

99. report will be sent to all participants and posted on the Bank's Romanian website to inform the public about messages and recommendations.

Box 1. Key Messages from Stakeholder Consultations

Lessons learned from past and ongoing work of the World Bank in Romania. Need to scale up successful experiences, including reforms piloted by Bank-financed projects. Need to bolster information and communication on policies and projects. Need for better coordination among donors/lenders.

Consistency of proposed Bank program with needs and expectations. The Bank program should consider sectoral strategies and not only 3 main national programmatic documents (GP2009, Lisbon Agenda, NRP 2007) Advice extended to the Bank on balancing flexibility with the need for firmness, especially concerning agreed reform objectives and specific project outcomes.

Political and economic context, risks and opportunities. Coalition politics create risks for sustainability of both reform and project implementation. General concern about the commitment and capacity to design and implement needed reforms. Reservations about the extent to which current cooperation of the Government with IFIs goes beyond financial needs and is driven by genuine acceptance of the need for reform.

Scope for resuming reform. Education was unanimously identified as the neediest area for reform. Teachers' pay must be linked to broader reform objectives and outcomes. Public Sector is seen as lacking professionalism and management skills. Perceived inefficiency of the bureaucracy, lacking communication and coordination, is hampering delivery of public services.

Governance. Concern with implementation capacities in both central and local administrations. Need for better inter-ministerial coordination and at local level. Virtual consensus on inability to address governance issues.

F. Measuring Results

100. **The proposed Bank engagement is expected to support the achievement of key Government objectives.** The envisaged lending and AAA program would be supportive of key Government objectives in selected policy areas. The results framework (Annex C) largely reflects the results anticipated from the existing portfolio activities (lending, and analytical and advisory) and those new activities planned for the first years of the CPS. The Bank program would be small in the context of Romania's overall development program and the actions of other parties – Government or other outside agencies – will also play a part in contributing to these outcomes. Nevertheless, the specific outcomes identified in Annex C are those that the Bank will try to influence and those which can be attributed to the Bank's interventions.

IV. Risk Management

101. **The proposed Bank strategy carries risks.**

102. *Institutional capacity risks* relate to policy formulation and coordination capacity, medium-term vision, implementation, and accountability. Capacity constraints could delay key elements of the reform program to be supported by the Bank. The Bank's program has a strong focus on capacity building in both the executive and legislative branches of the Government with emphasis on public financial management and public administration reforms. AAA could play an important role in addressing capacity constraints and building institutional capacity where needed.

103. *External economic and financial risks* relate to the uncertainty of the global economic outlook, the risk that financial markets may remain frozen over a prolonged period, the risk that the economic downturn in the EU may be more severe and protracted than currently envisaged, and that the perceptions of institutional investors and risk-assessment agencies may be more pessimistic than expected. Should that happen, Romania's growth could be further compressed, especially if capital outflows exceed expectations. This risk is exogenous and cannot be mitigated. The Bank has limited headroom to increase lending in the near-term.

104. *Domestic economic risks* include the ability of Romania to withstand external shocks, the response of the economy to reforms, and the capacity to mobilize and absorb external funds. The relatively large size of the package may provide sufficient space for building up reserves, that would help deal with worse than expected capital outflows, and prolonged distress of the financial sector. The DPL program and associated analytical work aims to help Romania to identify efficiency savings and to maintain manageable fiscal balances.

105. *Social risks* stem from popular expectations, the persistence of core poverty relatively unaffected by economic growth, and the rise in transient poverty during the crisis. The Bank-supported DPL and other programs target assistance towards those in poverty or socially excluded.