III. THE WORLD BANK GROUP PROGRAM

A. Implementation of 2006 CPS and Lessons Learned

59. **The FY06-09 CPS Bank program failed to establish a partnership with Romania**, despite being well aligned on Romania's priorities prior to and after EU accession and well coordinated with the EU at both policy and technical levels. The result was that while Romania made significant progress against its development goals, the CPS did not achieve many of the outcomes it sought. The CPS did not anticipate the pressure of populist policies stemming from the high expectations of the population following EU accession. It also underestimated the rapid inflow of other lower cost sources of finance and the desire of the Ministry of Finance to diversify its financing sources. The CPS did not identify areas of the Bank's value-added vis-à-vis other external partners and was perceived as being inflexible and having high transaction costs in comparison.

60. **IFC's portfolio has performed well.** IFC was relatively less affected than the Bank by the change in Government financing preferences and the shift towards EU institutions as preferred partners. During the CPS period IFC invested a total of $383 million of its own fund and help mobilized $191 million in 15 projects. These included 8 projects in the financial sector, a project to support the modernization of refinery, a project to improve river transportation, a project to support the first private hospital chain and a project in transportation and warehousing. Additionally IFC invested in regional projects in private equity funds, which allowed investments in smaller competitive companies as well as in oil and gas exploration. IFC-Bank cooperation throughout the period was strong. The CPS envisaged some links, for example with IFC supporting privatizations in infrastructure and energy proposed through the Programmatic Adjustment Loan (PAL) series, but these were stopped when the policy loan series was dropped and a halt in privatization of utilities by the Government.

61. **The Bank program was too optimistic and highly dependent on the anchor which was to be provided by policy-based lending**. The program was highly integrated, which worked well when the whole agenda moved forward as planned. However, when the PAL series was dropped, the associated investment loans also suffered, the program lost focus and coherence. Other financing sources replaced and exceeded Bank lending, but the associated technical assistance to line Ministries remained in demand. The Bank lending program was reduced to 40 percent of the indicative amount projected by the CPS and technical assistance was curtailed.

62. **The implementation of the portfolio was affected by the deterioration of the country dialogue**. As the dialogue around the PAL series weakened, implementation problems in the associated investment loans multiplied, commitments at risk increased and disbursement performance deteriorated. Commitments at risk rose from zero in FY05 to 36 percent in mid-FY09, twice the average rate Bank-wide. Disbursements declined from a peak of 27 percent in FY03 to 10.9 percent in FY07, well below Bank-wide performance. Disbursement performance recovered to 18 percent in FY08 owing to more pro-active portfolio management and a new generation of faster disbursing projects.

63. **Portfolio implementation problems notwithstanding, the Bank maintained a dialogue with many stakeholders, based on a solid body of analytical work**. Analytical work on policy issues positioned the Bank to take an effective role in advising the new Government on the reform agenda in the short- to medium-term. This includes the 2006 Public Expenditure and Institutional Review; the 2008 Public Sector Pay Practices; the 2007 Notes on Pensions, Health Sector Policy, and Education Policy; the 2007 report on Private Sector Development Strategy; the 2008 Notes on Municipal Finance and on Regional Development; the 2007-08 Programmatic Poverty Assessments; the 2008 report on Financial Sector Literacy and Consumer Protection, the 2008 Discussion Paper on a Student Loan Scheme; the Policy Briefs issued in January 2009; the 2009 joint IMF-WB Financial Sector Assessment Program; the 2009 ROSC on accounting and auditing; and the ongoing Public Expenditure Review Update. The recommendations of these reports have inspired some of the decisions made by the new Government in response to the crisis. The proposed new DPL series resumes structural reforms launched under the 2003-2007 PAL program, which supported reforms in public finance management, education, health, social assistance, pensions, judiciary, and private sector development.

64. **The following lessons can be drawn**:

- **Identify the Bank's comparative advantage vis-à-vis other external partners and design the program around these areas**. The Bank did not heed sufficiently the need for a different approach towards a MIC client no longer dependent on Bank financing. The program continued to emphasize large investment loans when other larger, faster, cheaper and more flexible financing sources were available. The Bank did not re-focus its role as a knowledge-provider or technical adviser. More could also have been done to experiment with more flexible, outcome-oriented investment loans that would support performance based budgeting and allow for lower non-financial transaction costs, by taking advantage of new opportunities and innovations –such as country systems pilots— that arose during the CPS programming period. As a result, the dissonance between the desire of line ministries for Bank projects to secure programs and predictable budgetary resources as well as knowledge on the one hand, and the desire of the Ministry of Economy and Finance to diversify its sources of financing to increase flexibility and reduce financing costs on the other, was not resolved. Bottlenecks in project financing due to budgetary constraints and limited fiscal space hindered successful implementation of several projects. The Bank should focus on its areas comparative advantage in some key reform areas, and on lowering its non-financial transaction costs (see Section B below).

- **Allow flexibility in a CPS to manage changing circumstances and the prevailing needs**. Given the fact that the program spanned such an important historical moment for Romania, the CPS program was somewhat over-determined with a program of loans outlined for all four years of the CPS. The Bank appeared to have a pre-set agenda and was unable to adjust with sufficient flexibility in line with the Government's revised priorities. While Investment Loans (ILs) and Advisory and Analytical Activities (AAA) can reinforce a Development Policy Loan series, they should not be so inextricably linked as to create an 'all-or-nothing' program. Likewise, investment projects should not be overly complex (in technical and financing terms), which results in implementation delays and the need for restructuring or capacity building during implementation. The program should be designed so it can be scaled up or down according to the Government's demand. As the lack of interest in lending manifested itself, the Bank could have stepped-up its AAA program to demonstrate its value-added and develop a new knowledge partnership, but instead AAA declined in line with the lending program.

- **Anticipate and manage political transitions**. The CPS acknowledged that much of the commitment to reforms had been due to EU accession aspirations, but anticipated this reform commitment would continue to achieve convergence. In doing so, it underestimated an understandable reform fatigue after years of reforms in preparation for accession. At times, the Bank heard only the voices it chose to or sought agreement to its plans from other parts of Romania's governance structure. Such dialogue was counter-productive. The Bank should maintain dialogue with a wide range of stakeholders across the political spectrum, at all levels of the civil service and with a wide range of public stakeholders, including businesses, special interest groups and other non-governmental organizations.

65. **This CPS has been designed to reflect these lessons**, although the circumstances under which it is presented are very different to those prevailing at the time of the last CPS. The Bank is focusing on a series of budget support operations, presented alongside the CPS, with lower non-financial transaction costs for the Romanian authorities. However, unlike the last CPS, the other operations are not so intricately linked to the DPL as to make the whole program hostage to the success of this operation. Instead, the DPL is underpinned by analytical work that can be used to take forward Romania's objectives in a variety of ways, when needed. The program could be scaled up in the near-term only with significant cancellations within the current investment portfolio; in the absence of reform or ownership it could be scaled back to a limited portfolio of activities in areas of greatest need and ownership. A revitalized communications and outreach program is being implemented.

B. External Partners and the Bank's Value Added

66. **The EU and EU-related institutions have become Romania's main external partner**. The EU has committed more than EUR 32 billion in grants to Romania over the period 2007-13, equivalent to about 25 percent of Romania's GDP in 2009, to further the EU's objectives of convergence and cohesion, support for SMEs, environmental sustainability, innovation, development of trans-European transport and energy networks, and sustainable and secure energy.

67. **EIB and EBRD are key supporters of Romania's development objectives.** EIB is the largest institutional investor in Romania with a portfolio of EUR 6.2 billion and planned activities of EUR 1.5 billion for 2009 and 2010. The EIB plays an important role in providing required co-financing for the EU structural and cohesion funds and also technical assistance to support the convergence, infrastructure, environment and energy goals. The EIB lending focuses on industry, transport, and energy. The EIB lends at both national and sub-national lending levels. EBRD invests in both the private and public sectors in areas such as power, transport, municipal infrastructure, financial institutions and the corporate sector. EBRD is supporting Romania's efforts to decrease the intensity of its carbon fuel consumption and is promoting energy efficiency projects and energy efficiency loans via the banks.

68. **As the crisis unfolded, the Government requested an international support package of EUR19.95 billion for the 2009-10 period**. The IMF would contribute EUR12.95 billion, the EU EUR5 billion, the World Bank EUR1 billion, IFC EUR100M in 2009-2010 and EUR100M in 2010-11 (subject to market conditions) and EBRD and EIB the remainder. The programs supported by the various partners are complementary. The IMF Stand-By Arrangement (SBA) envisages a new Fiscal Responsibility Law that will, among others, set up procedures for improved multi-year budgeting supported by DPLs; similarly, the SBA envisages a reform in key parameters of the pension system and financial sector reforms coordinated with DPL actions. The EU funds would support fiscal consolidation and fiscal governance reform, strengthening of monetary and financial sector policies, and structural reforms in public administration, quality of public services, and business environment. EBRD intends to double its investment in the private sector in Romania to EUR1 billion during the 2009-10 period. Approximately half of this amount would support the financial sector. EIB's additional resources (total amount of lending envisaged for 2009 is EUR 1.5 billion) will be targeted to investments both in the public sector (e.g. infrastructure) and the private sector (e.g. industry, energy, and support of SMEs lending).

For the 2007-13 period, Romania has been allocated EUR 19,67 billion: EUR 19,21 billion under the Convergence objective and EUR 0,46 billion under the European Territorial Cooperation objective. Together with the national contribution of EUR 5,53 billion, total financing for Cohesion policy activities would amount to EUR 25,2 billion over the seven-year period. Romania's contribution to the EU budget will amount to EUR 10.2 billion.

Table 2- Breakdown of EU funds by operational program 2007-13

Operational Program	**EU allocation EUR mln**
Development of Human Resources Operational Programme	3476.14
Administrative Capacity Development Operational Programme	208.00
Regional Operational Programme	3726.02
Increase of Economic Competitiveness Operational Programme	2554.22
Transport Operational Programme	4565.94
Environment Operational Programme	4512.47
Technical Assistance Operational Programme	170.24
European territorial cooperation Objective	454.56
TOTAL OPs	19.667.60
CAP - Pillar 1	6127.50
CAP - Pillar 2 (NRDP)	8022.50
TOTAL CAP	14150.00

Source: European Commission, staff calculations

69. **The World Bank can contribute significant value-added to Romania's development policy agenda, especially in structural reforms.** Building on past support to reform and analytical work, it can play an important role in supporting crisis management and reform in the

areas of public finance management in general and public expenditure in particular, public sector pay, education, health, social protection, and the financial sector. These specific areas were chosen as a focus for the DPL series in consultation with the Government and external partners, based on two main considerations: the Bank's knowledge through past sector involvement, analytical work, and regional experience; and the competence available from other sources. The Bank's role in supporting social sector reform is particularly critical, given that this area is largely excluded from the EU *acquis* and EU-supported programs.

The Bank can provide value-added in four ways:

- Substance: The Bank can be a strategic partner in sectors for which there is limited or no coverage in the EU *acquis communautaire,* i.e. health, education, social protection, pensions and public administration.
- Approach: The *acquis* sets the goals and standards to be achieved by Member States, but usually leaves the choice of implementation path to achievement of those goals to the individual countries. The Bank can assist with a diagnosis of the degree of readiness to achieve European goals, present options, and provide capacity building for implementation, i.e., to help with the 'how to' of complex policy and reform issues. For example, all member states need to achieve the 20-20-20 climate change targets, but may not know whether it is most efficient and effective to do so by changing the mix of power generation sources or by reducing the demand for energy. The Bank can help design implementation plans, identify costs, benefits and areas of vulnerability, build capacity and – with other partners – assist in the implementation of the plans.
- Cross-sector integration: Some topics demand a holistic, cross-sector response, which the Bank is well-placed to provide. For example, the demographic shifts currently taking place in EU10 countries will require solutions that incorporate a range of structural reforms, including in health, education and pensions.
- Global perspective: The Bank can both draw on experience in other countries to bring innovative ideas, examples and lessons, as well as learn from EU-10 countries to enhance programs across the range of the Bank's client countries. One example of sharing global ideas is the conditional cash transfer programs that were initially developed in Latin America and are now being applied in the US and in Europe.

C. The Proposed Bank Strategy

70. **The dual objective of the Bank is to support Romania deal with the economic and financial crisis, and to broaden and deepen the reform program for sustainable and equitable growth**.

71. **The proposed Bank program is largely defined for the first two years, and outlined for the outer years**. Learning from the earlier CPS, the approach of this CPS seeks flexibility and ability to respond to evolving circumstances and demand by adopting a results-based program centered on development outcomes and objectives that, on the one hand, reflect the

Government priorities and, on the other, are aligned with the Bank's comparative advantage and value-added.

72. **The main thrust of the engagement program is three-pronged, drawing on: existing projects, the DPL program, and opportunities for lending and AAA engagement depending on supply and demand factors.** In the first two years, the Bank program consists of the following activities: the portfolio of on-going projects, the proposed DPL program, and analytical and advisory activities (AAA) centered around the implementation of the reform program supported by the DPL. To the extent possible, the Bank will tap additional resources, e.g., through Trust Funds such as the Financial Sector Reforms and Strengthening Initiative (FIRST), and partnership opportunities with the EU and other IFIs. A mid-term review of the CPS with Government would define the program for outer years and could also include new lending activities (subject to available lending headroom) that would need to be defined in terms of objectives and modalities (general budget support, or sector specific budget support), and a program of new analytical and advisory activities.

73. **In the first two years of the CPS, the Bank's lending program in Romania would be dominated by a EUR 1 billion programmatic series of three DPLs as part of a joint program with the IMF and the EC**. In line with the respective mandates of other partners, the Bank's engagement would focus on the financial sector, social sector reforms and public sector reforms. Selective investment lending outside the DPL program could be considered provided there is ownership, with priority given to areas which have the required absorption capacity and aligned with the Bank's comparative advantage which are outlined below. A substantial portfolio restructuring exercise is underway to free up resources from existing loans that no longer match the Government's priorities and to create headroom for such operations.

74. **Lending would be complemented by a substantive AAA program to inform and help guide the implementation of individual reforms**. Special emphasis will be place on peer-learning and dissemination, including sharing best practice in project design and implementation. AAA work is anticipated around the core reform topics supported by the DPL including education, health and pensions as well as public financial management issues with an emphasis on decentralization, tax and civil service reform. AAA will also be used to maintain a dialogue with strategically important sectors not covered by the DPL, including agriculture, infrastructure and the environment.

75. **The program is characterized by uncertainties**. If the pace of global and European economic recovery is slower than currently anticipated and/or the Government's interest to pursue reforms is sustained, lending may continue into the outer years of the CPS beyond the DPL series (subject to available lending headroom). If, however, the pace of economic recovery is rapid and/or the Government's commitment to reform weakens, the focus of the program may shift towards a knowledge-sharing agenda based on AAA and a cost-sharing relationship. While the early years of the program are reasonably well defined, the outer years are not and will be defined following a mid-term review and consultations with the Government.

76. **As of end of April 2009, IFC's portfolio in Romania stood at about $470 million which represents IFC's 3rd largest portfolio in Europe and Central Asia after Russia and Turkey.** However, IFC envisages a phased reduction of involvement in Romania within a period of 5 years (subject to market conditions), offering support to selective sectors and activities in

which IFC can still provide value addition and in which the commercial sector and market cannot fulfill. In addition, IFC's activities will maintain their focus on managing its existing portfolio of investments. IFC has begun withdrawing from sectors and lines of business in Romania where the private sector is ready to take over. For example, IFC does not participate in FDI in projects below US$50 million where commercial banks are willing to finance and also IFC does not offer credit lines to large banks, with the exception of special types of financing (energy efficiency, long term local currency, agriculture lending and MSMEs financing). In the short term, IFC's investment strategy is to play a crisis response role by helping to recapitalize the major banks which are considered vital to the financial system and offering trade finance to financial institutions in Romania. IFC's effort will contribute to speed up economic recovery and boost job creation while reducing the impact of the financial crisis. Also, IFC will consider investments, on a very selective basis, in banks and sectors that have a very strong development impact in frontier regions or in the areas of agriculture, climate change, infrastructure and health and education.

Table 3. Proposed IBRD Lending Program[1] and Selected AAA Services

Proposed IBRD Base-Case Lending Program	**Calendar Year**	**Amount Euro (M)**
DPL 1	2009	300
DPL 2	2009	360
DPL 3	2010	340
TOTAL		***1,000***

Recent/Proposed AAA Services	**Completion Calendar Year**
Public Expenditure and Institutional Review Programmatic	2009-10
Pensions for the Elderly Poor	2009
Macro Monitoring	2009-10
DPL Education Reform TA	2009-10
DPL Health Reform TA	2009-10
DPL Civil Service – Public Financial Management TA	2009-10
DPL Financial Sector TA	2009-10
Tax Administration TA	2009-10
Poverty Monitoring Programmatic Series	2009-10
Student Loans TA	2009-10
IT Assessment at NBR TA	2009
Pension Annuities TA	2010-11

[1] Subject to IBRD financial capacity

D. Strategic Pillars of the Proposed Program

77. **The Bank's envisaged strategic partnership with Romania would be based on three pillars**: (i) public sector reform; (ii) growth and competitiveness; and (iii) social and spatial inclusion.

Pillar 1: Public Sector Reform

Goals: in the short-term to secure fiscal savings without adversely affecting priority services and social assistance; and in the medium-term to modernize the public administration to improve the accountability and responsiveness of its staff and predictability and efficiency in public resource management.

Public financial management - Objective: reduce fiscal vulnerabilities by restoring budget discipline, improving the effectiveness and efficiency of public expenditures, and improved resource mobilization.

78. The IMF's SBA program supports a Fiscal Responsibility Law which aims to streamline the budget process and ensure fiscal sustainability over the medium term. As a complement, the World Bank will work with the authorities through the DPL program to improve the quality of annual budget planning by anchoring it more firmly in a credible medium-term expenditure framework and then to start to implement this process with selected line ministries. Through this process, the Bank will aim to strengthen national policy formulation; better link budget allocations with outcomes and performance; build capacities for economic analysis and forecasting; and improve the capacity of the Parliament and civil society for economic analysis. As a result, it is expected that the efficiency and effectiveness of Romanian public expenditure will be improved in the medium-term.

79. A programmatic series of Public Expenditure Review updates will complement the DPL series with the first in the series focusing on identifying opportunities for short-term savings and efficiency gains in major expenditure categories of the public budget, including education and health, transport and agriculture. Later updates will also cover issues around the systemic and institutional aspects of budget formulation and execution. In parallel to the Public Expenditure Review, the World Bank would also focus its analytical and advisory services on fiscal decentralization and tax administration where the needs are large.

80. In the outer-years of the CPS, output-based investment operations could be considered in support of decentralization, tax administration and performance-based budget support in selected sectors (for example, providing financing for the implementation of the per capita education scheme).

Public administration reform - Objective: improve the public pay system to enhance transparency and predictability, motivate performance among public sector employees, attract and retain critical skills.

81. The DPL program will support changes to Romania's public pay system to enhance capacity to attract and retain critical skills in the public administration. The reforms would aim

to keep personnel costs in line with GDP growth, improve the delivery of public services and limit discretion within the system. AAA work on civil service reform will be considered as a complement to the DPL. Overall, the program hopes to upgrade the Romanian public administration to align it better with European practices. Functional reviews and institutional reforms in selected public sector entities could be supported by DPLs; the former could be addressed by Advisory and Analytical Activities on a fee for services basis if so requested by Government.

Governance - Objective: strengthen the efficiency and accountability of the justice system.

82. Improved governance is implicit in many of the Bank-supported operations, and will be an important objective of the DPL-sponsored public sector reforms and supporting technical assistance and analytical work. A Judicial Reform project already in the portfolio will continue to increase the efficiency of the Romanian courts and improve accountability of the judiciary, in support of Romanian and EU objectives in this area.

Pillar 2: Growth and Competitiveness

Goals: in the short-run to put in place crisis-management measures in the financial sector; and in the medium-term to establish the building blocks for a resumption of growth for sustainable convergence to EU-average living standards through improved business environment, enhanced skills, upgrades in the infrastructure network and more efficient agriculture.

Financial sector - Objective: deepen and strengthen the resilience of the financial sector.

83. The DPL series will include measures across the series drawn from a recent Financial Sector Assessment Program (FSAP) update. Some aspects of contingency planning have begun under the IMF program. The Bank's program will support adoption of a Strategic Action Plan to further this process to guide the response to a potential financial crisis, dealing particularly with potential future interventions in the financial sector, guidelines for mortgage and corporate debt restructuring, and amendments to the Insolvency Law. The DPL program will also seek to strengthen consolidated supervision of the financial sector and ensure the political and financial independence of financial sector regulators, and support the implementation of Basel II. Analytical work on the financial sector is up-to-date, but more may be needed in the outer years of the CPS, especially if external conditions or regulations change. The overall aim of the Bank is to help the authorities to strengthen their financial sector to underpin a resumption of growth and become more resilient to future shocks. IFC will selectively and in the short-run enhance its crisis response initiative by helping restore liquidity and confidence by working with other partners to provide appropriate funding to banks and by supporting trade finance. IFC's role in Romania in this context, is to: a) work together with other IFIs to develop and implement support programs for main banks in the country, subject also to further support from the parent banks and from the Romanian authorities (where applicable); and b) signal IFC's confidence and strong support for the Romanian banking sector through investments in systemic banks.

84. The degree of financial intermediation, remains at one of the lowest levels in Central and Eastern Europe and the system continues to offer limited products and services. Moreover, the global liquidity crisis has weakened the access to finance to underserved segments such as

MSMEs and the agriculture sector especially in rural areas of the country. In light of this, IFC strategy in the financial sector is to support existing clients, particularly those that are deemed systemic in their respective countries, to continue to strengthen financial intermediation to MSMEs, to facilitate trade and to introduce new financial products and services, such as local currency products, agriculture finance and energy efficiency lending. Success of the MSMEs sector is critical to the health of the Romanian economy as MSMEs represent more than 90 percent of registered companies, 70 percent of GDP and an important share of employment. IFC will also continue to finance private equity funds which are targeting SMEs. These funds will help local enterprises expand and improve their competitiveness.

Business environment - Objective: improve the business environment, including institutional and policy framework for R&D and innovation, and the development of a knowledge-based society and economy.

85. A Knowledge Economy project in the portfolio supports the Government in improving e-government services, including for small and medium enterprises. Advisory work is being considered on tax administration to reduce the tax (and tax processing) burden on businesses in Romania and corporate financial reporting. The Bank-wide Doing Business report may provide the basis for further analytical work in the outer years of the CPS. The Bank could also consider support the Romanian authorities in implementation of their Better Regulation Strategy for 2008-2013, with particular emphasis on simplifying the top 10-15 regulations identified by business surveys as being most onerous. Additionally, after the recommendations of the 2008 Accounting and Auditing Report on the Observance of Standards and Codes (A&A ROSC), the Bank may assist Romania to further implement the EU *acquis communautaire* as it relates to corporate financial reporting, including by advising Romania on the set-up of the audit oversight system that is crucial to enhance external audit quality in Romania. This assistance could be financed under a Bank fee-for-service arrangement, similar to the ones that are already in place with several new EU Member States under the Swiss Enlargement Contribution. On June 26, 2008 Switzerland and the EC signed a political declaration of intent to extend the Swiss Enlargement Contribution to the 2007 new Member States, Bulgaria and Romania, adding CHF 257 million (approximately US$255 million) to the existing funding of CHF 1 billion, subject to approval by the Swiss Parliament (which still needs to take place) and the negotiation of Bilateral Framework Agreements (expected by the end of 2009). The Swiss State Secretariat for Economic Affairs (SECO) has already indicated its wish that the Bank-managed TA program on corporate financial reporting should also be extended to these countries using a portion of the Contribution, a move which is facilitated by the active policy dialog associated with the A&A ROSC.

Education, skills and knowledge - Objective: support the Government in improve access to and quality of education in a fiscally sound manner.

86. The DPL takes education as a focus sector for implementation of key reforms measures to improve the efficiency of resource use while enhancing the quality and access of public services. The series of loans will support a reform of education financing in primary and secondary education, which will free up resources for improving quality, while an on-going Rural Education project in the portfolio focuses on quality and access issues through rehabilitation and innovation. Technical assistance work will support the careful design and implementation of the decentralization of primary and secondary education, while at the tertiary

level a technical assistance program will support the introduction of a Student Loans scheme, which will boost the revenue base of the education system and provide an alternative and complement to the existing grant (scholarship) system. A Knowledge Economy project in the portfolio helps to connect disadvantaged communities with public services, and also supports the Government to adjust the delivery of its services (e.g., primary education) or introduce e-government services, including for small and medium enterprises. The overall objectives are to enhance the transparency and accountability of public sector activities through full and timely access to public information. Further support in this sector could be considered in output-based investment operations and/or technical assistance. IFC will also consider investments in education provided that the private players become more transparent.

Agriculture - Objective: provide advisory, technical and financial assistance to support the market-based restructuring and competitiveness of Romanian agriculture.

87. The Bank remains active in the agriculture sector with three projects: one that supports the implementation of land tenure and titling reform and enables greater absorption of EU funds; another aims to improve the competitiveness of farmers and agro-processors through improved advisory services, to modernize the agricultural research apparatus, and to improve food safety, in line with EU requirements; and a third supports the rehabilitation and reform of irrigation systems to increase agricultural productivity. Complementary analytical work could include a review of the optimal mix of EU Common Agriculture Policy and national funds to maximize the impact on competitiveness. Analytical work (in the Public Expenditure and Institutional Review) and technical assistance may also be considered to strengthen the capacity of those Government departments responsible for agriculture and rural development to enhance their strategic planning and programming capacity as one of the key expenditure categories in the budget. The Romanian agriculture sector is often referred to as a significant beneficiary of European Union membership because EU integration can give Romanian farmers access to a market with more than 500 million consumers. Despite the comparative advantages of the country, namely, an abundance of arable land and a favorable climate, the Romanian agriculture sector suffers from fragmentation and obsolete production methods. Investments are needed to raise the sector's competitiveness and to help local farmers improve efficiency through upgraded technology. IFC will selectively support direct investments in agribusiness as well as financial institutions which provides financing to the agriculture sector, which has been largely ignored by the financial sector. IFC's support of this key sector can help to encourage additional investment from the financial community.

Transport - Objective: improve the efficiency of the roads and railways sub-sectors, help reduce the overall costs of transportation, improve road safety, and reduce the negative impacts of traffic congestion and pollution in selected cities.

88. The portfolio of transport projects in the current portfolio is expected to close in the first few months of the CPS. However, as a major expenditure category in the budget, the PER will consider opportunities for fiscal savings and efficiency gains drawing on the Bank's experience in this sector. While other institutions, particularly EIB and EC, remain the key counterparts on transport issues, a future Bank role in this sector could be envisaged in the areas of strategic planning, institutional and policy reforms, safety and development of PPP projects. IFC will closely coordinate with EBRD and EIB to finance PPPs with significant developmental impact.

Energy and Environment - Objective: assist Romania in meeting its commitments in respect to energy market liberalization and EU 20-20-20 targets, implementation of EU Water and Nitrate Directives, and in reducing environmental, social and economic vulnerabilities to natural and technological disasters.

89. The Bank's support in this area has been declining and now focuses on rehabilitation of a hydropower station and a guarantee operation of a privatization agreement for electricity distribution companies under a new regulatory framework, and the closing of mines in an environmental safe manner together with the regeneration of economic activities in the mining areas. Should the Government decide to resume the privatization process to include the remaining state-owned energy companies and mining companies, the Bank may consider supporting this process and/or the associated institutional and regulatory issues. The Bank has also recently supported lending (including a GEF grant), analytical and technical assistance to support companies' adoption of energy efficient technologies. It is hoped that this work may be furthered during the CPS period as Romania has to meet the EU's ambitious climate change targets and could draw significant revenues from the sale of surplus CO2 emission rights under the Kyoto Protocol.

90. An Integrated Nutrition Pollution Control loan and associated GEF grant in the portfolio will help Romania to meet the EU Nitrates Directive requirements by reducing pollution discharge into water bodies and strengthening institutional and regulatory capacity. The on-going Municipal Services projects is assisting Romania meets its commitments with respect to water quality, and also in the absorption of EU funds. In collaboration with the Bank, IFC may support new investors in the power sector (generation and distribution) and other network utilities (water, gas, district heating), where emerging regulatory frameworks are not yet well-tested and constitute an element of uncertainty and "political risk" which may otherwise constrain investor interest. IFC will also work with local financial institutions to provide energy efficiency lending and invest in renewable energy projects (wind and/or biomass).

91. The on-going Hazard Risk and Emergency Preparedness in Romania project aims to reduce environmental, social and economic vulnerabilities to natural and technological disasters by enhancing the Government's institutional and technical capacity for disaster risk management. This includes establishing an integrated disaster information management system, developing earthquake scenarios, conducting public awareness and preparedness programs. The Bank may also discuss Catastrophic Risk Insurance options with the Romanian Government.

Pillar 3: Social and Spatial Inclusion

Goals: in the short-term to protect the new and existing poor populations from the adverse effects of the crisis; in the medium-term to promote social inclusion and regional development.

Social assistance - Objective: improve the cost effectiveness and targeting of social assistance programs to mitigate the impact of the crisis on the poor and vulnerable.

92. Social protection is a core theme of the DPL series, which will aim to improve the design and increase the coverage of the most efficient and well targeted social assistance program - the Guaranteed Minimum Income (GMI) – while progressively rationalizing the coverage of the less efficiently targeted programs. The Bank has some considerable analytical and advisory work

already in place on this topic, but will continue to deepen this through a programmatic poverty monitoring series to help in particular with the monitoring and evaluation, and the design of future improvements. Further lending or technical assistance work to support implementation of the measures could be considered in the outer years of the CPS, notably in helping the development of activation policies and programs.

Social Inclusion - Objective: improve the social inclusion and living conditions of the most disadvantaged and vulnerable people in the Romanian society.

93. The Bank's program already has a Social Inclusion operation that aims to improve the living conditions and social inclusion of the most disadvantaged in society, which in Romania include the Roma, persons with disabilities, children at risk and victims of domestic violence. The programmatic poverty monitoring program will provide further analytical coverage of these issues. Three other programs in the current portfolio also have a strong inclusion focus: the Knowledge Economy project specifically targets remote and disadvantaged communities to link them electronically to broader society; the Rural Education project supports school-based innovations in remote regions; and a Mine Closure project provides socio-economic regeneration opportunities to mining communities and local authorities. Further work in transport or communications would continue to focus on connectivity and inclusion.

Health sector - Objective: support the design and implementation of health sector reform program to improve health outcomes.

94. As with education, the DPL takes health as a focus sector for implementation of key reforms measures to improve the efficiency of resource use while enhancing the quality and access of public services. Specific reforms to be supported include those that would support the Government's decisions on drug pricing and adoption of legislation to promote the prescription of generic drugs; improve the design of the benefits package and in particular introducing a co-payment system with exemptions for the poor; promoting the development of supplementary insurance rationalizing hospitals and shifting to a focus on primary care services which would be supported by provider payment reforms. This program will be supported by analytical work and further lending for health could be considered in the outer years of the CPS given the extensive reform agenda. An on-going health project is supporting the modernization of maternity and emergency services. IFC will seek to help stimulate the growth of the private healthcare sector in Romania, as well as support the delivery of higher quality and better reach of services by offering advisory services within the World Bank programs and promoting private sector participation. IFC will also help establish benchmarks for delivery of private health services in the country.

Pension system - Objective: strengthen the performance, financial viability, integrity and equity of pension system.

95. The DPL series will support reforms in the pension system to put it back onto a sustainable footing, including indexation of benefit adjustments to inflation, raising and gradually equalizing the retirement age and increasing the contribution rate to the second pillar. Other important aspects of the Bank's program include analytical work, which could be followed by implementation support, to provide better social protection for elderly poor (effectively a zero

pension pillar) and implementation of a capacity building program for the pension system administration. The Bank may also advise on strengthening pension annuities in anticipation of the time when the second, private pillar will start to pay out.

Regional development - Objective: address the disparities across regions by focusing on strengthening the administrative and financial management capacity with the view to improve the quality of public service delivery at sub-national level.

96. The Bank supports the regional development policy of the Government through investment lending in municipal infrastructure and advisory services. Under a Bank-financed project Master Plans for water and wastewater infrastructure are prepared for eleven (out of forty two) counties for financing by the EU funds. Another project provides TA to Roma communities to prepare projects (small roads, water, sanitation, small housing investments) for financing through EU funds and capacity building and training at local level for preparation of investment projects for EU financing. The Bank stands ready to continue to offer support in lending and analytical and advisory services for regional and municipal development. Areas for assistance could be envisaged in planning, institutional and policy reforms, including decentralization, capacity building at sub-national level and co-financing of EU funds.

E. Consultations and Partnership with the Government and other Stakeholders

97. **To be effective, the Bank will need to forge a true partnership with the Government, based on sharing of goals and mutual trust, and anchored on broad support among other stakeholders.** The Bank will seek to continue the practice of regular portfolio reviews with the authorities to ensure a good alignment of priorities and prompt follow-up where issues arise. Such reviews could take place every six months with officials, and at least once a year at Ministerial level.

98. **The FY10-13 World Bank Group CPS was prepared by drawing on intensive dialogue and feed-back mechanisms. The CPS teams used a variety of consultation mechanisms.** Stakeholder consultations were the main instrument for identifying key challenges and possible CPS themes in May 2009. These workshops involved national and local Governments, civil society, the business community/private sector, academia, unions, youth groups, and other development partners. Further live and online consultations are envisaged through CPS implementation. Other tools included a series of consultations on policy notes, issued in early 2009, dissemination and consultations of individual analytical or TA reports produced by the WB (e.g. social protection, regional development, municipal finance, students loan, civil service pay), and an on-line feedback mechanism via the website (See Annex E for more details).

99. **The consultations provided a venue for a meaningful exchange of views with various stakeholders on the critical challenges of current economic crisis affecting Romania and long-term prospects as well as policy options and programs that would address these challenges**. The key messages and implications for further Bank Group support are summarized in Box 1. The goal of these discussions was to listen to a wide spectrum of voices and to incorporate the most relevant opinions and comments in the CPS design. A detailed feed-back

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 lack 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.