selectively on just three areas; (i) enhancing the business environment; (ii) inclusive and efficient labor market outcomes; and (iii) improving access to finance.

89. Although infrastructure is an important element of the growth agenda IBRD lending to the sector is not foreseen in the early years of the CPS due to the availability of EU resources for the public sector. However, WBG will continue to support Romania's efforts to build a secure, sustainable, and efficient energy sector through selected IFC investments and advisory services (e.g. district heating and market-based approaches to energy efficiency). IFC has focused on improving competitiveness in Romania through innovation and transfer of new technologies. In infrastructure, IFC will continue to address bottlenecks to growth and improve access to markets through investments in energy, transport, and logistics. IFC will also seek to invest in sub-national infrastructure, including through PPPs, with a particular emphasis on climate change and will support efforts to increase EU funds utilization through PPPs.

90. **Country Development Goal 3: Enhanced businesses environment**. Fostering faster growth and job creation will require a new growth paradigm based on efficient markets and a competitive enterprise sector. Three things are key in this initiative: (i) streamlining business regulation; (ii) improving the regulatory environment for SMEs; and (iii) enhancing competition and harmonizing the institutional framework for competition with EU principles. (See Annex 2).

91. A number of WBG teams are working in this area on issues such as land registration, competition policy, revenue administration, construction permits, doing business indicators etc. Each team will report on its own area of expertise and these outcome reviews will be captured in the mid-term progress report and the final CPS ICR. Two indicators have been selected to

measure progress on this broad objective as they are believed to be fundamental to making progress on enhancing the business environment. The indicators are streamlining the payment of taxes and reducing the time required for a construction permit. These indicators are supported by the Revenue Administration Modernization Project and the DPL series respectively.

92. *Line of sight to the twin goals:* An enhanced business environment will facilitate investments and create new jobs. Since the bottom 40 percent have lower labor market participation and lower return on their labor they will benefit from increased labor demand.

93. **Country Development Goal 4: Inclusive and efficient labor markets.** Increased participation in the labor market is key for sustained economic growth as well as for social inclusion and poverty reduction particularly for youth and the Roma population. The government is making efforts to improve the functioning of the labor market, including strengthening Public Employment Services and reviewing and strengthening activation policies (with support from the European Social Fund). A portrait of labor market exclusion in Romania supported by DG Employment highlighted the various groupings of unemployment in Romania (see Table A7).

94. In addition to activation policies, Romania needs to improve its education and skills outcomes as noted above. It will be important to reduce early school leaving among worst off groups, with particular focus on rural areas and the Roma population and strengthen the cognitive and behavioral foundation skills of graduates through higher quality in general education, improve the relevance and quality of tertiary education and establish a system for lifelong learning and upgrading of technical skills. The Bank has engaged with the Romanian authorities on a RAS basis on many of these issues. It is envisaged that this agenda will be taken up in FY15 through an education and skills IPF.

95. *Line of sight to the twin goals:* Reducing early school leaving and increasing the skills of the members of marginalized communities especially the Roma and facilitating increased labor market inclusion will support poverty reduction in Romania.

96. **Country Goal 5: Improving access to finance.** Increased economic growth will require greater access to finance for the private sector. However, the Romanian banking sector has been contracting as the deleveraging process following the financial crisis continues. In the short term the authorities are trying to facilitate NPL resolution by speeding up the bankruptcy process. Over the medium term, the authorities are examining ways to grow and deepen the financial sector. Three particular areas are under consideration: (i) strengthening the existing risk sharing facility to unlock bank lending in the short term; (ii) developing non-bank financial institutions; and (iii) deepening of the capital market with focus on a new economic growth model, so that it plays a more important role in mobilizing domestic resources and to foster tradables. The development of the securities market includes, among others, the non-government fixed income market (with long maturities), asset backed securities, and collective investment schemes, and at the same time establishes a framework (and capacity) to supervise and enforce market integrity in all these areas and address macro prudential supervision. A joint IBRD/IFC capital markets assessment project will help identify the improvements needed for a more effective primary and secondary market. The proposed DPL series could support capital market development and strengthening financial sector stability while IFC may participate in IPOs and local currency bonds as an investor. IFC can also play a role in the development of NBFIs which provide market-based safety-nets to support growth and job creation. This will follow on the success of projects with similar entities in micro-finance and farmer financing. IFC will continue to work

with financial intermediaries to provide financing to farmers and small and medium enterprises (SMEs) in the sector, groups that have been largely neglected by commercial banks. IFC will help develop the country's competitive edge through selective investments in food and beverage production, processing, and retail.

97. Increasing access to finance will also require high-quality financial statements, which imply improving external audit quality through better monitoring and enforcement systems. The authorities are following the 2008 ROSC Accounting and Auditing which recommended strengthening monitoring and enforcing quality external audits by establishing a public oversight system and strengthening audit quality reviews by the Chamber of Financial Auditors.

98. *Line of sight to the twin goals:* Improving access to finance generally will allow successful entrepreneurs to create employment opportunities benefiting the bottom 40 percent. Improving access to microfinance and farmer financing in particular will address the needs of vulnerable and rural communities that have otherwise limited access to financial services. Allowing such groups to save, invest and borrow to expand their businesses will result in income growth for the bottom forty percent.

99. **IFC can play a role in helping banks reduce their NPLs.** IFC has established a global network of investment platforms with distressed assets players to: (i) build the required capacity to actively operate in the sector; (ii) align interests with selected partners. IFC distressed assets investments are helping banks convert non-productive assets into productive resources, so that banks extend new credit to support the growth of these economies. IFC will continue to play a role in providing alternatives to financial institutions in balance sheet management and capital preservation. The increased provisioning slowly underway in the region may finally allow banks to dispose of their distressed assets at market prices. IFC will make equity and loan investments in select collection companies and/or directly invest in portfolios across asset classes.

100. In financial markets, IFC will continue to support the strengthening of the banking sector and development of capital markets as an additional source of funding. IFC's role is twofold: (i) IFC's presence, as an active bond investor, increases the likelihood of successful bond placements re-opening the dormant local bond market; and (ii) IFC potential participation as investor in the IPOs of large state-owned companies, primarily from the energy sector will improve the corporate governance of privatized companies in case there will be additionality and a transformational role for IFC in such projects. IFC's impact may be needed in the transformation of SOEs into competitive private companies.

101. **IFC's longer-term strategy** in the banking sector, largely dominated by foreign banks, is to strengthen the capacity of banks and non-banking financial institutions to provide loans to under-served sectors (micro and SMEs, with dedicated loan tranches for on-lending to women entrepreneurs) and promote products such as trade finance lines, bond investments, local currency and renewable energy finance. More importance will also be given to capital markets strengthening by participation in local currency bond market and co- financing of EU programs.

102. *Pillar 2 Instruments: Investment Lending (proposed education sector project), economic and sector work (Aging), technical assistance and reimbursable advisory services (Education, Labor Market, Social Assistance); IFC investments; Joint IBRD/IFC assessments.*

Pillar 3: Social Inclusion

103. The final pillar is focused on social inclusion, ensuring that all Romanians can share in the

growth and improved service delivery that will be supported by the first two pillars. There are clear overlaps with earlier pillars e.g. improved public administration will enable improved service delivery to those that are currently excluded and working on unemployment and skills development will also benefit those currently in the bottom 40 percent of the population. In this area, the WBG will focus on (i) Inclusive services for marginalized communities especially the Roma and (ii) Improving the social protection system.

104. **Country Goal 6: Inclusive services for marginalized communities.** The Bank will prepare a project to support social inclusion with a strong focus on the Roma. A Social Inclusion Project (SIP) was implemented during the previous CPS period and will close in June 2014. The previous SIP addressed differences in development outcomes between Roma and non-Roma communities that start in early childhood by constructing, rehabilitating and furnishing kindergartens in 27 Roma communities as well as other early childhood inputs, and provisional results appear remarkable. The project will be subjected to an intensive learning Implementation Completion Report (ICR) during the forthcoming CPS period. A RAS engagement on poor and disadvantaged communities and another report on "Diagnostics and Policy Advice for Supporting Roma Inclusion in Romania" are ongoing. Both initiatives will feed into the design and implementation of an integrated support project that will include education, housing, health, employment and safety nets components as well as mobilizing EU resources and instruments. The design will also follow the updated National Roma Integration Strategy as the organizing framework for Romania's reforms and EU financing of Roma inclusion.

105. *Line of sight to the twin goals:* Addressing the needs of the marginalized communities in an integrated manner will directly reduce poverty in Romania.

106. **Country Goal 7: Improving the Social Protection System.** Focusing on the growth and job creation agenda is the most efficient and sustainable way to move large numbers of poor out of poverty. However, there will always be some people who are not able to participate in the labor market and not otherwise able to take advantage of a growing economy. Social protection systems are the answer in promoting resilience, equity and opportunity for the poor and vulnerable and their improved targeting has been a government priority for some years.

107. During the previous CPS period, the Bank supported the Social Assistance System Modernization Project (SASMP) with the objective of improving the overall performance of Romania's social assistance system by strengthening performance management, improving equity, improving administrative efficiency and reducing error and fraud. The project aims to increase the share of social assistance funds going to the poorest quintile and to promote the efficiency of spending by reducing the administrative costs of means-tested benefits. It is a results-based investment operation that aims to introduce many of the elements of the program for results approach. During the forthcoming CPS period, the Bank will support improvements in the social protection system through RAS engagements and the new DPL series.

108. *Line of sight to the twin goals:* The social protection system played an important role in protecting the incomes of the bottom forty percent during the crisis. Improving targeting to the needy through means-testing will support income protection for the bottom 40 percent.

109. *Pillar 3 Instruments: Investment Lending (proposed SIP2 project), economic and sector work, technical assistance and reimbursable advisory services. Proposed DPLs.*

D. IMPLEMENTING THE WORLD BANK GROUP CPS FOR ROMANIA

WBG ONGOING PROGRAM

110. The **IBRD** lending portfolio is US$2.05 billion. During 2009-2013, six new operations were approved including: three DPLs, 1 DPL- DDO, a Results Based Social Assistance System Modernization project (SASMP) and the Revenue Administration Modernization Project (RAMP). The Government has also decided to draw down on the €1 billion under the DPL DDO. In October 2013, Government withdrew €700m and announced its intention to draw down the remainder in 2014.

111. There are 24 Reimbursable Advisory Services (worth US$42 million) with ongoing engagements to strengthen administrative capacity and support the effectiveness, quality and rate of implementation of EU grant programs (covering a multitude of areas, including Agriculture, Public Finance, Transport, Education, Competition, Regional Development, Climate Change, Center of the Government).

112. **IFC's** committed investment portfolio in Romania as of 30 June 2013 is US$619 million. In fiscal year 2013, IFC invested US$160 million in Romania. IFC's role in Romania is changing in light of the country's EU membership and the growing availability of private financing. IFC has focused on sub-national climate change investments, strengthening of the banking sector, including lending to SMEs, with a specific focus on women-owned entrepreneurial initiatives, local currency bonds investments and trade finance to banks.

113. **MIGA:** is not active in Romania but is considering support to EXIM Bank and potential support to SOEs especially in the energy sector (see above).

PARTNERSHIP AND DONOR COORDINATION

114. **The WBG is committed to ensuring a tight alignment at both strategic and operational levels of its activities with EU priorities and programs**, as discussed above. A significant part of the WBG advisory services will be aimed at strengthening capacity to make the most of available EU resources. The WBG also maintains a close partnership with the EC through the organization of regular knowledge-sharing events (including dissemination in Brussels of key knowledge products) and the development of ad hoc cooperation in selected areas (in particular in areas where the WBG's technical expertise and local knowledge can contribute to advancing the EU agenda).

115. In June 2013 Romania successfully completed a 27-month Stand-By Arrangement (SBA) with the **IMF**, including a three-month extension equivalent to SDR 3,090.6 million (€3.4 billion). The authorities then signed a successor 24-month SBA with proposed access of SDR 1,751.34 million (about €2 billion) in September 2013. A similar arrangement was also signed with the **EC** for a comparable sum shortly thereafter.

116. **The WBG cooperates closely with other multilateral institutions and development partners**. The WBG conducts regular consultations with the IMF and EC accompanies all the program missions. The Bank has also recently strengthened relations with the EIB, EBRD and EU technical arms such as JASPERS.

117. **The WBG aims to support Romania's growing and varied civil society in its partnership roles**. A pro-active and empowered civil society is key for Romania's social

development. The WBG considers that it can benefit greatly from partnering and consulting regularly with the representatives of the civil society in view of improving its operational performance. The WBG has involved the civil society representatives in the consultations for the preparation of the 2014-2018 Country Partnership Strategy for Romania and aims to enhance this partnership because it brings valuable local knowledge, innovative and participatory approach to solving problems and it leverages the social capital.

MANAGING THE WBG PROGRAM

118. **The WBG will track progress towards achieving the country outcomes defined in the CPS results framework**, spelled out in Annex 1. On this basis, the WBG will conduct an annual CPS implementation review for assessing progress under the CPS and possible adjustments to the WBG program. This review process is also expected to provide inputs for the planned CPS Progress Report in FY16 when adjustments in the CPS results framework will be made.

119. **Regular Joint Program Reviews will take stock of progress in implementing the WBG Program in Romania**. Previous experience showed that the joint program reviews are a good opportunity for the Government (with the Ministry of Public Finance as a main communication partner, recently expanded to the Ministry of EU Funds to cover the RAS engagement) and the Bank to review the progress in implementation of all active projects and advisory services and highlight and address any project specific challenges. In addition, quarterly meetings are organized by the Ministry of European Funds and attended by representatives of line ministries, managing authorities, the Bank and other IFIs active on RAS-type of engagement, to take stock of the RAS portfolio. Monthly updates are exchanged between the Bank and representatives of the Government on these advisory services and an annual progress report is prepared.

IV. MANAGING RISKS

120. The Romania program is robust, embodies a partnership of trust with the relevant authorities and utilizes all the Bank Group's instruments to the fullest extent. The RAS engagement is expected to stabilize at the current level in the first half of the CPS period, while lending will expand as indicated above. There are risks to this plan as described below:

121. **Political instability:** Coalition politics creates a risk for sustainability of structural reforms and project implementation. In February 2014 the ruling coalition broke apart with the exit of the National Liberals (PNL) and a new coalition was formed. However, to date all major parties remain committed to the country's reform program and the precautionary arrangements with international financing institutions. The Bank team will continue to work with all members of the coalition and will continue to consult widely including member of the opposition and other stakeholders in order to ensure continuity in the event of political changes.

122. **Macroeconomic risks:** External factors include the domestic banking sector's exposure to foreign currency denominated assets (62 percent of lending), and weaker external demand from the Eurozone, could lead to the widening of the country's current account deficit. However, Romania is better prepared to absorb such shocks than before 2008. The current account deficit was less than 1 percent in 2013. Euro denominated loans are decreasing. The National Bank of Romania continues to use a floating exchange rate while intervening to smooth sharp exchange rate fluctuations. The current macroeconomic situation includes significant buffers to further exogenous shocks.

123. **Financial Sector risks:** While Romanian banks have to cope with high NPLs (currently over 22 percent, as at February 2014), related losses have already been recognized in the form of loss provisions (89.7% in February 2014), with little residual risk related to such exposures going forward. The National Bank of Romania is closely monitoring the situation; capital adequacy is comfortable at over 14. Continued prudent macroeconomic policies, EU monitoring safeguards, and the IMF, EC, and World Bank-supported programs provide effective mechanisms for mitigating these risks.

124. **Institutional capacity:** Concern with implementation capacity at both the national and local levels has continued to affect Romania. Improving the capacity of government is the first pillar of the CPS and will include a number of measures to directly address this bottleneck including supporting the implementation of a delivery unit in the Prime Minister's office. The government is keen to make progress in the area of public administration reform and strengthening public institutions.

125. **Portfolio implementation risks:** During the previous CPS period, several Bank supported projects were hampered in their implementation due to a lack of counterpart government funds and insufficient fiscal space. The Bank has since restructured its portfolio and canceled or closed several projects. In order to avoid this happening in future, the Bank has supported the Romanian administration to review the process of investment financing and is engaged in a RAS on project selection models. The Government is also under-taking a number of measures to prioritize the large infrastructure investment program and ensure that only EU funded and other priority projects are included in the budget. These measures are being supported and followed up under the proposed DPL series.

126. **Risks to the RAS program:** The RAS program has grown rapidly during the previous CPS period and the next CPS period envisages a stabilization in the level of the engagement. The tendency towards engaging only on more selective and transformative RAS programs which is now ongoing would be further pursued in the upcoming CPS. The Bank will monitor the RAS program, including with government, and support the Romanian authorities in strengthening their management and direction of the program. This oversight function will be an integral part of the joint portfolio review process with Government.

127. **Fiduciary risks:** The legal framework of the Romanian public procurement system has undergone significant improvements in line with EU legislation[7]. The present institutional framework follows the principles of institutional independence and separation of competencies[8]. Romania has enhanced its e –procurement system (SEAP) to cover all key phases of the procurement process. However the slow procurement process and low transparency in how public funds are spent, and reported integrity challenges remain an issue. Public procurement was identified as a cross-cutting issue in the sector functional reviews prepared by the Bank and among the main factors accounting for the country's low rates of EU funds absorption. Key obstacles include the frequent changes in the legal framework, the complex institutional set up, resulting in misalignment and overlap of responsibilities, and lack of sufficient capacity. In

[7] The public procurement law (Emergency Government Ordinance 34/2006) was adopted in June 2006 and is fully aligned with EU Directives. The law has undergone several substantial amendments since June 2006, the last one entering into force in April 2013.

[8] The regulator – ANRMAP reports to the Prime Minister, the ex-ante Control Unit (UCVAP) to the Minister of Public Finance, the e-procurement system operator (National Center for IT Management Society) to the Ministry of Communication and Information Society; the complaint handling body National Council for Complaint Resolution (CNSC) is an independent body;

addition, while the e-procurement system is in place, only around 40% of the procurement transactions take place through the system. Thus its main advantages – obtaining best value for money and high monitoring potential – could not be fully utilized. The area of public procurement is also one of the areas identified by the Romania Government as priority for the Delivery Unit in the Prime Minister's office.

Annex 1: Romania CPS 2014-2017 Results Framework

Country Development Goals	Development Challenges addressed by CPS Objectives	CPS Objectives and Outcome Indicators	World Bank Group Program and Development Partners
Pillar 1: Creating a 21st Century Government			
Goal 1: **Improving public administration** *(This outcome is linked to the following <u>Europe 2020 strategic elements:</u> Guideline 1 "Ensuring the quality and the sustainability of public finances" and Guideline 2 "Addressing macroeconomic imbalances")*	Romania's prudent macroeconomic performance has led to its exit from the EU Excessive Deficit Procedure, but continued fiscal consolidation is needed to reach the money transfer operator (MTO). In order to consolidate this achievement, the government is planning action in three areas; revenue administration, debt management and improving the quality and effectiveness of public expenditures.	**CPS Objective 1:** Revenue and expenditure administration improved. *Outcome Indicators:* (i) Increasing tax revenues by 3% of GDP within 5 years. (The 2013 baseline was 28 percent of GDP). (ii) Introducing results-informed budgeting, and piloting it in two ministries.	**WBG** Multisectoral DPL (FY14/15 – new) RAMP project RAS engagements IFC - PPPs **Partners** EC (engaged in a policy dialogue under the program) IMF (engaged in a policy dialogue under standby program)
Goal 2 **Improved health service delivery** *(This outcome is linked to the following <u>Europe 2020 strategic element</u>: Flagship Initiative "European platform against poverty")*	Romania wants to upgrade the health care system to meet the needs of an aging population and take advantage of new health technologies. The reform program will increase the emphasis on primary and secondary prevention, reduce unnecessary inpatient admission services. The reforms will rationalizing hospitals, enhance primary care at the community level, increase ambulatory care, and improve governance over the whole sector.	**CPS Objective 2:** Rationalizing the hospital network and enhancing primary health care services *Outcome indicators:* (i) Reducing the ratio of public acute beds per 1,000 inhabitants from 5.5 to 4.8 (ii) Introducing a new basic package of health care services with additional roles and payment incentives for primary care professionals. (iii) Percentage of eligible women aged 25-60 with at least one test of cervical cancer in the last three years. (Current baseline 10 percent).	**WBG** Hospital Sector Reform project (new) TA Health (new) Possible IFC investments **Partners** EC, EIB

Pillar 2 : Growth and Job Creation			
Goal 3: **Enhanced business environment** *(This outcome is linked to the following Europe 2020 strategic elements: Flagship Initiative "An industrial policy for the globalization era" and Guideline 6 "Improving the business and consumer environment and modernizing the industrial base")*	Increasing Romania's productivity growth and competitiveness requires increasing both international and domestic investment. But the business environment remains weak. Romania ranks at 73 out of 183 countries and 25 out of 28 EU countries. Getting electricity, paying taxes, registering property and dealing with construction permits require the most attention.	**CPS Objective 3:** Creating an improved business environment and a competitive economy. *Outcome Indicators:* Significantly improved performance in Doing Business indicators that meets the current ECA averages in (i) paying taxes (Number of payments reduced from 36 to 29), and (ii) construction permits (time reduced from 287 days to 200 days).	**WBG** Proposed growth DPL (FY 14/15) TA RAS to Romanian Competition Council. RAS Real Estate Modernization and RAS on spatial and urban strategies. IFC sub-national financing. **Partners** GSG admin barriers project.
Goal 4: **Inclusive and efficient labor markets** *(This outcome is linked to the following Europe 2020 strategic elements: National Europe 2020 targets (for Romania): (i) 70 percent of the population aged 20-64 employed: (ii) the share of early school leavers 11.3 percent; (iii) at least 26.7 percent of 30–34 year-olds completed tertiary education; (iv) at least 10 percent of 25-64 year-olds participate in lifelong learning*	Participation in the labor market is widely seen as the most effective way to escape poverty and share in the country's prosperity. Yet, labor force participation remains low, especially for three groups: older workers, women (especially rural), and youth (especially low-skilled). Skills are a key barrier to labor force participation and Romania is developing strategic frameworks to address early school leaving promote completion of higher education and expand lifelong learning. Significant resources are available under the new EU Financial Perspective to promote labor market inclusion through education and skills interventions.	**CPS Objective 4:** Strengthening the effectiveness of skills and education programs for labor market inclusion. *Outcome indicator:* All three indicators will be tracked by gender. (i) Reducing early school leaving (share of 18 to 24 year olds who have at most lower secondary education and are no longer in education or training) from the 2012 baseline of 17.4 percent; (ii) Increasing the share of 30-34 year-olds who have completed a higher education degree from the 2012 baseline of 21.8 percent (iii) Increasing the share of adults (aged 25-64) participating in lifelong learning from the 2012 baseline of 1.4 percent	**WBG** Proposed education and skills project (FY15Active Aging RAS Four RAS Education sector RAS reports. **Partner** EC (funding inclusion and employment support programs under the new EU Financial Perspective)
Goal 5: **Improving access to finance**	Years of deleveraging have shrunk the Romanian banking sector. Banks need to reduce their NPLs and start lending to the private sector especially SMEs. To support this objective, government is working on the resolution framework to facilitate NPL clean-ups.	**CPS Objective 5:** Making it easier for business to exit the market. *Outcome Indicator:* (i) adopting a new insolvency code in line with the ROSC principles. (ii) Reducing the time taken to resolve insolvencies from 3.3 to 2.75 years.	**WBG** Proposed growth DPL (FY 14/15) WB ROSC on insolvency and creditor rights IFC investments **Partners** IMF

<table>
<tr><th colspan="4">Pillar 3 : Social Inclusion</th></tr>
<tr>
<td>Goal 6:

Inclusive services for marginalized communities

(This outcome is linked to the following <u>Europe 2020 strategic element</u>: (i) reduction of the population at risk of poverty or social exclusion [Romania target] 580,000 and (ii) Flagship Initiative “European platform against poverty”)</td>
<td>The Roma are a marginalized community 90 percent live in severe material deprivation. Integrating them into mainstream society by ensuring equality of education, opportunity and providing them with basic living standards can bring great economic benefits to the country.

However, achieving this will require an integrated multi-faceted solution including education, housing, employment, health and infrastructure inputs that will have to be coordinated and carefully applied.</td>
<td>CPS Objective 6:

Support an ambitious and successful government program to tackle social inclusion of the Roma community.

Outcome Indicators:
(i) An updated national Roma strategy adopted and implemented.

(ii) An increase in the percentage of Roma children enrolled in pre-primary education (currently 30%). This indicator will also track the percentage of Roma girls in preschool (currently 34%)

(iii) Successfully mobilizing EU resources and instruments (including by supporting the implementation of the Community Led Local Development (CLLD) instrument for Roma inclusion.</td>
<td>WBG

Proposed Social Inclusion and Basic Services Project FY16.

Roma integration RAS

IFCPPPs

IFC gender financing

Partners

EC (social development programs under the new EU Financial Perspective)</td>
</tr>
<tr>
<td>Goal 7:

Improving the social protection system</td>
<td>Social protection systems have played an important part in reducing poverty in Romania as in other EU countries.

In order to ensure the sustainability of the Romanian social protection system in the context of an ongoing fiscal consolidation it will be important to reduce the administrative costs of the system especially for means-tested benefits and attempt to divert more resources to the poorest quintile.</td>
<td>CPS Objective 7:

A more streamlined, better targeted and more cost-efficient social protection system.

Outcome Indicator:
(i) Government consolidates three means-tested programs and reduces disincentives for work by changing the benefit formula to avoid penalizing work.

(ii) Increasing the coverage of means-tested programs to 60 percent of the poorest 20 percent of households by end 2017.</td>
<td>WBG

Proposed DPL FY14.
SASMP.

IFC sub-national financing.

Partners

EC (engaged in a dialogue on social protection systems)
IMF on standby program.</td>
</tr>
</table>

Annex 2: Romania Macro and Micro-economic Indicators

Table A3: Romania-Economic Developments and Prospects (2009–18)

YEAR*	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. GDP										
Per capita, Atlas medhology, US$	8680	8430	8520	8560	9170	9416	10076	10729	11448	12165
US$ billion at current prices	164	165	183	169	190	197	202	218	230	238
Growth, % change	-6.6	-1.1	2.2	0.7	3.5	2.2	2.5	2.9	3.4	3.5
By sector, % change										
Agriculture	-3.3	-5.5	12.4	-21.6	13.2	-4.2	2.2	0.8	1.3	3.2
Industry	-1.4	4.0	0.1	-1.0	6.7	4.7	2.9	3.3	3.9	3.8
Construction	-9.9	-4.5	-6.4	-0.3	-1.4	8.0	5.8	3.8	4.4	3.2
Services	-9.1	-3.6	2.2	5.6	2.1	1.8	1.5	2.4	3.0	3.2
By spending category, % change										
Consumption	-7.4	-1.3	0.9	1.2	0.3	1.9	2.4	3.0	3.3	3.4
Government	9.5	-13.7	-0.3	2.4	0.0	0.6	1.4	3.4	2.4	2.4
Private	-9.4	0.1	1.1	1.1	0.3	2.2	2.6	2.8	3.5	3.7
Investment	-28.1	-1.8	7.3	4.9	-5.7	2.1	3.4	3.7	4.5	4.6
Government	-26.6	34.9	8.8	-12.1	-9.3	12.0	-9.3	6.4	10.5	4.8
Private	-28.5	-11.3	6.7	11.7	-2.5	-0.6	4.3	3.2	3.9	4.5
Exports	-6.4	13.2	10.3	-3.0	12.8	5.7	5.9	7.0	8.5	8.6
Imports	-20.5	11.1	10.0	-0.9	2.3	4.0	6.1	7.5	8.6	8.9
Domestic demand	-11.7	-1.1	2.4	1.4	-1.1	1.5	2.6	3.1	3.5	3.6
Memo: Output gap (% GDP)	1.5	-1.5	-1.2	-2.4	-1.2	-1.2	-1.2	-0.9	-0.2	0.6
2. Savings and investment, of GDP										
Gross national saving	21.2	21.2	22.3	21.6	22.1	21.7	20.8	20.6	22.4	22.5
Government	-2.0	0.8	3.4	4.0	3.2	4.0	4.1	4.3	4.8	4.8
Private	23.2	20.3	18.9	17.6	18.9	17.7	16.7	16.3	17.6	17.7
Gross domestic investment	25.4	25.6	26.8	26.0	23.2	23.2	22.7	22.7	24.7	25.1
Government	5.2	7.2	7.7	6.5	5.7	6.2	5.5	5.7	6.1	6.2
Private	20.1	18.3	19.2	19.5	17.5	17.0	17.2	17.0	18.6	18.9
3. Prices and wages, % change, y-o-y										
Consumer price index (CPI average) 1/	5.6	6.1	5.8	3.3	4.0	2.2	3.1	3.0	2.8	2.8
Average nominal wage growth	8.4	2.5	4.9	5.0	5.0	4.6	4.5	3.8	3.6	3.6
4. Unemployment rate, %	6.9	7.3	7.4	7.0	7.3	7.2	6.8	6.7	6.6	6.6
5. External Sector, % of GDP										
Current Account Balance	-4.2	-4.4	-4.5	-4.4	-1.1	-1.5	-1.9	-2.1	-2.3	-2.6
Merchandise trade balance	-5.8	-6.1	-5.6	-5.6	-2.4	-2.7	-3.0	-3.1	-3.2	-3.4
Service balance	-0.2	0.3	0.3	0.9	1.8	1.7	1.6	1.7	1.7	1.7
Income balance	-1.6	-1.5	-1.7	-2.3	-3.1	-3.1	-3.1	-3.1	-3.1	-3.2
Transfers balance	3.5	2.9	2.5	2.6	2.6	2.6	2.5	2.5	2.3	2.3
Real Effective Exchange Rate Index (base 100=2000)	171.8	173.5	175.1	166.5	177.9	…	…	…	…	…
6. Financial Sector, % of GDP										
Deposits	62.5	65.6	64.6	62.2	57.3	…	…	…	…	…
Loans (households and non-financial corporations)	39.2	39.5	39.4	38.1	34.4	…	…	…	…	…
Credit to private sectors, annual percent change	0.9	4.7	6.6	1.3	-3.3	1.3	5.2	4.9	6.1	6.6
Assets quality										
NPLs ratio	7.9	11.9	14.3	18.2	21.9	…	…	…	…	…
Stock market capitalization	18.4	21.6	14.5	18.2	22.5	…	…	…	…	…

Source: Ministry of Public Finance; National Bank of Romania; IMF; Eurostat; National Commission for Prognosis, JP Morgan and the World Bank staff estimates.

1/ Projections are based on HICP (Harmonised Indices of Consumer Prices) weights.

*Actual: 2009-2010, Estimate: 2011-2012, Projection (WB staff): 2013-2018

Table A4: Romania - Financing Requirements and Sources and External Debt, 2010–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Baseline external debt, % of GDP	68.7	74.3	75.1	75.7	67.5	61.1	56.1	53.7	50.9	47.5
Public sector	10.0	12.9	15.3	17.3	18.3	18.6	18.2	17.2	16.0	15.0
Other	58.7	61.4	59.8	58.4	49.2	42.5	37.9	36.5	34.9	32.5
Change in external debt, % of GDP	17.3	5.6	0.8	0.6	-8.2	-6.4	-5.0	-2.4	-2.8	-3.4
Total financing requirements, % of GDP	40.9	30.7	29.8	33.4	25.9	19.0	18.0	18.6	19.1	19.7
Current account deficit	4.2	4.4	4.5	4.4	1.1	1.5	1.9	2.1	2.3	2.6
Short term external debt	13.2	15.7	17.3	15.9	13.6	12.5	11.9	11.3	10.6	10.0

Source: Ministry of Public Finance; IMF; and the World Bank staff estimates.
*Actual: 2009-2012, Projection: 2013-2018.

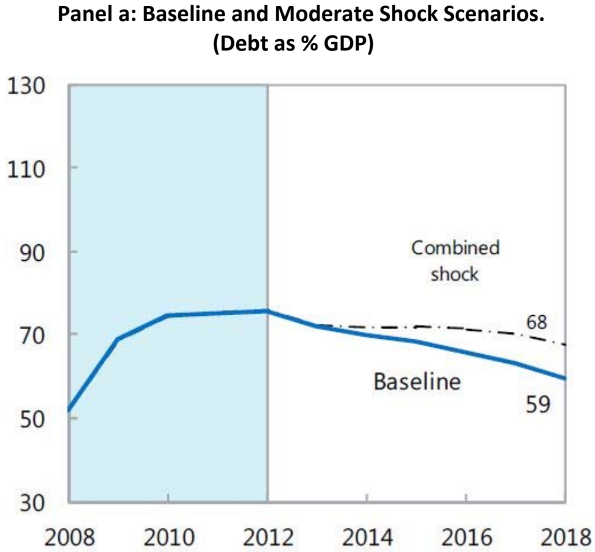
Table A5: Romania-Gross General Government Debt Dynamics, 2009–18

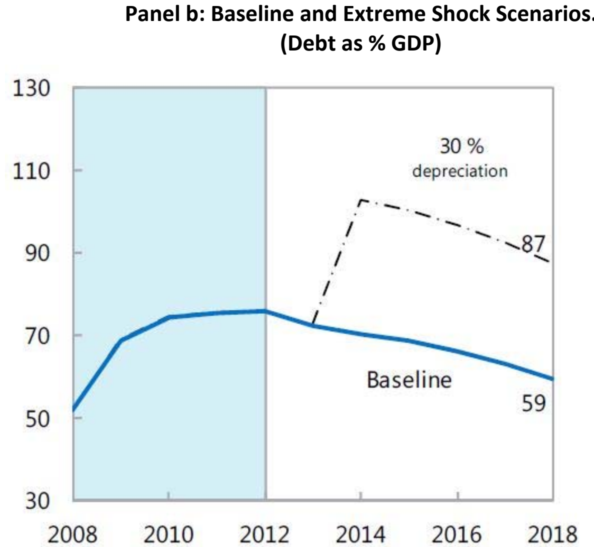
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross general government debt (including guarantees), % of GDP	23.8	31.1	34.3	38.2	39.3	39.7	39.0	38.3	37.4	36.7
Gross general government debt (direct debt only), % of GDP	21.7	28.1	32.2	35.8	36.9	37.5	36.9	36.3	35.5	34.9
External	10.0	12.9	15.3	17.3	18.2	18.6	18.2	17.2	15.9	14.9
Domestic	11.7	15.2	16.9	18.5	18.7	18.9	18.7	19.1	19.6	20.0
Change in general government debt, % of GDP	10.2	7.3	3.2	3.9	1.1	0.4	-0.7	-0.7	-0.9	-0.7
Primary deficit	6.1	5.0	2.8	0.7	0.8	0.6	-0.3	-0.3	-0.2	-0.2
Automatic debt dynamics	1.9	1.8	0.7	0.3	-0.8	0.1	-0.1	-0.2	-0.4	-0.5
Contribution from interest rate/growth differential	1.6	0.4	-0.1	0.2	-0.8	0.1	-0.1	-0.2	-0.4	-0.5
Of which: real interest rate	0.7	0.0	0.5	0.5	0.4	1.0	0.8	0.9	0.8	0.8
Of which: real GDP growth	0.9	0.4	-0.6	-0.2	-1.2	-0.8	-0.9	-1.1	-1.2	-1.2
Contribution from exchange rate depreciation	0.3	1.4	0.8	0.1	…	…	…	…	…	…
Residual, including asset change	2.2	0.5	-0.3	2.9	1.1	-0.3	-0.3	-0.2	-0.3	0.0
Public gross financing needs, % of GDP	18.4	13.9	13.0	11.6	11.8	9.4	8.6	7.9	6.7	7.3
Public sector debt to revenue ratio (%)	76.3	96.6	105.2	116.1	124.0	121.8	119.3	117.5	115.4	114.0

Source: Ministry of Public Finance; IMF; and the World Bank staff estimates
*Actual: 2009-2012, Projection: 2013-2018

128. **Romania's debt remains sustainable in the medium term under a range of adverse shocks**, such as a combined permanent shock of 0.25 standard deviation in the real interest rate, the GDP growth rate, and the CAD (Figure 2, panel a). With these adverse assumptions, external debt continues to decline, though more moderately than in the baseline, reaching about 68 percent of GDP in 2018 compared to 59 percent in the baseline. However, an extreme shock of a one-time 30 percent real exchange rate depreciation (Figure 2, panel b)—which could be caused by a reversal of prudent macroeconomic policies, large capital outflows, and a confidence shock––would escalate external debt to about 100 percent of GDP in the short run before sliding back to 87 percent by 2018. This underscores the importance of continued monetary and fiscal prudence to keep macroeconomic vulnerabilities in check.

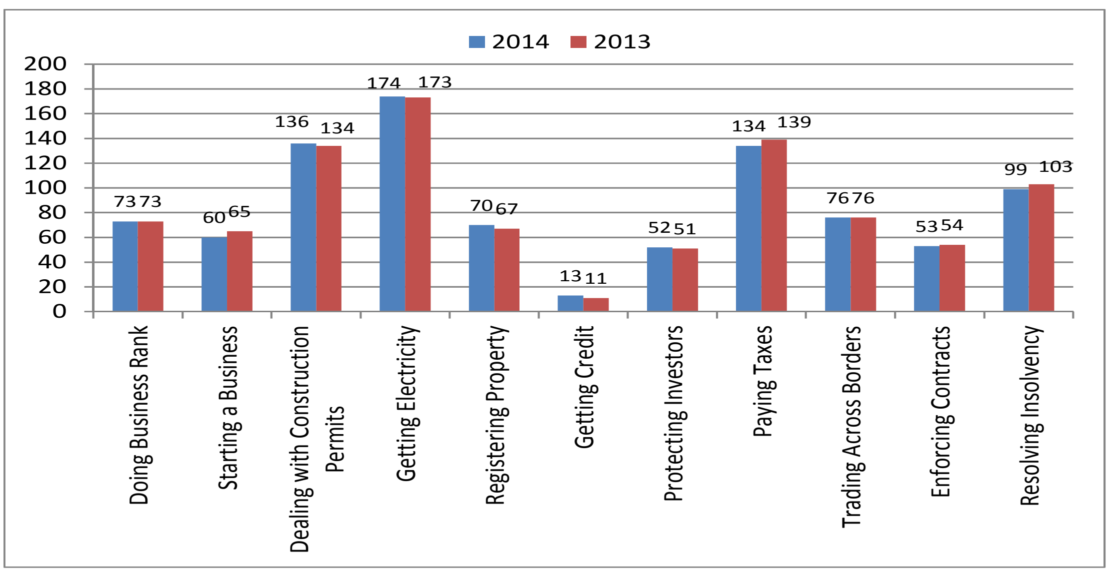
Figure A10: Romania-External Debt Sustainability:





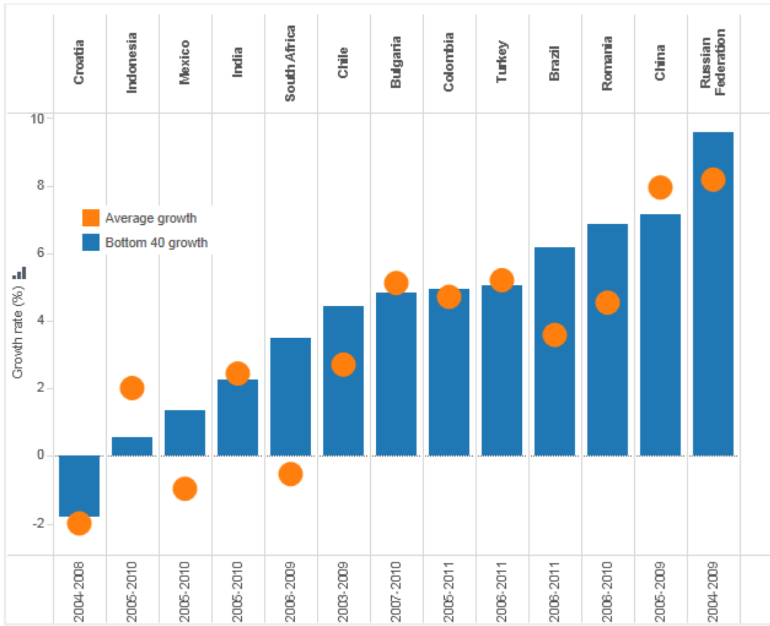
Source: IMF and Bank staff estimates as of December 2013.

Figure A11: Doing Business Ranking: Romania 2014 and 2013



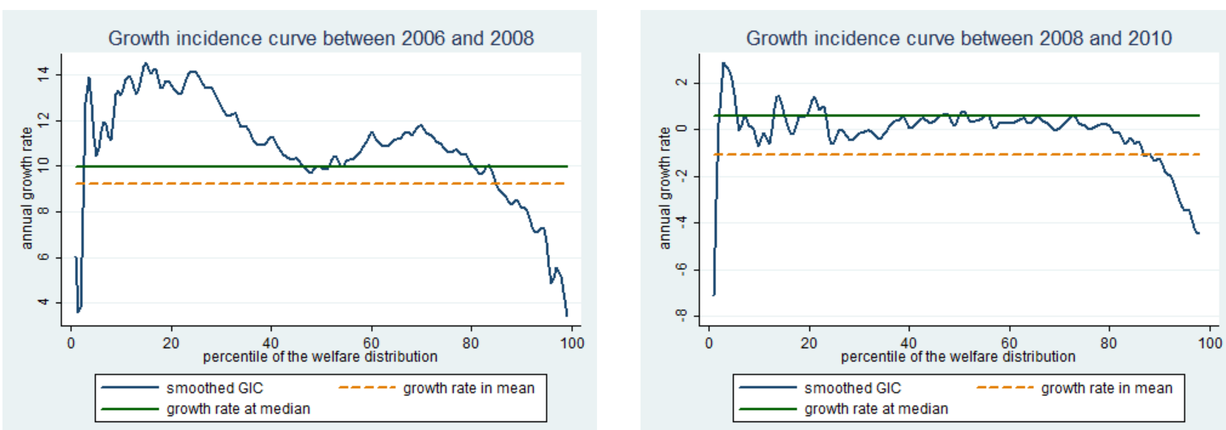
Source: Doing Business 2014 (available at http://www.doingbusiness.org/data/exploreeconomies/romania)

Figure A12: Shared prosperity Romania and peers



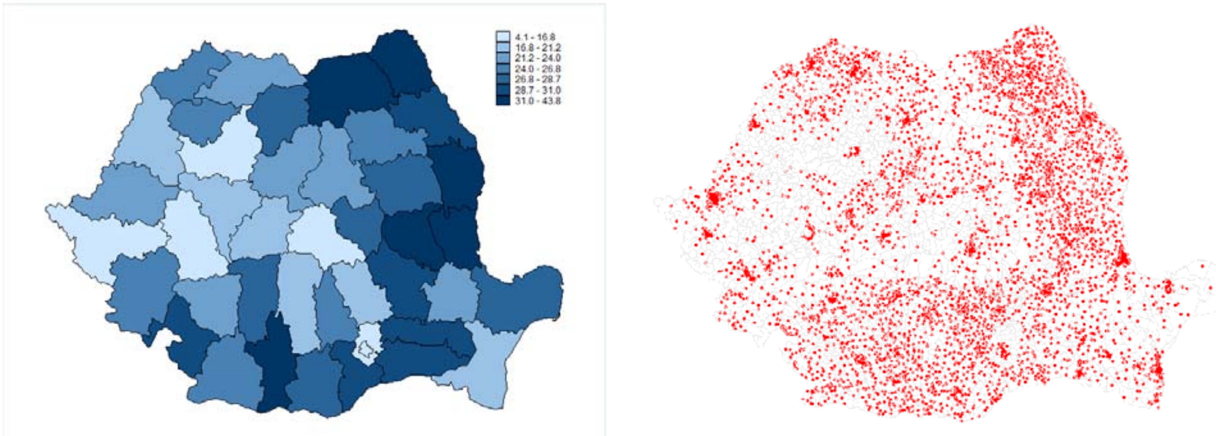
Source: Azevedo and Atamanov (2013) using Global Poverty Working Group provisional World Bank data on shared prosperity, as of October 25, 2013. Geometric mean is used to calculate average growth rate. Data available upon request to the authors.

Figure A13: Rapid income gains in 2006 - 2008 ended with the onset of the crisis in 2008



Source: World Bank staff calculations from 2007–2011 EU-SILC UDB files
Note: As in Figure 3.

Figure A14: Risk of poverty rates and density vary widely across Romania



Source: World Bank staff calculations using 2011 EU-SILC and provisional 2011 Population and Housing Census data obtained from the Romanian National Institute for Statistics.
Note: Risk of poverty defined using EU 60 percent of national median equivalized disposable income threshold. On poverty density map each dot represents 750 people at risk of poverty.

Table A6: SMEs in Romania, some basic figures

	Number of Enterprises			Employment			Value added		
	Romania		EU27	Romania		EU27	Romania		EU27
	Number	Share	*Share*	Number	Share	*Share*	Billion	Share	*Share*
Micro	475.536	89,6%	*92,2%*	993.079	24,9%	*29,6%*	7	14,4%	*21,2%*
Small	45.131	8,5%	*6,5%*	840.848	21,1%	*20,6%*	8	17,8%	*18,5%*
Medium	8.348	1,6%	*1,1%*	843.021	21,2%	*17,2%*	9	20,5%	*18,4%*
SMEs	529.015	99,7%	*99,8%*	2.676.948	67,2%	*67,4%*	24	52,7%	*58,1%*
Large	1.527	0,3%	*0,2%*	1.304.963	32,8%	*32,6%*	22	47,3%	*41,9%*
Total	530.542	100,0%	*100,0%*	3.981.911	100,0%	*100,0%*	46	100,0%	*100,0%*

Source: European Commission (2012), *SBA Fact Sheet 2012 Romania*, Brussels[9]

129. *Streamlining business regulation and provision of eGovernment services.* The General Secretariat of the Government (GSG) has launched a project to identify the administrative barriers and to evaluate the time and costs for regulatory compliance imposed by the stock of legal regulations in different regulatory areas so that a target of 25% reduction of administrative burdens can be established at the end of the simplification process. In addition in an effort to calculate the real cost of regulations regulatory impact assessments (RIA) will be carried out. This area will be supported by the proposed DPL and joint IBRD-IFC advisory services.

130. *Supporting SMEs.* Government has been paying particular attention to both the Small Business Act for Europe (SBA), launched by the European Commission, and to the achievement of the priorities in the 'Strategy Europe 2020' (smart, sustainable, and inclusive growth).

[9] Estimates for 2011, based on 2005-2009 figures from the Structural Business Statistics Database (Eurostat). The estimates have been produced by Cambridge Econometrics. The data cover the 'business economy' which includes industry, construction, trade, and services (NACE Rev. 2 Sections B to J, L, M and N). The data does not cover the enterprises in agriculture, forestry, fishing or the largely nonmarket services such as education and health. The advantage of using Eurostat data is that the statistics from different countries have been harmonized and are comparable across countries. The disadvantage is that for some countries these data may be different from data published by national authorities.

Box A2: The Europe 2020 strategy and reducing poverty and social exclusion

Adopted in 2010, Europe 2020 is the European Union's strategy for "smart, sustainable and inclusive growth." The strategy includes five interrelated headline targets to be achieved by the year 2020, encompassing employment, innovation, education, poverty and social inclusion, and climate/energy. The development strategies of EU member states are set within the broader framework of the Europe 2020 strategy.

One of the headline targets of the Europe 2020 strategy is to reduce the number of poor and socially excluded people by 20 million, with national-level targets set by each of the EU Member States. Romania has set a national target of reducing the number of people at risk of poverty or social exclusion (AROPE) by 580,000 by the year 2020. Three interrelated indicators are used. First is the at-risk-of-poverty rate (AROP), a measure of relative poverty defined as the percent of the population with incomes less than 60 percent of the national median income after social transfers. Second is the index of severe material deprivation (SMD), a measure of the percent of people who cannot afford a number of necessities that are considered essential in order to live decent lives in Europe. Third is low work intensity (LWI), which is the percentage of people living in households in which adults worked less than 20 percent of their potential. A person who is considered deprived by any one (or more) of these measures is considered at risk of poverty or social exclusion.

Romania has the second-highest rate of AROPE in the EU at 41.7 percent in 2012 (Bulgaria's rate for 2012 is 49.3 percent). The AROPE rate has fallen from 45.9 percent in 2007, decreasing steadily to 40.3 in 2011 before ticking up slightly in 2012. Severe material deprivation (SMD) is the largest contributor to poverty and social exclusion in Romania, with nearly 30 percent of the population unable to afford several basic necessities. The second largest contributor in Romania is AROP, or risk of relative monetary poverty, which has fluctuated slightly between 21 and 25 percent of the Romanian population since 2007. Low work intensity is by far the smallest contributor, with only seven percent of the Romanian population living in jobless households.

Romania's performance on the Europe 2020 indicators of risk of poverty and social exclusion

	2007	**2008**	**2009**	**2010**	**2011**	**2012**
People at risk of poverty or social exclusion (AROPE)	45.9	44.2	43.1	41.4	40.3	41.7
People at risk of poverty after social transfers (AROP)	24.8	23.4	22.4	21.1	22.2	22.6
Severely materially deprived people (SMD)	36.5	32.9	32.2	31.0	29.4	29.9
People living in households with very low work intensity (LWI)	8.4	8.2	7.7	6.8	6.7	7.4

Source: Eurostat web site, accessed January 31, 2014. Years in table are survey years.
http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

Table A7: Portraits of labor market exclusion in Romania

Share (2011)	Group	Activation need	Activation potential	Priority for action
24%	Retirees	low	low	C
24%	Early retirees	low	medium	C
19%	Low-educated rural mothers without work experience	high	low	B
15%	Inactive middle-aged wives	high	medium	B
7%	Long-term unemployed educated single youth	high	high	A
5%	Prime-aged long-term unemployed	high	medium	A
3%	Prime-aged newly unemployed	medium	high	B
3%	Low-educated and rural disabled	medium	low	C

Table A8: WB/IMF/EU Packages during the previous CPS

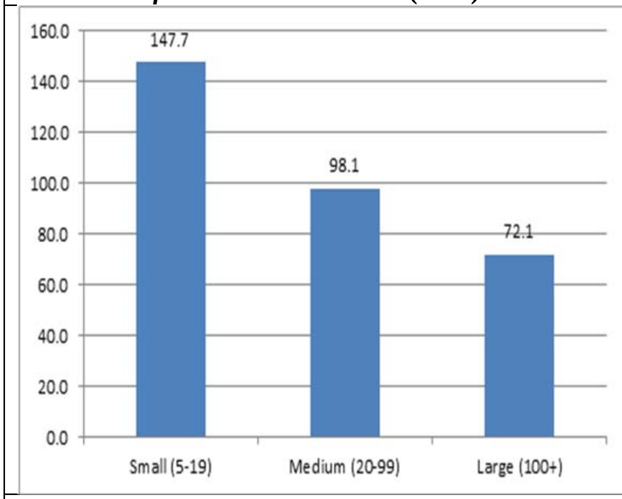
1st Package	2009-2010 (May 2009)	IMF: 24-months SBA of €13bn EU: Co-financing of €5bn WB: DPL1-3 series of €1b EBRD and EIB: lending of €1bn
2nd Package	Precautionary Package 2011-12 (March 2011)	IMF: 24 months SBA of €3.5bn EU: Co-financing of €1.4bn WB: DPL DDO of €1bn
Total:		€26 billion

131. **Enhancing competition and harmonizing the institutional framework for competition with EU principles is needed to reignite productivity growth in Romania.** The business environment in Romania is less conducive to competition than other EU countries with negative impacts on productivity growth. Rules of the game that favor competition are an essential condition for economic growth as they have important knock-on effects on the functioning of markets. In this regard, competition policy is a powerful instrument to increase efficiency in domestic markets and also to increase integration of markets across the EU. There is significant scope for competition policy in Romania. The OECD ranks Romania, in terms of degree to which regulations restrict competition, at 20th out of the 22 EU countries rated in the most recent survey (see Figure A15). Romania's rank on the effectiveness of anti-monopoly policies – a perception based indicator -- has plummeted from 66 to 113, according to the Global Competitiveness Report (2009-10 and 2013-14). Without competition firms do not face strong incentives to reduce costs, innovate and become more efficient and productive than their rivals and therefore they do not create the basis for further growth in employment. Romania still lags

behind EU economies in the application of competition policy. Without completion firms do not face strong incentives to reduce costs, innovate and become more efficient and productive than their rivals and therefore they do not create the basis for further growth in employment. This area is being directly supported by the RAS with the Romanian Competition Council.

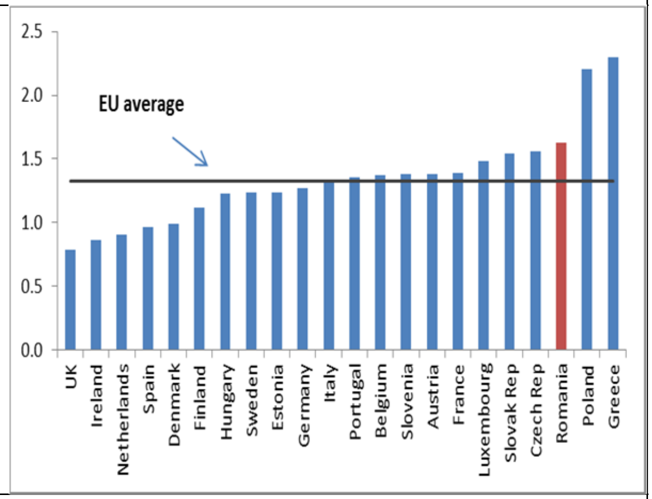
Figure A15: Doing Business in Romania

Days to obtain a construction related permit - *by firm size* - in Romania (2009)



Source: World Bank staff elaboration based on BEEPS (2009) data

Product market regulation, EU countries



Source: World Bank staff elaboration based on OECD data; values refer to: 2011 for Romania; 2008 for all other countries.

132. **Equally important will be the Authorities' ability to leverage the capacity of nonbank financial institutions**. In the decade prior to the crisis, the financial system grew rapidly, dominated by banks. Today, scarcer foreign funding means that the large financing requirements needed to support economic development will have to be met from domestic sources, including the nonbanking sector. Even pension funds have become more important in Romania, nonbank financial intermediation remains embryonic, and further reforms are required to strengthen the pension system's ability to participate in developing domestic capital markets. The need to develop the nonbanking sector, starting with strengthening its regulation and supervision, is important for the development of the sector.

133. **Improving the exit regime is also essential to foster firms churning and the resulting private investments and productivity increases.** The insolvency legal framework in Romania gas undergone important reforms. However it requires significant improvements to make it fully compliant with international standards and to fit to deal effectively with the challenges it faces in a difficult economic climate. Firms suffering from financial difficulty with valuable breathing space to redeploy resources in orderly way, the smoother reallocation of resources into more productive uses needs and the predictability brought by an efficient insolvency system would help the resumption of private sector growth.

Figure A16: Romania's performance in PISA remains relatively poor

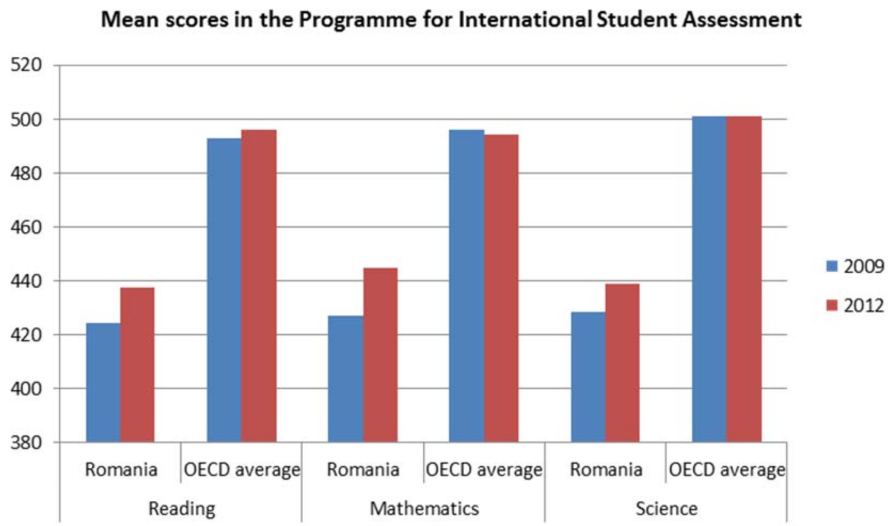
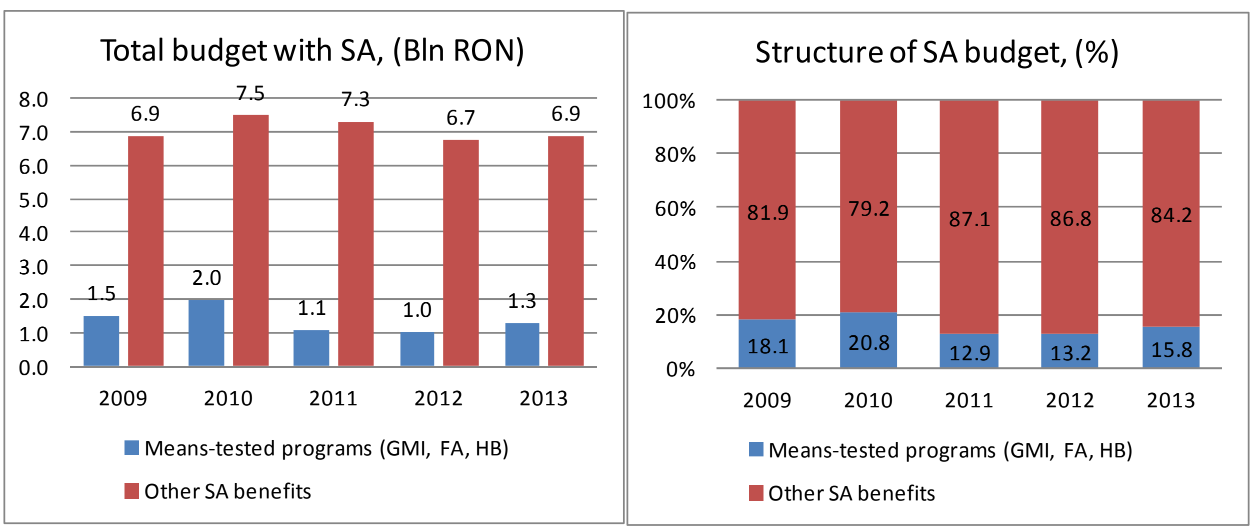


Figure A17: Means-tested social assistance (SA) benefits have been cut in recent years



Note: Admin data for GMI, FA, HB, SCA, Child raising benefit and incentive, scholarships, and allowances for disabled. For the other benefits the budget was estimated using HBS data. The budget is expressed in nominal prices.

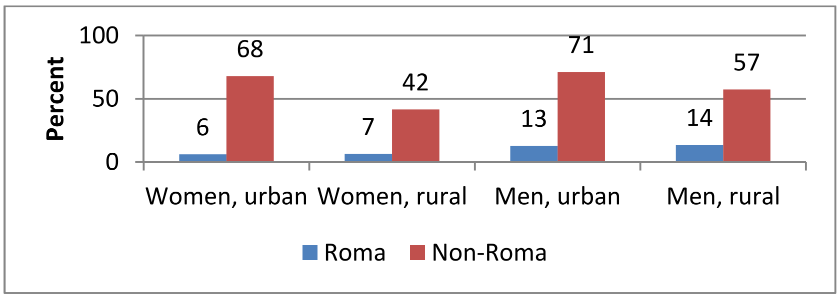
Annex 3: Poverty, Shared Prosperity and Gender in Romania

Gender in Romania

Education

134. **In Romania, the overall rate of participation in education is higher for women than for men, with some exceptions for Roma and rural population.** In the school year 2012-2013 77.2% of those enrolled in education were women compared to 75.3% men. Moreover, the European Institute for Gender Equality reports an equal number of women and men that are graduatesof tertiary education. However, the situation is slightly different comparing Roma to non-Roma and urban to rural population (as shown in Figure A18). The rate of enrollment for Roma population is dramatically lower than for the non-Roma, with even more alarming rate for women both in rural and urban environment, most opf the time due to discriminatory environment, promoted especially by teachers, as the Regional Roma Survey shows.

Figure A18: Share of adults aged 24-65 having completed secondary education



Source: UNDP/World Bank/EC regional survey (2011)

135. **Stereotypes in Romania promote the idea that people of Roma origin are not supporting their children's education.** The Roma Regional Survey included questions referring to this hypothesis and the findings show that Roma parents have similar desires regarding their children's' education to non-Roma parents when it comes to upper secondary education. The same share of Roma and non-Roma parents wants their children, both girls and boys, to graduate upper secondary education. The difference is higher when referring to the post-secondary education, Roma people being more reluctant to their children's enrollment for further education: only 23% of Roma parents compared to around 45% of non-Roma parents who want their children to enroll in tertiary education. There are no relevant differences in the attitude towards the education of women and men.

Health

136. **On average, women and men benefit from the same quality of health services and have equal access to it.** The EU statistics shows that the services provided for Romanian men and women are equal, together with the access to these services. In the same time, the most important recorded difference is related to life expectancy at birth which is higher for women than for men. Women are expected to live around 77.6 years compared to men who are expected to live 70.1 years. Despite this, the subjective well-being is lower for women, only 66% of the Romanian women reporting good or very good health, compared to 75.8%. This is also the trend at EU level. (see annex 2).

137. **Within the most vulnerable groups, women are more affected than men.** Generally, the problems refer to: (i) diseases that are determined by poor living conditions, such as infectious diseases, diarrhea and respiratory disease- this is generally the case for Roma households, (ii) unhealthy and risky behavior such as smoking, poor diet and low levels of physical activity, (iii) lack

of access to health facilities, which is caused by distance from the hospital or clinic, and high costs of the needed care combined with the lack of insurance. By all these, women seem to be more affected, reporting a lower satisfaction with their health condition. This is justifiable especially since the responsibility of taking care of the household and children is almost entirely belonging to women.

Economic activity and employment

138. **In Romania, women's employment rates are lower with 15% than those of men.** One of the EU 2020 targets is to reach a higher employment rate in each Member State. At EU level, the target is 75% and the national target for Romania is 70%. This cannot be reached if attention is not being paid to the integration of women on the formal labor market. The total employment rate is 63.8%, and the employment rate for men is 71.4% compared to 56.3% for women.

139. **Active measures need to be taken to encourage the integration of women in the formal labor market.** In some cases, the lower employment rate for women come as a consequence of parenthood. The employment rate for women who have children is much lower than for women without children in almost all European Union Member States, but the gender employment gap is even higher in Romania. At the other end, men's employment rate does not seem to be much affected by parenthood. The explanation of this negative influence of parenthood on women's employment is double edged. First, we need to make reference to the existence of affordable formal arrangements for children care. In 2011, in Romania, only 3% of population of up to 3 years was attending this type of child care, and around 40% for those above 3 years. In a comparison made by the EU at Member States' level, Romania has the lowest scores. Secondly, larger costs of care facilities increase the marginal effective tax rates for second earners when moving from non-work to work, or when increasing hours worked, acting as disincentive to take up jobs or increase working hours given that second earners have large labor supply elasticity.

140. **Furthermore, the longer women are out of the labor market or unemployed due to care duties, the more difficult will be for them to find a job in the longer term.** The gender employment gap is widening through life cycle, especially because employers prefer people with experience than only educated people, so it becomes even more difficult to be employed on something that you are qualified on since you do not have enough experience. This employment gap reaches a peak for the older cohort. A direct consequence is that fewer career options push senior women out of formal labor market into informal labor market, which accounts in providing care for grandchildren or elderly individuals and which is dominated by women. And this affects the quality of life and promotes harmful stereotypes. It has been proven that housewives tend to have serious socializing problems, being difficult for them to integrate in society and in the labor market. Another direct consequence is that women immigrate and go to other countries, to work. National Statistics from 2012 show that there are more women who have immigrated in the past years, and most of them aged 18-40 years.

141. **One of the most obvious gender disparities are reflected in earning and pensions.** The prevailing gender gaps in the working age population result in wide pension gaps between women and men. According to EUROSTAT data, in the year 2011, the percentage of the difference in payments between men and women at EU level was 16.4% and in Romania, 12%. All years of experience taken into account, this translates into even a greater pension's gap. At EU level, the gender gap in pensions is of 39%, whereas in Romania it reaches 32%.

Entrepreneurship

142. **There are fewer women entrepreneurs than men in Romania.** In 2008, in Romania, from the total number of people who owned a business, only 27% were women, and only 31% of businesses had a women associate. Studies done by different organizations that support women entrepreneurship show that there are two main interlinked causes. Firstly, the situation is caused by stereotypes. One of them is that entrepreneurship being perceived as an area where men can be more successful. Another stereotype is related to the perception of power relationship, according to which people are used to see men leading and women as subordinates. Secondly, another cause of the low number of women entrepreneurs is that given this stereotypes, it is more difficult for women to access necessary funds to begin and maintain an enterprise.

Agent/Voice and representation

143. **Women are better represented in 2013 compared to 1990.** In the 1990-1992 Parliament, only 24 women were elected as parliamentarians and this was representing 4.9% of the total number. In the 2012-2016 Parliament, 68 parliamentarians are women and this accounts for 11.5%. Although the number is still low, it is encouraging to see constant progress towards a more representative voice for women in the Parliament. Moreover, in the current government, the majority of Ministers are men, and only 17% are women (the cabinet is formed of 27 plus the Prime Minister and there are only six women).

Violence

144. **Better education and higher financial independence for women could decrease the rate of domestic violence.** The most recent report done by the Ministry of Labor, Family and Social Protection in 2009 on domestic violencen showns that during 2004-2008 around 48.000 cases of domestic violence were recorded, out of which 672 resulted in deaths. Most of the victims were adult women, followed by girls and boys. The biggest occurrence was for women between 25 and 45 years old, reporting that they were beaten, most of the times, on a weekly basis. Out of this number, the lowest percentage is represented by women who graduated college who are more financially independent. The report also shows that out of the total number of victims, only 33.73% are making complaints to the police and up to 13% withdrawn. This happens because in most of the cases, there is a high financial dependency on the aggressor and especially in families with children, women are still obliged to live with the aggressor afterwards. In conclusion, there are two cases in which the reported violence is lower: (i) when women were graduates of tertiary education, (ii) where women were less dependable on the income produced by the aggressor.

National Strategy

145. **The Ministry of Labor has prepared a national strategy for gender equality, to cover the period 2014-2017.** The main areas of intervention are: (i)education, (ii)labor force, (iii) participation to the decision making, (iv)integrated approach for gender equality, (v)gender violence. The objectives proposed are mostly related to combating gender stereotypes, raising awareness on the main problems affecting gender equality and analyze the current situation. In consequence, the most of the activities planned are social campaigns, researches, and reports writing. The biggest flaw of this strategy is that it does not include any active measures to address real problems related to gender inequality. For example, the gender gap in the remuneration is around 15%. In order to change this, there is place for more action that just to raise awareness that this problem exists. The Government could create facilities for private companies to support covering this gap.

Areas where the Bank could support the Romanian Government

Pillar 1: 21st Century Government

- Increasing gender equality in the government, including the judicial sector
- Incorporating a gender perspective in organizational, tax, expenditure, and processes reforms

Pillar 2: Growth and Job Creation

- Decreassing the gender pay gap
- Increasing access to formal and accessible day care for balancing the influence of parenthood on female employment
- Combatting stereotypes related to women's role in society as a whole and to female entrepreneurship
- Incorporating a gender analysis into analytical work on job creation

Pillar 3: Social Inclusion

- Promoting gender equality in education and health
- Reducing gender based violence

Types of action

146. **The World Development Report on Gender Equality and Development proposes global action to focus on complementing country efforts on five priority areas.** These areas are relevant for Romania.

- Closing gender gaps in human endowments, especially for those that are coming from the most vulnerable categories, such as the poor, the rural and the Roma population where women are even more affected.
- Women's access to economic opportunities, in Romania's case, refers to more and better incentives for increasing women's formal employment
- Closing gender gaps in voice and agency reffers to encouraging and promoting women's leadership roles and representation at all levels in the public administration and in key decision-making positions
- Preventing intergenerational reproduction of gender inequality can be better reflected in adequate educational programs, in which positive examples are offered to young boys and girls
- Supporting evidence-based public action: in Romania, the data used by the public authorities in terms of gender is a few years old and the EU is supporting the country in this area. However, there is still a lack of bodies inside the institutions to monitor the implementation of different targets and to report on the status of the activities proposed by the national Startegy for equal opportunities for men and women.

Romania Portfolio Review: Assessing Gender Inclusion[10]

147. Projects can include gender dimensions in the analytical underpinnings of the projects, actions supported, and the results framework. Attention to gender in project design can enhance their development impact and contribute to shared prosperity. The review assesses the portfolio for most frequent ways that gender has been included in analysis, actions and results frameworks, identified some missed opportunities for gender inclusion, and opportunities for integrating gender going forward. Main findings from a desk review of project materials (PADs, ISRs, concept notes, quarterly reports) and exchange with select TTL's of active projects include:

- In FY10-13 Romania outperformed the ECA region, but fell short of the World Bank average on gender-informed lending projects.
- Active lending projects are slightly underperforming in prior years, with 63% gender informed.
- Lending projects from FY10-14 have been gender informed most often in their analysis.
- 100% of lending projects and AAA on social inclusion are gender informed.
- 44% of lending projects and AAA on government and 50% on jobs and growth are gender informed.
- Most FY14-15 AAA (61%) does not include any gender analysis. AAA often serves as background work to lending, therefore the meaningful inclusion of gender here can translate into better inclusion in the active portfolio down the line. Its absence is a main missed opportunity.
- Going forward, specific AAA for FY15 that could incorporate gender includes that on reducing early school leaving, increasing tertiary education, lifelong learning, taxes and expenditure, and real estate modernization.

Further analysis is provided below.

Table A9: Gender informed lending projects FY10-13 (% of total each year)[11]

Romania	**67%**
ECCU5	56%
ECA	52%
World Bank	72%

Pillar I. Creating 21st Century Government

148. Budgeting decisions over public investments is a key area that should be informed by analyzing the distinct impacts of spending on women and men. For example, the DPL-DDO recognizes that its shifting of resources to the elderly benefits women since they have longer life

[10] This review looks at gender inclusion in the active and pipeline portfolio from projects FY10-13 and covers projects for which documents were available. The review also covers AAA for FY14 and FY15. Projects without concept notes were not reviewed. Also considered in the review are ratings undertaken by PREM Gender Anchor.
[11] Ratings are reported by the Gender Board at the end of each fiscal year.

expectancies. Analysis can also focus on who receives which transfers as well as who are the publicly funded employees. Additionally, this principle of recognizing differences between women and men is required in changes to tax laws and administration. The Revenue Administration Project recognizes that the absence of gender disaggregated data on tax compliance limits analysis. It then specifies that surveys supported by the project to assess taxpayer services will provide gender disaggregated data and monitor resulting gender differences.

149. However, the Judicial Reform Project would have benefited from explicitly mandating gender disaggregated baseline and results surveys. Additionally, justice sector reforms could take into account gender imbalances of judges and others in the judicial system, the level of sensitivity to gender based violence, and a gender informed analysis of case delay and resolution. While the AAA Judicial Functional Review mentions women as at risk in access to justice, it too does not include this type of fully informed gender analysis. Similarly, the AAA HR Strategy for MOF could have gender informed its entire analysis, including recruiting, hours, promotions, pay, staff development, staff performance, and harassment. Additionally, gender should be included in upcoming AAA on the issues of land registration and taxes and expenditure.

Pillar II. Growth and job creation

150. Access to economic opportunities is where the greatest gender gaps in Romania persist, and these gaps limit Romania's economic potential. Strategies for growth and job creation can correct some of the gender gaps currently observed through incorporating lessons from what we know to be similarities and differences between men and women as workers, employers, and family members. Analysis in the Social Assistance System Modernization Project recognizes that Romanian society values labor force participation of both men and women. Combining this with knowledge of family care situations, implementation included a mother back-to-work bonus that roughly pays for child care for a year. This employment support for mothers successfully stimulated their return to work and adequate child care. The project also gender disaggregates beneficiaries reached by government social assistance. Additionally, AAA work has incorporated a gender analysis of employment in one report, and two others have informed their monitoring and evaluation. However, AAA work on competitiveness and growth poles would have benefited from gender differentiated analysis of employment, ownership, access to finance, and training. For example, there is gender segregation by sector, and men are currently twice as likely as women to be employers and own account workers. These lessons could be relevant to the AAA work.

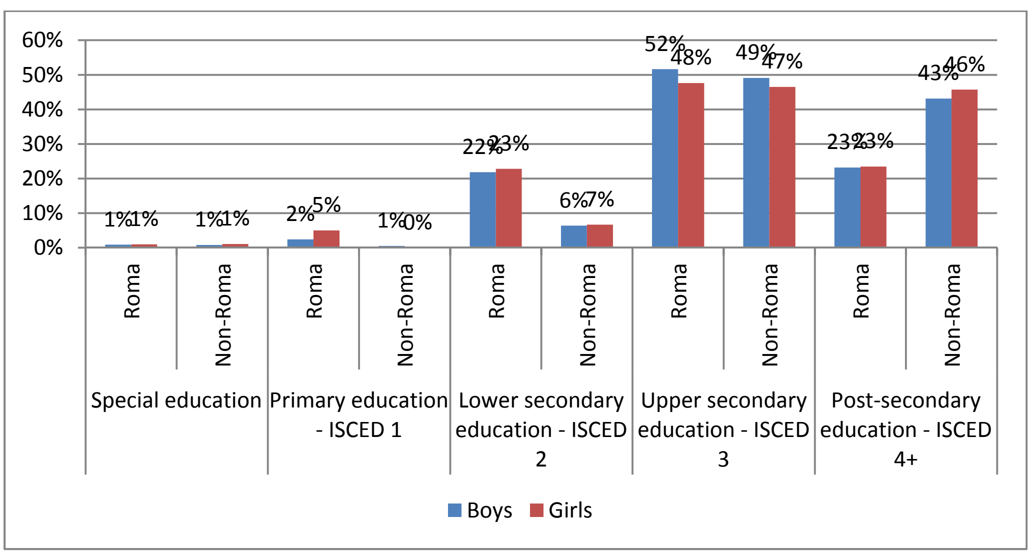
Pillar III. Social Inclusion

151. Attention to overall gender disparities as well as those within the Roma community will be crucial to effectively improving social inclusion in Romania. Already, the Health Sector Reform Project successfully includes gender analysis and actions in improving the quality of public sector interventions and access to basic health services, specifically to the system of maternity and neonatal care. At the same time, the Social Inclusion Project targets social assistance projects for victims of domestic violence, and the Social Assistance System Modernization Project gender disaggregates beneficiaries reached by government programs. This targeting of gender analysis, actions, and monitoring can improve social inclusion, contributing to shared prosperity and sustainable development. Upcoming AAA work on leaving school early could therefore benefit from analyzing gender differences in causes. Similarly, work on tertiary education could analyze differences in enrollment and specialization. Doing so could inform more effective policy design under this CPS.

Priority area	New/additional initiatives that need support	Directions for the global development community		
		Providing financial support	Fostering innovation and learning	Leveraging partnerships
Closing gender gaps in human endowments	Increasing access to education among disadvantaged groups	√		√
	Increasing access to clean water	√	√	
	Increasing access to specialized maternal services	√	√	√
	Strengthening support for prevention and treatment of HIV/AIDS	√		√
Promoting women's access to economic opportunities	Increasing access to child care and early childhood development	√	√	
	Investing in rural women		√	√
Closing gender gaps in voice and agency	Increasing women's access to the justice system		√	
	Shifting norms regarding violence against women		√	√
Preventing intergenerational reproduction of gender inequality	Investing in adolescent girls and boys		√	
Supporting evidence-based public action	Generating new information	√		√
	Facilitating knowledge sharing and learning		√	

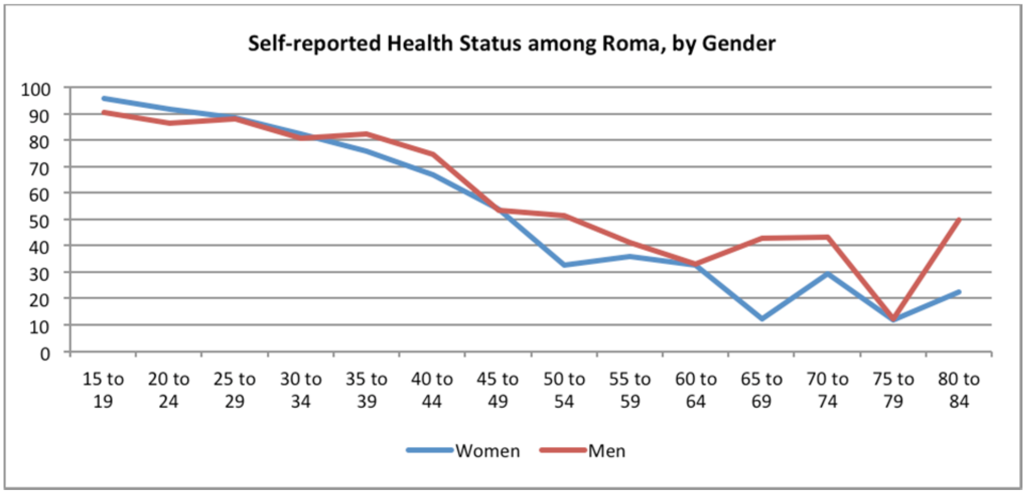
Source: WDR 2012 team.

Figure A19: Parent's desired level of education for their children



Source: UNDP/World Bank/EC regional Roma survey (2011).

Figure A20: Fraction of Roma adults who reported that their health was either good/very good, or fair, by age group and gender



Source: UNDP/World Bank/EC regional Roma survey (2011).

Figure A21: Children cared for by formal arrangements in 2011

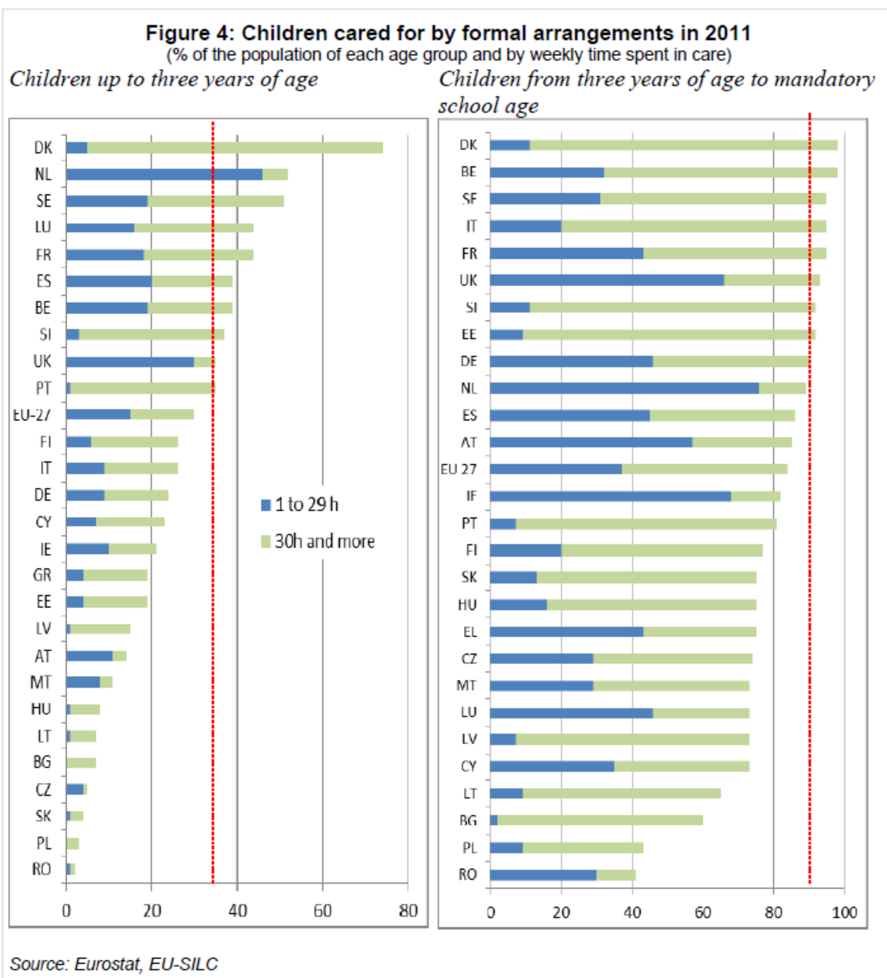


Table A10: Indicators included in the Gender Quality Index

Indicators included in the Gender Equality Index

Domain	Indicators	Unit	RO		EU-27	
			Women	Men	Women	Men
Work	Full-time equivalent employment (15+ population)	%	42.4	57.0	41.0	56.4
	Duration of working life	years	28.9	34.3	31.6	37.3
	Employed people in *Education, Human health* and *Social work activities* (15–64 employed)	%	15.6	3.6	29.4	7.9
	Employees with a non-fixed start and end of a working day or varying working time as decided by the employer (15–64 employed)	%	39.3	41.7	38.7	44.7
	Workers having undergone training paid for or provided by their employer or by themselves if self-employed (15+ workers)*	%	18.2	18.3	33.0	34.3
	Workers perceiving that their health or safety is not at risk because of their work (15+ workers)'	%	64.9	63.3	81.2	71.3
Money	Mean monthly earnings	PPS	837	920	2 021	2 533
	Mean equivalised net income (16+ population)	PPS	4 204	4 270	16 512	17 367
	Not at-risk-of-poverty, ≥60% of median income (16+ population)	%	80.6	81.2	83.5	85.3
	S20/S80 income quintile share (total population)	%	16.7	16.7	20.4	20.0
Knowledge	Graduates of tertiary education (15–74 population)	%	11.2	11.2	22.1	21.4
	Tertiary students in the fields of *Education, Health and Welfare, Humanities* and *Arts* (tertiary students)	%	20.6	12.1	43.7	21.6
	People participating in formal or non-formal education and training (15–74 population)	%	9.7	9.7	17.4	16.0
Time	Workers caring for and educating their children or grand-children, every day for one hour or more (15+ workers)'	%	46.7	16.3	41.1	24.9
	Workers doing cooking and housework, every day for one hour or more (15+ workers)'	%	73.2	13.1	77.1	24.1
	Workers doing sporting, cultural or leisure activities outside of their home, at least every other day (15+ workers)'	%	1.3	3.4	9.3	12.2
	Workers involved in voluntary or charitable activities, at least once a month (15+ workers)'	%	6.5	8.4	14.7	14.4

Domain	Indicators	Unit	RO		EU-27	
			Women	Men	Women	Men
Power	Share of ministers**	%	6	94	25	75
	Share of members of parliament**	%	10	90	23	77
	Share of members of regional assemblies**	%	15	85	30	70
	Share of members of boards in largest quoted companies, supervisory board or board of directors**	%	21	79	12	88
	Share of members in all key decision-making bodies in Central Bank**	%	11	89	18	82
Health	Self-perceived health, good or very good (16+ population)	%	66.0	75.8	65.8	71.1
	Life expectancy at birth (in absolute value)	years	77.6	70.1	82.9	77.0
	Healthy life years at birth (in absolute value)	years	57.5	57.5	62.7	61.9
	Population without unmet needs for medical examination (16+ population)	%	84.3	88.6	93.0	93.6
	Population without unmet needs for dental examination (total population)	%	85.1	87.4	92.7	92.8
Intersecting inequalities	Employment of people born in a foreign country (15–64 corresponding population)	%	56.1	82.8	54.3	70.1
	Employment of people aged 55–64 (55–64 population)	%	33.0	50.3	38.6	54.6
	Employment rates of people living in a household with one adult and one or more dependent children (15–64 corresponding population)	%	74.5	79.0	66.0	79.7
Violence	No comparable data available					
	No comparable data available					

Source: Eurostat, except *Eurofound and **European Commission, DG Justice

Annex 4: Romania – Property Rights and Climate Action

Box A3: The importance of property rights in Romania

Lack of reliable information on real estate rights affects the development of rural and urban areas, infrastructure, growth, social development, and environmental actions. Less than 50 percent of real estate rights are registered in the cadastre, and only 15 percent of real estate records are verified and registered in digital form in the eTerra system. Coverage is particularly low in rural areas, where only 9% are registered in the eTerra system (9%). This hampers EU structural investments. It also constrains farmers' ability to utilize funds under the EU's Common Agricultural Policy (CAP) and access institutional credit. Thus, increasing the coverage of legal real estate registration would improve the efficiency and transparency of real estate market transactions, stimulate farmland consolidation, trigger new investments, and allow greater and more efficient use of EU funds in Romania.'

Implications of the lack of reliable information on real estate rights:

- Limited tenure security for many Romanians and the real risk of incurring a high cost in having rights formally recognized or resolving disputed claims;
- Delays in investments in infrastructure and environmental projects in urban/rural areas as a result of difficulties in clarifying rights and gaining access to land;
- Limited investment in rural areas due to uncertainty over property rights;
- Stagnation of the real estate market and great difficulty in consolidating land holdings;
- Limited scope of the mortgage finance market development due in large part to the inability of using land resources as security to facilitate economic and business activity;
- Difficulties in raising local taxes due to lack of reliable information for real property taxation.

Government is launching a registration campaign to register over 20 million properties over the next eight years with the support of EU funding. The Bank has been supporting land registration in Romania since late 90'ies and is well positioned to provide technical assistance to these large programs.

Special attention should be paid to regularize Roma property rights. The Roma are present in almost every rural village. Many have built informal settlements on the outskirts of villages. The land that they have occupied is in general the property of the state (public or private); they have built houses and the local authorities have generally tolerated this situation. In some cases the municipalities solved the lack of property deeds by approving the issuance of property titles, based on the restitution laws. Nevertheless, there are a large number of informal settlements in the rural villages. Systematic registration is the solution to formalize these cases.

Ensuring sustainability by tackling climate change

152. **Climate change affects Romania**. Global warming will have a far-reaching impact on the earth's climate patterns and pose a serious threat to global and local ecological and economic systems. Like all other countries, Romania is not immune to climate change. The country has already been experiencing the effects of climate variability and change. In 2005, Romania suffered historic floods which caused 76 deaths and significant property damage, and 2007 brought the country's most severe drought in the last 60 years. Extreme weather events have adversely affected the country through significant economic loss in agriculture, transport, energy supply, and water management. Climate action is an important priority for Romania as the negative impacts of climate change are forecast to become more severe.

153. **Compared to other EU Member States, the agriculture and rural development (ARD) sector in Romania is significant**, occupying 59.8% of total territory and home to 44.9% of the total population. Mitigation and adaptation procedures need to be put in place to build the

resilience and adaptive capacity of the two key ARD sub-sectors (large commercial farms and communities of small-scale subsistence farms). IFC will continue financing underserved farmers.

154. **Tackling excessive energy intensity to address climate change.** While significant progress has been made, Romania remains among the most energy-intensive economies in the EU because of structural issues, inefficiency in thermal power generation, manufacturing – chemicals and steel in particular – and in other major end uses, such as space heating. Key financing gaps exist, especially in mobilizing private sector investments in energy efficiency. Energy sector reforms, e.g. governance, regulation and subsidies remain unfinished. Implementation capacity is lacking, which has contributed to the underutilization of EU funds.

155. **Shifting towards a low-carbon economy poses three main challenges in Romania:** (i) securing reliable and cleaner energy supply, (ii) increasing energy efficiency, and (iii) maintaining energy affordability. Per capita fuel and electricity consumption in Romania are among the lowest in the EU, at about 51 and 47 percent of the EU average, respectively. Significant increases in energy demand are expected as growth and convergence continue. Fossil fuels account for 77 percent of Romania's primary energy supply. Natural gas accounts for about 40 percent of all fossil fuels but has been in decline due to dwindling domestic supply. The energy sector needs to ensure reliable supply for the growing demand while pursuing cost-effective de-carbonization options. Large opportunities exist in end use sectors to reduce future energy demand through energy efficiency investments and behavioral changes, as indicated in the energy intensity gap between Romania and the EU15 countries. While there are still significant gains from economic structural adjustments, much of the future energy productivity improvement will come from investments in retrofits, energy-efficient designs and technologies, areas where success has been limited by policy barriers and implementation constraints. Energy affordability remains a key issue, especially in the residential sector.

156. **The EU is also committed to tackling climate change**[12] and becoming a highly energy-efficient, low-carbon economy. It has installed some of the world's most ambitious climate and energy "20-20-20" targets for 2020, and passed binding legislation to ensure that they are

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[12] The **EU as a whole is committed to achieving at least a 20% reduction of its greenhouse gas (GHG) emissions (excluding LULUCF[12]) by 2020 compared to 1990**. This objective implies:

- 21% reduction in emissions from sectors covered by the EU ETS (emission trading scheme) compared to 2005 by 2020;

- **10% reduction in emissions for sectors outside the EU ETS (non-ETS sectors)**. To achieve this 10% overall target each Member State has agreed country-specific greenhouse gas emission limits for 2020 compared to 2005 (Council Decision 2009/406/EC).

National level (Romania):

By NRP 2011-2013, Romania committed to achieve by 2020 a **target for reducing GHG emission (excluding LULUCF) by 20%,** as compared to 1990 reference year.

By the *Kyoto Protocol*, Romania committed to achieve by 2012 an **intermediary target for reducing GHG emission by 8%,** as compared to 1989 reference year - in Romania, the forecast for 2012 indicates a **decrease of GHG emissions (excluding LULUCF) by 22.92%, as compared to 1990 reference year.**

By *the legislative package "Energy - Climate Change"*, **for sectors outside the EU ETS (non-ETS sectors),** Romania may have, by 2020, higher emissions, **increased by 19%, as compared to the basic year 2005**.

In Romania, according to National Inventory Report (NIR) from October 2013, for 2011 compared to 1990 reference year, the **total of greenhouse gas emissions** (excluding LULUCF) decreased by **49.54%** and the **total of greenhouse gas emissions** (including LULUCF) decreased by **54.84%.**

achieved. The Multiannual Financial Framework approved by the European Council in February 2013 particularly requires that "Climate action objectives represent at least 20 percent of EU spending in the period 2014-2020." As an EU member state, Romania has made a commitment to the following climate action targets: achieving, by 2020, a 24% share of energy from renewable sources in its gross final energy consumption (up from 18% in 2005). Romania's operational programming for EU funds in the budgetary cycle of 2014-2020 needs to reflect and integrate climate action on mitigation and adaptation for meeting the objective of 20% climate-related expenditures. This represents a great opportunity to channel billions of Euros in a combination of modern technologies and traditional sectors (for example building retrofits), which will mostly benefit local companies, and the EU also encourages to use these funds to leverage private resources for investment (for example electricity generation and building rehabilitation). IFC is and will continue to be active in co-financing EU funds in this area

Annex 5: Country Partnership Strategy Completion Report

Country Partnership Strategy (CPS) Board Discussion:	July 16, 2009
CPS Progress Report (Board AOB):	December 20, 2011
Period covered by CPS Completion Report:	July 2009-June 2013

PART I: OVERALL ASSESSMENT AND PROGRAM OVERVIEW

157. **The overall program performance of the Romania Country Partnership Strategy (CPS) for the period July 2009- June 2013 is rated moderately satisfactory, and Bank performance in designing and managing CPS program implementation is also rated moderately satisfactory.** Progress in helping Romania restore sound public finances, achieve fiscal consolidation, and implement important structural reforms in several sectors supported under the first part of the CPS was successful. Progress in helping Romania meet longer-term development objectives in the context of EU convergence during the second half of the CPS was in some cases slower than expected, particularly in the energy, transport, and agriculture sectors.

158. **The Romania CPS was discussed just two years after Romania joined the European Union (EU) in 2007 and at a time of major uncertainty caused by the global financial crisis.** It therefore adopted a flexible approach that defined the Bank's program for the first two years, focusing on a series of Development Policy Lending (DPL) operations (DPLs1-3) that provided €1 billion (US$1.36 billion)[13] to support macroeconomic stabilization and structural reforms, including in the areas of budgeting, the pension system, public pay, health and education expenditure efficiencies, rationalization of the social assistance system, and financial sector consolidation. The structural reform agenda was also supported by demand-driven Analytical and Advisory Activities (AAA). The CPS allowed flexibility in the outer years to adapt to changing circumstances and needs. The CPS built on a strong partnership with the International Monetary Fund (IMF), European Commission (EC), and other financial institutions (e.g., EBRD, EIB). The CPS was jointly prepared with the International Financial Corporation (IFC), which in the early years of the CPS assumed a crisis response role, including support for banking system recapitalization and trade finance to local financial institutions.

159. **During its first two years, the CPS was centered on the DPL program**. The DPL series was the main policy instrument for dialogue with the Government and helped strengthen the partnership with the IMF and EC. DPLs1-3 supported a comprehensive reform agenda, and the policy dialogue was supported by an array of technical assistance through a joint program of the Bank, IMF, and EC. AAA was instrumental in helping Romania articulate the DPL program and implementation and monitoring and evaluation (M&E) mechanisms for it. DPL-related AAA work included *inter alia* a Public Expenditure and Institutional Review (PEIR), Technical Notes on Medium-Term Budgeting and Public Sector Pay, and Policy Notes on the Education and Health Sectors.

[13] Conversion to US$ equivalent of active Euro denominated loans is based on the US$/Euro exchange rate on the loan approval date. Conversion to US$ equivalent of pipeline loans is based on US$/Euro exchange rate on October 31, 2013.

160. **The Bank's program, in complement to IMF and EC support, assisted Romania to adjust macro imbalances, resume growth, and re-start the EU convergence process (to EU income and living standards), which was interrupted by the crisis (see Figure 1).** The reforms supported by the DPL series and targeted AAA contributed substantially through 2010-13 to the stabilization of the Romanian economy, including:

- An orderly adjustment of the **fiscal deficit** (Romania exited the EC's excessive deficit procedure as of June 21, 2013);
- Improvements in the **budget process and discipline** (multi-annual budgetary planning has started, number of budget rectifications reduced);
- **Financial resilience** (no bank failures, stronger prudential regulations);
- Structural reforms in **public wages** and employment conditions (unified public wage and better sustainability of the wage bill, more flexible Labor Code);
- **Improvements in spending in the education and health sectors** (rationalization of sectors' budgets through new per-pupil financing in education; mobilization of revenues from tobacco excises, increased use of compensated generic drugs, rationalization of the hospitals network);
- Ongoing **pension reforms** (new pension law, progress towards equalizing the pensionable age for men and women, pension indexation aligned to international practice);
- Adoption of convergence-related targets in **judicial reform** (new Civil and Criminal Codes and Procedural Codes implemented, criteria for optimization of Courts procedures adopted);
- **Agriculture reforms** (training in all agriculture EU directives, reform of agricultural research, preparation of the National Rural Development Program for 2014-2020);
- **Diagnosis and recommendations for public administration reform** (functional reviews of major ministries and government agencies, preparation of reform action plans, initiation of reforms in selected ministries).

Figure A22: World Bank/IMF/EU Support Packages to Romania over the CPS Period

Package Date	Contributors and Amount
2009-2010 (May 2009)	IMF 24-months SBA: €13bn EU Co-financing: €5bn EBRD and EIB lending: €1bn WB DPL1-3 Series: €1b
Precautionary Package 2011-12 (March 2011)	IMF 24 months SBA: €3.5bn EU Co-financing: €1.4bn WB DPL-DDO: €1bn
Total:	**€26bn**

161. **A CPS Progress Report was prepared at the mid-point in 2011.**[14] It was informed by a survey and several sectoral roundtable consultations on the potential role of the Bank (in agriculture and rural development, climate change, education governance, health, the social sectors, public finance, and smart growth). The Progress Report concluded that the CPS pillars—

[14] Progress Report on the Country Partnership Strategy for Romania, Report No. 60255-RO, November 28, 2011.

public sector reform, growth and competitiveness, and social and spatial inclusion—remained relevant. With the financial crisis mitigated, the Progress Report turned the focus to furthering reforms in the areas covered by these pillars, emphasizing a "more European lens." Three EU-related themes contextualized Bank activities during the second half of the CPS period: (i) policy reforms to be undertaken by Romania to reap the benefits of EU membership; (ii) Romania's need to modernize public institutions to enhance resource allocation and absorption of EU funds; and (iii) Bank complementarity to EU funding. The Progress Report followed on Romania's adoption in April 2011 of its 2011-2013 National Reform Program for EU convergence, which outlined Romania's strategic priorities and targets under the EU2020 strategy.[15]

162. **Romania's convergence with the EU and absorption of EU funds became increasingly important over the CPS period. The Bank introduced the use of the Reimbursable Advisory Services (RAS) instrument to respond to Romania's demand for assistance in this area**.[16] RAS engagements fell into three groupings:

- *Functional Reviews (FRs):* A first package of RAS, prepared over 2010-2011, reviewed the performance of 13 ministries and government agencies and resulted in strategic and operational recommendations and helped to inform Romania's National Reform Program 2011-2013.
- *Modernizing the Public Administration:* From FY13, a series of 14 follow-on RAS engagements are supporting the implementation of priority actions derived from Phase 1 FRs.
- *EU Funds Absorption:* In 2011, the Government requested Bank assistance to strengthen its capacity for absorption of EU structural funds. An evolving package of 12 RASs has been supporting Romania to meet ex-ante conditionalities to enable Romania to access EU funds in the 2014-2020 programming period. (A pipeline of 10 additional RAS engagements is also focused on helping Romania absorb EU funds.)

163. **The portfolio structure evolved through the CPS period.** Several sector investment projects closed. Lending during the second half of the CPS included €1 billion (US$1.33 billion) through a DPL Deferred Drawdown Option (DPL DDO, which will continue into the next CPS period). The DPL DDO agenda included: in public finance, improvements in budget process and tax administration; in energy, compliance with EU directives, market liberalization of gas and electricity, sales of state assets, and attraction of private investment, professional management in key state owned enterprises; in health, introduction of health technology assessments, revision of the package of health benefits, and implementation of the hospital rationalization strategy. A further €570 million (US$801 million) was provided through a results-based Social Assistance System Modernization Project (SASMP) and a Revenue Administration Modernization Project (RAMP). The Attachment provides a full list of Bank operations during the CPS period in Tables 1 and 2, Bank AAA (including RAS) in Table 3, Bank/IMF/EC support packages in Table 4, and Bank-administered trust fund support in Table 5.

164. **Social protection for the poor and vulnerable and benefits for selected disadvantaged communities was improved with the support of DPLs1-3 and the Social Assistance Modernization Project (SASMP) and Social Inclusion Project (SIP).** The effectiveness of the best performing social assistance schemes improved under the DPL series: Guaranteed Minimum

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[15] See http://ec.europa.eu/europe2020/pdf/nrp/nrp_romania_en.pdf and http://ec.europa.eu/europe2020/index_en.htm.
[16] RASs are financed by the Government from EU funds available for Romania.

Income coverage of the poorest increased 20 percent, beneficiaries were paid in full, and family allowances increased. Building on this, the SASMP helped simplify the eligibility criteria for all means-tested programs; assets tests erroneously excluding genuinely poor families were removed; heating benefits were enhanced; and a new social assistance framework law was enacted. The SIP supported selected Roma communities: living standards, children's access to education, and social inclusion have all improved. The Knowledge Economy Project helped bridge the digital divide in 255 "K-disadvantaged" communities. To mitigate the gradual increase in energy prices (gas and electricity), the Government put in place a calendar of mitigation measures using existing means-tested cash transfer programs.

165. **Achievements in transport and agriculture were less impressive and the impetus for energy sector reforms weakened.** Road and rail infrastructure improvements (supported by the Transport Sector Projects) remained unfinished, including: restructuring of the road and railways administration (reclassification of the road network, changes to improve road management and financing, increasing road sector efficiency through privatization, redesign of the Railway Company business processes) and the piloting of performance based contracts for road maintenance. In energy, a large parallel market involving bilateral non-transparent agreements emerged in 2009-2010, full price liberalization was halted, and the energy strategy back pedaled. The impact and sustainability of irrigation sector reforms have been affected by numerous changes in the sector's legislation and regulations. On the positive side, some of these sector challenges are now being addressed under specific Bank RAS engagements (transport and agriculture), or pursued as part of the EU's third energy package and the DPL DDO.

166. **IFC played an active role throughout the CPS period.** The original CPS envisioned a phased reduction in IFC investment. Due to risks associated with the European debt crisis and the economic downturn, IFC assumed a countercyclical role, with selective private sector investments. From FY09-13, IFC invested more than US$1 billion (US$798 million of its own funds and mobilized an additional US$242 million) allocated in 29 projects in various areas including the financial, renewable energy, agriculture and health sectors.

PART II: ROMANIA'S PROGRESS TOWARDS ACHIEVING COUNTRY GOALS

167. **Firm fiscal discipline and prudent economic management have supported Romania's recovery from recession.** After declining in 2009 and 2010, GDP increased 2.3 percent in 2011 and 0.7 percent in 2012. The fiscal deficit was reduced from 4.8 percent in 2009 to 2.5 percent in 2012. The current account deficit was similarly reduced from US$23.7 billion in 2009, to US$6.3 billion in 2012. Government projects that the current account will be balanced by the end of 2013.

168. **The accumulation of arrears (including at the local level) continues to be a challenge to fiscal discipline**. Arrears incurred by key SOEs came down to 2 percent of GDP in 2012, but remain above the 1.5 percent target. The pace of progress in restructuring, introduction of professional management, and privatization remain inadequate and under surveillance by the international financial institutions (IFIs). Although specific measures were taken in 2012 to reduce local government arrears, progress has been less than expected. An insolvency law for local governments (GEO 46/2013) and stricter monitoring of the implementation of the Public Finance Law at the local level will attempt to address these issues.

169. **Financial market conditions have improved, but pressure remains on asset quality**. The banking sector remains strongly capitalized (15 percent in June 2013). Deleveraging has been moderate by regional standards. Risks from parent banks (80 percent of Romania's banks are foreign-owned) could, however, impede the credit growth recovery. In close coordination with the IMF and EC, the National Bank of Romania (NBR) will continue careful sector supervision and will regularly conduct top-down and bottom up solvency stress tests as well as liquidity stress tests of the banking institutions. The share of non-performing loans rose to approximately 20 percent at end June 2013, but at 88 percent provisioning for bad loans is adequate by IFRS standards. The amendment of the insolvency code is ongoing and will be debated in Parliament.

170. **Regulatory reforms in energy and transport are in progress**. Government has transposed the third EU energy directive into national law and has strengthened the independence of the energy regulator (Laws 123/2012, respectively 160/2012). Roadmaps for the gradual deregulation of gas and electricity prices by end 2015 and 2017, respectively (part of the EU third energy package) were approved by legislation in 2012 and are under implementation (under IFIs monitoring). The practice of below market bilateral contracts for electricity purchase was stopped. Progress has also been made with payment discipline among SOEs in the energy sector.[17] In the transport sector, the Government undertook policy steps to improve the regulatory framework under which the railway company operates,[18] and the independence of the rail regulator was improved. Outstanding measures include better integration into the EU gas market (launching a trading platform for gas), improvements in the financial position and operating efficiency of SOEs,[19] improvements in the corporate governance of state owned assets,[20] and strengthening transport sector strategic capacity planning.

171. **Employment has recovered though more needs to be done to increase labor market participation of particular groups.** Romania adopted a new Labor Code in 2011 that promotes labor market flexibility and reduces hiring and firing costs. Unemployment was brought down from 7.4 percent in 2011 to 6.7 percent in June 2013. However, youth unemployment remains high (23 percent), and Roma unemployment even higher (49 percent).

172. **Reforms in the education and health sectors have been implemented, but outcome and quality improvements are yet to be seen.** A new national Education Law was adopted in 2010. It mandates a per-pupil financing system and supports school network rationalization. The classification of the universities has been improved and a management framework focusing on performance has been introduced. The Ministry of National Education is currently implementing a Reform Action Plan to improve its policy planning and managerial capacity. Reforms in health care were initiated, including the legal possibility to replace the hospital manager if a hospital is incurring arrears. The Ministry of Health provides information on both local and central government level hospitals budgets to the Ministry of Public finance, which provides a check on hospital over-spending. The Ministry of Health intends to implement additional healthcare reforms including improved ambulatory preventive care, revising the National Health Programs, defining the basic benefit package, and increasing the efficiency of health spending.

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[17] SOE arrears have declined from 4.4 percent of GDP in 2010 to around 2.2 percent at end-June 2013.

[18] Revised formula for calculation of subsidy for public services obligations, closure of unprofitable routes.

[19] Quarterly indicative targets for arrears, recourse to debt/equity swap, insolvency, liquidation to clean arrears.

[20] A new ownership guide has been developed by the Ministry of Transport, and new administrative plans of the railway companies and use of performance based contracts have been developed by the railway infrastructure company.

173. **In May 2013, the Government submitted Reform Action Plans by some ministries and government agencies[21] based primarily on recommendations from the FRs**. This was an important step towards deepening the pace of public administration reform. However, administrative capacity remains a core concern in Romania as improvements will take time to realize. Improving the efficiency and independence of the judiciary and combatting corruption in justice and public procurement is progressing slowly and ranks high on the reform agenda.

174. **Quicker absorption of EU funds would contribute to higher growth and more job creation.** Romania has the lowest rate of funds absorption in the EU with just 20 percent (€5.53 billion) absorbed of the €20 billion in total structural, cohesion, and agricultural funding available to it under the EU 2007-13 budget period. Romania has obtained €22 billion (US$29 billion) in structural funds from the EU budget for the 2014-2020 period and will also receive €17.5 billion in funds for agriculture over 2014-20 under the Common Agricultural Policy (CAP), up from €13.8 billion over 2007-13. To improve absorption rates (at 24.97 percent for January-October 2013), the Government is currently restructuring the various managing authorities.

PART III: ACHIEVEMENT OF CPS OUTCOMES

175. **As shown in Annex 1, more than three-quarters of the CPS outcomes were fully achieved, while the remainder were partially achieved or in progress.** Progress on milestones linked directly to Bank-supported activities was high (84 percent achieved). Good performing sectors included: public financial management, financial sector, competition, knowledge economy, education, and health (with CPS targets reaching above 90 percent). There has been progress in the remaining sectors, but in some cases the achievement of outcomes was delayed by implementation bottlenecks. Results by pillar are highlighted below and more details are included in Annex 1.

CPS Pillar 1: Public Sector Reforms

176. **Romania's fiscal consolidation has been impressive.** A more disciplined budget process and limits on the public sector wage bill have contributed to this outcome as has a new medium term budget framework (MTEF 2012-2014) and a new Fiscal Responsibility Law (69/2010). The Fiscal Responsibility Law includes binding aggregate expenditure ceilings and strict rules for their oversight by a newly constituted Fiscal Council established in 2010. A new Framework Unitary Pay Law established tighter control of arbitrary bonuses of public servants. As a consequence, growth in the public wage bill was brought down from 9.4 percent in 2009 to 6.9 percent of GDP in 2012 and base salaries now comprise at least 70 percent of total compensation. All these measures were supported by the DPL series as well as the DPL DDO. As a result, the budget deficit has been brought to 2.5 percent and Romania exited the EU's excessive deficit procedure in June 2013.

177. **Medium-term budgeting has made similar progress.** Regulatory measures have translated into a more credible medium term fiscal plan based on binding expenditure limits and fiscal risk analysis; a lower variance between the approved and actual budget expenditures (reduced from 27 percent in 2008 to less than 10 percent in 2012); and a smaller number of

[21] Ministry of Agriculture, Ministry of Transport, Ministry of Education, Ministry of Public Finance, Competition Council.

yearly budget rectifications. The RAMP Project has set the basis for future improvements in Romania's tax administration system.

178. **Progress on governance and judicial reform has been slower.** The Bank supported improvements in efficiency, accountability, and professionalism of the judiciary via technical work for the optimization of court procedures and support for the development of quality management systems at the Ministry of Justice and Superior Council of Magistracy. Learning plans were also developed for the National Institute of Magistracy and the National Securities Commission under the Judicial Reform Project (JRP). The JRP was restructured in 2010 to accommodate Government need to revise and prepare for enforcement of the new Civil Code and Criminal Codes. As the JRP implementation pace was slow, measurable improvements in efficiency and quality in the judiciary and the full implementation of the four codes will be finalized beyond the CPS time line.

179. **More efficient spending in the education and health sectors has reinforced sound public financial management.** In the education sector, the introduction of per capita financing, supported by the DPL series, replaced budget allocation by inputs (teachers and schools) and created room for schools and staff rationalization which, along with the optimization of class sizes, reduced the administrative costs and enabled the programing of additional funds for quality changes in the system, especially teacher training. Public health reforms were introduced that increased the use of generic drugs, set forth conditions for the reimbursement of drugs in the basic health package, and rationalized the number of hospitals via the implementation of a National Hospital Master Plan. Potential savings of over €100 million in the health budget over the medium term are projected, while budget allocations for health prevention and promotion programs will be gradually increased.

CPS Pillar 2: Growth and Competitiveness

180. **Romania has stabilized its economy following the crisis.** The global financial crisis showed that expansionary fiscal policy combined with credit growth was pro-cyclical and detrimental to long-term growth. With the support of the Bank and other IFIs, Government responded with a macroeconomic stabilization plan that included sharp fiscal consolidation, depreciation of exchange rate leading to export recovery, curtailing of credit, and several measures aimed at stabilizing the banking sector. More recently, the Government has re-launched reforms in the energy and SOE sectors. The CPS targeted all these areas, especially through the DPL DDO and Country Economic Memorandum (CEM), which focused on the growth agenda, including the performance of Romania's SOEs, competition and the regulatory environment, labor and skills, energy, transport, and agriculture.

181. **The banking sector has been stabilized with support from the Bank Group, the EU, and the IMF.** A Financial Sector Assessment Program (FSAP) undertaken in December 2008 highlighted the vulnerability of the financial sector to deleveraging and contagion risks (Romania's banking sector is largely foreign-owned). The Bank supported the elaboration of the Government's Strategic Action Plan for potential interventions from the NBR and the Ministry of Public Finance to sustain financial sector stability, developed under DPL1. Stress tests were conducted covering 90 percent of system assets based on which capital increases were sought to ensure that the capital adequacy ratio was above 10 percent. The NBR also prepared, with Bank

analytical support, Internal Guidelines for the implementation of Basel II,[22] supported by DPL2. Initiatives that infringed on the independence of the Central Bank and non-bank financial regulators were reversed with the support of DPL3. Bank-led analytical work under the DPL series supported the Ministry of Justice, the NBR, and the Ministry of Public Finance to prepare guidelines for corporate debt restructuring and mortgage debt restructuring, with inputs from the Banking Association, the Consumer Protection Agency, and from non-Bank Associations. The guidelines were endorsed and published by the Romanian authorities. IFC focused its efforts on countercyclical support to existing banking sector clients by providing a large spectrum of products, including supporting banks with long term finance to address liquidity concerns, mezzanine and equity capital to strengthen capitalization, risk sharing facilities, and trade finance lines to sustain funding to vulnerable businesses. IFC provided equity and quasi-equity instruments to Banca Transilvania and ProCredit Bank.

182. **Creating a more conducive business environment remains a work in progress.** Romania ranked 72 in *Doing Business 2013* and 73 in *Doing Business 2014*. Since 2010, positive changes in the starting a business, enforcing contracts, paying taxes, and resolving insolvency areas have been made. However, more work is needed in areas such as getting electricity, getting credit, registering property, dealing with construction permits, and protecting investors. Romania adopted a new Competition Law in 2011 and, with Bank analytical support, continues the adjustment of the competition legal framework more in line with the EU model. The Bank-supported Mine Closure Project resulted in the reduction of subsidies in the mining sector from US$220 million in 2006 to US$54 million in 2012. The introduction of e-filing of tax returns under the DPL DDO agenda has the potential to increase e-government services in tax payments, which will reduce compliance costs for firms, though a recent IMF mission noted that implementation issues are still to be addressed. To support capital market development, IFC participated as the largest investor with US$37 million investment in UniCredit Tiriac, the bank's first bond issue. This was the largest local currency bond issue ever on the Bucharest Stock Exchange and the first local currency bond issued by a financial institution in Romania.

183. **IFC played a significant role in creating a larger and more dynamic private sector.** As part of its support to the small and medium enterprise (SME), agribusiness, and health sectors, IFC provided targeted debt financing to local financial institutions. IFC also structured several financial sector projects, including a US$70 million loan to Banca Comercială Română and a US$13 million loan to ATE Bank in FY09, and US$17 million loan to Agricover Credit IFN in FY12 for on-lending to agribusiness. IFC supported Banca Transilvania to further develop its healthcare financing division through a US$71 million loan in FY10.

184. In FY12, IFC partnered with Garanti Bank for on-lending to SMEs, with a special loan tranche for SMEs owned by women entrepreneurs. In addition, IFC provided much-needed term local currency debt and granted a US$10 million loan to Patria Credit, the largest microfinance institution in Romania. IFC's total guarantees of US$143 million, issued under the trade finance lines to Bancpost, Garanti Bank, Banca Transilvania and Banca Romaneasca, allowed these banks to increase their trade finance offerings and mobilize pre-export and import financing for companies active in key job-creating sectors, including in agribusiness.

[22] Basel II Banking Sector International Regulatory Standards, are anchored by three main pillars: minimum capital requirements, supervisory review (in addition to capital requirements to determine the soundness of internal processes for capital adequacy assessment, and market discipline (disclosure)

185. In the corporate sector, IFC provided a US$96 million equivalent loan to Kaufland Romania and a US$67 million loan to Lidl Romania to support the opening of hypermarkets mainly in small and remote towns, creating much needed employment. The expansion of MedLife, the leading player in the Romanian private health care market and a unique provider of integrated medical services for corporate clients and individuals, was possible due to IFC A/B loans of US$69 million. In FY11 and FY12, IFC raised US$135 million to develop a 228 megawatt wind power park in Romania. Support to the infrastructure sector was sustained through a US$23 million equity investment in TTS, the leading river transport company.

186. **Education remains a priority for the Government and is seen as the main instrument to increase labor market participation and productivity.** Bank analytical work[23] completed in 2011 resulted in Reform Action Plans currently under implementation by the Ministry of National Education. The reforms focus on enhancing the Ministry's administrative capacity; developing management and leadership skills; establishing a system for M&E and reporting on organizational performance; and the design and delivery of training programs. More recent analytical work[24] assessed specific education challenges that affect the labor market functioning—early school leaving, quality of education provision particularly at the tertiary level, triggers of endemic skills shortages, labor training and education's contribution to promoting entrepreneurship—and provided policy-based recommendations. An education sub-component of the Knowledge Economy Project helped integrate ICT into schools by improving the digital competencies of teachers and students.

187. **Despite considerable EU resources, a large discrepancy remains between Romania's agriculture potential and its contribution to growth and poverty reduction.** Almost half the population and more than two-thirds of the poor live in rural areas. Yields in agriculture are half that of the EU average. Land tenure remains unsecured (systematic land registration still in pilot stage), and rural infrastructure is only now emerging. Given Romania's land availability and moderate climate, a productive rural, non-farm economy is key to employment and poverty alleviation in Romania. In addition, major grant financing from the EU is available to the sector. During the 2007-13 period, Romania received a total of €13.8 billion through the European Agriculture Guarantee Funds (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). In May 2013, the EC-reported absorption rate for the EAFRD was 48.6 percent, higher than Romania's absorption of EU structural funds, but substantially below the EU-27 average of 62.7 percent.

188. **Bank Group financed projects in agriculture have met with mixed results.** Projects under the CPS included:

- *Modernizing Agriculture Knowledge Information Systems (MAKIS):* Supported agricultural research reform, improved production technologies, and institutional reforms.
- *Complementing EU Support for Agriculture Restructuring (CESAR):* provided socio-economic guidance to farmers, and piloted systematic land registration, human resources policies, and ICT.
- *Irrigation Reform Project:* supported reforms and rehabilitation interventions in the irrigation sector.

[23] The FR on the Pre-university Education Sector (2010) and the FR of the Higher Education Sector (FY2011).
[24] Evidence-based Policies for Productivity, Employment and Skills Enhancement.

- *IFC Loan:* IFC loan of US$100 million to financial institutions for on-lending to farmers and private agribusinesses.

189. **Mixed results included:**

- The former *irrigation* company was restructured and a new law on land reclamation was passed. A new system for tariffs setting allowed the transition from highly subsidized to full cost recovery. Associative structures of users were developed, with a view to assume the management of the irrigation schemes and tariffs negotiations (Federations of Water Users Associations) and ownership over the tertiary irrigation infrastructure. However, the small farmer groups were not well prepared to assume their role and thus adversely impacted project achievements.[25] Frequent changes in ministry leadership also weakened commitment to the reform agenda.
- A new law on a*gricultural research* provided financing and enabled the development and implementation of reform programs sector-wide. Four national research institutes developed and implemented the reform agenda and are now operating at EU standards.
- *Socio-economic guidance* capacity was increased by the establishment of training centers and a nation-wide distribution network (National Agency for Agriculture Consultancy). A large number of experts and farmers were trained. However, the lack of a long-term business model raises sustainability concerns.
- The CESAR Project developed procedures for *systematic land registration* in a consultative manner considering the rights of land owners and the needs of vulnerable populations.

190. **At mid-term, the MAKIS and CESAR Projects were restructured to support convergence to EU standards and accommodate EU priorities.** The third component of MAKIS was reshaped to include the review and upgrade of the Integrated Administration and Control System (IACS) to become fully EU compliant and to ensure the timely provision of EU agriculture support funds (CAP payments). The third component of CESAR was re-designated to address selected issues signaled by a FR of the Ministry of Agriculture and Rural Development including: (a) development of an agriculture and rural development sector strategy; (b) development and implementation of a strategic plan for restructuring the sector administration; and (c) implementation of a management information system. Additional RAS engagements (Strengthening Agri-Food Sector Strategy Formulation, Strategic Planning for Agricultural Administration, Implementation of an Internal Management System, Developing an Integrated Financial Management System) have been started.

191. **The energy sector witnessed limited progress during the CPS, but lately reforms have picked up.** To introduce EU-wide market principles in the energy sector, the EU adopted standard practices ("packages") to liberalize the energy market. The third package separated competitive from monopoly activities and allowed energy to be traded freely across borders. The energy debate in Romania since 2010 proposed to consolidate the sector into two energy champions and cross-subsidize costly products (coal-generated electricity) with more efficient ones (hydro-generated electricity), but these proposals were not put in place. In addition, a system of bilateral contracts in electricity and regulated prices in both electricity and gas resulted

[25] The two project schemes where small farmers predominate showed very low economic rates of return (2.8 percent and 9.6 percent per respective scheme). The other three irrigation schemes where medium and large farms dominate show economic rates of return between 20 percent and 32 percent.

in losses and arrears incurred by energy SOEs that impacted fiscal stability, but significant improvement measures has been undertaken in this respect.

192. **The Bank supported the energy sector reform agenda with analytical work and budget support operations.** With the Bank's support, Government embarked on an agreed energy reform agenda supported by the DPL DDO. The Bank also completed a FR of the sector and a sector policy note in 2013. The priorities identified and recognized by the Government called for: (a) legal and regulatory reforms in the sector; (b) safety net to protect the poorest households from tariff increases; (c) transparent and competitive contracting by SOEs; (d) enhancing the commercial and payment discipline; (e) improving the corporate governance; (f) attracting private sector participation in the various SOEs operating in the sector; and (g) promoting green energy. Reforms will continue into the next CPS period, but some progress is already visible:

- A new Electricity and Gas Law 123 became effective in July 2012 and the Law 160/2012 introducing the financial and corporate independence of ANRE, the energy sector regulator, was adopted by the Parliament and promulgated by the President in October 2012.
- Electricity and Gas Road Maps with timetables for phasing out regulated prices and liberalizing electricity and gas markets were issued and their implementation is in progress.
- Hidroelectrica, the main hydro energy producer, most affected by price distortion, completed its insolvency procedure, including cancellation of below market contracts and renegotiation of contracts with energy-intensive industrial clients, with significant price increases, and was back on the market briefly but has since returned to insolvency.

193. During the CPS period, IFC supported private green energy producers by financing one of the first wind power parks in Romania—alongside EBRD, IFC mobilized US$135 million for the Cernavoda and Pestera Projects.

194. **Romania's road and railway networks remain under-developed.** Two transport projects attempted to rehabilitate and modernize transport infrastructure to improve safety and relieve traffic congestion in or around large cities. Bank support also targeted a reclassification of the road network and changes in road management and privatization goals. In the rail sector, the completion of the state railway companies' restructuring, improving productivity, and moving to full cost recovery were Government goals supported by the Bank. However, indecision about reforms, frequent changes at higher management levels, massive floods (which temporarily switched Bank assistance to emergency repairs to infrastructure), budget constraints, and the impact of crisis all conspired to slow down progress in the reform agenda. The two transport projects closed without delivering the expected institutional reforms.

195. **However, transport sector reforms are ongoing with Bank support.** In later CPS years, the Government and the Bank resumed a strategic dialogue in the transport sector via FRs of the sector's institutional settings. Reform Action Plans were developed based on the recommendations of the FRs and sector reforms have been initiated with Bank support,[26] including strengthening the ministry's strategic planning capacity, corporate governance of SOEs, cost recovery for infrastructure, and capacity to undertake public-private partnerships.

[26] RAS on Romania Transport Strategic Planning, RAS on Public Private Partnership.

The performance of transport SOEs is generally regarded as one of the main constraints in the sector and with Bank support the Ministry introduced a transparent method for appointing professional boards of directors to these companies and developed a guide for SOE corporate governance that has now been proposed as a model for SOEs in the rest of the country. Critically the work on strategic planning also helped to focus company business plans around an agreed set of priorities. There is still much to do to improve consistent implementation of these issues but at least there is now a strong framework going forward.

CPS Pillar 3: Social and Spatial Inclusion

196. **Roma integration continues to be a key issue for Romania.** New survey data show that the vast majority of Roma in Romania (74 percent) continue to live in poverty;[27] 83 percent of Roma households are reported not having a toilet or bathroom indoors; and only 10 percent of Roma aged 20-24 years old have completed upper secondary education. The Social Inclusion Project (SIP) included Roma dedicated sub-components, which were implemented by the Romanian Social Development Fund. The small SIP sub-projects implemented in a participatory manner provided the targeted Roma communities' with access to rural infrastructure, roads, and water supply. More importantly, over 1,200 meetings between Roma and the local authorities in 2009-2013 helped mainstream the Roma into community-driven initiates. Recent analytical work[28] supports the Government in developing national policies and identifying cost-effective programs to promote the integration of Roma by providing diagnostics and policy recommendations in key areas of poverty and social safety nets, employment, education, housing, health, anti-discrimination, institutional mechanisms for effective local service delivery, and use of EU instruments.

197. **Reforms in social assistance were supported by the DPL series as well as the SASMP.** In the early years, the DPL series addressed the targeting of family benefits and the under-funding of the Guaranteed Minimum Income program and gaps in its administration (which were excluding eligible beneficiaries from benefits). At mid-point, Government adopted a more strategic approach to support social assistance reforms by adding an innovative results-based project, the SASMP (US$710 million, FY11), to the portfolio. This operation disburses against the achievement of 20 indicators. However, the innovative nature of the instrument and the legal steps required for loan approval caused a slow start to the program. It has since taken off and the SASMP has been restructured and extended. SASMP achievements so far include simplification of the eligibility criteria for all means-tested programs, removal of assets tests erroneously excluding genuinely poor families, enhancement of heating benefits, and the enactment of a new social assistance framework law (2011).

198. **The transparency of the pension system has been improved with Bank support through a RAS.** A new Pension Law (2010) provided a framework for aligning the indexation of pensions to international practice, consolidating and aligning special pensions (military and security retirees) with the general system, and eliminating unwarranted invalidity pensions following a careful review of the eligibility for disability pension and enforcement of stricter criteria.

199. **Government measures supported by the Bank helped improve health and rationalize sector expenditures.** The Health Adaptable Program Loan helped increase access to

[27] Risk of Poverty: percent with equivalized household incomes below 60 percent of national median (UNDP/WB/EC data 2011).
[28] Study on Diagnostics and Policy Advice for Supporting Roma Integration in Romania.

and improve the quality of maternal, rural, and emergency health care services, prepare Romania's Primary Health Care Strategy (2011), and review the content and listing processes for the Romanian basic package of health services and technologies (2011). The DPL series and the DPL DDO agendas supported reforms to improve the fiscal sustainability of the health sector through the revision of the list of compensated drugs (2010), implementation of the National Hospital Rationalization Strategy (2010), creating the institutional framework to implement Health Technology Assessment procedures, and introduction of co-payment. Close coordination and collaboration with the EIB and other partners helped ensure the harmonization of interventions and the efficient use of funds. IFC supported private sector investments in the health sector by lending to private health care providers, such as *Medlife*.

PART IV: WORLD BANK GROUP PERFORMANCE

CPS Program Design

200. **The CPS had the dual objective of mitigating the effects of the financial crisis and broadening reforms for sustainable growth and social cohesion.** The CPS's flexible approach was tested and proved successful as it allowed the Bank to re-focus at midterm, moving from the immediate crisis response to a longer-term perspective that supported Romania's EU convergence priorities. As a byproduct of the strong collaboration with the Government and the EC, the Bank assumed the role of a strategic adviser to the Government over the CPS period.

201. **The CPS was fully aligned with Romania's strategic framework and evolving priorities.** Earlier CPS interventions were guided by the Government's EU Convergence Program 2009-2013,[29] which spelled out the need to stabilize the economy (as the crisis unfolded) through a significant reduction of the fiscal and external deficits; improve medium-term predictability and performance of fiscal policy; and stabilize and strengthen the financial sector. Within this context, the Bank undertook a number of analytical reports, including sectoral policy briefs, an assessment of the impact of the economic crisis on poverty, the PEIR, an FSAP, and a Civil Service pay diagnosis. The FY09-11 DPL series drew on this strong analytical base and was the main driver of the dialogue.

202. **Since 2010, the Bank repositioned itself to support Romania's longer-term EU convergence goals in line with the National Reform Program and EU priorities.** Since 2010, Romania's focus has been on implementing the EC recommendations under the EU2020 strategy to foster convergence with EU standards and living conditions. Romania's focus was on *inter alia* continuing the fiscal consolidation process; addressing capacity gaps in public administration to accelerate EU funds absorption; reforming the judiciary; and increasing the efficiency of the state-owned sector, with mitigation of adverse impacts on the poor. Accordingly, the CPS Progress Report (2011) moved the Bank's activity toward providing technical support for public administration reforms and strengthening of Romania's capacity for EU funds absorption.

[29] The Government Convergence Program covers a four year period and is updated annually. It is complemented by Annual Government Programs, Annual Reform Programs, and sector strategies. Since 2007, Romania has benefited from the European Cohesion Fund and Structural Funds, which amount to about €17.2 billion for all priorities for the period 2007-2013. In addition to the GCP, Romania has a National Strategic Reference Framework that maps out Romania's plan for investing structural funds, which are disbursed through Sectoral Operational Programs. In total, there are seven Sectoral Operational Programs, each structured around several priority axes plus a National Rural Development Plan.

203. **This transition was made possible by the introduction and use of the RAS instrument.** The RAS program, which began with the FRs, was formalized through a Memorandum of Understanding signed with the Government in early 2012. In addition, two innovative lending operations were added: the results-based SASMP (US$710 million) to support improved targeting of benefits and harmonization and simplification in social assistance (in line with the sector Reform Program); and the DPL DDO (US$1.33 billion), which supported an agenda focused on fiscal consolidation, energy sector compliance with the EU energy policy and energy SOE governance issues, and health sector reforms. A Health Sector Reform operation (US$336 million) was not concluded within the CPS period—it is under preparation.

204. **The participatory process and transparency fostered through the CPS process is notable.** The Government now regularly posts new legislative and policy initiatives on the ministries' web sites for consultations and feedback. In addition, in specific cases stakeholders with special interests in respective reforms were invited by the Government for consultations (i.e., trade unions and employers' associations were called to participate in the elaboration of public pay reforms; public debates and consultations with the teaching staff and school inspectors preceded education reforms/changes of the education law; extensive consultations of professional associations and local public administration preceded the adoption of new strategies and reforms).

205. **In general, the CPS results framework provided a useful structure for measuring CPS progress and performance.** The results framework included clearly defined outcomes and milestones for each of the three main pillars, revised in the CPS Progress Report as necessary in line with the refocused approach. The outcomes and milestones identified in the CPS results matrix were drawn from the projects' development objectives across the portfolio and were therefore carefully specified and generally relevant in terms of the areas of influence of Bank activities.

CPS Implementation

206. **Overall portfolio performance improved over 2009-2013, but individual project performance was uneven**. At CPS closing (June 2013) Romania's lending portfolio (US$2.05 billion) was the third largest in ECA (after Turkey, US$4.4 billion, and Kazakhstan, US$3.6 billion). Across the CPS period, the realism rate stood at 100 percent, proactivity improved over 2010-13[30] (with the proactivity index broadly at 100 percent), and portfolio riskiness decreasing from 35.9 percent commitments at risk to 5.2 percent. The average disbursement rate for projects over FY10-13 was 23 percent, however a few projects—CESAR, Integrated Nutrient Pollution Control Project (INPCP), JRP, Knowledge Economy, and SIP—were at times listed as slow disbursing projects having disbursed less than 40 percent in a five-year life span. The main causes of slow disbursement were: (a) a long approval cycle of investments in Romania (JRP, SIP); (b) changes to ministries' upper management and in implementing agencies affiliation (CESAR, INPCP); (c) change in the technical approach; and (d) severe budget constraints (CESAR, JRP, Knowledge Economy). Some of the projects (CESAR, Knowledge Economy) had to be restructured with significant cancellation of funds. Other projects (INPCP, JRP, SIP), monitored under timed action plans, overcame critical problems and improved performance.

[30] Proactivity Index increased from 33 percent in 2009 to 100 percent over 2010-2014. The Proactivity Index in June 2013 dipped temporarily to 50 percent because one project, CESAR, completed its restructuring on June 26, 2013 in slightly more than the 12 months allowed for proactivity action (CESAR was downgraded as of June 7, 2012).

207. **The lending pipeline was largely delivered as anticipated changing the portfolio structure over the CPS period.** During the CPS period, six new operations were delivered: DPLs1-3, the DPL DDO, the SASMP, and RAMP. The additions represent some 88 percent of CPS lending commitments. As 14 operations closed in the same period, the total number of projects in the portfolio was halved while the commitment level was sustained by larger loan sizes. The portfolio structure evolved through the CPS period, from largely sector investment loans to 65 percent DPLs, 21 percent results based financing, and 14 percent sector investment loans. The two most prominent themes in the portfolio became social assistance reform (28.3 percent) and human development (20.7 percent).

208. **During the CPS period, Romania's knowledge portfolio increased four-fold as the Bank repositioned itself as a strategic adviser to the Government**. By June 2013, the knowledge portfolio counted 26 RAS engagements in various stages of approval. Contracts worth US$25 million were signed (see Table 3 for a full list of AAA, including RAS). Given that RAS engagements largely address EC-related development issues, progress on RAS activities is monitored jointly with the Government and the EC.

209. **Over the CPS period, a strong partnership with a broad range of stakeholders became the norm.** Civil society, academia, think thanks, and representatives of the private sector were consulted through the preparation of many new projects, in particular the DPLs, the DPL DDO, and the SASMP. The CEM findings and recommendations were discussed in several participatory conferences. A Social Accountability Citizens Report Card technical assistance supported extensive consultations with professionals and the civil society.

PART V: LESSONS LEARNED

210. **General lessons include:**

- **Lesson 1: The Bank is a trusted partner of Romania and an important complement to the EC.** Due to a deep understanding of the structural reform agenda the Bank, in close coordination with the IMF and EC, was a trusted partner that supported Romania in weathering the financial crisis and then transitioned to strategic adviser in supporting Romania to meet longer-term development objectives under its EU Convergence Program and EU2020 national commitments. It is clear that the Bank has a role to play in helping newer EU members build the capacity and address institutional and social issues necessary to achieve EU living and other standards. The Bank's partnership with Romania will continue to evolve under the next CPS period.
- **Lesson 2: Multi-tranche development policy operations allowed the Bank to contribute to a coordinated program of macro stabilization with the IMF and EC while allowing for the pursuit of needed structural reforms**. The DPL1 program development objective supported government reforms in fiscal and public administration management, social protection, and the financial sector. The DPL1 Program Document identified 21 actions, six of which were defined as prior actions and the rest as triggers for DPL2 and DPL3. Most of the original prior actions and triggers were sustained through the series, and virtually all were fulfilled. The structural measures were adopted by the EC in its assessment of Romania's 2013 National Reform Program and Convergence Program 2012-2016.

- **Lesson 3: The RAS instrument proved effective in taking the Bank's partnership with Romania to the next level.** As an EU member, Romania has access to considerable grant financing from EU sources. In the next programing period, 2014-2020, funds worth €40 billion[31] will be available to Romania, therefore reducing reliance on Bank financing. At the same time, demand-driven technical assistance supplied through the RAS program has proved an effective instrument for responding to the country's considerable needs to implement reforms, meet development challenges, and enhance its capacity to converge to EU standards. During the next CPS period, the evolution from lender to technical adviser and knowledge broker is expected to continue.
- **Lesson 4**: **The CPS process can be used to promote greater transparency and more inclusive consultation**. The CPS was effective in bringing together the Government and civil society partners, business sector and private non-commercial actors. However, there is room for further improvement. Greater attention should be given to the poorest, under-served population, especially the Roma. In view of the frequent turnover of high-level government staff, increased attention by the Bank to the political opposition and other parliamentary groups would also provide valuable insights, awareness, and ownership of Bank support over a broader spectrum of stakeholders.

211. **Specific lessons include:**

- **Short-term challenges versus long-term development**: More effort should be invested by the Government and the Bank to address the tensions between short-term challenges (budget deficit levels) and longer-term targets (implementation of reforms, infrastructure investments).
- **Mitigating governance shortcomings:** The Bank should recognize the risks generated by governance shortcomings (frequent changes in line ministries' management, changing priorities as higher management changes, poor cross coordination, minimal accountability to sustainability) and identify more effective mitigation measures from the outset. For instance early briefing for incoming officials and work with permanent staff of the relevant ministries where appropriate to provide continuity to the program.
- **Need for strengthened M&E:** A strengthened M&E framework at government level and the culture of progressive assessment and reporting of results are still lacking and thus capacity building in this area is key.
- **Addressing shifting government priorities:** Although the Government engaged closely during project preparation, certain projects (e.g., CESAR, JRP, Knowledge Economy) faced insufficient budgetary allocation during the implementation period. As projects did not get their budgetary allocation they were forced to slow down or in some cases halt their implementation due to lack of counterpart funding. This was partly due to the scarcity of budget resources and need to observe agreed deficit targets. There is a need to proactively manage the portfolio in such a situation with timely restructurings, cancelations and closures of projects that no longer have the support of the Ministry of Finance.

[31] Structural, cohesion and rural development funds.

ATTACHMENT

Table 1. Planned Lending Program and Actual Deliveries

PROPOSED IBRD BASE-CASE LENDING PROGRAM IN CPS		ACTUAL		REFORMS TARGETED
Planned CY/FY	**Product and Commitment Amount**	**Approval Date**	**Product and Commitment Amount**	
CY09 / FY10	DPL 1, €300m	July 16, 2009 (FY10)	DPL 1 (P102018): €300m (US$422.99m)	Public financial management (MTEF, public administration), education and health sector fiscal sustainability, social assistance/social protection systems, financial sector
CY09 / FY10	DPL 2, €360m	Jan. 20, 2011 (FY11)	DPL 2 (P117667): €300m (US$380.50m)	
CY10 / FY11	DPL 3, €340m, revised to €400m in CPSPR	Dec. 19, 2011 (FY12)	DPL 3 (P122222): €400m (US$560.60m)	
		Subtotal:	*€1bn*	
PROPOSED UNDER CPSPR		**Approval Date**	**Product and Commitment Amount**	**REFORMS TARGETED**
FY12	DPL DDO, €1bn	June 12, 2012 (FY12)	DPL DDO (P130051): €1bn (US$1.333bn)	Public financial management (tax collection and administration, EU fiscal convergence), governance of energy sector SOEs, health sector fiscal sustainability
FY12	Tax Administration Project, €75m	April 26, 2013 (FY13)	RAMP (P130202): €75m (US$91.8m)	Effectiveness and efficiency of tax collection, tax compliance
FY13	Health Project, €250m	Health Sector Reform Project slated for approval in FY14		Quality and efficiency of public health services
		Subtotal:	*€1.75bn*	
OTHER LENDING		**Approval Date**	**Product and Commitment Amount**	**REFORMS TARGETED**
Social sector support discussed in CPS, but new investment operation not specified given ongoing SIP and DPL support		May 26, 2011 (FY11)	SASMP (P121673): €500m (US$710.4m)	Performance management, equity, and administrative efficiency of social assistance system
		Subtotal:	*€0.5bn*	
		Total:	***€3.25bn***	

Table 2. Closed and Active Projects Contributing to the CPS

PROJ. ID	PROJECT NAME	LENDING INSTRUMENT	APPROVAL DATE	CLOSING DATE	COMT. AMT. (US$M)
Closed					
P008783	Social Sector Development Project	Specific Investment Loan	19-Jun-01	31-Dec-08	50.0
P069679	Private & Public Sector Institution Building Loan (PIPBL)	Technical Assistance Loan	12-Sep-02	31-Dec-08	18.6
P067367	Forest Development Project	Specific Investment Loan	19-Dec-02	30-Jun-09	25.0
P073967	Rural Education Project	Specific Investment Loan	6-May-03	15-Sep-09	60.0
P081406	Electricity Market Project	Specific Investment Loan	12-Jun-03	31-Dec-08	82.0
P043881	Irrigation Rehabilitation & Reform Project	Specific Investment Loan	31-Jul-03	30-Jun-12	80.0
P075163	Hazard Risk Mitigation & Emergency Preparedness Project	Specific Investment Loan	20-May-04	30-Jun-12	150.0
P081950	Hazard Risk Mitigation & Emergency Preparedness - GEF	Specific Investment Loan	20-May-04	30-Jun-12	7.0
P083620	Transport Restructuring Project	Specific Investment Loan	16-Nov-04	31-Dec-09	225.0
P086949	Modernizing Agricultural Knowledge & Information Systems Project (MAKIS)	Specific Investment Loan	16-Nov-04	25-Mar-13	50.0
P087807	Mine Closure, Environment & Socio-Economic Regeneration Project	Specific Investment Loan	16-Dec-04	31-Oct-12	120.0
P086694	Energy Community of South East Europe Project (ECSEE APL #1)	Adaptable Program Loan	27-Jan-05	30-Jun-10	84.3
P088165	Knowledge Economy Project	Specific Investment Loan	29-Nov-05	28-Feb-13	60.0
P088252	Municipal Services Project	Specific Investment Loan	13-Jul-06	31-Mar-12	131.7
P100470	Avian Influenza Control & Human Pandemic Preparedness & Response Project	Emergency Recovery Loan	8-Sep-06	31-Dec-10	37.7
P093812	Transport Sector Support Project	Specific Investment Loan	2-Nov-06	31-Dec-09	180.0
P102018	Development Policy Loan (DPL 1)	Development Policy Lending	16-Jul-09	31-Dec-09	422.99
P117667	Second Development Policy Loan (DPL 2)	Development Policy Lending	20-Jan-11	30-Jun-11	380.5
P122222	Third Development Policy Loan (DPL 3)	Development Policy Lending	19-Dec-11	31-Dec-12	560.6
Active					
P078971	Health Sector Reform 2 Project (APL #2)	Adaptable Program Loan	16-Dec-04	31-Dec-13	80.0
P090309	Judicial Reform Project	Specific Investment Loan	15-Dec-05	31-Mar-15	130.0
P093096	Social Inclusion Project (SIP)	Specific Investment Loan	13-Jun-06	30-Jun-14	58.5
P099528	Integrated Nutrient Pollution Control Project (INPCP) - GEF	Specific Investment Loan	30-Oct-07	30-Nov-15	5.5
P093775	Romania Integrated Nutrient Pollution Control Project (INPCP)	Specific Investment Loan	30-Oct-07	30-Nov-15	68.1
P100638	Complementing EU Support for Agricultural Restructuring Project (CESAR)	Specific Investment Loan	27-Nov-07	30-Jun-14	65.0
P121673	Social Assistance System Modernization Project (SASMP)	Specific Investment Loan	26-May-11	31-Aug-16	710.4
P130051	Development Policy Operation – Deferred Drawdown Option (DPL DDO)	Development Policy Lending	12-Jun-12	31-Dec-15	1,333
P130202	Revenue Administration Modernization Project (RAMP)	Specific Investment Loan	26-Apr-13	31-Mar-19	91.8

Table 3. Planned Non-lending Services and Actual Deliveries

RECENT COMPLETIONS AT TIME OF CPS	ID	FY COMPLETION	STATUS
Education Reform	P108149	FY09	Delivered FY09
FSAP Update	P112770	FY09	Delivered FY09
HD Policy Briefs & Dialogue	P114626	FY09	Delivered FY09
UNDERWAY AT TIME OF CPS	**ID**	**PLANNED FY COMPLETION**	**STATUS**
IT Assessment at NBR TA	P115849	FY10	Delivered FY10
PEIR Update	P112470	FY10	Delivered FY10
Poverty Monitoring 3	P119558	FY10	Poverty & Social Policy TA delivered FY10
Pensions for Elderly Poor	P112993	FY10	Rural Pensions ESW delivered FY11
PLANNED AT TIME OF CPS	**ID**	**PLANNED FY COMPLETION**	**STATUS**
PEIR Programmatic 1	P124897, P127819	FY10	Support provided under FBS Functional Reviews on 'Cross Cutting Issues' and 'CoG Policy, Planning, & Coordination' delivered FY11-Y12
Macro-Monitoring	P102018, P117667	FY10	Undertaken as part of DPLs 1-2 FY10-FY11 and under IO 2017449
DPL Education Reform TA	P118344	FY10	Delivered over FY11, completed early FY12
DPL Health Reform TA		FY10	
DPL Civil Service – PFM TA	P117672	FY10	Delivered FY10
DPL Financial Sector TA	P108138	FY10	Delivered FY10
Tax Administration TA	P130202	FY10	Support provided under RAMP
Poverty Monitoring 4	P121673, P130960	FY10	Support provided under SASMP and Poverty Mapping delivered FY14
Student Loans TA	P117686	FY10	Delivered FY11 (in line with CPSPR)
PEIR Programmatic 2	P130919	FY11	Support provided under FBS Functional Reviews FY11-FY12 per above, plus Romania Public Investment Framework TA delivered FY13
Macro-Monitoring	P129592	FY11	Undertaken for EU Regular Economic Report delivered FY12 and under IO 2017449
DPL Education Reform TA 2	P121589, P124895	FY11	See above re P118344; support also provide under FBS Functional Reviews of Education
DPL Civil Service – PFM TA	P133582	FY11	Support provided under FBS on 'Administrative Capacity & Decentralization' FY13-FY14
Poverty Monitoring 5	P121673	FY11	Support provided under SASMP and Poverty Mapping delivered FY14
PLANNED UNDER CPSPR	**ID**	**PLANNED FY COMPLETION**	**STATUS**
Fiscal Decentralization	P117675	FY11	Delivered FY11
Policy Notes on Growth & Competitiveness (I)	P122932	FY11	Replaced by Growth & Competitiveness CEM delivered FY13
Accounting & External Audit Strengthening	P123445	FY11	Delivered FY11
FBS - Functional Reviews TA	P120500	FY11	Delivered FY11
FBS - Agriculture Functional Review	P121583	FY11	Delivered FY11
FBS - Transport Functional Review	P121586	FY11	Delivered FY11
FBS - Finance Functional Review	P121588	FY11	Delivered FY11
FBS - Education Functional Review (Pre-University)	P121589	FY11	Delivered FY11
FBS - Competition Functional Review	P121591	FY11	Delivered FY11
FBS - Health Functional Review	P124890	FY11	Delivered FY11

FBS - Labor & Social Protection Review	P124891	FY11	Delivered FY11
FBS - Economy/Energy Functional Review	P124892	FY11	Delivered FY11
FBS - Regional Development Functional Review	P124893	FY11	Delivered FY11
FBS - Environment and Forestry Review	P124894	FY11	Delivered FY11
FBS - Higher Education Functional Review	P124895	FY11	Delivered FY11
FBS - Research and Development Review	P124896	FY11	Delivered FY11
FBS - Cross Cutting Issues Review	P124897	FY11	Delivered FY12
FBS - CoG Policy Planning & Coordination	P127819	FY11-12	Delivered FY12
FBS - Romania Judicial Functional Review	P129957	FY12	Delivered FY13
FBS - ANPCI Functional Review (Land Cadastre)	P145716	FY12	Being delivered under FY13-15 RAS ‘Real Estate: Basis for National and EU Policies’
FBS - ANRMAP Functional Review (Procurement Authority)	P147482	TBC	Support provided under RAS on ‘Support to the Establishment of a Delivery Unit’ FY14-FY15
Policy Notes on Growth & Competitiveness (II)	P127704	FY12	Replaced by Growth & Competitiveness CEM (P122932) delivered FY13
Citizens Report Card & Social Accountability	P127471	FY12	Delivered FY13
Public Expenditure Framework Assessment	P130919	FY12	Romania Public Investment Framework TA delivered FY13
Climate Change	P146697, P146802, P146821, P145943	FY12	Being delivered under FY13-16 Programmatic RAS
Regional Study on Skills and Competitiveness	P133519	FY12	Delivered FY13 under ‘Europe 202: Romania: Evidenced-based Policies for Productivity, Employment, and Skills Enhancement
Tax Administration TA	P130202	FY13 (TBC)	Support provided under RAMP
Insolvency and Creditor/Debtor Regimes ROSC (ICR ROSC)	P130426	..	Undertaken over FY13, completed FY14

Table 4. List of Active Trust Funds FY2010-2013

Amounts in $million

Fund	Fund Name	Fund TTL Name	Program	Mng Unit	Project	Status	Grt Type	Grt Agrmt Date	Clsng Date	Avail Bal	Fund Bal	FY10 Disb.	FY11 Disb.	FY12 Disb.
TF010417	ROUND 1: ROMANIA - I	Tesliuc Emil Daniel	PHRD	ECSH3	P128150	ACTV	REP	04/25/2012	04/25/2015		1.72			
TF010418	ROUND 1: ROMANIA - I	Tesliuc Emil Daniel	PHRD	ECSH3	P128150	ACTV	BEA	04/25/2012	04/25/2015	0.09	0.09			
TF010959	Simulation of the co	Tesliuc Emil Daniel	PSIA	ECSH3	P121673	ACTV	BEA	10/20/2011	03/31/2013	0.06	0.09			0.01
TF012476	StAR - Romania Count	Oduor Jacinta	STAR	STR	P131762	ACTV	BEA	05/22/2012	06/30/2013	0.10	0.10			
TF052716	PCF-ROMANIA:AFFOREST	Meyer Megan	CARBON	ENVCF	P075959	ACTV	REO	02/02/2012	12/31/2013	(1.21)	0.06			
TF053472	GEF3:FSP-ROMANIA:HAZ	Pohl Wolfhart	GEFIA	ECSS6	P081950	ACTV	REO	05/26/2004	06/30/2012		1.19	0.38	0.94	0.73
TF058040	GEF FSP - ROMANIA: I	Bouzaher Aziz	GEFIA	ECSS3	P099528	ACTV	REO	12/28/2007	12/31/2013		2.86	1.23	0.80	0.13
TF098645	IDF-Policymaking M&E	Pauna Catalin	IDF	ECSPE	P124601	ACTV	REO	03/14/2012	03/14/2015		0.43			
Grand Total										(0.97)	6.54	1.61	1.74	0.87

ANNEX: Self-evaluation – Achievements under CPSPR Results Framework

Pillars, objectives, and columns 1 and 2 are reproduced from the 2011 CPSPR with achievements indicated. WBG Instruments column has been updated to reflect actual program.

<table>
<tr><th>RESULTS AREAS AND OUTCOMES
TO WHICH THE CPS IS CONTRIBUTING</th><th>MILESTONES</th><th>WBG INSTRUMENTS</th></tr>
<tr><td colspan="3">CAS PILLAR 1: PUBLIC SECTOR REFORM
GOALS: To improve the accountability and responsiveness of the public administration and to enhance predictability and efficiency in public resource management.
Issues and Obstacles as identified in 2009: Pro-cyclical fiscal policies and weak fiscal management have led to serious macroeconomic vulnerabilities. The budget process lacks predictability and transparency, as well as weak prioritization of public investment. Introduction of an MTEF will require capacity and support to both plan on a multi-year horizon and to link budget with outcomes. Public sector wages have more than doubled since 2005 contributing to pro-cyclical policies, but without adequately rewarding performance or productivity. Governance is weak and monitored by the EU bi-annually. The court system has a large back-log of cases.</td></tr>
<tr><td colspan="3"><u>Country Objective</u>: Reduce fiscal vulnerabilities by restoring budget discipline, improving the effectiveness and efficiency of public expenditures, and improved resource mobilization.</td></tr>
<tr><td>1.1 PUBLIC FINANCIAL MANAGEMENT

Outcome 1.1.1: Medium Term Expenditure Framework operational by 2012 and beyond

• Indicator (revised): Reduction in variance between main aggregate ceiling (Wage, Goods & Services, Capital) approved by Parliament in the MTEF (2011-13) and the actual expenditures. Baseline (2008): 27% variance for three largest economic classes (Wage, Goods &Services, Capital) Target: deviation ≤ 17%
Achieved: variance down to 10% in 2010 and significantly below in 2011, 2012.[32]

Outcome 1.1.2: Sustainable growth in public wage bill

• Indicator: Annual expenditure for personnel (2011-13) consistent with the limits approved in MTEFs and does not increase as a share of GDP above expected 2009 level. Baseline: 9.4% in 2009
Achieved: wage bill at 8.3% of GDP in 2010 and 6.9% in 2012.</td><td>• Fiscal Responsibility Law (FRL) 69/2010 approved & enacted Achieved: 2010.

• Independent Fiscal Council (IFC) established Achieved: 2010.

• Mid Term Expenditure Framework (MTEF) approved by Parliament with three-years ceilings for major spending ministries Achieved: 2011 to date.

• Fiscal Strategy 2011-13 approved by Government Achieved: September 2010

• Wage bill increases below inflation rate Achieved: increase in 2010 and 2011 was negative vs. an average inflation rate of 6.1% in 2010 and 5.8% in 2011. Since 2012, fiscal adjustment has allowed progressive restoration of the wage bill.

• Summary of multi-year public investment program annexed to 2010-2011 budget Achieved: planned spending for major capital projects set out in 2012 Budget.</td><td>Completed:
• Policy Briefs (FY09)
• PEIR Updates focused on opportunities for fiscal savings and efficiency gains in major expenditure categories, starting with education and health (FY09-FY10)
• DPL 1-3 (FY10-FY12)
• TA Fiscal Decentralization (FY11)
• RAS Functional Review on Public Finance (FY11)

Ongoing
• DDO DPL
• Revenue Management Administration Project
• RAS TA HR Strategy for MOPF</td></tr>
<tr><td colspan="3"><u>Country Objective</u> (revised to include Reform of PA): improve the organizational effectiveness and transparency of the public administration at central and local levels; and improve the public pay system to enhance transparency and predictability, motivate performance among public sector employees, attract and retain critical skills.</td></tr>
</table>

[32] For 2011: variance below 1.3%. For 2012 variance vs. MTEF below 10% as follows: wage bill of consolidated budget below 1.2%; wage bill of state budget below 1%; goods and services of state budget below 9%; capital expenses below 1% .

Results Areas and Outcomes to which the CPS is Contributing	**Milestones**	**WBG Instruments**
1.2 Public Administration (PA) Reform **Outcome 1.2.1 (**new**)**: Initiation by GoR of the RO PA Reform – approval of Reform Action Plans for selected PA institutions **Achieved: 12 Functional Reviews completed for ministries and agencies selected for Phases 1 and 2, and Reform Action Plans (based on recommendations in the Functional Reviews) submitted to the EC** **Outcome 1.2.2** (new): Progress in enacting and implementing the strategies/tools/ procedures/etc. in the Reform Action Plans. • **Indicator** Favorable assessment by EC of Romania's progress in improving the organizational effectiveness and transparency of its Public Administration (EC Opinion on the National Reform Plan and progress under the Memorandum of Understanding with EU) **Partially Achieved: Reform Action Plans submitted by GoR to the EC and selected reform measures are under implementation with Bank support. EC has positively acknowledged the role of the Bank in the Functional Reviews and Reform Action Plans. EC review of Romania's National Reform Plan 2012/2013 took stock of the Functional Reviews and Reform Action Plans, noting that PA capacity remains a core issue. This is a long-term institutional development agenda, and the Bank continues to support GoR in this area.**	• Functional reviews of the public administration undertaken to identify budget resources that could be realized for better targeting pay **Achieved: Phase 1 completed February 2011, Phase 2 July 2011** • Recommendations for public administration reform and modernization formulated and shared with Government **Achieved: July 2011** • Reform Action Plans for Agriculture, Transport, Competition, Pre-University Education (1-2), Public Finance, Center of Government, Health, Labor, Environment, Regional Development, Economy and Energy, R&DI (Judicial in progress) developed by the ministries and Government agencies based on recommendations of the Functional Reviews TA series **Achieved.** • Progress reporting mechanisms for informing the EC developed by GSG **Achieved: quarterly reporting is done by the General Secretariat to the Government (GSG) to the EC.**	**Completed:** • Public Sector Pay Practices in Romania (FY08) • DPL 1-3 (FY10-FY12) • PFM-Civil Service Pay (FY10) • RAS Functional Reviews on Agriculture, Transport, Competition, Pre-University Education (1-2), Public Finance, Center of Government, Economy & Energy & Business Environment, Research, Development & Innovation, Higher Education, Health, Labor and Social Protection, Environment & Forestry, Regional Development and Tourism • CoG Planning & Coordination (FY11-FY12) • RAS Functional Reviews on Cross-cutting Issues (FY12) • Judicial Functional Review (FY13) • Romania Public investment framework RAS (FY13) • Enhancing Competitiveness Policies in the West Region (FY13) **Ongoing:** • RAS program implementing some of the recommendations of the Functional Reviews o CoG Planning and Coordination RAS o ARD RAS program on: (i) strategic planning, (ii) agri-food sector strategy, (iii) internal management system and (iv) internal financial management system o Improvement of HR management instruments in the Ministry of Public Finance o Tax policy formulation o Interpretation and communication on tax issues o Strengthening debt management o Develop administrative capacity of the Ministry of Education o Assistance on PPPs to the MoT o Transport Strategic Planning o Assistance to Competition Council • RAS to strengthen capacity for increasing EU funds absorption and prepare for next programming period o Romania Public investment framework recommendations implementation o Enhancing Competitiveness Policies in the West Region recommendations implementation o Land Administration Study on diagnostics and policy advice for supporting Roma disadvantaged communities o Regional development RAS program comprising: (i) spatial and urban planning, (ii) growth poles

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS
		analysis, (iii) projects selection models, (iv) communication and collaboration between MAs and IB, and (v) elaboration of integration strategies for poor areas and communities • IDF Grant on enhancing public policymaking
Outcome 1.2.3: Alignment of public sector pay system to EU practice (transparency, equity, ability to attract & retain critical skills in public administration) • **Indicator**: Reduction in aggregate allowances and bonuses and limit amount for any individual *Baseline:* over 30% of total public compensation in 2008 (empirical evidence indicates higher percentages, varying from sector to sector) *Target:* Maximum 30% of total public compensation by 2011, and maintained **Achieved: 20.8% in 2011.** • **Indicator**: Align pay structures more closely to actual labor market conditions (evidence to be provided via salary survey results of MLFSP) **Indicator dropped at time of CPSPR (currently in progress, but recognized as outside CPS time frame at time of CPSPR).**	• New salary legislation on public sector pay which limits non wage expenditures approved **Achieved: Unitary Pay Law (UPL) 330/2009 approved and enacted.** • A detailed pay reform plan is approved by Government for implementing (a) a uniform job grading framework for the public service; and (b) more closely aligning pay for selected benchmark jobs to actual labor market conditions (through a salary survey) **Achieved: July 2013** • Regulations enforcing compliance with merit based principles of employment and promotion drafted **Achieved: regulations published in Official Gazette (OMJ 622/C/ 25.02.2010) and subsidiary pay legislation approved by Parliament.**	
<u>Country Objective</u>: strengthen the efficiency, accountability, transparency of the justice system.		
1.3 GOVERNANCE **Outcome 1.3.1 :** (revised) Improved judicial efficiency in pilot courts • **Indicator (**revised) 10% increase by 2013 in the number of cases disposed of or archived in selected pilot courts. Baseline: 11.224 cases in 2008. **Achieved: Judicial Reform Project (JRP) reported a 28% increase in April 2013.** **Outcome 1.3.2**: Enhanced competence, professionalism and integrity of judiciary staff • **Indicator**: New qualification examination procedures are successfully piloted by Nat. Institute of Magistracy and maintained. **Achieved: new qualification examination procedures were successfully piloted by the Nat. Institute of Magistracy by the time of the CPSPR.** **Outcome 1.3.3 (**new**)**: Progress in Judicial Reform acknowledged by EC under the Cooperation and Verification Mechanism (*Codes entering into force area*) **Achieved: The new Civil and Criminal Codes and the accompanying**	• Uniform standards for the Courts operational processes developed and country-wide implementation started. • **Partially Achieved: The Superior Council of Magistracy (beneficiary) approved optimal workload standards on March 28, 2013.** However the systemization of the Romanian insolvency legislation under an Insolvency Code (completed and approved by MoJ at mid-2013, is now subject to public and parliamentary debate). • Recommendations for the optimization of courts' activity formulated and adopted by SCM. **Achieved: recommendations issued and approved by the Superior Council of Magistracy (SCM) on March 28, 2013. All recommendations for the optimization of courts' activity, including the ones related to courts operational process, are included in the Strategy for the Development of the Judiciary for 2014-2018 and will be reflected in the Strategy Action Plan.** • Publication by Courts and SCM of courts performance data and findings from periodic Surveys on access to and satisfaction with judicial services (Courts financed by JRP)	**Completed:** • ICR ROSC (FY13) • RAS Functional Review of Ministry of Justice (FY13) **Ongoing:** • Judicial Reform Project

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS
procedural codes were adopted in 2009 and 2010. The Civil Code entered into force in October 2011, its related procedural code in June 2012, and the Criminal Code and its related procedural code are planned to enter into force in 2014.	**Partially Achieved: Baseline Survey completed and results posted on SCM web site; Intermediate Survey underway.** • Completion of Impact assessment of possible impacts of the four revised/new Codes (Civil Code, Civil Procedure Code, Criminal Code and Criminal Procedure Code) and sharing with SCM and MOJ **Achieved: November 2011.**	
CAS PILLAR 2: GROWTH AND COMPETITIVENESS **GOALS:** *in the short-run, put in place crisis-management measures in the financial sector; and in the medium-term, establish the building blocks for sustainable convergence to EU-average living standards through improved business environment, enhanced skills, better infrastructure and more efficient agriculture.* **Issues and Obstacles as identified in 2009:** *The crisis has revealed weaknesses in financial sector supervision across the region, new, best practices will need to be adopted to strengthen the system. A recovery in growth will depend both on recovery in key trading partners and on the strength of Romania's own reforms and policies. All countries are seeking to emerge from the crisis in a strong position, so competition will be strong. Romania lags international competitors on education, business environment and agriculture productivity indicators. Transport and energy need significant investment and reform to be able to meet demand.*		
Country Objective: (new) support to the Government for identification of priority reforms for growth		
2.1 Growth Agenda **Outcome : 1.3.4 (**new**)** Policy options available to the Government for informing the update of the National Reform Program[33] and reflecting the EU2020 Strategy goals in Romania's national reform agenda **Achieved: Policy Notes CEM informed the 2012-2014 National Reform Program, which reflects EU2020 goals.**	Symposium on Economic Recovery and Growth in Romania (with participation of decision makers, National Bank of Romania, private sector, academia and specialists from IFIs) to facilitate the diagnosis of different areas (growth, fiscal sustainability, labor markets, absorption of EU, etc.) The Symposium findings will serve to document the CEM **Achieved: May 2011.**	**Completed**: • Bank AAA: series of Policy Notes for growth and competitiveness and associated conferences with the participation of Romanian think-tanks and international experts
Country Objective: deepen and strengthen the resilience of the financial sector.		
2.2 FINANCIAL SECTOR **Outcome 2.2.1**: Improved stability and resilience of the financial system to economic shocks • **Indicator**: Bank system remains well capitalized (average capital ratio at 14.2% in June 2011 - IMF assessment) **Achieved: capital adequacy ratio up to 15% in September 2013 vs. 13.8% in 2008**. **Outcome 2.2.2**: Improved governance of financial sector supervision. • **Indicator:** Recommendations of the "de La Rosiere" report adopted, notably with respect to the independence and autonomy of financial sector supervisors (CSA, CNVM, CSSPP) **Achieved: 2011** • **Indicator :** Supervision standards, regulations and practices strengthened, in line with Basel II	• Stress tests conducted and Strategic Action Plan for Financial Sector strengthening approved by NBR and Ministry of Public Finance (MoPF) **Achieved: DPL1, 2010.** • Out-of-court insolvency proceedings set in place, Mortgage Debt Restructuring and Corporate Debt Restructuring Guidelines issued & published by NBR & MoPF **Achieved: DPL2, September 2010**. **The Guidelines are based on best international practices and constitute a code of conduct for negotiations between creditors and debtors in distress or insolvency. This helps avoid accumulation of bad credits with the banks. The Romanian workout approach has been complemented with a number of key reforms to the Insolvency Law (Law 169/14.07.2010) which eliminated a number of legal disincentives for out-of-court debt restructuring (supported by an FSAP and DPL2).**	**Completed:** • Financial Sector Assessment Update (FY09) • Consumer Protection and Financial Literacy Survey and Conference (FY10) • IT assessment of National Bank of Romania (FY10) • DPL1-2 (FY10-FY11) • IFC financing to local financial institutions • DPL 3 (FY12) • IFC financing to local financial institutions (US$570 million investments including US$106 mobilization during FY09-FY13)

[33] The National Reform Program (NRP), an EU requirement, is the national response of member states to the Lisbon Strategy, through which member states explain how their development strategies are aligned with the latter. The NRP is updated annually and reviewed by the EC. Stating with 2011, the NRP has to be aligned with the objectives of the EU2020 Strategy. The EU2020 Strategy sets the vision for the EU member countries beyond 2013. Five measurable targets for 2020 steer the process of growth in the EU member countries and give them the direction for reforms in employment, research and innovation, climate change and energy, education, and poverty alleviation. The expression of these reforms in national targets and the adoption of a National 2020 Strategy require Romania to identify the priorities for intervention and the most appropriate actions for accelerating EU convergence.

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS
Achieved: the National Bank of Romania adopted, with Bank TA support and under DPL2, Internal Guidelines for the implementation of Basel II. • **Indicator** (new): Availability of IFC support for banking sector recapitalization a- Equity and quasi-equity instruments provided to local Banks to support the Banking sector recapitalization (Banca Transilvania, Pro-Credit Bank) Achieved. b- Participation of IFC as largest investor in UniCredit Tiriac bank first bond issue (largest local currency bond issue on the Bucharest Stock Exchange and the first local currency bond issue by a financial institution in Romania since starting of crisis). Achieved 2011.	• Updated legislation on the Political Independence and Financial Autonomy of the Financial Sector Regulators and Supervisors approved by Government **Achieved:, DPL3, 2011.** • Assessment and amendments of a) adequacy of definition of Financial Conglomerates and b) adequacy of supervision arrangements **Achieved: DPL3, 2011.** • NBR to issue regulations for Joint supervision of financial groups by the relevant regulators **Achieved: DPL3, 2011.**	
<u>Country Objective</u>: Improve the business environment and **(**new**)** the capacity to enforce competitive business practices in the marketplace.		
2.3. BUSINESS ENVIRONMENT & COMPETITION **Outcome 2.3.1 (**new**):** Improved competition regulatory framework (in line with EU practices) **Indicator**: Revised regulatory framework enacted (by 2013) in relation to competition principles **Achieved: a new Competition Law was adopted in 2011. However, improvements are needed. Reviews of the main legal and regulatory framework for competition have proceeded with Bank support. Between October 2012 and March 2013 reviews focused on high priority areas such as: unfair competition, state aid procedures, confidentiality and information and access to file, merger regulations and procedures and economic analysis of mergers, anticompetitive practices regulations, reviews of protocols for strengthening the collaboration with regulators and for mainstreaming competition principles in government policies.** **Outcome 2.3.2 (**new**)** Enhanced Competence of the Romanian Competition Council (RCC) **Indicator**: RCC ranking[34] in the EU *Baseline*: RCC the lowest in EU ranking *Target***:** Improved RCC ranking by 2013 **Partially Achieved: reviews of the Human Resources management policies and practices were finalized and a draft Training Needs Assessments and Training Plan developed with Bank support.**	• Specific Policy Recommendations provided to the Government that support the enforcement of competitive business practices and improvements in the business environment **Achieved: recommendations issued and incorporated in an Action Plan approved in 2011 by GoR. Action Plan implementation is monitored regularly by GoR and the EC. In May 2013 EC acknowledged RCC progress in implementing the Action Plan.** • Development of Protocols of Cooperation between RCC and other regulated sectors and public agencies (ex. Telecom regulator, Energy regulator, Procurement Authority) to jointly implement pro-competitive and non-discriminatory regulation **Partially Achieved: assessment of current protocols completed and areas for improvement identified but not yet implemented. New model protocols for cooperation considered with the following regulators: ANRE (energy), ANCOM (telecommunications), ANM/CNAS (pharmaceuticals), CSA (insurance), CNVM (securities), ANRSC (community services), ANRMAP (public procurement), and CNA (audiovisual).**	**Completed:** • RAS Functional Review Competition Council (FY11) • RAS Functional Review MEC & Business Environment (FY11) • ICR ROSC (FY13) **Ongoing:** • RAS Competition o Streamlining enforcement of competition policies o Strengthening of advocacy activities in the field of competition o Implementing a new business architecture for the Competition Council o Increasing HR capacity of RCC • Revenue Administration Modernization Project
<u>Country Objective</u>: Development of the K-based society and economy.		

[34] Ranking reflects RCC staffing for competition enforcement and economic analysis and internal target deadlines to track performance.

Results Areas and Outcomes to which the CPS is Contributing	Milestones	WBG Instruments
2.4 K-Economy & Digital Agenda **Outcome 2.4.1**: Increased participation of K-disadvantaged communities in K-based society/economy **Achieved: the KE Project connected 255 K-disadvantaged communities to ICT vs. none before the project (this represents 44% of the total K-disadvantaged communities).** • **Indicator**: % of Population in disadvantaged communities using the Local Community e-Networks as tool for education, business, public administration and are satisfied with the results. *Baseline* (2005) 0%. *Target* (2013) 40%. **Actual: 43% July 2013** • **Indicator:** (new) Level of ICT integration in schools *Baseline* (2007*)* 35%. *Target* 100% by 2013. **Actual: 93% as of February 2013. The target is expected to be fully met, but this can only be verified at the beginning of the 2014- school year.**	• Local Community e-Networks (LCeNs) established **Achieved: 255 local community networks (LCeNs) established in 208 K-disadvantaged communities and 47 small cities and operational. End of project surveys shows that about 80% of the mayors of these communities consider the LCeNs as financially sustainable after project closure.** • Support for EU Funds Absorption: 812 new projects addressing community needs developed by LCeNs users and declared eligible for financing with EU structural funds **Achieved (for a total of €250M vs. planned €240M).** • Increased access to quality education through ICT connectivity, knowledge and use **Achieved: 502 primary and secondary schools in K-disadvantaged areas with approximately 89,000 students connected.**	**Completed:** • Knowledge Economy Project
Country Objective: Undertake R,D&I sector diagnosis in preparation of Romania's National Plan for RD&I 2014-20.		
2.5 Research, Development & Innovation (RD&I) **Outcome 2.5.1:** (new) Policy Recommendations available to the Government that support RD&I Sector Reform **Achieved: 2011.**	• New Agricultural Research Law **Achieved: law enacted 2009 and operational**. • Reform of four agriculture research institutes **Achieved: 2009-2010.** • Functional Review[35] of the RD&I sector **Achieved July 2011**	**Completed:** • RAS Functional Review Research, Development, Innovation (FY11) • MAKIS Project (Agricultural research sub-component) (cl. FY13)
Country Objective (revised): improved organizational capacity in the Education Sector and access to quality education delivered in a fiscally sound manner, with improved outcomes.		
2.6 Education **Outcome 2.6.1**: Improved efficiency in primary and secondary education by providing more flexible financing, more autonomy and enhanced accountability (focusing on results) to local authorities and school principles • **Indicator:** Increase in average class size. (*Baseline:* 19.6 in school year 2008/09. *Target:* 23 in school year 2013/14) **In progress at 21.7 in 2011/12 .** (No more recent data by end 2013) **Outcome 2.6.2**: Financial support to tertiary students in a more equitable manner and with better incentives built into the support. **Partially Achieved: introduction of a Student Loan Scheme discussed**	• Legislation adopted to enable per capita financing in education **Achieved: at country level vs. eight counties envisaged, since school year 2010/11.** • Analytical foundation developed, to support the optimization of the schools network, and shared with the Ministry of National Education (MNE) **Achieved: as part of Functional Review (February 2011).** • Discussion paper on introducing a Student Loan Scheme developed and discussed with Government & stakeholders **Achieved: FY11.**	**Completed:** • Rural Education Project (cl. FY09) • HD Policy Briefs (FY09) - the purpose of these notes is to: (i) provide a general overview of each sector; (ii) propose policy options to address the key challenges; (iii) become a tool for policy dialogue and engagement with the Government • TA Decentralization of primary and secondary education (FY09) • PEIR Update (FY10) • TA Student Loan Scheme (FY11) • RAS Functional Review Pre-University Education (I + II) (FY11)[36] • RAS Functional Review Higher Education (FY11)

[35] RD&I sector Functional Review covers legal framework and governance, funding, alignment to national priorities, transmitting RD &I to the private sector, private sector participation.
[36]The Functional Review of the Pre-university Sector had two outputs: (i) analysis of the sector at central level (ministry, subordinated agencies) which was delivered on October 15, 2010; and (ii) analysis of education service delivery at local level (school inspectorates, schools, local authorities).

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS
with GoR (per milestone), but not implemented because of budget constraints due to the financial crisis. **Outcome 2.6.3 (**new**):** Analytical Work completed & Conceptual Frameworks available to Government for development of the Organizational Capacity in the Education Sector (MNE) and improving Romania's pre-university education system **Achieved: Functional Reviews provided recommendations that informed Reform Action Plans for the Ministry of National Education, pre-university, and higher education. A follow up RAS program (signed October 2012) is assisting the Ministry to implement selected Functional Review recommendations, such as enhancing its administrative capacity, developing the management and leadership skills of its managers and executive staff, and improving the organizational culture and management practices in the Ministry. In addition, the Ministry is implementing additional Functional Review recommendations on its own, with the Bank serving as peer reviewer, including: (i) modernization of Ministry strategy; (ii) establishing a system for M&E and reporting organizational performance; and (iii) design, development and delivery of training programs.**	• First disbursements from student loans scheme begin starting with the school year 2011/12 • **Not Achieved: budget constraints due to the financial crisis put this on hold.** • Proposal for modified organizational structure of the MNE submitted to the Minister **Achieved: FY11.**	• RAS TA School Network Restructuring (FY13) • RAS TA Development of the Organizational Capacity of the Ministry of Education (FY13) • EU2020 Skills and Competitiveness (FY13) **Ongoing:** • Knowledge Economy – Digital Literacy in Schools sub-component (cl.FY14). • Social Inclusion Project – Early Childhood Education
<u>**Country Objective**</u> (revised): provide advisory, technical and financial assistance to support the strengthening the administrative capacity and efficiency of ARD sector and the market-based restructuring and competitiveness of the Romanian agriculture.		
2.7 AGRICULTURE AND RURAL DEVELOPMENT (ARD) **Outcome 2.7.1**: Increased capacity of RO advisory and information systems to provide services to farmers and agro-processors in the context of EU membership • <u>**Indicator**</u> : Number of trained and graduated advisors *Target (revised upward)* 2000 by 2013 vs. 0 in 2008 **Achieved: 2075 advisors trained, of which 35 trainers and 2040 extension staff.** **Outcome 2.7.2**: Improved convergence of Romania toward EU practice in ARD (in line with the National Rural Development Plan 2007-2013)[37] • **Indicator**: Handbook of Socio-Econ Guidance based on EU best practice available to farmers **Partially Achieved: Handbook issued and updated in 2013 for latest CAP provisions, but not yet printed and disseminated.** **Outcome 2.7.3 (**new**):** Increased efficiency of operational management at MADR and selected structures • **Indicator**: New Internal Management System in use by MARD's and	• Integrated agricultural offices rolled out nationwide **Partially Achieved: four pilots established under MAKIS; roll out delayed because of variable vision at MARD for the delivery of socio-economic guidance. At mid-2013 MARD management adopted a decision on the approach to be applied to the establishment of the pilot Integrated Agricultural Offices (IAOs).** • Systematic survey and registration of land property titles in selected rural areas **Partially Achieved: pilot completed with best practice social assessment to protect vulnerable people (Roma). Work done for some 28,000 parcels vs. target of 1,000,000. However lack of funding (and EU promises for grant funds) resulted in cancelation of the component.** • Piloting of socio-economic advisory services **Partially Achieved: per interim survey October 2012, 60% of agri-population in CESAR areas reached vs. 70% target.** • Training and certification of 300 advisors in socio-economic **Partially Achieved: selection of training provider underway**	**Completed:** • RAS Functional Review on Agriculture (FY11) • Irrigation Reform and Rehabilitation (cl. FY12) • MAKIS Project (cl.FY13) **Ongoing:** • CESAR Project (cl. FY14) • IFC direct lending to agribusiness projects and support to local financial institutions which provides MSMEs lending and agriculture financing loans to BCR, ATE Bank, Agricover Credit IFN (FY09 and FY12) • Real Estate Basis for National and EU Policies RAS (land administration review) • RAS TA Agriculture and Rural Development, following on Functional Review o Strengthening ARD sector strategy formulation in the Ministry of Agriculture and Rural Devel (MARD) o Strategic Planning for the Agricultural Administration o Implementation of an Internal Management

[37] Integrated Administration and Control System (IACS) implemented by APIA and increase in CAP funding committed to beneficiaries under EAGF and EAFRD increase in CAP funding committed to beneficiaries under European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD).

Results Areas and Outcomes to which the CPS is Contributing	Milestones	WBG Instruments
subordinated structures' management **Partially Achieved: FY11 ARD Functional Reviews included recommendations; implementation of recommendations in progress under MAP-ARD, to be finalized in FY14.** **Outcome 2.7.4 (**new**):** Increase in EAFRD[38] funding to Romanian beneficiaries. *Baseline:* 20% of EAFRD allocation. *Target:* 40% of EAFRD allocation by 2013 **Achieved: 48.6% of cumulative 2007-2013 EAFRD funds allocated to NRDP (€3.9 bn) and disbursed to beneficiaries by end 2012 (EC October 2013 reporting). Funds *committed* under EAGF[39] and EAFRD increased to 99.81% and 74.65%, respectively, as of February 15, 2013 vs. 90% and 20%, respectively, at end 2009 (MAKIS ICR).**	**(delayed by Advisory Services budget constraints at MARD).** • Strategies/tools/procedures for strengthening the admin capacity and efficiency of ARD sector (per FB TA Agriculture program) developed and applied by MARD (by 2013) (new) **Partially Achieved: strategies/tools/ procedures completed in FY11, with application delayed but in progress under MAP AGR (P143673; P143676, reports during FY14).** • Proposal on structure and operation framework for an Advisory Board on ARD Strategy finalized and delivered to the Government (new) **Achieved under the FY11 ARD Functional Reviews.** • Evidence of restructuring the farming sector **Achieved: reorganization of Romanian extension system; reform of agriculture research; reform of irrigation subsidy and tariff setting mechanisms; phasing out of irrigation subsidies; more participatory approach in irrigation - Water Users Organizations operational (Irrigation Project). Many challenges remain: sustainability of the Irrigation Project achievements is uncertain due to uncertain commitment on the part of GoR officials. Significant market failures in the land and credit markets, alongside unresolved land registration agenda, remains. The rural population is in need of targeted socio-economic services and infrastructure investments and there are prevailing deficiencies in the management of food safety and quality.**	System at MARD Creating and Implementing an Integrated Financial Management IT System at MARD
Country Objective: Support Romania in implementing its energy strategy in line with EU Directives, including EU 20-20-20 targets, and implementing selected environmental directives.		
2.8 Energy and Environment **Outcome 2.8.1**: Increased security of electricity supply through integration of regional markets and attracting private sector[40] in the development of energy markets • **Indicator:** Develop energy transmission services, including availability of ancillary services for stronger integration into regional markets, and absorption of energy generated by renewable sources **Achieved: cross-border, inter-Transmission Service Operators compensation mechanism (including regional auction office) established and operational. Mandatory quotas for renewable**	• Romania and its electricity market and power system operates with help of ancillary services from Lotru Prj **Achieved**: 2013 • Privatization of Banat and Dobrogea electricity distribution companies (DISCOMs) **Achieved: the Bank PRG was issued in 2004 when the two DISCOMs were privatized to secure the recovery of eventual losses of revenue caused by unwanted changes in the regulatory framework. The PRG expired July 27, 2012. Subsequently, this successful privatization triggered**	**Completed**: • Energy Community in SEE (cl.FY10) • Privatization Risk Guarantee (PRG) for Banat and Dobrogea electricity distribution companies (cl. FY12) • RAS Functional Review Ministry of Economy/ Energy (compl. FY11) • RAS Functional Review Environment and Forestry (compl. FY11) • Hazards Risks Mitigation and Emergency Preparedness Project – GEF sub-component (cl.FY12) • Municipal Services Project (cl.FY12)

[38] European Agricultural Fund for Rural Development (EAFRD).
[39] European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD).
[40] Increasing the participation of the private sector remains below expectations because of potential risks to the functioning of the electricity market - specifically GoR plans to consolidate state-owned power generation and coal/lignite mining companies into 1-2 integrated mining and power generation companies.

Results Areas and Outcomes to which the CPS is Contributing	Milestones	WBG Instruments
energy acquisition for power suppliers established. Wind power parks developed with IFC support. • **Indicator** (restored): Increase private sector participation in investments in energy sector. **Achieved: measured as increase of average annual investments of 5 distribution companies (DISCOMs) privatized 2004-2008 before and after privatization.** ***Baseline:*** **average annual investments 2002-2004 €51M. Actual average annual investments 2009-2010 €325M (*CEM 2013 pg. 44*).** **Outcome 2.8.2 (**new**)**: Reduction of probability of severe accidental mine spills in the Tisza basin • **Indicator:** Risk reduced by at least 70% (via remedial works) **Achieved: best standards for management and maintenance achieved for at least 70% of the inventory of mine facilities.** **Outcome 2.8.3**: Implementation of the EU Water and Nitrate Directives • **Indicator:** Favorable EU assessment of Romania's progress towards meeting EU Nitrates Directive requirements **Achieved: EC Report 2013 on Nitrates Directive 91/676/EEC lists Romania among the countries that reassessed their nitrates vulnerable zones and issued revised Action Programs for 2008-2011.** **Outcome 2.8.4 (**new**)**: Increasing EU Funds absorption • **Indicator**: EU grant amount attracted with Bank TA *Target:* €1bn by 2013 **Achieved: under Municipal Services Project.**	**privatization of three other electricity distribution companies (Moldova and Oltenia in 2005 and Muntenia Sud in a transaction finalized in 2008).** • Best practice knowledge and procedures on environmentally friendly mine closure transferred to Romanian counterparts and implemented **Achieved under the Mine Closure Project.** • Analytical Work completed (including adaption options and greenhouse gas emissions management) and available to the GoR for elaboration of a Climate Change Adaption Strategy. Achieved. • Water and Waste Water Master Plans for 11 counties completed and adopted by beneficiaries **Achieved under the Municipal Services Project.** • At least 80 percent of targeted Nitrates Vulnerable Zones show 10 percent reduction in nutrient discharge in water bodies **Partially Achieved: at 52% as of July 2013. INPCP implementation delayed by administrative constraints, which also delayed achievement of target.** • Percentage of population in targeted NVZ area adopting preventive and remedial measures to reduce nutrient discharge **Partially Achieved: actual 23% vs. planned 50% by 2015.**	• Mine Closure and Socio-Economic Regeneration Project (cl.FY13) • IFC support to local financial institutions which provided energy efficiency lending. • IFC direct lending to power projects and to renewable energy projects (wind and/or biomass) Financing of 228MW wind power park (FY11/FY12) • Regional Energy Study of Eastern Europe and Central Asia (FY10) **Ongoing:** • Integrated Nutrient Pollution Control Project and GEF Grant • DPL DDO • ESW/TA Climate Change
Country Objective (revised): Improve the transport sector's governance, operational and financial sustainability, including the efficiency of the roads and railways sub-sectors.		
2.9 Transport , Hazards Risks Mitigation **Outcome 2.9.1**: Improved road safety (dropped) – Transport projects closed w/out reaching target) • **Indicator:** Fatalities per 10,000 vehicles. Target: 5 in 2009 vs. 6.7 in 2008 **Not Achieved: Transport Projects closed in CY2009 without completing their institutional reform programs in roads and railway. Per Bank assessments in 2009-2010, GoR appeared to have lost its incentives for pursuing reforms once it became an EU member. Given the state of dialogue in early 2009, the impact of the global financial crisis, and the lack of agreement between Bank and GoR on the TRS Project reform component, a large portion of the loan ($120M) was cancelled. Strategic dialogue in the transport sector, including exchanges with the EC, continued**	**Transport** • Road safety activities **Not Achieved: the Road Agency decided to implement the activities under an EU financed program, then reconsidered - no action was taken.** • Reduction of traffic congestion. **Not Achieved: this was to be the main physical output of the TRS Project, which was cancelled.** • Public Private Partnership strategy included in the national transport strategy in line with EU directives (In progress, draft law discussed in November 2013 by parliament)	**Completed:** • Transport Restructuring Project (cl. FY10) • Transport Sector Support Project (cl. FY10) • RAS Functional Reviews Transport (compl. FY11) • Hazards Risks Mitigation and Emergency Preparedness Project (cl. FY12) • IFC support financing of private sector in financing PPPs (IFC equity investment in TTS, the leading river transport company) – ongoing. **Ongoing:** • RAS TA Transport Strategy • RAS TA Public-Private Partnerships

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS
through 2010-2013 under the Functional Reviews and follow up TA program for the Modernization of Public Administration. **Outcome 2.9.2: (**new**)** Improved Ministry of Transport capacity to consistently implement a general strategy that links each strategic item to the overall strategy. • **Indicator**: New strategy (*Strategic Plan*) approved & translated into the approved Investment program for 2014-2020 and in the 2013 and 2014 proposed budgets Strategic Planning implementation exercise has been initiated and approved. **Partially Achieved: strategy delivered December 2012, discussed with Ministry of Transport, but not yet approved by GoR. Formalizing the *Strategic Plan*, development of a detailed operational plan for the first year of its implementation, and alignment of strategic planning with the budget process in the Ministry are the key next steps for implementation support under the RAS "*Strengthen Strategic Planning in Transport.*"** **Outcome 2.9.3:** Improved emergency preparedness and response management in Romania • **Indicator**: An Emergency Communication System (EMIS) is created and operational **Achieved: Dec 2009 under the hazard risk mitigation and emergency preparedness project** • **Indicator**: EMIS is extended to include all central and local administration units **Achieved**: Oct 2013 under the hazard risk mitigation and emergency preparedness project • **Indicator** (revised): Seismic retrofitting of 40 or more public buildings, flood protection works completed in 10 critical locations **Achieved: In addition, safety restored for seven high risk dams; environmental safety restored at three orphaned mine waste facilities and consolidation method disseminated.**	**HAZARDS RISKS MITIGATION** • Risk assessment of public buildings, dams and waste deposits is undertaken, based on country regulations to enable prioritization of investments **Achieved: June 2013** • Short term investment and financing plans prepared in accordance with risk assessment & prioritization **Achieved: June 2013**	.
CAS PILLAR 3: SOCIAL AND SPATIAL INCLUSION **GOALS:** *in the short-term, protect the vulnerable from the adverse effects of the crisis; in the medium-term, promote social inclusion and regional development.* **Issues and Obstacles as identified in 2009:** *The crisis will temporarily increase the number of poor people, especially those involved in service and manufacturing industries. The long-term poor in rural areas and among some population groups remain hard to reach. Some of the social assistance programs are not well targeted. The pension system can be important for poverty reduction, but is currently running a deficit and does not reach all those who need it. Romania's health indicators are lagging the average of those in the EU in important areas.*		
Country Objective: assist Romania to improve the social inclusion and living conditions of most disadvantaged and vulnerable people in the Romanian society.		
3.1 SOCIAL INCLUSION **Outcome 3.1.1**: Improved social inclusion of Roma living in poor settlements reduced • **Indicator**: Gap in living condition index between targeted Roma	• **79% of the disadvantaged localities in the former mining areas reached by Socio-Economic Regeneration (SER) measures** extended under the Mine Closure project against 60% target and 0 baseline in 2005. Many of the end of project	**Completed:** • Rural Education Project (cl. FY10) • Mine Closure and Socio-Economic Regeneration Project (cl.FY12) • RAS Functional Review Regional Development and

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS
settlements and neighboring communities *Baseline: 504 points*[41] *Target: 403 points* (20% reduction of gap 2013 vs. 2008 level) **Achieved: 41.4% gap reduction in 2013 vs. 2008.** **Outcome 3.1.2:** Increased inclusiveness of children in disadvantaged groups in Early Childhood Education services (SIP targeted areas) • **Indicator** (reformulated to fit percentage target): Percentage point increase in number of children in disadvantaged groups participating in ECE programs *Target:* 5 percent in 2013 vs. almost none in 2007 **No data - evaluation ongoing.** Note: SIP helped construct/ rehabilitate/furnish kindergartens in 27 Roma communities, developed Early Childhood Education (ECE) curriculum, trained ECE staff, and experimented alternative community-based solutions for ECE, with remarkable results. (Rehabilitation of kindergarten completed. Educational activities started in April 2012.)	targets under the Socioeconomic Regeneration Component of the Mine Closure Project have been exceeded: seven times the target value in the average percentage increase in own revenues of local budgets in the operating area; strategic development plans developed in a participatory manner in 50% more LPAs than projected in targets; 245 social development schemes for mining communities (target: 144), 646 small grant schemes (target: 350), and 42 completed municipal infrastructure sub-projects (target: 30). • Improvements in water and road infrastructure evident in targeted Roma communities **Achieved: 82% Roma settlements in SIP area have access to roads and water vs. 10% in 2008.** • Roma in poor settlements report a closer link (through annual consultations) with the local authorities, for addressing community needs. **Achieved: 1277 consultations sessions between Roma in poor SIP settlements with local authorities for addressing community needs.**	Tourism (FY11) • Japan Social Development Fund Empowering Roma Communities[42] • Regional Reducing Vulnerability and Promoting Self-employment in Eastern Europe through Financial Inclusion (FY12) **Ongoing:** • Social Inclusion Project • Social Assistance System Modernization Project (results-based) • RAS Elaboration of Integration Strategies for the Identification of Poor Areas and Disadvantaged Communities
<u>Country Objective</u>: improve the cost effectiveness and targeting of social assistance programs to mitigate the impact of the crisis on the vulnerable, and promote activation policies.		
3.2. SOCIAL ASSISTANCE **Outcome 3.2.1**: increase the coverage and adequacy of the most efficient and well-targeted social assistance program - the Guaranteed Minimum Income (GMI) • **Indicator:** Number of unpaid GMI entitled beneficiaries Target: 0 by 2013 vs. 25 percent in 2009 **Achieved under DPL2, 2011.** • **Indicator:** Maintain level of benefit adequacy over time (share of benefits in average household consumption) *Target:* 25% in 2008 is maintained **Achieved: 2013 through SASMP.** **Outcome 3.2.2** (new): Improved Social Assistance equity (targeting of poorest people) and efficiency (lower admin costs)	• Legislation to improve funding and design of well-targeted social assistance programs **Achieved: EO57/2009 and amendments to Law 416/2001 (prior actions for DPLs1-3). As result, GMI targeting for the poorest 20% increased from 81.5% in 2009 to 85% in 2011.** • More transparent and predictable GMI budget allocations & benefits **Achieved: GMI financed from the state budget via the Ministry of Labor; GMI benefits payment transferred to NAPSI.** • Enactment of legislation on income-tested child allowances[45] that offers higher benefits to households earning less than 200 RON/month and to Lone Parent families.	**Completed:** • Programmatic Poverty Monitoring Program (FY08) • DPL 1-3 (FY10-FY12) • RAS Functional Reviews Labor and Social Protection (FY11) • Europe 2020 - Reducing Poverty and Social Protection (FY13) • PSIA grant for MSIY (cl. FY13) **Ongoing:** • Social Inclusion Project • Social Assistance System Modernization Project (results-based) • PFM Grant to support the development and dissemination of know how in combating error and fraud in Romania ($150,000 for Romania, plus

[41] Gap between targeted settlements and neighboring communities (measured in points) as calculated for 81 pairs of communities by RSDF.
[42] The program "Empowering Roma Communities in Influencing and Monitoring Local Agendas in Romania" (2008-2010) was implemented by Impreuna Agency. It formulated diagnostic and policy options for effective local service delivery and use of EU instruments to meet EU2020 and national targets for the inclusion of Romanian citizens belonging to the Roma minority, in line with the Decade for Roma Inclusion.
[45] The income tested allowances are the Complementary Child Allowance and the Lone Parent Allowance.

Results Areas and Outcomes to which the CPS is Contributing	Milestones	WBG Instruments
• **Indicator**: Share of SA funds going to poorest quintile *Baseline:* 37.7% in 2009 was revised to 35.7% at end 2011. *Target:* 45% by 2013 **Not Achieved: the complexity of the technical work underpinning the necessary reforms requires longer than anticipated by GoR. Indicator may be revised or at least reduced to 42%. Completion estimated in 2016.** • **Indicator**: Reduction of Administrative and client participation costs for selected means-tested programs. *Baseline:* TBD *Target:* Reduction by 15%[43] **Not Achieved: in progress. TORs developed for a complex monitoring system of administrative and private costs. TA tendering ongoing. Work completion and results estimated in 2016.** **Outcome 3.2.3**: Consolidate SA programs to better serve poor in most cost efficient manner • **Indicator[44]:** One consolidated program for low-income households *Baseline:* fragmentation of SA (too many programs) *Target:* One consolidated program for low-income households by 2013 **Partially Achieved: general principles established in the Social Assistance Framework Law adopted by the Parliament in December 2011. Simulations of the Minimum Social Insertion Income (MSIY) cost and outcomes completed with Bank support/PSIA grant financing. MSIY is expected to become operational in January 2015 (delayed from mid-2013 due to technical issues and budget constraints).**	**Achieved: amendment of Law 416/2001 (prior action for DPLs 2-3). New provisions implemented under the Results-based Social Assistance System Modernization Project (Disbursement Linked Indicator (DLI) 5: Child Raising Benefits using lower replacement income).** • Harmonized means-testing for GMI, family allowance and heating benefits **Partially Achieved: Ministry of Labor has prepared draft legislation to harmonize fully the means-tested programs; new legislation is currently circulated for clearances by other ministries (SASMP DLI 8).** • Monthly monitoring reports for 4 programs[46] to be produced by National Agency for Payments and Social Inspection starting 2011 **Achieved: monthly Monitoring Reports of the 4 programs produced by NAPSI (SASMP DLI 2).** • Thematic Inspections of major SA programs being undertaken annually and remedial action plans produced **Achieved: during 2010, the Social Inspection has carried out thematic inspections of the Guaranteed Minimum Income (GMI), Disability benefits, and Child Raising benefits; in 2011, other thematic inspections have been carried out on the GMI, Heating Benefits and the Family Allowance benefits (SASMP DLI 13).**	another $100,000 for regional dissemination) • Japan Policy and Human Resources Development (PHRD) Fund ($1.715 million) TA for DLIs achievement
<u>**Country Objective**</u>: strengthen the fiscal viability, integrity and equity of the multi-pillar pension system.		
3.3. Social Insurance **Outcome 3.3.1**: Improved fiscal sustainability of the public, pillar 1 pension. • **Indicator :** Deficit of Pension Pillar 1 *Target:* Deficit (2.95% of GDP in 2011) ≤ by 2013[47] **Achieved: Pillar 1 deficit in 2012 was 2.2% of GDP and by mid-**	• Legislation enacted on the public pension unitary system to gradually link state pension adjustment to inflation **Achieved: December 2010, DPL2 prior action.** • The new adopted legislation on retirement age (DPL2 prior action) would gradually equalize through 2030 the retirement	**Completed:** • Policy Briefs (FY09) • Poverty Assessment Series (Phases I and II, FY08-09) • Rapid Assessment of Impact of Economic Crisis on Poverty (FY09) • TA Poverty and Social Policy (FY10) • TA Rural Elderly Pensions Scheme (FY11)

[43] Target (draft at the CPS PR time) has been aligned with the finalized Disbursement Linked Indicator 12.
[44] Indicator targets revised in line with GoR-Bank targets under the Social Assistance System Modernization Project. GoR committed to merge four means test programs for support for Low Income Households (GMI, Complementary Family Allowance, Single Parent Allowance, Heating Benefits) into one single benefit, the Minimum Social Insertion Income.
[46] Family Allowance, Child Raising Benefits, Guaranteed Minimum Income, State Child Allowance.
[47] Target was revised upward as the consolidation in 2010 of special pension systems (army, internal affairs, intelligence services) into the public pension system pushed the deficit of Pillar 1 to 2.95% and a deficit decrease by 0.5% of GDP seemed at the time unrealistic.

Results Areas and Outcomes to which the CPS is Contributing	Milestones	WBG Instruments
2013 2.3% of est. GDP (even with est., original target for 0.5% of GDP decrease exceeded). • **Indicator** : Retirement age equalized *Baseline: 58.4 years Nov. 2008. Target (revised[48]):* Gradual increase of retirement age for women to 63 (vs. 65) **Achieved: Pension Law 263/2010. Actual value: 59.8 years (gradual increase).** **Outcome 3.3.2**: Improved equity of pension system • **Indicator:** Introduction of a zero pillar to cover elderly poor **Dropped at time of CPSPR.**	age of women and men at the age of 65 **Achieved: December 2010, DPL2 prior action.** • The TA on Elderly Farmers Pension Scheme completed (and concluded that a Zero pillar social pension contravenes the Social Assistance Strategy) **Achieved: TA completed and target dropped as TA showed that a Zero pillar would not be aligned with the principals of the GoR Social Assistance Strategy (DPL3).**	• DPL1-3 (FY10-12)
<u>Country Objective</u>: support the design and implementation of the Government's Health Sector Reform Program to improve efficiency and quality of health services; mobilize additional resources for health, and improve health outcomes.		
3.4. Health Sector **Outcome 3.4.1**: Better efficiency and quality of health services • **Indicator:** Annual rate of admission to acute care facilities. *Baseline:* 229 in 2008 per 1,000 people; *Target:* below 200 by 2013 **Achieved: below 170 in 2011.** • **Indicator (revised[49]):** Share of generic drugs in total compensated drug expenditures Baseline: 20.4%[50] in 2008. *Target*: >=25% by 2012 **Achieved: 2012 Health Sector Reform Project** • **Indicator:** 24-hour death rate among patients treated in ER and then admitted to hospital. *Target:* Decrease by 10 percent in 2013 vs. 2007 **Achieved: decrease by 28% in 2012 vs. 2007 (6 Intensive Care Units covered by Health APL2).** • **Indicator:** Maternal Mortality Ratio *Baseline* of 0.24/1000 in 2004 *Target:* Reduce by 20 percent by 2013 **Achieved: MMT at 0.14/1000 in 2013, a 58% reduction vs. baseline.** **Outcome 3.4.2**: Additional resources for health mobilized in a transparent and equitable manner • **Indicator:** Amount of copayment raised. Data not yet available. Implementation of copayment started in March 2013, based on a modest fixed amount depending on services	• Adoption of the updated Hospital Rationalization Strategy through a Government Decision in/by 2010 – National Strategy with Bank TA was posted on the MoH site for public consultations. An updated draft would be presented for Cabinet approval in 2011 **Achieved: National Hospital Master Bed Plan approved by GD 151/2011. The total number of hospital care beds to be contracted by the National Health Insurance House for 2013 was revised to 123,127 (vs. 129,524 in 2011) and their breakdown by counties was approved through the MOH Order 1268/2012.** • Adoption of the Rural Primary Care Strategy in/by 2010 – Work initiated-TA under procurement (Health APL2) **Partially Achieved: the Strategy 2012-2020 and related Action Plan were formally approved by the MoH on February 27, 2012. The Strategy was revised to observe the provisions of Government Decision No. 870/2006, and scheduled for approval through Government Decision in the first quarter of 2013. Its approval is pending, but its recommendations are currently considered by MoH through the preparation of the new Health Sector Reform operation.** • Adoption of the legislation of the revised benefit package, including (i) the introduction of copayments and exemption mechanisms for the poor and (ii) transparent mechanisms for	**Completed:** • HD Policy Briefs (FY09) • DPL 1-3 series (FY10-FY12) • IFC advisory services and financing to support private sector participation in the health sector (loans to MedLife, the leading player in the Romanian private healthcare; market and loan to Banca Transilvania to support financing of healthcare providers) (FY13) • RAS Functional Reviews Health (FY11) • Health and Education TA support for DPL (FY12) • DPL 3 (FY12) **Ongoing:** • Health Sector Reform APL2 Project • DPL DDO **Pipeline:** • Health Sector Reform Project (planned approval FY14)

[48] Original target: increase retirement age for women at 65 beyond 2014; revised in line with new Pension Law 263/2010. However, the equalization of retirement age at 65 remains an EU convergence target.
[49] Aligned to the DPL program, which aimed to increase the use of the generic drugs as main mean to reduce the bill for compensated drugs w/out affecting health outcomes.
[50] Indicator re-aligned to DPL series indicators. An error in the baseline and target values (40%, respectively 45% instead of 20%, respectively 25% value) was corrected.

RESULTS AREAS AND OUTCOMES TO WHICH THE CPS IS CONTRIBUTING	MILESTONES	WBG INSTRUMENTS
provided, in the hospital sector, excluding emergency services. • **Indicator:** Coverage of copayment exemption among eligible population. Baseline: no copayment legislation. Target: < 50% by 2012 (upon approval of legislation) **Achieved in 2011under DPL3.** • **Indicator:** Percent of households with voluntary insurance. *Baseline:* NA; *Target:* 10 percent **Dropped at time of CPSPR due to lack of GoR-Bank commitment in this area.** **Outcome 3.4.3 (**new**):** Rationalization of medical services provision and integration of the services as nation – wide networks • **Indicator:** Reclassification of 100% hospitals based on new Strategy criteria **Achieved: 2011.** • **Indicator:** Health Networks[51] operational (per new Strategy) *Baseline:* None. *Target:* At least 4 regional or local health national networks functionally and legally established, including its Tertiary Hospital by 2013 **Partially Achieved: concept discussed and agreed. TA support financed from Health APL2. To date, the Ministry of Health approved referral procedures for maternity and child health care units. The concept is being pursued under the new GoR Health Reform Program and new health operation added at the time of the CPSPR, but whose finalization will only happen in FY14.**	inclusion of new technology and new drugs in the benefits package (DPL 3 trigger) **Achieved: amendment of Law 95/2006 under DPL3.** • Approval of a new legal framework for drug prescription management (revised DPL3 prior action). Achieved. • Adoption of legislation for voluntary health insurance **Dropped at the time of the CPSPR due to lack of GoR-Bank commitment in this area.**	

[51] These are physically and functionally integrated referral networks, including regional hospitals, and the referral system that surrounds them from primary health to post-hospital care.

Annex 6: Romania - IBRD Indicative Financing Program[52]

212. The Romanian authorities have requested increased lending both for budget support and investment project financing. The lending ceiling for Romania was raised in November 2013 to accommodate projected lending of around US$2.35 billion for the first two years of the CPS period. Budget support operations bring policy coherence to the Government action and anchor it in a timetable for structural reform. They are especially effective in Romania as they are closely coordinated with the EC and IMF and have strong ownership from the client.

Table A11: IBRD Indicative Lending

Pillar	Project Title	Indicative Amount (US$M)
FY14-15 Projects		
P1	Health Sector Reform (FY14)	340
P1/P2	First Fiscal Effectiveness and Growth DPL1.1 (FY14)	1020
P2/P3	Romania Education Quality and Inclusion (FY15)	270
P1	DPL 1.2 (FY15)	950
P3	Social Inclusion (FY15)	135
FY16-17 Projects (all TBC)		
P2	Energy IPF	250
P1	Justice IPF	200
P2	DPL 2.1	950
P1/P2/P3	IPF TBC	450
P2	DPL 2.2	950

Pillar 1 (P1): Creating a 21st Century Government; Pillar 2 (P2): Growth and Job Creation and Pillar 3 (P3): Social Inclusion

213. *Budget support*: The Government has requested annual budget support of the order of US$ 1,000 million per year and has asked the Bank to focus initial budget support (FY14) on fiscal management, measures to support private sector growth, and structural reforms.

214. *Investment lending*: The Government intends to also borrow for investment lending lending, to be divided in one to two IPF per year. The projects planned for the first two years of the CPS focus on social development and will cover the health and education sectors and a program for social inclusion, with a focus on marginalized communities, including Roma. There is also demand for support in the Justice sector and energy. All projects for the second half of the CPS are subject to further discussion and prioritization with the authorities.

[52] Lending volumes will depend on the country's performance and priorities, IBRD lending capacity, demand from other borrowers and global economic developments. The full lending program for the outer years of the CPS will be determined jointly with the government and will be reflected in the CPS Progress Report. A DPL series will explore with the authorities reform agendas dependent on the macroeconomic environment at the time.

Table A12: IBRD and IFC Indicative Lending (in US$ million)

IBRD *Indicative* Lending							
FY 14	US$	**FY 15**	US$	**FY 16**	US$	**FY 17**	US$
DPL 1.1 Fiscal Effectiveness & Growth	1020	DPL 1.2 Fiscal Effectiveness & Growth	950	DPL 2.1 TBC	950	DPL 2.2 TBC	950
Health Sector Reform	340	Romania Education Quality & Inclusion IPF	270	Energy IPF	250	IPF YBC	450
		Social Inclusion IPF	135	Justice IPF	200		
Total (IBRD)	**1360**		**1355**		**1400**		**1400**
IFC *Indicative* Lending							
Financial Markets	200	Financial Markets	50	Financial Markets	50	Financial Markets	50
Manuf, Ag & Services		Manuf, Ag & Services		Manuf, Ag & Services	50	Manuf, Ag & Services	
Infra/Ener	50	Infra/Ener	150	Infra/ Ener	50	Infra/Ener	50
Total (IFC)	**250**		**200**		**150**		**100**

Annex 7: IBRD Indicative Knowledge Services Program FY14/15

P#	AAA	Type of AAA	Expected Closing FY
Pillar 1. Creating a 21st Century Government			
Debt management			
P133720	Strengthening debt management (MoPF)	TA/RAS	FY14
Public investment management			
P147062	Harmonizing state and EU funded projects for the benefit of subnational governments (MRDPA)*	TA/RAS	FY16
P146782	Public Investment Management (MoPF)*	TA/RAS	FY16
P143089	Technical assistance for the identification of project selection models (MDRAP)	TA/RAS	FY14
Tax administration			
P144557	Strengthening institutional capacity in fiscal policy formulation (MoPF)	TA/RAS	FY14
P144566	A better solution for providing clarifications, interpretations and ruling on tax issues (MoPF)	TA/RAS	FY14
Center of the government functions			
P147482	Delivery Unit (CPM)	TA/RAS	FY16
Public administration at ministry level			
P143674	Strategic planning for the agricultural administration (MARD)	TA/RAS	FY14
P143675	Implementation of an internal management system at the MARD and its subordinated structures (MARD)	TA/RAS	FY15
P143676	Developing an integrated financial management system at the MARD (MARD)	TA/RAS	FY15
P143659	Development of administrative capacity of the MERYS (MNE)	TA/RAS	FY15
P148995	Strengthening the regulatory impact assessment in Romania (CPM) *	TA/RAS	FY16
P150017	Performance management (MEF)*	TA/RAS	FY16
P144505	Improve HR mngt instruments and mechanism in order to strengthen the institutional capacity of MoPF (MoPF)	TA/RAS	FY14
P133582	Analysis of capacity building activities in the public administration (MRDPA)	TA/RAS	FY14
P143088	Assessment of the communication and collaboration between MAs and Intermediate Bodies of the (ROP) and facilitation of proactive and direct support for beneficiaries (MDRAP)	TA/RAS	FY14
P133830	Enhancement of risk based systems of the sectoral Operational Program for Human Resources Development (MLFSPEP)	TA/RAS	FY14
P149988	Improving management of railways sector (MoT)*	TA/RAS	FY16
P148381	Shareholder oversight of transport SOEs (MoT)*	TA/RAS	FY16
P145349	Knowledge mapping	KNOW	FY14
Pillar 2. Growth and Job Creation			
Enhanced business environment			
P131858	Competitiveness enhancement and smart specialization policies (West Region DA)	TA/RAS	FY14
P131824	TA to the Romanian Competition Council (RCC)	TA/RAS	FY15

Regional development			
P143087	Enhanced spatial planning as a precondition for urban development (MRDPA)	TA/RAS	FY14
P132399	Upgrade growth poles strategic planning and economic impact (MRDPA)	TA/RAS	FY14
Transport			
P130508	Strengthen strategic planning in the transport sector (MoT)	TA/RAS	FY14
P130510	Improve its capacity to prepare and manage Public Private Partnerships (MoT)	TA/RAS	FY15
Sustainable development			
P145943	Climate change and low carbon green growth program (MECC)	TA/RAS	FY16
P146633	Danube Delta integrated sustainable development strategy (MRDPA)	TA/RAS	FY16
Education and employment			
P145841	Reducing early school leaving (MNE)	TA/RAS	FY15
P146187	Preparing a strategic framework for increasing tertiary education attainment, quality and efficiency (MNE)	TA/RAS	FY15
P146632	Preparing a strategic framework for lifelong learning (MNE)	TA/RAS	FY15
P133519	Europe 2020 Romania Employment & Productivity	ESW	FY14
Mining			
P147587	Mining sector support	TA	FY14
Agriculture			
P145716	Basis for national and EU Policies (NACLR)	TA/RAS	FY15
P143673	Agri-food sector strategy formulation (MARD)	TA/RAS	FY14
Pillar 3. Social Inclusion			
Inclusive services for marginalized communities			
P143090	Elaboration of integration strategies for poor areas and disadvantaged communities (MRDPA)	TA/RAS	FY14
P145035	Study on diagnostics and policy advice for supporting Roma integration in Romania (MLFSPEP)	TA/RAS	FY14
P147269	National strategy on social inclusion and poverty reduction (MLFSPEP)	TA/RAS	FY15
P147650	National strategy for elderly and active ageing (MLFSPEP)	TA/RAS	FY15

*Indicates activities that are under preparation and the RAS agreement is yet to be signed.

Reimbursable Advisory Services

215. **Reimbursable advisory services (RAS) significantly boosted the World Bank's AAA and knowledge sharing program for Romania**. These activities aim to spur Romania's convergence with EU living standards and support EU2020 targets for smart, inclusive and sustainable growth which are fully consistent with the Bank's goals of alleviating poverty and boosting shared prosperity. The Government faces several challenges to achieve such objectives, including poor administrative capacity for public investment management which hampers absorption of EU funds. More efficient use of EU funds could increase the level of capital investment and address bottlenecks to growth in infrastructure and public services. Following several years of convergence and strong growth, the financial crisis exposed deep-rooted weaknesses and the Bank was called on to support reforms, policy formulation and capacity building to address them. Our RAS work is informed by a Memorandum of Understanding between Romania and the Bank signed on January 26, 2012[53]. RAS allowed the Bank to deepen our engagement in key transformational areas and improved our ability to respond to the client's growing demand for both lending and knowledge.

216. **Romania currently has the Bank's largest RAS portfolio**. As of mid-March 2014, our portfolio comprises 24 RAS under implementation for a total of about US$42.2 million equivalent. The Bank has already completed 22 RAS worth US$10.7 million. Our pipeline consists of several new RAS in advanced stage of preparation which we expect will be signed this FY.

217. **RAS strengthened the Bank's engagement with Romania**. RAS allowed the Bank to respond to client requests for advice and support that cannot be funded within the existing Bank's budget envelope. RAS has positioned the Bank as a trusted knowledge partner in Romania. Respondents to the most recent country survey indicated that the Bank has the greatest value in (i) technical assistance (44%) and (ii) policy advice (39%). By expanding the range of instruments to meet Romania's specific needs, RAS enhanced our role as reform advocate, neutral stakeholder and trusted adviser to the Government. Satisfaction with the quality of the Bank's work under RAS also strengthened close collaboration with the European Commission and other IFIs and the IMF. As demand for our RAS grew, it deepened our policy dialogue and engaged us in sensitive reform areas essential for addressing Romania's challenges to achieve inclusive and sustainable growth, such as agriculture, public investment management, Roma integration, regional development, climate change, competitiveness, agriculture productivity, land registration, transport sector efficiency, early school leaving, life-long learning, active ageing and social inclusion.

RAS areas mapped by CPS pillars

Creating a 21st Century Government
Public investment management
Debt management
Land registration
Tax policy formulation and communication
HR management in public finance
Government capacity building program
Delivery Unit in PM's Office

Growth and Job Creation
Competitiveness
Reducing early school leaving
Tertiary education
Lifelong learning
Transport
Agriculture and Rural development program
Regional development program
Climate Change program

Social Inclusion
Social inclusion and poverty reduction
Active aging
Integration of poor and disadvantaged communities, including Roma

[53] As for other EU members, Romania mostly utilizes EU funding for the reimbursement of our advisory services.

218. **RAS have evolved into larger and more complex assignments.** The first RAS engagements in Romania were a series of Functional Reviews (FRs) for 13 ministries and government agencies conducted in 2010-11 which provided strategic and operational recommendations to help the Government strengthen its capacity and reform its structures. Selected actions of the National Reform Program 2011-2013 to modernize public administration derived from the Bank's recommendations are currently under implementation. The portfolio has now gone beyond the areas initially identified in the MOU to meet government's evolving needs and the nature of our RAS has evolved from RAS of short duration, with a single output on a sector or thematic area to more complex, cross-sectoral activities with multiple outputs over long implementation periods (sometimes for more than two years). These complex activities require close coordination and collaboration among sectors and experts both within the Bank and across ministries and projects complement each other or address various aspects within the same sector.

219. **Capacity building is an important element of our RAS.** Institutional capacity building is a complex and lengthy process requiring long term political commitment. Our RAS and AAA program encourages Government to focus on long term issues, sustain reforms and mitigate the backsliding to improve the functions of state. Our policy dialogue and knowledge activities also foster change of values, focus on results and modernization of management practices in the public administration. Through our RAS, the Bank also provides guidance on policy formulation and strategy development in key areas. Several of these strategies constitute ex-ante conditionalities for the new EU programming period 2014-2020, thus contributing to medium-term development issues and helping unlock EU resources and inform their use.

220. **Positive Synergy of RAS with lending and other Bank Group instruments**. RAS are often at the core of our program, providing analytical underpinnings for the ongoing DPL DDO and the new DPL series. RAS engagements also generate knowledge which is valuable for the Bank for cross-fertilization and its knowledge broker role, including with lower-income countries e.g. Eastern Partnership and pre-accession countries as well as other important MICs such as Brazil and China.

221. **Prudent stewardship of our RAS portfolio**. The size and complexity of our RAS engagements in Romania pose a number of challenges for the Bank as it rapidly adapt to make full use of this instrument. These include human resource availability/staffing, need for automated tools and systems to administer billing and payments, exchange rate fluctuations affecting agreements, potential for "reputational" risk, etc. The Romania country team, Bank management, and corporate RAS working groups are proactively addressing these issues. The presence of sector specialists in the Bucharest office has been expanded to help deliver on this ambitious agenda and the country management unit has further strengthened its RAS core team. During the CPS period, we plan to undertake a comprehensive and independent evaluation of all RAS engagements to date and initiate the discussions for amending the existing MoU in order to introduce more flexible type of agreements (output based agreements), and reflect Bank corporate updates in costing methodologies, RAS policies and standard RAS agreement clauses.

Figure A23: Areas covered by RAS (% in terms of value of agreement in US$)

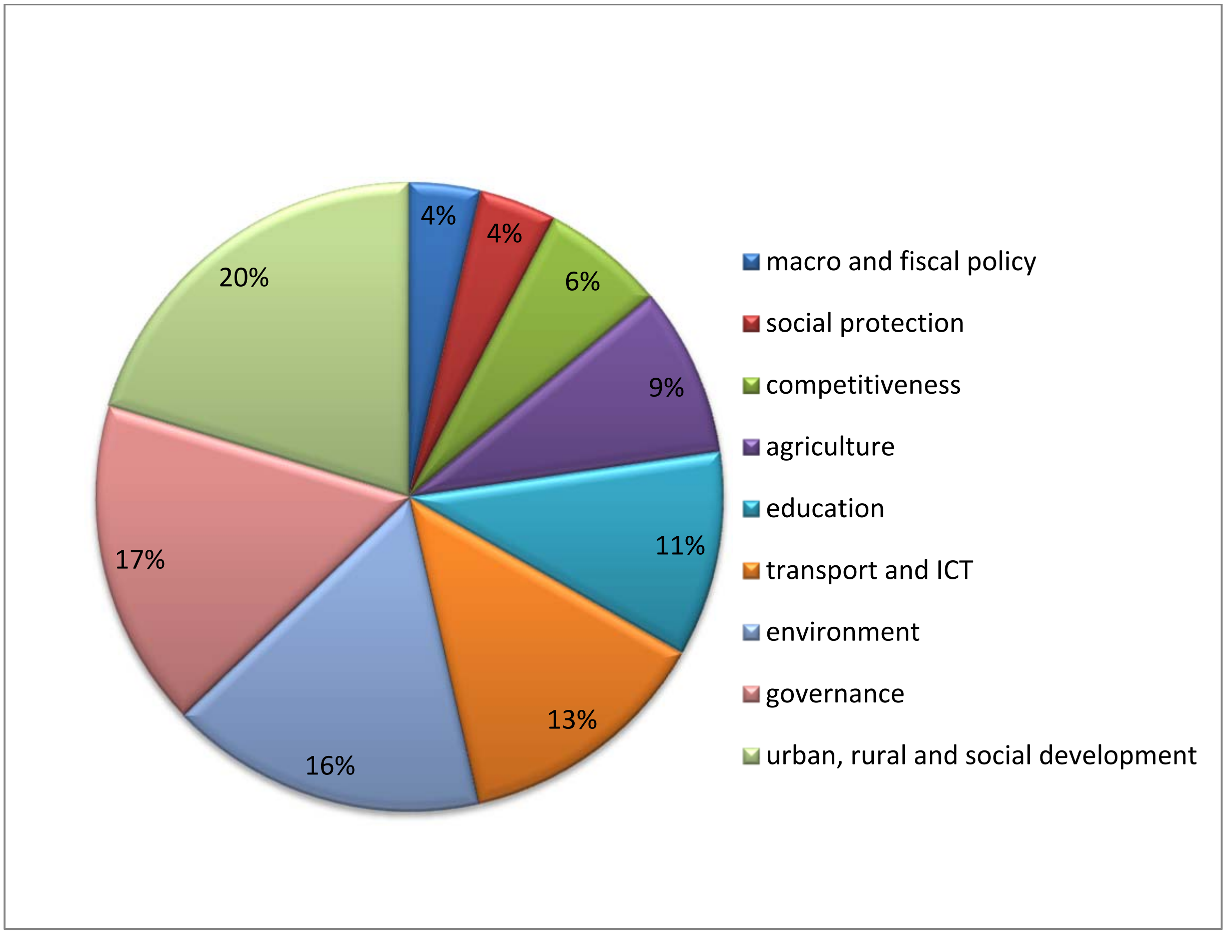
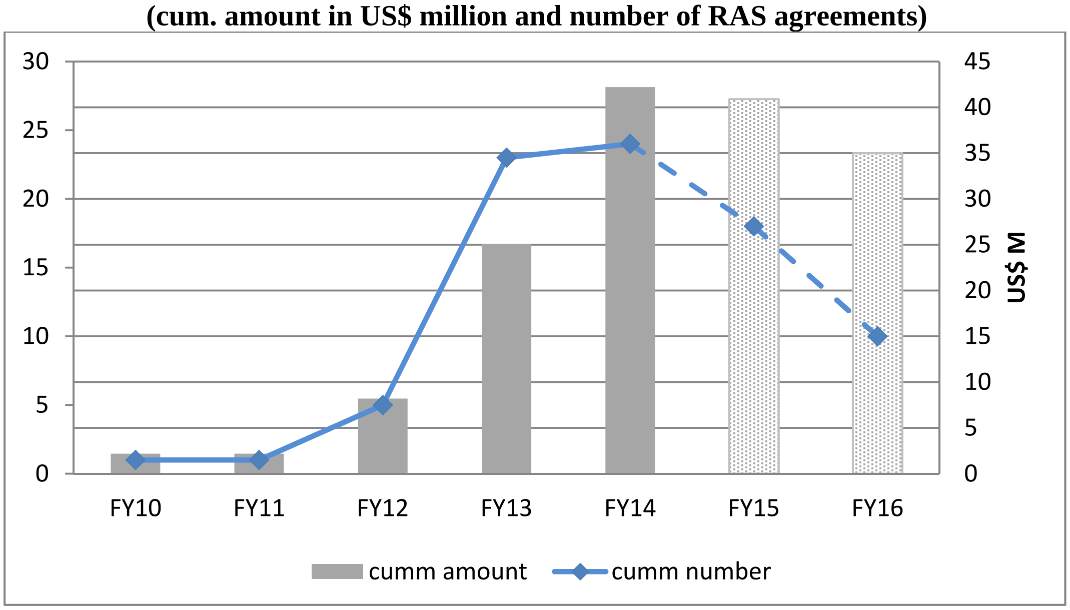


Figure A24: Evolution of RAS program
(cum. amount in US$ million and number of RAS agreements)



Annex 8: Selected Indicators* of Bank Portfolio Performance and Management in Romania

As Of Date
1/24/2014

Indicator	2011	2012	2013	2014
Portfolio Assessment				
Number of Projects Under Implementation [a]	12	10	8	7
Average Implementation Period (years) [b]	6.2	5.7	5.4	5.6
Percent of Problem Projects by Number [a, c]	25.0	20.0	25.0	0.0
Percent of Problem Projects by Amount [a, c]	17.8	4.5	5.2	0.0
Percent of Projects at Risk by Number [a, d]	25.0	20.0	25.0	0.0
Percent of Projects at Risk by Amount [a, d]	17.8	4.5	5.2	0.0
Disbursement Ratio (%) [e]	20.4	26.5	17.2	3.6
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	79	9
Proj Eval by OED by Amt (US$ millions)	7,509.8	1,935.5
% of OED Projects Rated U or HU by Number	19.0	33.3
% of OED Projects Rated U or HU by Amt	18.8	11.9

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

Annex 9: Operations Portfolio (IBRD/IDA and Grants)

As Of Date 1/24/2014

Closed Projects **90**

IBRD/IDA *	
Total Disbursed (Active)	1,384.62
of which has been repaid	55.75
Total Disbursed (Closed)	3,556.80
of which has been repaid	2,677.83
Total Disbursed (Active + Closed)	4,941.42
of which has been repaid	2,733.58
Total Undisbursed (Active)	1,053.41
Total Undisbursed (Closed)	4.74
Total Undisbursed (Active + Closed)	1,058.15

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions					Difference Between Expected and Actual Disbursements [a/]	
Project ID	**Project Name**	**Development Objectives**	**Implementation Progress**	**Fiscal Year**	**IBRD**	**IDA**	**GRANT**	**Cancel.**	**Undisb.**	**Orig.**	**Frm Rev'd**
P100638	CESAR	MS	MS	2008	65			40.49499017	8.469026	49.355867	1.0835
P130051	DPO - DDO	S	S	2012	1333.3				399.99		
P099528	INT. NUTRIENT POLLUTIO	MS	MS	2008			5.5		2.500748	2.5007484	
P093775	INTEG NUTRIENT POLLUT	MS	MS	2008	68.1				32.11613	32.917991	
P090309	JUDICIAL REFORM	MS	MS	2006	130				70.80818	51.605361	14.63069
P130202	RAMP	S	S	2013	91.8				91.8		
P121673	SOC ASST SYST MOD-Re	S	S	2011	710.4				426.24	172.48	
P093096	SOC INCL PROG (CRL)	MS	S	2006	58.5				23.99053	18.360733	18.36073
Overall Result					2457.1		5.5	40.49499017	1055.915	-634.8243	34.07492

Annex 10: IFC – Committed and Disbursed Outstanding Investment Portfolio (Romania)

As of 12/31/2013
(In USD Millions)

		Committed					Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
2012	Agricover credit	17.21	0	0	0	0	17.21	0	0	0	0
2007	Arabesque srl	29.3	0	0	0	22.03	29.3	0	0	0	22.03
0	Banat construct	0	0	3.11	0	0	0	0	3.11	0	0
2009	Banca comerciala	19.67	0	0	0	0	19.67	0	0	0	0
2011	Bancpost	47.56	0	0	0	0	47.56	0	0	0	0
2014	Botosani	7.7	0	0	0	0	7.7	0	0	0	0
0	Cernavoda power	43.55	0	0	0	15.75	43.55	0	0	0	15.75
2012	Garanti bank ro	26.55	0	0	0	0	26.55	0	0	0	0
2012	Lidl romania	68.83	0	0	0	0	68.83	0	0	0	0
10/12/2007	Medlife sa	15.28	3.16	0	0	38.7	15.28	3.16	0	0	35.81
2013	Patria credit	11.27	0	0	0	0	7.39	0	0	0	0
0	Pestera power	27.93	0	0	0	10.1	27.93	0	0	0	10.1
0	Schwarz group	27.53	0	0	0	11.8	27.53	0	0	0	11.8
5/9/2004/10/11/13	Transilvaniabank	63.95	16.65	27.53	0	0	63.95	16.65	27.53	0	0
2008/12	Tts romania	0	13.42	6.88	0	0	0	13.42	6.88	0	0
2006	Tts sa	4.33	0	0	0	0	4.33	0	0	0	0
2013	Unicredit romani	78.41	0	0	0	0	38.49	0	0	0	0
Total Portfolio:		**489.07**	**33.23**	**37.52**	**0**	**98.38**	**445.27**	**33.23**	**37.52**	**0**	**95.49**

* Denotes Guarantee and Risk Management Products.
** Quasi Equity includes both loan and equity types.

Annex 11: Romania EU Country Specific Recommendations for 2013-2014

1. Complete the EU/IMF financial assistance program.

2. Ensure growth-friendly fiscal consolidation and implement the budgetary strategy for the year 2013 and beyond as envisaged, thus ensuring achievement of the medium term objective by 2015. Improve tax collection by implementing a comprehensive tax compliance strategy and fight undeclared work. In parallel, explore ways to increase reliance on environmental taxes. Equalize the pensionable age for men and women and promote employability of older workers.

3. Pursue health sector reforms to increase its efficiency, quality and accessibility, in particular for disadvantaged people and remote and isolated communities. Reduce the excessive use of hospital care including by strengthening outpatient care.

4. Improve labor market participation, as well as employability and productivity of the labor force, by reviewing and strengthening active labor market policies, to provide training and individualized services and promoting lifelong learning. Enhance the capacity of the National Employment Agency to increase the quality and coverage of its services. To fight youth unemployment, implement without delay the National Plan for Youth Employment, including for example through a Youth Guarantee. To alleviate poverty, improve the effectiveness and efficiency of social transfers with a particular focus on children. Complete the social assistance reform by adopting the relevant legislation and strengthening its link with activation measures. Ensure concrete delivery of the National Roma integration strategy.

5. Speed up the education reform including the building up of administrative capacity at both central and local level and evaluate the impact of the reforms. Step up reforms in vocational education and training. Further align tertiary education with the needs of the labor market and improve access for disadvantaged people. Implement a national strategy on early school leaving focusing on better access to quality early childhood education, including for Roma children. Transition quickly from institutional to alternative care for children deprived of parental care.

6. Strengthen governance and the quality of institutions and the public administration, in particular by improving the capacity for strategic and budgetary planning, by increasing the professionalism of the public service through improved human resource management and by strengthening the mechanisms for coordination between the different levels of government. Significantly improve the quality of regulations through the use of impact assessments, and systematic evaluations. Step up efforts to accelerate the absorption of EU funds in particular by strengthening management and control systems and improving public procurement.

7. Improve and simplify the business environment in particular through reducing administrative burdens on SMEs and implementing a coherent e-government strategy. Ease and diversify access to finance for SMEs. Ensure closer links between research, innovation and industry, in particular by prioritizing research and development activities that have the potential to attract private investment. Step up efforts to improve the quality, independence and efficiency of the judicial system in resolving cases and fight corruption more effectively.

8. Promote competition and efficiency in network industries, by ensuring the independence and capacity of national regulatory authorities, and by continuing the corporate governance reform of state-owned enterprises in the energy and transport sectors. Adopt a comprehensive long-term transport plan and improve broadband infrastructure. Continue to remove regulated gas and electricity prices and improve energy efficiency. Improve the cross-border integration of energy networks and speed up implementation of the gas interconnection projects.

Annex 12: Documenting the Consultative Process

222. **The proposed CPS program is the result of a prolonged period of consultation with a wide variety of stakeholders.** The CPS team had several discussions with the Ministry of Public Finance and other ministries including health, agriculture, information society, economy, transport, EU funds Regional development, labor and social protection, justice, environment and climate change, education, large infrastructure. In Bucharest the team also held consultations with the National Bank of Romania, the Bucharest Stock Exchange, and convened brainstorming workshops with selected think-tanks and NGOs, and with the private sector. The EC was also consulted periodically including a half day Romania Country Team workshop convened in Brussels by the Secretariat General.

223. **Regional consultations have enriched the analysis contained in the CPS.** Joint Bank and IFC regional consultations were held in Timisoara, Cluj, Iasi and Constanta. In each location the team met with the Mayor or deputy Mayor and the heads of the regional development agency and the city council. Additional meetings were held with leading members of the private sector, academia and development authorities. The team also visited Slobozia, Bora Neighborhood to review the Bank's experience in establishing a multi-functional center that was developed under the Social Inclusion Project and to a Roma settlement in the city. The team had discussions with the local authorities, the beneficiaries of the projects and with people of Roma origin who had the opportunity to present the situation and the most urgent challenges they are facing. The CPS is also informed by the recently concluded country survey and knowledge mapping exercises which reached out to those most familiar with the Bank in Romania to gather their thoughts and ideas on the Bank's recent performance and potential areas for future engagement. The team informed the public through regular press briefings as well as by placing selected materials on the internal and external websites for comment.

Annex 13: List of Supporting Documents

1. 2013 Romania Country Specific Recommendations, The European Commission, 2013
2. Romania, Request for Stand-by Arrangement, International Monetary Fund, September 12, 2013
3. 3rd BOP Program for Romania, Draft Memorandum of Understanding between the European Union and Romania, European Commission, July 28, 2013
4. Doing Business 2013, Economy Profile: Romania, Smarter Regulations for Small and Medium-Size Enterprises, The World Bank, The International Finance Corporation, 10th Edition
5. Implementation Completion and Results Report (IBRD-48090) on a Loan in the Amount of USD 40.4 Million to Romania for a Knowledge Economy Project, The World Bank, August 21, 2013
6. Country Partnership Strategy for Romania for the Period July 2009-June 2013, The World Bank, June 12, 2009
7. Romania, Reviving Romania's Growth and Convergence Challenges and Opportunities, A Country Economic Memorandum, The World Bank, June 21, 2013
8. Progress Report on the Country Partnership Strategy for Romania, FY09-FY13, The World Bank, November 28, 2011
9. Convergence Programme, 2013-2016, Government of Romania, April 2013
10. Romania Data Booklet 2013, The World Bank, April 2013
11. Knowledge Mapping, World Bank Romania Country Office, August 22, 2013
12. Romania West Region Competitiveness Enhancement and Smart Specialization, The World Bank, Resita, September 6, 2013
13. Romania – Assessment of the Risks to the Fund and the Fund's Liquidity Position, The International Monetary Fund, September 12, 2013
14. White Book 2013, The Future Starts Now, A Report by the Foreign Investors Council, May 2013, Bucharest, Romania
15. Programme for Government 2013-2016
16. Romanian Partnership Agreement for the 2014-202 Programming Period, First Draft, Ministry of European Funds, October 2013
17. Commission Staff Working Document, Assessment of the 2013 National Reform programme and Convergence Programme for Romania, Brussels, European Commission, May 29, 2013
18. Recommendation for a Council Recommendation on Romania's 2013 national reform programme and delivering a Council option on Romania's convergence programme for 2012-2016, Council of European Union, Brussels, June 20, 2013
19. Romania Advisory Services to the Ministry of Agriculture and Rural Development for Strengthening the Agri-Food Sector Strategy, A Medium and Long Term Vision Document (2020/2030 horizon), The World Bank, November 2013
20. Advisory Services Assistance to the Ministry of National Education, First Draft of a Strategic Framework for Tertiary Education Attainment, Quality, and Efficiency in Romania, 2014-202, The World Bank, November 18, 2013
21. Romania Advisory Services: Assistance to the Ministry of National Education for Preparing a Strategic Framework for Lifelong Learning, The World Bank, November 15, 2013
22. Romania Advisory Services Assistance to the Ministry of National Education for Reducing Early School Leaving, The World Bank, November 12, 2013
23. Arias, Omar S.; Sánchez-Páramo, Carolina; Dávalos, María E.; Santos, Indhira; Tiongson, Erwin R.; Gruen, Carola; de Andrade Falcão, Natasha; Saiovici, Gady; Cancho, Cesar A.. 2014. "Back to Work : Growing with Jobs in Europe and Central Asia", World Bank, November 2013.

Annex 144: Poverty and Shared Prosperity Indicators

April/2014 EUROPE AND CENTRAL ASIA

POVERTY & SHARED PROSPERITY AT A GLANCE

ROMANIA

GDP per capita, PPP (current international $)[1]	17,004 (2012)
GNI per capita, Atlas method (current US$)[1]	8,820 (2012)
Rural population (% of total population)[1]	47 (2012)
National strategy for statistical development	2008-2013
POVERTY	
Population living below national line (%)[1]	N/A
Population living below US$ 1.25 (%)[2]	3.00 (2010)
Population living below US$ 2.5 (%)[2]	11.16 (2010)
Population living below US$ 5.00 (%)[2]	33.61 (2010)
Population living above US$ 10.00 (%)[2]	26.37 (2010)
Population living in multidimensional poverty (%)[3]	N/A
INEQUALITY	
Gini index[2]	0.35 (2010)
Theil index[2]	0.21 (2010)
SHARED PROSPERITY	
Welfare definition	Income
Period of analysis	2006-2010
Income/consumption growth of bottom 40[2]	6.17%
Income/consumption growth total population[2]	3.85%
Income/consumption growth of top 60[2]	3.40%
GDP growth[1]	1.43%
Growth of private consumption[1]	-1.61%

Sources: [1]WDI, [2]ECATSD using EU-SILC, [3]UNDP.

PERFORMANCE

	Value	Global	Global Conditional	ECA	ECA Conditional	Years
Poverty change (US$ 2.50)*[1]	-1.25%	68	65	70	40	2006-2011
Income/consumption growth of the bottom 40%**[1]	6.17%	79	99	83	97	2006-2010
UNDP Human Development Index[2]	0.786	56/186	-	13/29	-	2012

*Annualized. Benchmarking numbers present percentile performance among indicated distribution group. "Conditional" refers to performance when controlling for poverty in the initial period, GDP per capita, fragility index, landlocked country, country growth rate, global growth rate, and frequency of poverty data.

**Annualized. Benchmarking numbers present percentile performance among indicated distribution group. "Conditional" refers to percentile performance when controlling for type of welfare measure, GNI per capita 2012, Gini in first period, poverty head count in first period, and country growth rate.

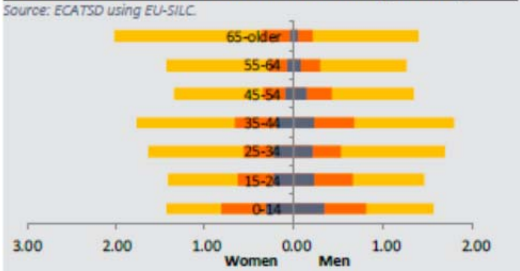
Sources: [1]ECATSD using EU-SILC. Azevedo and Nguyen (2014). [2]UNDP (2013).

DEMOGRAPHICS

LIVING BELOW US$ 2.50
LIVING BETWEEN US$ 2.50- 5.00
LIVING ABOVE US$ 5.00

POPULATION BY AGE AND POVERTY STATUS, 2010 (MILLIONS)

Source: ECATSD using EU-SILC.

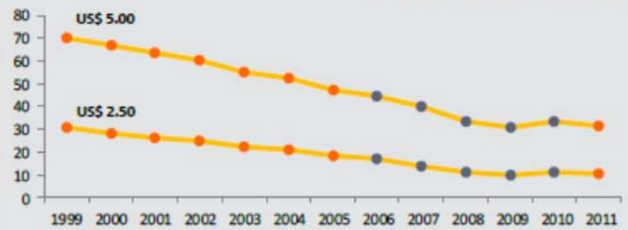


TRENDS

POVERTY HEADCOUNT RATIO (INCLUDING PROJECTIONS), 1999-2011

Source: ECATSD using EU-SILC. Azevedo and Lomaia (2013).

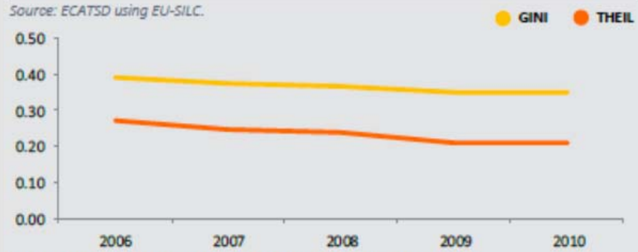
PROJECTION SURVEY DATA



INEQUALITY INDICES, 2006-2010

Source: ECATSD using EU-SILC.

GINI THEIL



INCOME/CONSUMPTION PER CAPITA BY QUINTILE, 2006-2010

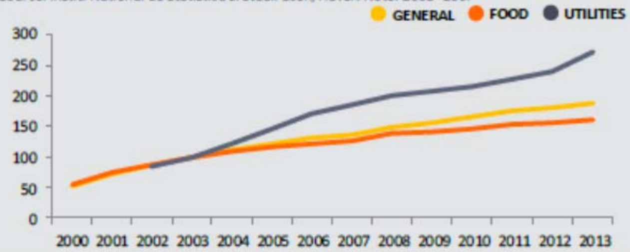
Source: ECATSD using EU-SILC.

GROWTH SHARE (FINAL)

CONSUMER PRICE INDEX, 2000-2013

Source: Instit. National de Statistica si Studii Econ/Haver. Note: 2003=100.

GENERAL FOOD UTILITIES



CONTRIBUTORS

GROWTH REDISTRIBUTION

% CONTRIBUTION TO POVERTY REDUCTION (US$2.50, PPP), 2006-2010

Source: ECATSD using EU-SILC.

NATIONAL DATA

Poverty estimates in Romania are produced by the Romania National Institute of Statistics (INS), using the Eurostat guidelines. Romania conducts an annual Household Budget Survey (HBS); however, since 2007 the data source for poverty analysis is the European Union Statistics on Income and Living Conditions (EU-SILC). The methodology for poverty estimation defines an individual as poor if his/her total equivalized disposable income is below the at-risk-of-poverty threshold (set at 60% of the median of the whole income distribution). In 2012, the most recent year of published figures, 22.6% of the population lived in poverty.* The most recent national strategy for statistical development in Romania is the "Strategy for the Development of the National Statistical System" spanning the period 2008-2013. One of the priority activities for 2013 was to develop a new strategy covering the period 2014 to 2020. The most recent HBS available for Romania in the World Bank's regional internal microdata catalog, the ECA Data Portal, is for the year 2011. Access to this dataset is licensed and restricted. The most recent Social Inclusion and Living Conditions Survey available for Romania in the ECA Data Portal, is for the year 2011. Access to this survey requires the signature of a Data Access Agreement, available at the microdata catalog.

Source: Romania National Institute of Statistics.

ROMA POPULATION

KEY POVERTY AND INEQUALITY INDICATORS	Roma	Non-Roma
Absolute poverty rate PPP$ 4.30 (income)	54%	13%
Absolute poverty rate PPP$ 4.30 (expenditure)	48%	11%
Absolute poverty rate PPP$ 2.15 (income)	28%	5%
Absolute poverty rate PPP$ 2.15 (expenditure)	20%	3%
Gini coefficient	0.46	0.34
Ratio of richest 20% v. poorest 20%	13.5	6.96
EU material deprivation index:	95%	71%
EU severe material deprivation index:	90%	54%

SOURCES OF INCOME* (% of monthly total, avg.)	Roma	Non-Roma
Earnings related to employment	31%	36%
Unemployment benefits	1%	1%
Pensions	19%	51%
Social assistance	14%	4%
Child allowance	23%	5%
Income from other labor activities	8%	2%
Remittances (money transfers)	3%	1%
Other	0%	0%

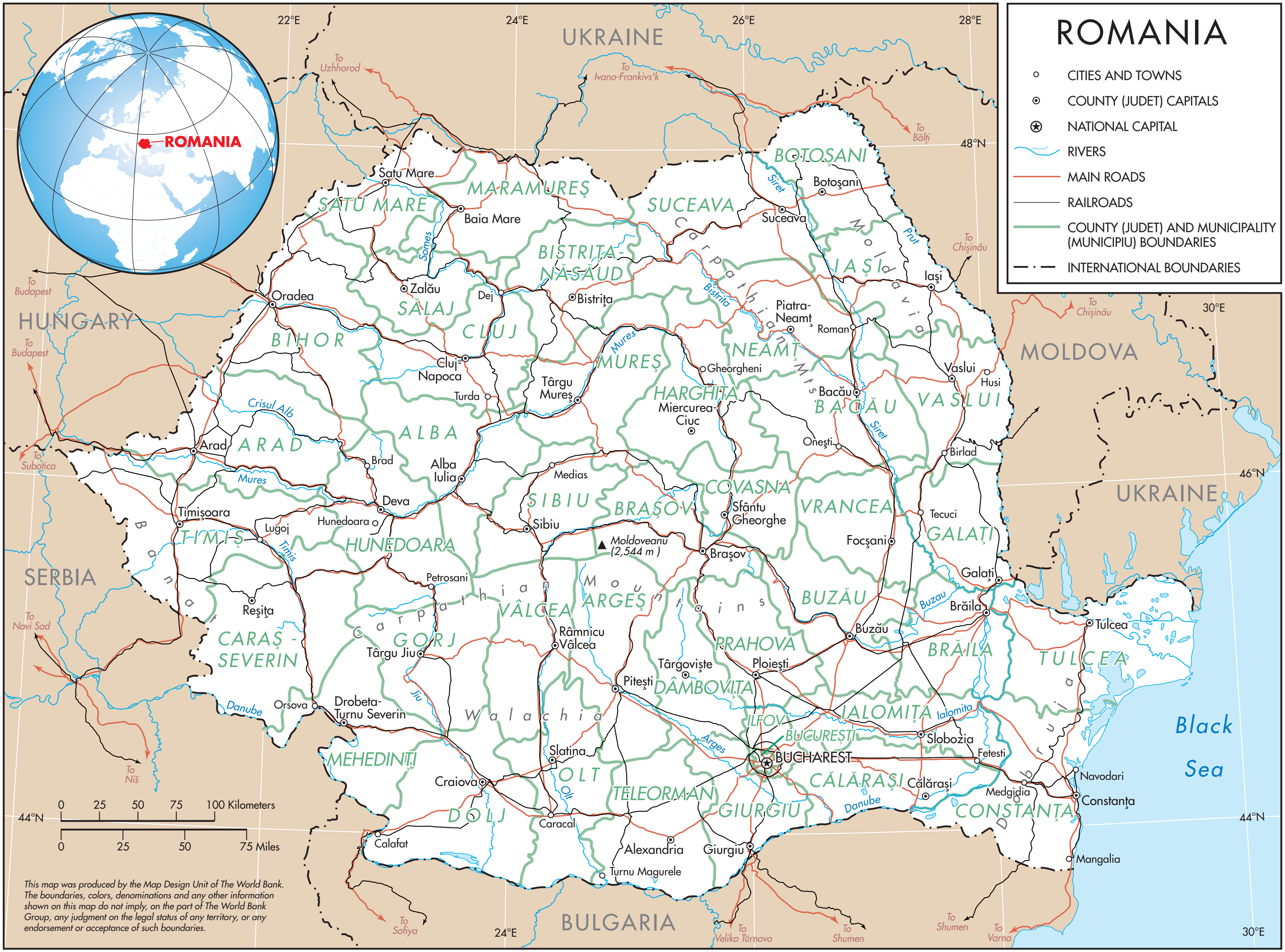
HH EXPENDITURES* (% of monthly total, avg.)	Roma	Non-Roma
Alcohol and cigarettes (purchase)	10%	5%
Transportation	2%	3%
Socializing event	0%	1%
Durable goods	1%	1%
Education	1%	1%
Food, everyday household goods	58%	46%
Clothes (incl. shoes)	3%	4%
Housing (rent and public utilities)	13%	20%
Medicines and medical services	7%	10%

Source: UNDP/WB/EC Roma survey for Romania (2011).
**Note: Non-Roma data refers to Non-Roma living in the same neighborhoods or vicinity.*

KEY INDICATORS

		US$ 2.50		US$ 5.00		Relative Group		
	Total	Poor	Non-Poor	Poor	Non-Poor	Bottom 40%	Top 60%	Year
Demographics								
Share of total population (%)	100%	11%	89%	34%	66%	40%	60%	2011
% of group living in rural areas	65%	93%	60%	86%	52%	85%	51%	2011
% of group living in urban areas	35%	7%	40%	14%	48%	15%	49%	2011
% of households with 4+ members	68%	89%	65%	83%	59%	83%	58%	2011
Dependency Ratio: Children (0-14)/all HH members								
Dependency Ratio: Elderly 65+/all HH members	0.14	0.03	0.16	0.08	0.18	0.09	0.18	2011
Share of households with Female Head (%)	20%	14%	21%	18%	21%	18%	21%	2011
Average HH size	4.43	6.07	4.18	5.28	3.94	5.31	3.85	2011
Education								
Proportion of group with primary education or lower (%)	8%	13%	7%	11%	6%	11%	5%	2011
Proportion of group with lower secondary education (%)	27%	54%	23%	41%	19%	40%	18%	2011
Proportion of group with (upper) secondary education (%)	50%	32%	53%	45%	53%	46%	53%	2011
Proportion of group with post-secondary education (%)	3%	1%	4%	1%	5%	1%	5%	2011
Access to Economic Opportunities								
Labor force participation rate (% of population aged 15-64)	65%	62%	65%	61%	67%	62%	67%	2011
Unemployment (% of population aged 15-64)	6%	17%	5%	12%	3%	12%	3%	2011
Self-employed (% of population aged 15-64)	31%	88%	23%	62%	15%	61%	13%	2011
Income								
Share of income from pensions (%)	34%	8%	36%	19%	39%	23%	39%	2010
Share of income from labor (%)	56%	57%	56%	60%	55%	58%	56%	2010
Access to Basic Services								
Central heating (% of HHs)								
Access to gas (% of HHs)								
Access to piped water in house (% of HHs)								
Access to sewerage in house (% of HHs)								
Access to toilet in house (% of HHs)	60%	14%	66%	31%	76%	34%	77%	2011
Access to electricity(% of HHs)								
Refrigerator (% of HHs)								
Home phone (% of HHs)								
Cell phone (% of HHs)	91%	69%	94%	82%	96%	83%	97%	2011
Personal computer (% of HHs)	55%	15%	61%	33%	68%	36%	68%	2011
Less than 1.5 people per room (% of HHs)	66%	35%	71%	48%	76%	49%	77%	2011

Source: ECATSD using EU-SILC.



SEPTEMBER 2012

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