**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY
FOR
ROMANIA

As approved by the Board of Directors at its meeting on 28 February 2012.

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EXECUTIVE SUMMARY

Romania is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank. The pursuit of further EU integration following Romania's accession in 2007 remains an important anchor for comprehensive reforms and for a deepening of democratic values and standards.

The Romanian economy has been hit hard by the global economic crisis and suffered a deep recession in 2009, with output falling by more than six per cent and foreign direct investment by over 60 per cent. A modest economic recovery has become evident in 2011, based on exports and a good agricultural year. Imports are also rising, which suggests that domestic demand may be starting to pick up again. Despite an increase in the ratio of non-performing loans the banking sector remains liquid and well capitalised, while private sector credit growth, which has remained in positive territory throughout most of the crisis, has started to show a modest recovery towards pre-crisis levels. However, financing is limited for micro, small and medium enterprises, especially in rural areas and outside major cities, and for small agricultural enterprises.

The short-term macroeconomic outlook for Romania is uncertain, especially in light of the renewed turmoil, both on global markets and within the eurozone, in the second half of 2011. Over the medium term, however, Romania has a strong potential to converge with the EU, as GDP per capita in purchasing power parity terms is among the lowest in the EU at just 45 per cent of the EU average, provided progress can be made in structural and institutional reform.

Although Romania is an advanced transition country and an EU member, the country still faces significant transition challenges in the coming years in certain sectors. Key transition challenges which can be addressed with the support of EBRD financing and assistance include:

- **Promoting stability and expanding products in the financial sector.** Given the continuing global economic and financial uncertainty, the stability of the financial sector is still at risk. Further development is also required in the areas of leasing and insurance and local capital markets.
- **Strengthening infrastructure through improved efficiency and greater private sector involvement.** It is necessary to develop the national infrastructure sector, especially roads, and, where appropriate, to introduce private sector investment via concessions / PPPs and the privatisation of transport operators. In many infrastructure operations (water, waste, roads, rail, district heating, etc.) there is a need for improved operating efficiency and service levels, and less dependence on public subsidies and state financing.
- **Restructuring the power sector and increasing energy efficiency and sustainability.** A large part of Romania's energy sector is still state-owned and needs to be restructured and/or privatised to encourage investment and to promote efficiency. Despite improvements in recent years, Romania is still an energy-intensive economy and needs to make further progress in the transition to an efficient, low carbon economy.

- **Encouraging investment in the production side of the economy.** Given that Romania is a consumer driven economy, it is important to introduce new products and processes in sectors such as manufacturing and agribusiness in both local and foreign-owned companies. Future growth prospects also depend on developing competitiveness, greater export capacity, producing import substitutes domestically and improving the business climate in order to attract more foreign investment in an increasingly competitive environment.

Strategic directions

The Bank's priorities for the coming three years will be to assist the Government in continuing to implement its reform plans and to further facilitate the role of the private sector in generating growth, stimulating investment, providing essential services and promoting competitiveness and innovation in the corporate sectors. The Bank's priorities are focused on those areas where the transition gaps remain significant and where the Bank's finance and expertise are additional to commercial and non-commercial sources of funds. The Bank's activities in Romania will focus on the following operational priorities:

- **Continuing to support and develop the financial sector.** The Bank will maintain its role in supporting the banking and non-banking sectors in order to provide long-term financing and to contribute to market stability. It will also promote further development of the non-banking financial sector and the local capital markets through investments, technical assistance and policy dialogue.
- **Enhancing commercialisation, competition and private sector involvement in infrastructure.** The Bank will seek to expand its activities in the municipal sector by supporting commercial structures for both urban transport and municipal water and wastewater projects backed by Public Service Contracts. Where appropriate, the Bank will work alongside the EU and will also support and stimulate the private financing of municipal and national infrastructure.
- **Developing sustainable energy policies and investments.** The Bank will continue to support the energy sector with private financing and where appropriate will assist with the restructuring and privatisation of state energy companies. The Bank will also facilitate Romania's transition to a low-carbon economy and enhance its energy security by supporting energy production from renewable and environmentally sound sources and by assisting companies employing energy-saving technologies. The Bank will promote energy security by supporting the building of new connections for the delivery of oil, gas and electricity.
- **Supporting a shift to a more production oriented economy.** The Bank will continue to respond selectively to demand from the corporate sector, especially manufacturing and agribusiness companies involved in the production of exports, import substitutes and other value added products, by directly financing local and foreign-owned companies, indirectly financing companies via SME loans, investing in private equity funds and re-launching the Enterprise Growth Programme (EGP) (formerly the Turn-Around Management (TAM) programme).

In all its operations, and importantly in its policy dialogue with the authorities, the Bank will coordinate closely with other IFIs and with the European Union to achieve maximum impact from its projects. The effectiveness of this Country Strategy in addressing the country's remaining transition challenges will depend crucially on the continued commitment of the Romanian Government to implement market reforms and to further improve the business environment.

1. THE BANK'S PORTFOLIO

1.1 Overview of Bank's activities to date

At the end of 2011, the Bank had signed 311 projects and committed €5.6 billion to Romania. This mobilised further funding of €9.9 billion resulting in total financing of €15.5 billion. The Bank's outstanding portfolio in Romania at the end of 2011 was almost €2.8 billion and was spread fairly equally across a broad range of sectors: Financial Institutions 28 per cent, Corporate 29 per cent, Energy 23 per cent and Infrastructure 20 per cent (see Table 1).

Table 1: Portfolio Development in Romania

SECTOR	NET CUMULATIVE BUSINESS VOLUME at of 31 December 2011				CURRENT PORTFOLIO STOCK as at 31 December 2011				
Amount in € million	Number of projects	Total Project Costs	EBRD signed	*EBRD % of Total*	Number of projects	Portfolio	*% of Portfolio*	Operating Assets	*% of Operating Assets*
Financial Institutions	**104**	**2,627**	**1,593**	**29%**	**60**	**759**	**28%**	**729**	**34%**
Bank Equity	19	645	224	4%	10	62	2%	62	3%
Bank Lending	55	1,687	1,198	22%	34	631	23%	611	28%
Insurance & Financial Services	15	141	117	2%	5	43	2%	37	2%
Small Business Finance	15	155	54	1%	11	24	1%	19	1%
Industry, Commerce & Agribusiness	**127**	**6,144**	**1,847**	**33%**	**72**	**793**	**29%**	**628**	**29%**
Agribusiness	24	1,264	416	7%	11	294	11%	273	13%
Equity Funds	41	752	257	5%	36	189	7%	87	4%
Manufacturing & Services	27	1,617	563	10%	9	168	6%	159	7%
Property & Tourism	19	682	197	4%	12	136	5%	105	5%
Telecom, Informatics, Media	16	1,830	415	7%	4	4	-	3	-
Energy	**21**	**2,335**	**956**	**17%**	**13**	**641**	**23%**	**492**	**23%**
Natural Resources	5	471	284	5%	3	176	6%	176	8%
Power and Energy	16	1,863	672	12%	10	465	17%	316	15%
Infrastructure	**59**	**4,365**	**1,161**	**21%**	**45**	**563**	**20%**	**313**	**15%**
Municipal & Environmental Infrastructure	50	2,664	681	12%	39	366	13%	195	9%
Transport	9	1,722	481	9%	6	197	7%	118	6%
TOTAL	**311**	**15,625**	**5,558**	**100%**	**190**	**2,756**	**100%**	**2,161**	**100%**

The Bank invested over €2 billion in Romania during the four year period from January 2008 to December 2011, in 109 new projects (both debt and equity). The current portfolio grew by 51 per cent over the same period. At end 2011, the private sector portfolio ratio (as a percentage of the total portfolio) was 74 per cent, which is well above the Bank's 60 per cent mandated ratio, and in 2011 just over 59 per cent of the business volume was invested in the private sector. Table 2 below illustrates how the portfolio has evolved over the last four years.

Table 2: Portfolio Development in Romania from 2008 to 2010

€ m	2008	2009	2010	2011	Development over 2008-11 (4 years since last Strategy)
Net Cumulative Business Volume (€m)	3,784	4,435	5,101	5,558	+ 57%
Net Cumulative Number of Projects	245	264	287	311	+ 25%
Current Portfolio Stock (€m)	1,851	2,360	2,676	2,758	+ 51%
Current Number of Projects	157	163	178	190	+ 23%
Operating Assets (€m)	1,342	1,620	1,942	2,161	+ 94%
Undrawn Percentage (% Portfolio)	27%	31%	27%	22%	-
Annual Business Volume (€m)	320	721	593	449	2,083[1]
Number of Projects	25	23	31	30	109[1]
Gross Disbursements (€m)	438	438	531	539	1,946[1]
Annual Cancellations (€m)	56	60	32	29	177[1]
Active Pipeline Stock (€m)	1,301	1,098	1,413	1,503	-
Private Sector Share (% Portfolio)[2]	68%	74%	78%	74%	-
Non Sovereign (% Portfolio)	90%	93%	95%	96%	-

[1] Cumulated for four years.
[2] The private sector share (on a 5-year rolling basis) as a percentage of the portfolio is 74% and as a percentage of the projects signed is 84%.

Figures 1 and 2 illustrate the Bank's annual business volumes (ABVs) and the number of projects (including regional projects) signed each year from 2008 to 2011.

Figure 1: Annual Business Volume in € million per year

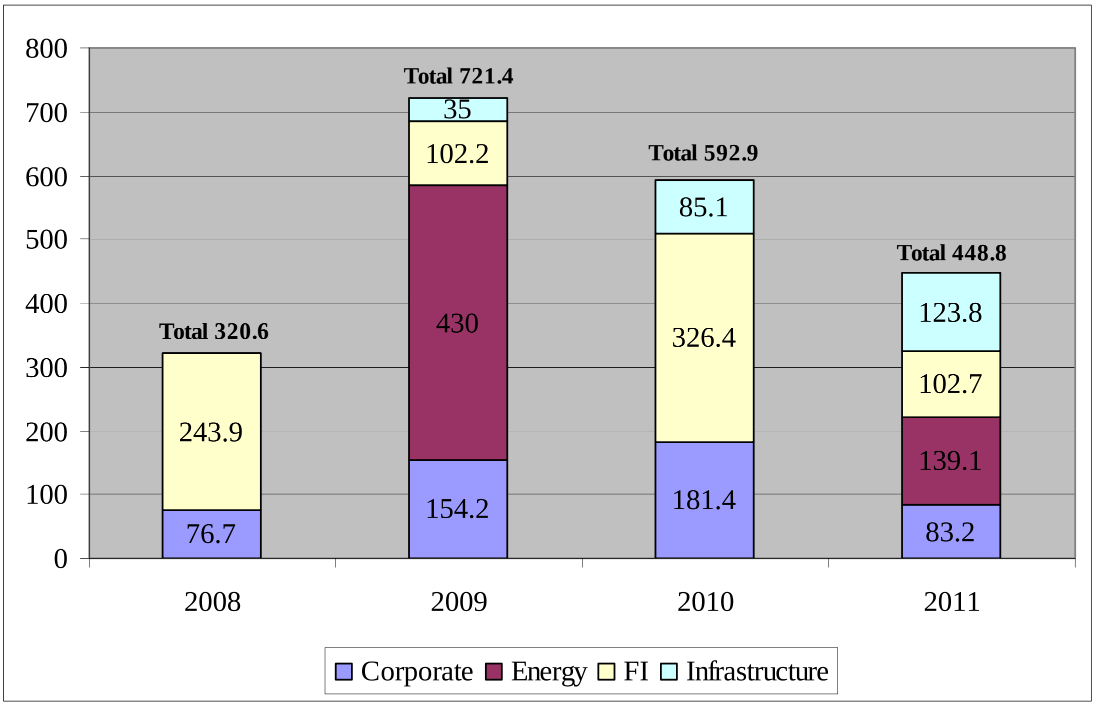
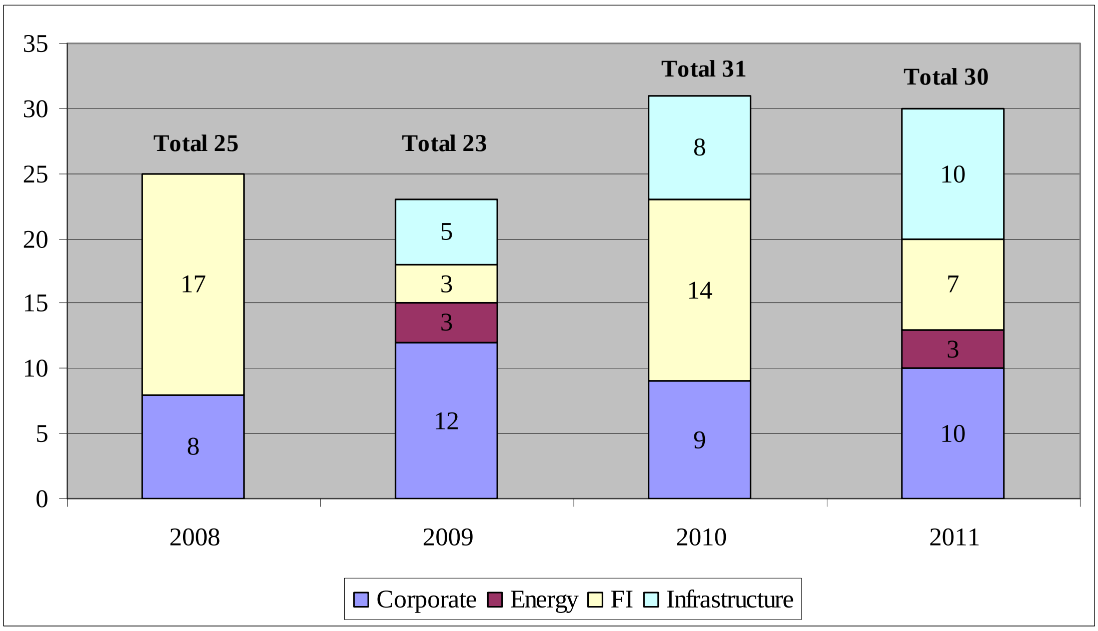


Figure 2: Annual Number of Projects Signed



1.2 Implementation of the previous country strategy

The last Country Strategy for Romania was approved by the EBRD's Board in April 2008. The 2008 Country Strategy highlighted the following priorities:

- **Financial Institutions:** Ensure stability of the financial sector, support and assist development of foreign owned and local banks, especially to support Micro, Small and Medium Enterprises (MSMEs) and to promote energy efficiency, the development of the non-banking financial sector and continue to support equity fund managers by investing in their funds and looking at co-investments. Work with regulators on developing capital markets infrastructure and issue a RON denominated bond.
- **Infrastructure:** Improve the national infrastructure, especially the transport sector, to ensure enhanced regional cooperation, improved trade and the utilisation of Single Market benefits. Continue activities in municipal sector, especially in view of the opportunities to support projects using EU Cohesion and Structural Funds.
- **Energy:** Investments with both the public and private sectors in energy generation, transmission and distribution. Promote energy efficiency and renewable energy projects as part of the Bank's Sustainable Energy Initiative.
- **Corporate:** Support to the private corporate sector (local and international investors) with a special focus on competitiveness, expansion (including in less advanced regions), energy efficiency and the development of more high risk instruments and local currency loans.

The Strategy was written during a pre-crisis environment of strong economic growth and significant capital inflows. However, the strategy period (2008-2011) coincided with the global financial crisis, starting towards the end of 2008, which resulted in an increased demand for the Bank's services, particularly in the financial institutions sector.

Despite this, the Bank was broadly successful in addressing its core priorities outlined in the previous strategy and significantly increased its activity in Romania by swiftly responding to the crisis. The Bank more than fulfilled its pledge to invest €1 billion in Romania in 2009 and 2010, under the joint crisis response package of support agreed by the International Monetary Fund (IMF), the European Union (EU), World Bank and the EBRD in 2009, by investing over €1.3 billion during this two-year period. In 2011, the Bank also co-operated with the IMF, EU and World Bank on a €4.9 billion precautionary financial support programme for Romania, providing advice on potential privatisations.

Responding to key transition challenges and the crisis, the Bank has delivered an increased business volume, including the following targeted operations:

Financial sector: In the financial institutions sector support was provided to stabilise the banking sector, with a significant increase in lending to the commercial banks to provide them with necessary liquidity and to provide credit to the Small and Medium Enterprise (SME) sector, which was deprived of financing during the financial crisis. Two SME loans, under the EBRD-EU Facility, were signed with the local subsidiaries of Leumi and Millennium (both new clients), and the loan to Millennium involved a special package targeted at SMEs owned or managed by women. The Bank continued to assist non-banking financial institutions by granting loans to micro-credit institutions including Patria Credit, Opportunity Micro-credit and Express Finance, and by financing leasing companies including BT Leasing, RZB Leasing and Impuls Leasing. The Bank also delivered two fast track loans to Banca Transilvania (BT) and to Banca Comerciala Romana (BCR) for a total of €200 million. The 2008 loan to BT was the first crisis response project in the banking sector.

In 2011, the Bank syndicated a loan to Raiffeisen Bank Romania, the first syndication to a Romanian bank since 2008. In addition, in 2010, loans were made to the subsidiaries of four Greek banks and the Bank increased its capital in Banca Transilvania, Banca Romaneasca and ProCredit (micro-credit bank). The Bank continued to support private equity and mezzanine funds that target investments in Romania. Among the signed projects, a notable transaction is the first fund in the region targeting distressed companies. Additionally, in 2011 the Bank completed its first ever commitment to a greenfield PPP infrastructure fund focused on developing and managing long-term greenfield infrastructure assets in the Bank's Organisation for Economic Co-operation and Development (OECD) member countries, including Romania. Following several changes to the financial infrastructure, the Bank launched its inaugural Romanian Leu ("RON") 115 million bond in February 2009.

Infrastructure: Investments in the national transport sector have not materialised due to the Bank's shift away from financing sovereign projects and so far there have been no Public Private Partnerships (PPPs) in Romania, despite the Bank's efforts to support the A3 Motorway concession project from Comarnic to Brasov via an Environmental Impact Assessment. However, the Bank signed 22 municipal infrastructure projects from 2008-2011 and put in place a framework to provide up to €200 million of co-financing for projects in Romania's water and wastewater sector alongside EU Cohesion Funds. As of December 2011, eight EBRD loans with a total volume of €139 million were signed, mobilising €788 million of funds from the EU. In addition, a framework of up to €300 million was developed for urban transport infrastructure projects, introducing Performance Based Management and Maintenance of Road contracts. Last year the Bank concluded one of its first gender related loans to the Municipality in Sfântu Gheorghe, in which gender related issues were taken into account with regard to the paving of pedestrian areas and the provision of public lighting to improve overall levels of safety and security.

Energy: During the last strategy period the Bank has successfully concluded a number of important and high profile deals in the energy sector, in both the public and private sectors, especially in energy generation. At the height of the financial crisis, the Bank syndicated a loan (€150 million, of which the EBRD financed €80 million) to upgrade and rehabilitate a unit of Turceni power station, a lignite fired plant, in order to meet EU environmental requirements. The Bank and the European Investment Bank (EIB) each provided a €200 million loan to Petrom to help it finance a new gas fired 860 MW power plant. This will be one of the few private power plants in Romania and it will account for 8 to 9 per cent of Romania's electricity capacity. The Bank also provided Petrom with a syndicated loan to support environmental and energy efficiency improvements.

The EBRD has made a significant effort to invest in renewable energy in Romania and in 2011 the Bank, in co-operation with the International Finance Corporation (IFC), made its first investments in two wind farms in Romania, via two syndicated loans totalling €188 million to the Portuguese company, Energias de Portugal Renovaveis (EDPR). In July 2011, the Bank further supported renewable energy via a €110 million syndicated loan to the largest Romanian energy producer, Hidroelectrica, for the rehabilitation of Stejarul Bicaz, a 50-year old hydro power plant. At the same time the Bank made its first ESCO loan of €10 million to Energobit ESCO to finance energy savings investments, including combined heat and power (CHP) generation and energy efficient lighting, mainly in the municipal sector. Over the 2008-2011 period, under the joint EU-EBRD Energy Efficiency and Sustainable Energy Finance Facilities, the Bank extended €100 million worth of loans to six participant banks to on-lend to private corporates implementing energy efficiency investments; as of June 2011, 67 sub-projects have been financed, generating annual energy savings of 803,000 MWh and emission reductions of 288,443 tonnes CO_2 equivalent.

Corporate sector: The Bank's crisis response in the corporate sector was reflected in increased financing (both debt and equity) to companies that found it difficult to access funds from other sources. During the period of 2008 to 2011, almost 40 projects were signed in the corporate sector for a total of over €450 million. Increased efforts were made to finance local companies with higher risk instruments and the Bank made its first equity investment in a Romanian corporate, a tissue paper producer in the north east of Romania. This investment has been followed by a mezzanine debt financing to a Romanian producer of plastic packaging and an equity investment in Green Group, one of the Romania's few recycling businesses. In addition a number of investments were made to support foreign investors, including a €44 million portage equity investment in Renault's car test centre in Titu. Not only will this facility generate significant employment opportunities, but it will also transfer knowledge and expertise to local employees given it is Renault's largest car test centre outside France.

The Bank also carried out a syndicated loan to Alro, the largest aluminium smelter in South-East Europe, which included an energy efficiency element. During the crisis, the Bank put in place a special working capital financing facility to support existing clients. This was successfully used to provide a local currency working capital loan to Lafarge Romania. This was the first EBRD local currency corporate loan to be offered in Romania. Although it was successfully implemented, there is still little demand for local currency loans from corporates, given the significant difference in interest rates between Euro and RON loans. Few real estate projects were signed during the strategy period given the lack of activity in the sector due to the economic downturn. However, several agribusiness loans were signed including the financing of an oilseed crusher and processor located in south-eastern Romania and the acquisition and further expansion of a grain logistics facility in the port of Constanta.

During the strategy period the Bank continued its active policy dialogue across all sectors. Under the Vienna Initiative, the Bank worked to ensure the parents of the nine key Romanian banks (about 70 per cent of the assets) maintained their overall exposure in Romania, and where necessary, recapitalised their Romanian subsidiaries. The programme has been regarded a success and in 2010, the 100 per cent overall exposure maintenance level was relaxed to 95 per cent. The Vienna Initiative expired formally in 2011, but the leading banks once again affirmed their commitment to their subsidiaries at a meeting in March 2011. The Bank also engaged in intensive policy dialogue to ensure transparency in bank lending to consumers (regarding Emergency Ordinance 50/2010), to improve the implementation of the gas regulatory framework (whereby gas prices should be cost reflective), to encourage investments in the renewable energy sector (through the provision of a stable legal and regulatory/framework for renewable energy) and in concessions/PPPs and to address concerns of foreign investors regarding the business environment.

Through its operations and intensive policy dialogue, the Bank addressed most of its strategic objectives during the past four years. The Bank's business volume far exceeded expectations, due in part to a robust response to the crisis, in coordination with the IMF and by cooperating with other IFIs, but also because the Bank extended its range of products into working capital loans, local currency loans, equity for local Romanian corporates, etc. However, it should also be noted that the Bank's ability to work in some sectors, such as transport, has been hindered due to a failure to implement any road PPPs / concessions, including the proposed A3 motorway concession from Comarnic to Brasov.

In a number of areas, the Bank's efforts to advance transition were supported by EU programmes, through grant co-financing for the Bank's energy efficiency frameworks, EU/SME Finance Facility as well as the Bank's EU Cohesion Funds Water Co-financing Framework. The Bank also supported the Government's reform efforts through TC, including in the areas of energy efficiency and gender.

1.3 Transition impact of the Bank's portfolio

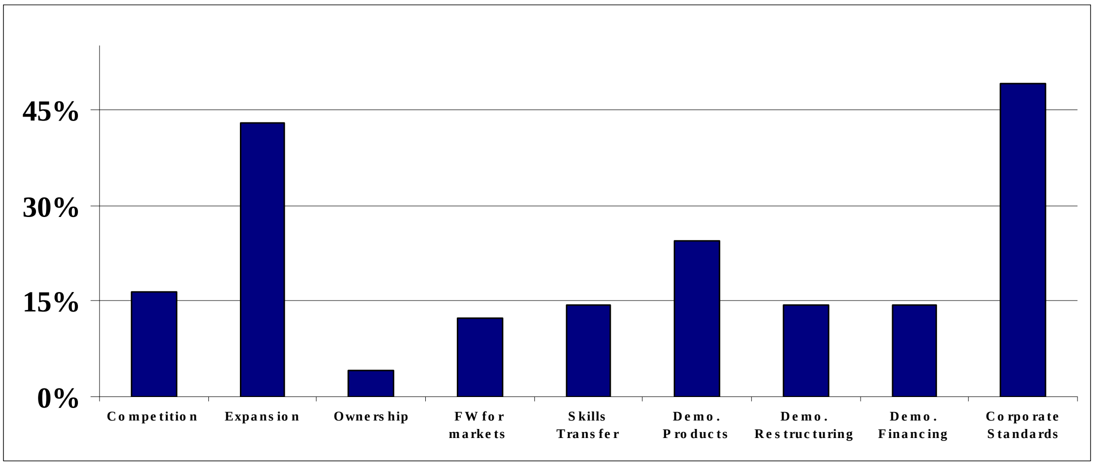
Since 2008, eighty-four per cent of the Bank's 49 new projects in Romania were ex-ante rated "Good" or "Excellent" which is above the institution-wide target of 80 per cent of projects to be assessed "Good" or better. Eight operations (18 per cent) signed in the financial and corporate sectors were assessed with "Satisfactory" transition potential. These projects were extended to existing clients of the Bank, where most transition objectives had already been achieved during previous transactions. The Satisfactory-rated projects in the financial sector (five operations) represented capital increases to existing clients, while three projects in the corporate sector were extended to already leading players in the market, implying only limited transition impact potential.

Five new operations (10 per cent) were rated “Excellent” since 2008. Two of them in financial sector provided support to microfinance institutions in Romania, with the objective of enabling successful restructuring and developing of further financing activities. The Excellent-rated project in Energy sector is expected to demonstrate financially viable wind power generation facilities. The infrastructure project supporting the nascent ESCO market in Romania was also rated Excellent. Finally, an Excellent rating was given to a project that envisages the introduction of a nation-wide infrastructure for the collection of recycling material.

The transition objectives of projects signed during the strategy period reflect the Bank’s response to the main challenges brought by the financial crisis, as well as predominantly large transition gaps in the sectors of the Bank’s involvement in Romania. Key transition objectives across projects have been improving corporate governance standards and supporting market expansion, in particular through an increase in lending by banks that were significantly affected by the crisis (Figure 1). More than half of all projects signed since 2008 address one of these transition objectives. Over 30 per cent of the Bank’s operations addressed demonstration of new products, mostly associated with sustainable energy. This is in line with the Bank’s strategic objective of addressing Romania’s high energy intensity challenge (which is negatively affecting the economy’s competitiveness) by promoting energy efficiency projects for both industries and households.

Finally, the Bank’s crisis response operations (mostly extended to financial institutions in 2010) targeted demonstration of successful restructuring and supporting companies in their post crisis restructuring efforts to ensure long-term sustainability.

Figure 3: Targeted transition objectives (share of projects), 2008 - present



As of end of 2011, 93 per cent of active operations in Romania that are well under implementation (i.e. at least 6 months since signing and are monitored for their transition impact at least once) have a rank in the range from 1 to 6 according to the Bank's Transition Impact and Monitoring System[1]. The average rank of Romania's active TIMS portfolio stood at 3.8, slightly better than the Bank's business plan target of 3.90. An analysis of the portfolio shows that 35 projects (46 per cent) are on track and 36 operations (47 per cent) have mostly achieved their desired transition impact. Only five operations in the active TIMS portfolio have not achieved their envisaged transition impact. The transition potential for three of them in the financial sector, all signed in 2005 (two EU/EBRD credit lines and one equity investment in a local bank), was significantly downgraded. The transition impact potential for one operation in MEI was also downgraded due to the client's inability to achieve the envisaged transition objectives. The risks to achieving the envisaged impact have increased significantly for one project (CFR Rail Traction Project, signed in 2005) in the transport sector.

2. OPERATIONAL ENVIRONMENT

2.1 Political Context

After the protracted political infighting of previous years, which culminated in the fall of the minority government in autumn 2009, the political environment stabilised after the presidential elections held at the end of 2009. The re-election of President Traian Basescu for the second presidential mandate allowed his nominee for Prime Minister, Emil Boc of the ruling centre-right Democratic Liberal Party (PDL), to form a new coalition government. This was particularly important for the implementation of the programme of policy steps agreed with the IMF and the European Commission. The governing coalition signed a new coalition agreement in 2011and continues to enjoy a majority in the parliament. However, the beginning of 2012 witnessed large scale civic action triggered by a dispute regarding health care reform but which evolved into a broader protest against the government's austerity measures. The PDL-led government was reshuffled on 9 February 2012, with Mihai Razvan Ungureanu appointed as the new Prime Minister and a number of key Ministers were replaced. Local elections are due in summer 2012 and general elections in November 2012.

The latest Cooperation and Verification Mechanism reports approved by the European Commission, which monitors arrangements in the areas of judiciary and the fight against corruption, noted that overall progress in these areas was uneven, expressing particular concern regarding the lack of progress in judicial proceedings on important high-level corruption cases. Efforts in the areas of judiciary and the fight against corruption remain essential to make full use of opportunities opened with the country's accession to the EU in 2007.

For a more detailed assessment of political conditions in the context of Article 1 see Annex 1.

[1] Rank is a combination of the relevant rating for transition impact potential and risks to transition impact. Expected transition of operations is usually monitored once a year and is ranked numerically from 1 to 8, with 1 to 3 indicating the mostly realised impact, 3 to 6 – generally on track to achieve transition objectives, and 7 to 8 – minimum transition impact or excessive risks.

2.2 Macroeconomic context

The Romanian economy has been badly affected by the global economic crisis and, after several years of strong growth in the pre-crisis period, it suffered a deep recession in 2009, with output falling by 6.6 per cent, according to updated Eurostat figures. The economy has struggled to recover since then. Real Gross Domestic Product (GDP) decreased further in 2010 by 1.6 per cent despite a strong performance in exports of goods, which increased substantially by more than 20 per cent year-on-year in 2010. Foreign direct investment (FDI) fell by approximately 37 per cent in 2010, down further from a 62 per cent drop in 2009. Growth was modest in the first half of 2011 but a strong harvest provided a major boost to third quarter growth. However there are signs that the economy is slowing down again. Growth in exports and imports has been falling, industrial production has been slowing down since September 2011, and the recovery in net FDI continues to be weak. Inflation peaked in May 2011 at 8.4 per cent on an annual basis, but has dropped significantly since then (to 3.1 per cent by end 2011), partly because of base effects. Despite an increase in the ratio of non-performing loans (the NPL ratio was 14.4 per cent as of November 2011, up from 11.85 per cent as of December 2010 and 7.9 per cent as of December 2009), the banking sector remains liquid and well capitalised, while private sector credit growth has gradually returned. In July 2011, the international credit agency Fitch Ratings improved Romania's sovereign rating to "investment grade". In November 2011, Standard and Poor's lowered the local currency rating to BB+, one notch below investment grade and the same level as the foreign currency rating.

Fiscal performance has been quite disciplined in the past two years. Fiscal policies are anchored by a 24-month precautionary IMF Stand-By Arrangement (SBA) of €3.5 billion approved in March 2011, together with an EU precautionary Balance of Payments assistance programme of €1.4 billion in force since June 2011. This joint precautionary programme follows the successful completion of the previous joint IMF/EU assistance programme. The 2010 general government deficit stood at 6.5 per cent of GDP, which was partly achieved by major cuts to social benefits and public wages reform, as well as an increase in the VAT rate. The budget deficit target of 4.4 per cent of GDP was met in 2011, but under the 2012 budget the Government is targeting a significantly narrower fiscal gap of 1.9 per cent of GDP. The NBR kept its key policy rate unchanged at 6.25 per cent between May 2010 and September 2011. Since then, it has lowered the rate three times, and as of early-February 2012 the policy rate is 5.5 per cent. Since the end of 2008 the NBR has reduced the minimum reserve requirements for domestic and foreign currency liabilities of credit institutions in several steps (to 15 per cent and 20 per cent respectively), thereby continuing the gradual alignment to the ECB standards.

The short-term macroeconomic outlook for Romania is uncertain, especially in light of the renewed turmoil, both on global markets and within the eurozone, in the second half of 2011 and in early 2012As of January 2012, growth in 2011 is expected to be around 2.5 per cent, exceeding previous projections due to a better than expected agricultural season. Growth in 2012 is likely to continue at a modest rate (currently projected by the EBRD at 0.8 per cent), but the magnitude is highly uncertain and depends to a large degree on the outcome of the current eurozone crisis. Full commitment by the government to the IMF arrangement will help maintain macroeconomic stability, though risks continue to stem from the still high level of accumulated domestic arrears. The banking system has coped remarkably well throughout the crisis, with the strong support of foreign parent banks through the Vienna Initiative and a prudent supervisory regime, but further stresses to the system cannot be ruled out, given the exposure of Romanian subsidiaries to foreign parent banks, and contagion risks if the eurozone debt crisis were to deteriorate.

Over the medium term, Romania has strong catch-up potential, as GDP per capita in purchasing power parity terms is just 45 per cent of the EU average (2010 figure, as estimated by eurostat), the lowest in the EU apart from Bulgaria. Romania’s geographical location, its resources and well-diversified economy, and its relatively well-educated workforce all augur well for long-term growth prospects, provided progress can be made in the reform priorities identified below.

See Annex 6 for a table with Selected Economic Indicators.

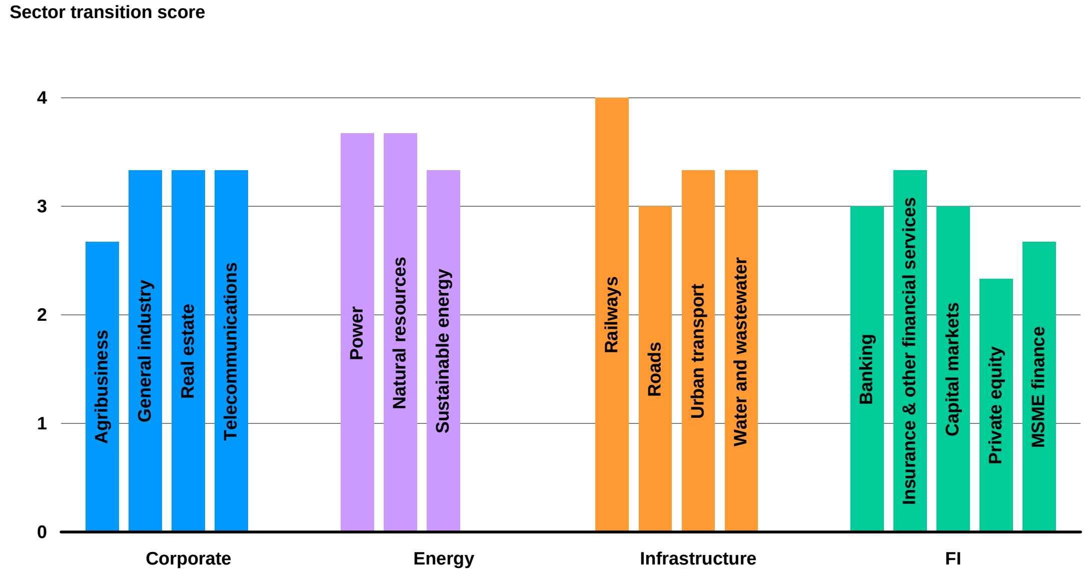
2.3 Structural reform context

Romania has made strong and sustained progress in structural reforms over the past decade and it became a member of the European Union in January 2007. Most economic activities are in private hands, the banking sector is well capitalised and competitive, and deep institutional reforms have advanced in various sectors. The authorities have recently demonstrated their commitment to advance reforms in several important areas. For example, the government has committed to sell state shares in a variety of companies, mostly in the energy and transport sector. Shares are being offered in a number of energy companies, and new energy sources are being developed under the government’s revised energy strategy 2011-2035. Important social reforms to pensions and other social benefits are also being implemented.

However, in common with many other countries in the region, reforms have slowed down in the past couple of years, reflecting the difficulties caused by the deep recession. Absorption of EU structural and cohesion funds remains at a low level (as of end September 2011 only 3.7 per cent of the funds have been absorbed representing €716 million), although a new Minister for European Affairs has recently been appointed. The European Commission has urged the authorities to further enhance the fight against corruption and to swiftly complete the reform of the judiciary system. The development of concessions or PPPs in the roads sector is still lagging behind.

Romania continues to face a number of important challenges across different sectors. The extent of progress to date, and the size of the remaining challenges, can be seen from the EBRD’s sectoral transition scores for Romania (see Figure 4). These scores show that important progress has been made across a range of sectors, but significant transition gaps remain in a number of sectors, notably in agribusiness, MSME finance and private equity, but also in various other parts of the corporate, infrastructure and financial sectors.

Figure 4: Romanian Transition Scores, by Sector, 2011



Source: EBRD Transition Report 2011.

For a more detailed assessment of remaining transition challenges see Annex 2.

2.4 Business Environment

Since accession to the EU in 2007, some improvements have been made to the business environment, but the crisis has made it much more difficult to carry out business profitably, while foreign direct investment has also dropped significantly. The EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) was last carried out in Romania in 2008/09, and it identified tax administration, lack of skills and corruption as the biggest problems for doing business, according to owners and senior managers of enterprises on the ground. Since then, progress has been made in the areas of construction permits (amended regulations that lead to reduced fees and a quicker process), procedures for closing a business (substantial amendments to Romania's bankruptcy laws—introducing, among other things, a procedure for out-of-court workouts) and labour regulations. Efforts to fight corruption are ongoing but, as noted earlier, more work is needed in this area, according to the EC under the Cooperation and Verification Mechanism. Transparency International's 2011 Corruption Perceptions Index places Romania at 75th position (out of 183 countries) in its global ranking.

The World Bank *Doing Business 2012* report, published in October 2011, places Romania in 72nd place (out of 183 countries) in overall ease of doing business, down seven places from the (revised) 2011 rank. The main problems identified are obtaining electricity, where the country ranks 165th, paying taxes (154th) and dealing with construction permits (123rd). On the positive side, Romania scores highly in terms of access to credit and investor protection.

2.5 Social context

Living standards rose significantly in Romania during the years leading up to EU accession, and the level of poverty fell accordingly. According to World Bank estimates, the absolute poverty level was 5.7 per cent in 2008, or 1.2 million people. However, World Bank research also notes the significant regional and social variation in poverty levels, with most of it concentrated in rural areas and among younger people, the unemployed and the Roma. Self-employed people in the agricultural sector are also at particularly high risk from poverty. The registered unemployment rate had dropped below 4 per cent at one point in 2008, but it rose to above 8 per cent in Q1 2010, afterwards dropping to below 5 per cent in Q3 2011 (but 7.5 per cent on an ILO-basis, as at September 2011, according to Eurostat). Government spending on social protection is among the lowest in the EU (as a percentage of GDP) and the difficult fiscal situation during the crisis has prevented any expansion of these programmes. Educational attainment lags behind the OECD average, according to the 2009 Programme for International Student Assessment (PISA) results on 15-year olds across countries.

The second round of the EBRD-World Bank Life in Transition Survey, carried out in 2010, reveals a number of interesting findings on social attitudes and the impact of the crisis on ordinary individuals. Interestingly, life satisfaction in Romania is the lowest across the whole region; only 18 per cent of respondents declare themselves to be satisfied or very satisfied with their lives, compared to a transition-wide regional average of 43 per cent. A significant majority of people – 62 per cent – also said that they had been negatively affected by the crisis, and most households had to respond by cutting back on spending on basic necessities.

2.6 Legal context

In preparation for accession to the EU in 2007 Romania has undertaken considerable efforts to bring the country’s commercial legislation in line with EU standards. Since accession, EU regulations apply directly in Romania while the national legislation is continuously changing to align with EU directives. In 2009 the new Civil Code and in 2010 the new Civil Procedures Code were published as part of Romania’s efforts in the EU integration process and it is envisaged that the Civil Code will come into force in October 2011.

The Bank's last assessment of Romanian legislation on corporate governance shows high compliance with the OECD Principles on Corporate Governance. Romania’s insolvency legislation is compliant with international standards. Noteworthy in particular is the considerable protection of businesses in distress from creditors that allows such companies to continue business activities and repayment of debts. Due to recent changes to the Company Law the enforcement of share pledges over limited liability companies now requires approval from the company’s shareholders.

In the context of EBRD's Local Capital Markets Initiative the Bank’s assessment of Romania’s capital markets revealed a number of shortcomings. In particular, legislative support for a local bond market and the offering procedures (i.e. the approval of the offering document and the fee structure) is lacking. Rules on derivatives transactions and the implementation of EU capital markets law also will need to be addressed.

In 2010 a new PPP law and corresponding secondary legislation were passed. However, the PPP law had to be amended recently to address concerns of the EU Commission and the Romanian public. In addition, there are gaps between the new PPP law and the existing concessions legislation.

2.7 Energy efficiency and climate change

Romania has made progress in capturing its sustainable energy potential. However, Romania's energy intensity remains significantly above the EU27 average and gaps and barriers to energy efficiency and renewable energy investments still persist. Importantly, energy prices in certain sectors, such as gas, are not cost reflective (as required by the regulatory framework) and this may create distortions leading to the ineffective use of energy by end-users.

Under the EU renewable energy target, Romania must ensure that its share of energy (electricity, heat and transport) generated from renewable sources will reach 24 per cent of the country's gross final energy consumption by 2020 (from a 2005 level of 17.8 per cent and 20.4 per cent in 2008). In Romania's National Energy Efficiency Action Plan (REAP), Romania aims to achieve almost 43 per cent of its electricity production, and 22 per cent of its heating and cooling from renewable sources by 2020. Although this is technically possible, the capacity of the country's power grid poses a challenge and to achieve these targets more private sector involvement is necessary.

REAP recognizes that there is a large potential for energy savings in the residential sector of 41.5 per cent[1]; against 31.5 per cent in transport and 13 per cent in industrial. The strategy outlines the requirement for heat insulation in buildings and the possible switch to efficient renewable heating sources. Romania's EU target is for energy savings of 9 per cent by 2016, thus contributing to the EU overall target of 20 per cent energy savings by 2020. Under the re-cast Directive on Energy Performance of Buildings, Romania must adopt procedures and requirements leading to increase energy performance of new and existing buildings. In addition, Romania faces challenges in implementing the more stringent rules of the EU Emissions Trading Scheme (EU ETS Phase III), especially in the industrial sector. Expansion of the current market and further penetration of energy efficiency technologies is thus important.

3. STRATEGIC ORIENTATIONS

3.1 Transition challenges

Although Romania is an advanced transition country and an EU member, the country still faces significant transition challenges in the coming years. Those which can be addressed with EBRD financing and assistance include:

[1] Average potential energy savings, estimated as a percentage of consumption.

- **Promoting stability and expanding products in the financial sector.** Given the continuing global economic and financial uncertainty, the stability of the financial sector is still at risk. Further development is also required in the areas of non-banking and local capital markets.
- **Strengthening infrastructure through improved efficiency and greater private sector involvement.** It is necessary to develop the national infrastructure sector (especially roads) and, where appropriate, to introduce private sector investment via concessions / PPPs and privatisations of transport operators. In many infrastructure operations (water, waste, roads, rail, district heating, etc.) there is a need for improved operating efficiency and service levels and less dependence on public subsidies and state financing. Although important progress has been made in the provision of local services, greater efforts are needed to strengthen the municipal sector.
- **Restructuring the power sector and increasing energy efficiency and sustainability.** A large part of Romania's energy sector is still state-owned and needs to be restructured and/or privatised to encourage investment and to promote efficiency. Although there is a regulator in the energy sector, there are concerns about its independence and about the implementation of the gas regulatory framework, given that gas tariffs are not cost-reflective. Despite improvements in recent years, Romania is still an energy-intensive economy and needs to make further progress in the transition to an efficient, low carbon economy.
- **Encouraging investment in the production side of the economy.** Given that Romania is a consumer driven economy, it is important to introduce new products and processes in sectors such as manufacturing and agribusiness in both local and foreign-owned companies. Future growth prospects also depend on developing competitiveness, greater export capacity, producing import substitutes and improving the business environment in order to attract more foreign investment.

3.2 Bank's priorities for the strategy period

Considering the financial and economic environment, as well as the transition challenges, identified above, the Bank's support to Romania will remain vital in the coming Strategy period. The Bank's priorities for the coming three years will be to assist the Government in continuing to implement its reform plans and to further facilitate the role of the private sector in generating growth, stimulating investment, providing essential services and promoting competitiveness and innovation in the corporate sectors. The Bank's priorities are focused on those areas where the transition gaps remain significant and where the Bank's finance and expertise are additional to commercial and non-commercial sources of funds. The Bank's activities in Romania will focus on the following operational priorities:

- **Continuing to support and develop the financial sector.** The Bank will maintain its role in supporting the banking and non-banking sector in order to provide long-term financing and to contribute to market stability. It will also promote further development of the non-banking financial sector and the local capital markets through investments, technical assistance and policy dialogue.
- **Enhancing commercialisation, competition and private sector involvement in infrastructure.** The Bank will seek to expand its activities in the municipal sector by supporting commercial structures for both urban transport and municipal water and wastewater projects backed by Public Service Contracts. Where appropriate,

- **Developing Sustainable Energy Policies and Investments.** The Bank will continue to support the energy sector with private financing and where appropriate will assist with the restructuring and privatisation of state energy companies. The Bank will also facilitate Romania's transition to a low-carbon economy and enhance its energy security by supporting energy production from renewable and environmentally sound sources and by assisting companies employing energy-saving technologies. The Bank will promote energy security by supporting the building of new connections for the delivery of oil, gas and electricity.
- **Supporting a shift to a more production oriented economy.** The Bank will continue to respond selectively to demand from the corporate sector (especially manufacturing and agribusiness companies involved in the production of exports, import substitutes and other value added products) by directly financing local and foreign-owned companies, indirectly financing companies via SME loans, investing in private equity funds and re-launching the Enterprise Growth Programme (EGP) (formerly the Turn-Around Management (TAM) programme).

3.3 Sectoral Challenges and Bank Operational Response

3.3.1. Financial Institutions

Sectoral challenges

- The financial stability of the banking system is still at risk in the context of the domestic and global macroeconomic environment and given the potential developments in the regional banking industry (Greece and the broader eurozone sovereign risk concerns).
- The Micro and SME sectors need additional financial support, especially given these sectors have been badly affected by the financial crisis and thus are perceived to be of higher risk.
- The non-banking financial sector is relatively underdeveloped and there is a need to stimulate financing in certain areas, such as leasing and insurance, which were negatively affected by the economic downturn in Romania.
- The local capital market is illiquid and lacks price transparency. Consequently, the local banks lack tools for proper asset-liability-management. Significant vulnerability arises from the large maturity mismatch on their balance sheets as long term assets (e.g. mortgage loans) are mostly financed by deposits under the assumption that the deposit base will remain stable. Given about 65 per cent of the deposits are in RON, there is also a foreign exchange risk.
- The primary mortgage market is still underdeveloped, compared to other Central and Eastern European markets, with a ratio of total outstanding mortgages to GDP of less than 5 per cent (EU average is above 50 per cent).

Bank's operational response

To continue to contribute to overall financial stability, the Bank will support the banking system via debt and equity (including capital increases), recognising the role the Bank can play in contributing to market confidence and systemic stability.

To assist micro-enterprises and SMEs, the Bank will offer dedicated debt facilities to banks, micro finance institutions and leasing companies, and investments in and alongside private equity funds, especially those focused on local companies and investments in less advanced areas (see Annex 4 for further information on how BAS and EGP can support the SME sector).

To continue to support investments in energy efficiency and renewable energy investments, new energy efficiency programmes will be designed and implemented with the commercial banks with a focus on SMEs to help reduce energy consumption and to stimulate the market for sustainable energy products and services. Further technical assistance and if possible, investment grants (e.g. a possible joint programme with EU structural funds), will be sought for this key sector, and there will be an emphasis on marketing, project design, implementation and verification of the energy savings obtained.

To assist in further development of the non-bank financial sector, the Bank will continue to support the development of leasing, insurance, pension funds and specialised mortgage companies, by providing long-term lending or equity participations.

To promote the development of local capital markets, the Bank will consider participating as an anchor investor in bond issues (mortgage bonds or covered bonds) and/or structured finance issuances by the local banks and help them strengthen their funding base. Depending on the progress made in the policy dialogue with the authorities and on market requirements and conditions, the Bank may consider local currency lending, issuance of local currency bonds, purchasing local currency securities (e.g. covered bonds or other securities with high quality collateral) and providing equity investments.

To address the large gap in the mortgage market, the Bank will restart primary mortgage lending on the basis of a revised List of Minimum Standards for Mortgage Lending.

Policy dialogue

Following an initial assessment, the Bank will continue its policy dialogue to further develop the capital markets under the Local Currency and Local Capital Markets Development Initiative, which may involve advisory engagements in regulatory reforms. The Bank will supplement the dialogue with technical assistance to the regulators with focus on strengthening the secondary markets and the credibility of the market rates and enable/enhance the operation of important market institutions such as depositories. Additionally, the Bank actively supports the development of local currency products targeted toward contractual savings institutions such as pension funds, asset managers and insurers, as well as the development of pension systems. Policy dialogue will also focus on dealing with NPLs and addressing some of the implications of the new Basel III/CRD4 regulations. The Bank will continue to liaise with the IMF and other institutions with regard to the banking sector. The Bank will also work with the commercial banks and key stakeholders on gender-related issues and carry out research on financing female entrepreneurs.

3.3.2. Infrastructure

Sectoral challenges

- There has been little progress to date in involving the private sector in road infrastructure under concessions / PPPs, applying international standards of preparation, particularly in the area of environmental and social assessment, and procuring concession contracts by open tendering in line with international best practice. Furthermore, the lack of clear delineation between the new PPP law and the existing concessions legislation needs to be resolved.
- Further restructuring and reform of the railway sector is still needed, even though the transition gap is small. Key challenges include the involvement of the private sector in rail freight operations and selective infrastructure development (particularly railway stations). There has also been little private sector involvement to date in the development of the country's key airports.
- Operating efficiency and service levels in the delivery of municipal services lag behind EU standards and significant public subsidies are still needed. These services include district heating and demand side energy (in both residential and public buildings), municipal streets and county roads, water supply and wastewater as well as local and urban transport. In the district heating sector, the majority of operators remain loss making and subsidised, with highly inefficient operations.
- Despite ongoing advancements in the water sector leading towards the creation of modern utilities, the newly regionalised operators face both operating and political challenges as they seek to integrate the operations of less commercialised entities and undertake large investment programmes to ensure compliance with EU directives.
- In the urban transport sector, considerable investment is still needed, as traffic volumes increase, in areas such as integrated e-ticketing, local road rehabilitation and fleet modernisation. While public service contracts exist, these need to be strengthened to support sustainable transport planning, urban road and street management.

Bank's operational response

To promote the development of concessions / PPPs in the road sector, the Bank will support greater private sector involvement and will work with the Government to help design and support suitable pilot concession / PPP projects by offering long-term debt or equity to concessionaires, as appropriate.

To assist the government's railway reform programme, the Bank is ready to support the involvement of the private sector in railway freight operations and the development of railway infrastructure, particularly railway stations developed under concession arrangements. Long-term debt or equity will be considered depending on the reform strategy of the government and the financing needs of the respective sponsor.

To address the needs of the country's airports, the Bank will seek to support the development, rehabilitation, modernisation and capacity enhancement of airports including both landside and airside infrastructure, by working with private sector investors. Long-term debt or equity will be considered depending on the financing needs of the sponsor, taking into account energy efficiency measures.

To address the transition gaps in the municipal sector, the Bank will support the delivery of affordable and customer-oriented local services backed by sound utility finances and stable local authority budgets. Public Service Contracts will be a key element for direct financing to local utilities and transport operators.

To promote reforms in the water and environmental sector, the Bank will continue to provide loans to regional water and other operators. These loans will represent utility-based lending at a corporate level without direct recourse to municipal or county budgets, thereby underscoring improved creditworthiness in the sector. For smaller utilities, where creditworthiness is not fully demonstrated, the Bank may require upfront local authority guarantees that can be released once certain financial and operating thresholds are met.

To promote a more efficient district heating sector, the Bank will support both public and private operators to rehabilitate existing systems, introduce alternative fuels (such as biomass) and increase energy efficiency. Recognising the increased importance of energy efficiency, the Bank will also explore ways to support ESCO type investments to complement its investments on the supply side. The Bank will encourage the involvement of the private sector in the rehabilitation of the district heating sector to accelerate the pace of investment and improve financial and operational efficiency.

To address the investment and transition needs in the urban transport sector, the Bank will continue to rehabilitate local road networks in the municipalities. It will also work closely with the local authorities to finance public transport fleet upgrades and e-ticketing to promote decentralised and limited resource financing.

Policy dialogue

The Bank will continue its policy dialogue with the government to encourage the preparation and tendering of concession / PPP projects in the road sector in line with the relevant legislation and with international practice and regarding reform of the railway sector, including rail cargo. Given the low rate of absorption of EU funds, the Bank will continue to be part of the working group (with the EU and other IFIs) to discuss and advocate ways to stimulate the absorption of EU structural and cohesion funds in those areas where transition gaps are most significant. The Bank will prioritise those projects with strong transition impact where EBRD's investments can be co-financed and leveraged with EU structural funds, especially with regard to funding of municipalities, local utilities and energy efficiency projects, including public buildings.

3.3.3. Energy Sector

Sectoral challenges

- Romania has domestic reserves of oil and gas, but chiefly relies on Russia for its imports. There is a need to promote energy security via the diversification of the

- Romania’s power stations and its gas transmission network and gas production and storage companies are still largely state-owned and there is a need for significant investment to upgrade and rehabilitate the power and gas infrastructure to ensure the sectors become more efficient and meet EU environmental requirements. This could partly be achieved by restructurings and privatisations (strategic sales and listings).
- There has been limited investment so far in the renewable energy sector (excluding hydro) partly due to the uncertain legislative and regulatory framework. Although the EU approved the support scheme for renewable energy early 2011, it was only recently incorporated into the law and it is still to be supported by a regulatory framework.
- Romania remains relatively energy intensive (compared to the EU27) and transition gaps (on the legislative and regulatory side) and other barriers to energy efficiency and renewable energy investments – such as awareness and affordability – persist.
- The mining sector is characterised by wide-ranging state ownership. Overall, the sector could benefit from better environmental, health and safety, social practices and improved efficiency.

Bank’s operational response

To help improve energy security, the Bank will consider financing the development of new, and the refurbishment of existing, oil and gas pipelines and the expansion of oil and gas storage capacities. In addition, where appropriate the Bank will support upstream companies to recover hydrocarbons from mature and underdeveloped wells and to improve reserve recovery rates through exploration and production investments, both onshore and offshore.

To promote a more efficient power sector, the Bank will continue to invest in power projects which lead to cost-effective gains in efficiency and emissions reduction through the rehabilitation and modernisation of electricity assets (especially in the areas of generation and transmission). The Bank is prepared to consider on a case by case basis, subject to market conditions, assisting Romania in the restructuring and the privatisation of its energy companies to help improve their efficiency and corporate governance.

To support the development of renewable energy, the Bank will invest in renewable generation to help Romania meet its EU 2020 targets (whilst remaining cognisant of the need to protect biodiversity and Natura 2000 sites in Romania), whereby its share of electricity production coming from renewable energy should be increased to 38 per cent from the current level of 28 per cent. However, the capacity of the country's power grid poses a challenge and investment in the grid, supported by the Bank, will therefore be required.

To promote energy efficiency, the Bank will focus on projects that promote energy efficiency improvements in public and private buildings (residential and corporate), including via ESCOs, and on the promotion of low carbon technologies, such as carbon dioxide capture, transport and geological storage (CCS). EBRD would also be interested to explore structured finance for climate mitigation and adaptation in relation to the income generated from auctioning EU emission Allowances (EUAs) under the EU ETS Phase III, and by using grant co-financing from the NER300 programme, which is the major European funding programme for co-financing CCS and innovative renewable commercial demonstration projects.

To encourage investment in the mining sector, the Bank will support further the restructuring and privatisation of this sector (including foreign investment) and independent private mining companies, with particular emphasis on supporting best environmental, health, safety and social practices.

Policy dialogue

The Bank will engage in dialogue relating to privatisation plans and privatisation strategies for individual companies, based on its experience in Romania and in other countries in the region. The Bank will continue to support energy efficiency and renewable energy projects and policy development in all sectors as part of the Bank's Sustainable Energy Initiative and in line with EU Directives. The Bank will continue its dialogue with the Government to pursue (i) the promotion of the secondary legislation for renewable energy in order to put in place a stable legal and regulatory framework for renewable energy; (ii) the pursuit of current initiatives such as smart energy infrastructure and the development of energy services; and (iii) the development of a Sustainable Energy Action Plan (SEAP). The Bank will continue its work with the Government and ANRE to support the implementation of the regulatory framework regarding gas price increases.

3.3.4. Industry, Commerce and Agribusiness

Sectoral challenges

- The economic crisis has hit the local enterprise sector hard. The focus of restructuring efforts should be to improve efficiency (including energy efficiency), competitiveness and productivity, especially in the areas of manufacturing and agribusiness.
- Foreign investment has declined significantly during the economic crisis. New investment is needed to stimulate exports, encourage domestic production and facilitate the transfer of technology and skills.
- There is a need to expand the industrial and logistics infrastructure as a necessary platform for corporate and manufacturing growth and to increase the efficiency of the logistics sector through the transfer of skills and technology.
- The agribusiness sector has huge potential and requires further development in the areas of primary agriculture, food production and processing as well as logistics. Local farmers find it difficult to access financing for working capital and investments.
- The availability of investment capital remains relatively low and there is little venture capital and other private equity support for recently established and small firms. Participation of local institutional investors in Romania's private equity market remains at an extremely low level.

- There is a significant lack of funding available to the real estate sector, whose outlook has been adversely impacted by the economic crisis. This has led to negative investor sentiment and deleveraging.

Bank's operational response

To address the financing needs of local enterprises, the Bank will directly support the "real economy", including local Romanian companies with debt, equity (including through the Local Enterprise Facility or alongside Private Equity Funds) and quasi-equity to facilitate their growth and expansion while addressing remaining transition objectives such as stronger corporate governance, the development of new skills, energy efficiency and processes that can be replicated elsewhere.

To support and thus stimulate foreign investment, the Bank will continue to support foreign investors, especially those who cannot access financing from commercial banks (in terms of amounts and tenors) or who need equity/quasi-equity products, to finance greenfield projects and expand existing facilities with a particular focus on manufacturing (including in the area of energy efficiency), the production of import substitutes and export products.

To provide equity to local companies and to support the development of the local stock market, the Bank will, if appropriate, participate in Initial Public Offerings (IPOs) and Secondary Public Offerings (SPOs) in order to increase their success and help develop the local capital market. If market conditions are uncertain thus delaying SPOs, the Bank will also consider financing listed companies directly. The Bank will continue to support strong existing and first-time investment fund managers where they are able to provide substantial value-added support to local enterprises, and in particular in areas where transition gaps remain.

To support information and communication technologies (ICT) infrastructure and knowledge-intensive industries, the Bank will continue to try and help build a secure ICT infrastructure and promote the development of knowledge-intensive industries and innovation.

To support the development of the logistics sector, the Bank will support the expansion of modern industrial warehousing and logistics facilities around under-developed and growing consumer markets (primarily logistics demand) and emerging manufacturing bases (primarily industrial and warehousing demand) along with the development of local and international logistics facilities and operators that use smart logistics solutions to increase supply chain efficiency.

To address the needs of the agribusiness sector, the Bank will support both local and foreign investors in the areas of food processing, logistics and retail. There will be an emphasis on supporting investments with strong backward linkages, which stimulate the demand for local products and add value to these products (whether for the local market or for export). The Bank will also aim to cooperate, on a selective basis, with larger agricultural holdings to reduce deficiencies in the country's primary agricultural sector and with financial institutions, to finance working capital and agricultural equipment for farmers. The Bank will support local projects, under the specially developed Agribusiness Sustainable Investment Facility, focusing on, but not limited to, (i) energy efficiency in the built environment (targeting energy performance of buildings used in processing, warehousing and retail); (ii) sustainable farming techniques; (iii) biomass power generation; and (iv) efficiency in food packaging and processing. In this context, the Bank will continue its cooperation with the Government and local agricultural companies to implement the warehouse receipt legislation.

To address remaining transition gaps in the property sector, the Bank will support, on a selective basis, new and standing property assets with long-term project financing where transition objectives can be identified. In addition the Bank will continue to support the development of mid-range budget hotels, retail, technoparks, student housing and other viable real estate projects in regional cities as well as projects that offer regeneration opportunities in underdeveloped regional cities.

Policy dialogue

The Bank's policy dialogue in the corporate sector will promote improvements in the business environment, and in co-ordination with other IFIs and the FIC, will continue to address the non-payment of public arrears, including debts owed by state enterprises and the late reimbursement of VAT. The Bank will continue to play a leading role in the FIC, including through meetings with the Government regarding economic and policy issues and the annual "White Book", a key vehicle for policy dialogue with the authorities on issues of concern to foreign investors. The Bank will expand the use of EGP/BAS (Enterprise Growth Programme / Business Advisory Services) products to support the competitiveness of the Romanian MSME and agribusiness sector by combining advice and mentoring at the enterprise level with the development of a sustainable infrastructure of business advisory services at the market level. EGP/BAS operations will strengthen micro, small and medium enterprise performance and sophistication in areas such as business planning, marketing and quality management. BAS will focus increasingly on underserved regions outside Bucharest. EGP/BAS will seek to supplement the delivery of management and advisory services with increased access to finance through linkages with EBRD banking teams, credit lines and partner financial institutions. The Bank will continue to work on gender related issues in Romania, via its projects and dialogue with key stakeholders.

3.4 Environmental and Social Implications of Bank Proposed Activities

As an EU member state, Romania has adopted environmental and social legislation that is aligned both with EU Directives and the EBRD's Environmental and Social Policy and Performance Requirements. Romania has negotiated a transitional period whereby listed existing installations and facilities are given time to bring operations into full compliance with EU standards. These transitional periods include deferments on certain environmental obligations (for complex and highly polluting industrial installations to 2015, for municipal waste dumps to 2017, and for the expansion of municipal drinking water and wastewater treatment to 2018).

The Bank's Environmental and Social Policy applies to all projects carried out in Romania. The development of transport and municipal infrastructure may involve land acquisition or economic displacement for local populations and the Bank's

Performance Requirements will apply in such cases. It will be important to identify any vulnerable populations that may be disproportionately affected by the projects and to ensure that stakeholder engagement activities include any marginalised groups. Health and safety is also an important consideration for all projects and the Bank will work with clients and sponsors to promote the development of an appropriate safety culture.

The Bank’s strategic priorities, as outlined above, are in many cases consistent with the National Sustainable Development Strategy Romania (2013-2020-2030). As part of this National Strategy, the Government of Romania has agreed priorities such as energy efficiency targets, sustainable transport, food security, and improving potable water and wastewater treatment in urban areas. Given the Bank’s proposed emphases on areas such as expansion of municipal transport, water and wastewater facilities, particular care must be taken on tariff affordability in light of the economic situation in Romania and the stresses on vulnerable populations.

The Bank’s strategy will therefore support the country’s implementation of the required legislation and the priority investment areas identified by the government and the EU. Specific building of environmental and social risk management capacity through implementation of the Bank’s projects will add to this process.

Climate change adaptation

Climate change poses a range of risks to a number of the Bank’s proposed activities in Romania. Romania's Fifth National Communication on Climate Change to the UNFCCC sets out how mean annual temperatures are projected to rise over the coming decades, with increases of 0.5°C to 1.5°C for the period 2020-2029, and increases of 2.0°C to 5.0°C for the period 2090-2099. This is expected to be accompanied by reduced precipitation, and greater precipitation variability overall. Over 90 per cent of climate models forecast serious summer droughts by the second half of the 21st century, especially in Southern and Southeastern Romania. More variable precipitation may also result in fluctuations in river hydrology and more frequent extreme events such as floods.

Water stress will have implications for the Bank’s operations in mining and agribusiness, which often involve water-intensive processes. Agribusiness may also be affected by climate change impacts on agricultural production, thus affecting the availability of primary produce. Power sector operations will need to consider the risks associated with access to cooling water in the light of increasing vulnerability to droughts. Hydropower investments may also have to take into account climate-related changes in river hydrology. The need for investment in more efficient and better-managed water supply systems will increase in the face of greater water stress caused by climate change. Finally, any investments in port facilities will need to take into account climate change impacts on sea level in the Black Sea.

Gender

In the context of the implementation of the EBRD’s Gender Action Plan, the Bank will continue to support women's entrepreneurship through projects with Financial Institutions that increase the access to finance and assist with capacity building for women-owned and women-managed MSMEs. Additionally, the Bank will continue to encourage clients in other priority sectors to adopt gender balanced approaches in their human resources policies and practices (e.g. equal opportunities in recruitment and career development). The EBRD will also continue to develop and implement, where appropriate, gender interventions in the MEI projects that promote equitable distribution of project benefits among men and women in the community.

For a more detailed assessment of gender issues see Annex 7.

4. ACCESS TO CAPITAL: PRIVATE AND PUBLIC SOURCES OF FINANCE

4.1 Access to capital

The Romanian banking sector consists of 41 banks, of which 36 are foreign-owned. Foreign ownership has supported the sector during the financial crisis, with a strong commitment of parent banks to their subsidiaries under the Vienna Initiative. As a result, year-on-year credit growth to the economy has remained in positive territory throughout most of the crisis period, although at levels well below those in the pre-crisis period (for example, just 1 per cent in June 2011 compared to 60+ per cent at one point in 2008). Capital adequacy ratios of all subsidiaries have remained at robust levels following provision of additional capital (where required). However, financing is limited for micro and small enterprises, especially in rural areas and outside major cities, and for small agricultural enterprises. According to the BEEPS 2009, one-third of MSMEs perceive access to finance as a major or severe obstacle to doing business. Domestic credit to private sector as a percentage of GDP was 40.7 per cent in 2010.

A private credit information bureau is in place. In general, collateral and bankruptcy legislation are supportive of MSME lending. In response to the crisis in 2009, the activity of the National Credit Guarantee Fund for SMEs was consolidated and the Romanian Fund of Counter Guarantees was established. These funds provide guarantees for priority projects in the SME sector.

In 2010, market capitalization on the Bucharest Stock Exchange was RON 102.4 billion (20 per cent of GDP). Turnover was at RON 5.6 billion, i.e., 1 per cent of GDP. Seventy-four companies were listed on the stock exchange. Romania has made progress in money market infrastructure, with benchmark indices used for almost all transactions except derivatives. Liquidity however is low both in the secured and unsecured inter- bank market as well as in the longer term currency forward market. The government bond market shows advanced levels of infrastructure both in the primary and secondary segment. All crucial processes and instruments, such as lists of primary dealers and regular and frequent auctions, are in place. Liquidity in secondary trading is yet to develop.

Romania’s sovereign rating was upgraded by Fitch in July 2011 to investment grade: BBB-. Moody’s rating of Baa3 is similar, but Standard & Poor’s local currency rating was lowered to BB+, in line with the foreign currency rating and one notch below investment grade.

4.2 MDB finance and collaboration with other IFIs and multilateral donors

Over the last strategy period, there has been a significant increase in the coordination between the EBRD and other IFIs in Romania. This is partly due to the positive relationships between the IFIs on the ground in Bucharest and the coordination between the IFIs regarding Romania's IMF programmes, where the Bank played a significant role.

The International Monetary Fund (IMF)

From May 2009 to March 2011, Romania successfully completed a 24-month IMF Stand-By Arrangement of €12.95 billion (of which the authorities decided to treat the last tranche as precautionary). The total financial support programme was €19.95 billion and included a €5 billion EU balance of payment support programme, a €1 billion World Bank loan (three Development Policy Lending (DPL) loans) and a commitment from the EBRD to invest over €1 billion in Romania over the two-year period (the actual amount committed by the Bank was €1.3 billion).

In March 2011, a new 24-month, €3.5 billion, precautionary SBA was approved by the IMF in conjunction with a new €1.4 billion EU programme (also on a precautionary basis) and the third World Bank DPL loan of €0.4 billion, which was not disbursed during the first programme period and is still pending some prior actions. Under the new arrangement, in addition to maintaining macroeconomic and financial stability by, among other things, ensuring the necessary fiscal adjustment, sustainable growth will also be promoted by better absorption of EU structural funds and reforming the state-owned enterprises to becoming a driver of growth. Continued reforms include improved tax collection, better control over public expenditure (particularly in the health sector) facilitated by advice from functional reviews prepared by the World Bank and financed by the European Commission, and reducing arrears at both the national and local levels, including in state owned enterprises. The EBRD is discussing with the IMF the plans for the restructuring and privatisation of certain state owned enterprises.

European Union (EU)

The EU has committed €19.67 billion to Romania over the 2007 to 2013 period. The EU Structural and Cohesion funds are provided through Sectoral Operational Programmes (SOPs) managed by Romanian authorities and overseen by the European Commission. The SOPs include Transport, Environment, Regional Development, Economic Competitiveness, Human Resources, Technical Assistance and Administration Development. According to the Romanian Authority for Co-ordinating Structural Instruments (ACIS), as at the end of July 2011, financing agreements with beneficiaries have been signed with an amount of €10.65 billion (55.5 per cent). However, Minister Orban, who was appointed in October 2011 as the Romanian Minister for European Affairs, stated that only €0.72 billion has been paid from the EU funds at the end of September 2011 (thus 3.7 per cent of the funds have actually been absorbed). The Romanian authorities are now discussing with the EC the 2014 to 2020 grant funding programme.

Over the 2007 to 2013 period, the EU has also allocated €8.12 billion to Romania from the European Agriculture Fund for Rural Development (EAFRD). This amount is provided through the National Rural Development Programme managed by the Romanian Authorities (Ministry of Agriculture and Rural Development). As of end February 2012, €3.25 billion[*] (of EAFRD contribution) have been paid to Romania, meaning that 39.93 per cent of the EAFRD has been absorbed.

In November 2011, a request was made by the European Commission and Government of Romania to the IFIs to support the Managing Authorities and beneficiaries through various TA projects financed through Structural Funds to improve the strategic and management capacity and increase absorption of Structural and Cohesion Funds and to prepare the 2014-2020 programming period. This is currently under evaluation and discussions are being held between DG REGIO, the Ministry of European Affairs and the IFIs on the best ways of responding to this request. The EBRD is focusing on energy efficiency in public buildings, support for beneficiaries in the water and wastewater sectors, support for the preparation of district heating and urban transport strategies and SME financing, especially relating to energy efficiency.
The EU also participated in both the financial support programmes for Romania led by the IMF with programmes of €5 billion and €1.4 billion.

The Bank plans to continue to co-finance projects with EU funds, including infrastructure together with Programme funds for Transport, Environment and Regional Development SOPs. The Bank is also co-financing, via the commercial banks, local SMEs and corporates accessing the Economic Competitiveness SOP.

European Investment Bank (EIB)

From 2008 to the end of 2010, the EIB signed about 30 projects in Romania with a total value of roughly €3 billion. The EIB financing was in a range of sectors including banking, energy, transport and municipal infrastructure and industry. EU funds absorption is also supported by advisory services from “Joint Assistance for Preparing Projects in European Region” (JASPERS), which is jointly implemented by the EIB and the EBRD.

In Romania, the Bank is also co-financing individual projects with the EIB, such as the Petrom power plant whereby the Bank and the EIB each provided a €200 million loan to co-finance a gas fired 860 MW plant. The two institutions worked closely together sharing due diligence and analysis. The Bank plans to continue to work with the EIB in sectors such as transport, including road concessions or PPPs.

European Investment Fund (EIF)

During 2010, the EIF announced calls for expressions of interest for the management of two Romanian focussed investment funds to be partly financed under the initiative “Joint European Resources for Micro to Medium Enterprises” (JEREMIE). Each of these funds would focus on venture capital and growth equity financing respectively

[*] **This amount includes an amount of €461.2 million referring to a payment request submitted by Romania to the Commission at the end of January 2012 currently being processed.**

and require mobilising corresponding commercial sector participation in the funds in order to qualify. As of mid-2011 EIF selection procedures had been completed and the Bank was assessing the potential co-financing merits for each of the investment products.

The World Bank

The World Bank operates in Romania based on the Country Partnership Strategy for the 2009 to 2013 period. The strategy is built around three pillars: reforming the public sector; resuming growth and enhancing competitiveness, and promoting social and spatial inclusion. The World Bank aims to assist Romania in implementing structural reforms to help mitigate social and economic vulnerabilities and to support Romania's convergence to the EU through robust, sustainable and equitable growth as well as enhanced competitiveness in the medium-term. The main anchor of the strategy is the EUR 1 billion DPL programme to support a comprehensive reform agenda in the financial sector, pension system, public pay system, health expenditure efficiency, and the rationalisation of the social assistance system. This is complemented by the existing portfolio and a programme of Analytical and Advisory Activities.

The World Bank is currently carrying out a midterm review of its strategy which is expected to be further aligned to the Europe 2020 strategy and deepen the support to Romania's convergence to the EU standards.

International Finance Corporation (IFC)

At the end of July 2011, the IFC's committed portfolio in Romania is almost US$ 600 million. The IFC's investments are largely focused on financial institutions, the energy sector and healthcare.

The EBRD and IFC have cooperated on a number of projects, including the recent financing of EDPR (an investment in two wind farms of 228 MW, via two syndicated loans totalling €188 million of which €69 million was financed by each of the Bank and the IFC) and a loan to Bancpost. The two institutions have worked closely together on these investments and have shared due diligence. The Bank will continue to seek opportunities to co-invest with the IFC in projects, including privatisations, where the roles of the two institutions are complementary.

ANNEX 1 – POLITICAL ASSESSMENT IN THE CONTEXT OF ARTICLE 1

Overview

Romania is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank. The pursuit of further EU integration following Romania's accession in 2007 remains an important anchor for comprehensive reforms and for a deepening of democratic values and standards.

After years of protracted political infighting, the political environment stabilised following the presidential elections at the end of 2009 and the subsequent establishment of a new coalition government led by the centre-right Democratic Liberal Party (PDL). The creation of a functioning government was particularly important for implementation of the programme of measures agreed with the IMF and the European Commission. The PDL-led government was reshuffled on 9 February 2012, with a new Prime Minister appointed and a number of Ministers replaced.

Political Accountability and the Rule of Law

The election process in Romania, in which multiple parties compete and participate freely in election administration, is transparent and provides for democratic accountability. Recent parliamentary and presidential elections were assessed by the Organisation for Security and Cooperation Office for Democratic Institutions and Human Rights (OSCE/ODIHR) as generally in conformity with OSCE commitments and international standards for democratic elections. Romania has a bicameral parliament composed of the Senate and the Chamber of Deputies, both directly elected from 41 multimember constituencies. The government is considering constitutional changes that would establish a more streamlined unicameral parliament with 300 members, as well as the possible return to a four-year term for the Presidency (currently 5 years), so that presidential elections in the future coincide with parliamentary elections. However, such constitutional changes, as well as possible changes in the organisation of the local self-government (merging the existing 41 counties into a smaller number of regions) remain subject to debate.

Although Romania was deemed to have reached a high degree of alignment with EU standards and norms prior to accession in 2007, the European Commission (EC) identified a number of areas of concern in the judiciary and rule of law. The first report under the Cooperation and Verification Mechanism (CVM) on progress in the areas of judiciary and the fight against corruption, released in 2007, identified concrete issues that required further attention, in particular the 'insufficient' progress in judicial treatment of high-level corruption. Since then the authorities have taken concrete measures to address these concerns. Although the progress has been uneven, subsequent reports under the CVM acknowledged achievements in many areas and commended the Romanian government for its commitment in driving the reform process. Initiating anti-corruption cases against several former members of the Government and MPs was particularly welcomed by foreign observers. At the same time, the parliament and judiciary have been often criticised for not having demonstrated the same determination as the government in the reform process.

Overall, since many elements of the legal framework needed to sustain reforms are now largely in place, the emphasis of the CVM reports has shifted from the adoption of laws to their implementation. The latest comprehensive Report on Progress in Romania under the CVM, issued by EC on 20 July 2011, concluded that Romania needed to take urgent action to accelerate high-level corruption trials before the statute of limitation runs out. The fight against corruption should remain a top priority and urgent measures have to be taken to improve the protection against conflict of interest in the management of public funds. The next comprehensive assessment of Romania's progress under the CVM is due in summer 2012 (five years after the establishment of the mechanism initially envisaged to continue for three years), when the EC will make an overall assessment of Romania's progress since accession.

Corruption is perceived as a serious problem by Romanian citizens, as demonstrated in particular in the recent Life in Transition Survey (LiTS) conducted by EBRD in collaboration with the World Bank. Although there has been a decrease in perceived frequency of irregular payments in some of public services as compared with the previous LiTS (2006), over 43 per cent of respondents believe that such payments are common in public health (a rise of 13 percentage points since 2006), and the overall level of perceived irregular payments remains well above the corresponding figures in the western European comparator countries. Transparency International ranked Romania in its 2011 Corruption Perception Index (CPI) report as 75 out of 183 countries. The CPI score of 3.6 places Romania 14th among the Bank's countries of operation and the second lowest amongst the EU-10.

Fundamental rights and freedoms

Since the beginning of its transition Romania has made notable progress in the area of upholding fundamental rights and freedoms. This was reflected in the decision taken by the Parliamentary Assembly of the Council of Europe (PACE) in 1997 to close its monitoring procedure regarding honouring of obligations and commitments as a member state of the Council of Europe.

The Constitution provides for freedom of assembly and association, and the government respects these rights in practice. Religious freedom is generally respected, although 'non-traditional' religious organisations sometimes encounter difficulties in registering. Romania's media are largely independent and not subject to political pressure. Despite significant progress in that area, concerns about corruption in the media and non-transparent ownership persist.

Romania has 18 recognised ethnic minorities, the largest of which are Hungarians. Minorities have the right to use their native language in communicating with authorities in areas where they represent at least 20 percent of the population, although the respective provisions are not enforced everywhere at the local level. The Roma, who account for 2.5 per cent of the total population, remain the most vulnerable ethnic minority. There have been focused efforts towards eliminating the social inequalities of the Roma population through reducing the level of poverty and increasing their labour market participation, as well as introducing measures for improving health, housing and education, but much remains to be done in this respect.

ANNEX 2 – ASSESSMENT OF TRANSITION CHALLENGES

The table and the supporting text below provide an overall assessment of Transition Challenges by sector, based on the forthcoming Transition Report 2011. There are two separate scores for each sector, rating market structures and market-supporting institutions. Scores range from negligible, small, medium and large. "Negligible" means that the remaining challenges are minor and that the sector is well advanced in moving towards the standards of a well-functioning market economy. "Large" means that the remaining challenges are major and that this dimension of the sector is at an early stage of reform.

Sectors	**Market Structure**	**Market-Supporting Institutions**
Corporate sectors		
Agribusiness	Medium	Medium
Manufacturing and Services	Small	Small
Real estate	Medium	Small
Telecommunications	Small	Small
Energy		
Natural resources	Small	Small
Power	Medium	Small
Sustainable energy	Medium	Small
Infrastructure		
Urban Transport	Small	Small
Water and Wastewater	Medium	Small
Roads	Small	Medium
Railways	Small	Negligible
Financial Institutions		
Banking	Small	Medium
MSME	Medium	Medium
Insurance and financial services	Small	Small
Private Equity	Large	Small
Capital Markets	Medium	Small

CORPORATE SECTOR

Agribusiness
Market structure: *Medium*
Market institutions: *Medium*

Land reform has been completed, but a functioning land market is not yet in place. There are still a large number of non-viable state farms. Yields are low even in regional comparison. Furthermore a significant percentage of Romania's food consumption is imported. The process of restructuring and privatising agro-processors, input suppliers, storage and services companies has been slow and productivity is below levels in other EU countries. The retail sector in Romania is developed only in the hypermarket category, even in Bucharest. The subsidiaries of the international players that are present in the country (Auchan, Carrefour, Delhaize, Metro, Rewe, Schwarz, etc) are mostly located in the outskirts of major cities. Suppliers to the retail sector are still far from developed to the Western standards; suppliers currently lack the ability to provide a stable and reliable flow of products, which forces many retailers to source from foreign suppliers. The institutional framework is developing only slowly - the ability to use land as collateral, the warehouse receipts system, the grain grading and commodity systems and property registration need further improvement. Although warehouse receipt legislation was approved in 2003, the system never really took off.

Manufacturing and Services
Market structure: *Small*
Market institutions: *Small*

In recent years, Romania has made progress in improving the business environment, but further steps are necessary to create the conditions for a resumption of sustainable growth. Recent progress has been made in the areas of construction permits (amended regulations that lead to reduced fees and a quicker process), and closing a business (substantial amendments to Romania's bankruptcy laws—introducing, among other things, a procedure for out-of-court workouts) and labour regulations. However, the country continues to be less advanced than most other new EU member states with regard to improving efficiency through restructuring and undertaking investment in innovative activities. Partial balance sheet restructuring may be needed for companies that over-relied on abundant pre-crisis borrowing. Additional support is needed for the SME segment, mainly in equity and quasi- equity, as many of the Companies are under-capitalized. Better implementation of corporate governance rules and enforcement of business regulations are needed to support necessary corporate restructuring.

Real estate
Market structure: *Medium*
Market institutions: *Small*

The real estate sector has significantly developed over the past decade and both private developers and institutional investors in real estate have entered the country. However, the global financial crisis has caught Romania in a distinctive situation with the supply of real estate falling behind medium and long-term requirements in most sectors (except retail). There is still a shortage of modern commercial property as well as quality housing, and imbalances remain between the capital and regional cities. The mortgage market in Romania remains below potential and the restructuring and development of the tourism sector are still at relatively early stages. The legislative framework is well developed, but enforcement remains relatively weak and transparency in the sector is still an issue. A significant amount of property is not registered, and there are uncertainties surrounding the development of a comprehensive system for dealing with the issue of property restitution cases. Since 2009, the process of registering property has improved as a result of the introduction of time limits at the registry. Although the primary legislation supporting the sustainability of real estate (energy efficiency, impact on environment) is well developed, the public awareness of the sustainability issues seems to be lower than in other EU countries.

Telecommunication
Market structure: *Small*
Market institutions: *Small*

Although the telecommunications regulation is already relatively developed, the independence of the regulator, the National Authority for Management and Regulation in Communications (ANCOM), has been recently questioned by the EC. Incumbent RomTelecom (controlled by the Greek group OTE) still dominates the fixed-line market, but faces increasing competition from alternative operators, mostly VoIP. Mobile and fixed number portability was introduced in 2008. There are four mobile network operators, with the competition intense between the first two, Orange Romania and Vodafone Romania. Demand for broadband services has been growing following Romania's accession to the EU in January 2007. The broadband internet market is fragmented, with Romtelecom controlling about 25 per cent market share.

ENERGY AND INFRASTRUCTURE

Natural Resources
Market structure: *Small*
Market institutions: *Small*

Romania still ranks among the biggest oil producers in the transition region, behind Russia and the Caspian countries. The country also dominates south-eastern Europe's downstream petroleum industry, with 10 of the region's 11 refineries. It has more modest gas reserves and coal deposits. Gas is the dominant fuel, accounting for almost 40 per cent of primary energy demand, followed by oil and coal. The state has somewhat more limited ownership of upstream assets than many in the region but the industry is not fully competitive. Petrom, the vertically integrated Romanian oil and gas group, which has been privatised to Austria OMV (EBRD is a shareholder), retains a dominant position in both the upstream and downstream oil segment. In July 2011, the government attempted to sell 9.84%, almost half of the remaining state-owned assets in OMV Petrom, through a Secondary Public Offering on the stock exchange, but the privatisation failed after bids were significantly below the minimum asking price. Petrom is the largest crude producer in Romania and operates a network of service stations, which account for a third of the country's retail oil market. Refining and fuels distribution feature IOC involvement. The internal gas market has been fully liberalised to all customers on July 1st 2007 but the slow pace of reform has prevented potential investors from entering the Romanian natural gas market to help boost current levels of production. The country is a signatory of the Energy Community Treaty, which aims at establishing an Integrated Energy Market Organisation in South-East Europe. The tariff and regulatory system have been strengthened but more efforts have to be made to secure a level playing field to all investors.

Power
Market structure: *Medium*
Market institutions: *Small*

The former national energy monopoly has been unbundled into generation, transmission, and distribution. However, private sector participation in the sector is limited. State-owned enterprises still dominate the generation segment. There is greater private sector participation in distribution (five distribution companies out of eight were privatised). The market has been gradually liberalised, reaching 100 per cent opening in July 2007, but effective competition is still limited, due to the lack of private ownership in the generation sub-sector. The quality of Romanian institutions is fairly high. A regulatory authority (ANRE) is well established, but nowadays its independence is questionable since it is a budgetary institution; the Romanian government has pledged to restore independence, following infringement procedures on the non-application of the EU's third internal energy market package. Electricity tariffs are cost-reflective but cross-subsidies are still present.

Sustainable Energy
Market structure: *Medium*
Market institutions: *Small*

An adequate legal and institutional framework for sustainable energy is in place. Energy pricing encourages energy efficiency investments, although some cross-subsidies still persist. Support systems for energy efficiency and renewable energy are in line with EU practices. Energy intensity and renewable penetration are still lagging behind the EU average. Romania has adopted a National Energy Efficiency Action Plan for 2007-2010. To support renewables, Romania has introduced renewable quota obligations for supply companies with tradable green certificates. The certificates are freely tradable on OPCOM, the energy exchange. The green certificate market is slowly developing and as a result of new legislation Romania is currently experiencing significant growth in the number of wind farms connected to the system. Certificate prices are designed to provide additional cash flow to renewable project owners, on top of the obligation to purchase energy at the wholesale prices. The recent changes in legislation further increase the amount of Green Certificates ("GC") per MWh produced in order to foster the RE development. A Climate policy is in place and there is a good track record of JI projects, but no GIS has been designed.

Urban Transport
Market structure: *Small*
Market institutions: *Small*

Local infrastructure has been transferred to municipalities. The urban transport companies in larger cities have been corporatised, whereas in smaller cities corporatisation is still on-going. However, rolling-stock assets are still held commonly by municipalities (example Arad), rather than the municipal public transport companies. Substantial liberalisation of urban bus routes has taken place and lately the public service contracts have been strengthened for urban transport companies, but implementation practices are still spotty. In larger cities commercial financing is becoming increasingly available, while in the smaller municipalities grant financing and non-commercial funding prevails. Operational and financial performance in the sector is overall satisfactory in Bucharest. However, due to the lack of long-term and robust PSCs in Bucharest, there is no current bank financing available for large-scale fleet renewal in public transport.

Water and wastewater
Market structure: *Medium*
Market institutions: *Small*

Local infrastructure has been transferred to municipalities. The utility companies in larger cities have been corporatised, whereas in smaller cities corporatisation is still on-going. Water utilities have began a process of regionalisation as a necessary step towards attracting EU funding to meet the required environmental standards. The on-going regionalisation aims to reduce the number of operators from 260 to 44 (one per county) but a longer term goal should be consolidation to 10-12 operators based on river basins. Financial performance is mixed, transparent financial reporting and modern management methods are lacking, particularly in smaller companies. Nonetheless, larger water utilities are operating with good financial margins based on solid revenue collection and full cost recovery tariffs. In larger cities commercial financing is becoming increasingly available, albeit often with municipal guarantees while in the smaller municipalities grant financing and non-commercial (IFI) funding prevails. Non-recourse financing remains rare. Operational performances are also fairly good in the water sector. There are a few concessions in the water sector (e.g. Bucharest and Ploiesti). An autonomous regulator sets water and heat tariffs based on a transparent formula and tariff levels have to be approved by the municipalities. Cross-subsidies between consumer groups are no longer common. Tariffs have been increased in recent years and full cost recovery tariffs are common in large cities.

Roads
Market structure: *Small*
Market institutions: *Medium*

The road sector policy statement was approved by the government in June 2002 and the National Administration of Roads (NAR) was legally transferred from “regie autonoma” to a joint stock company in 2004. There is legislation regarding concessions/PPPs but it is not in compliance with EU legislation and concerns remain about the institutional set-up which can lead to inefficiencies and, over time, possibly diverging practices between the various bodies in charge of public procurement. So far no concession/PPP projects have materialised. Periodic maintenance of public roads is contracted out to the private sector. Road user charges are sufficiently high to cover maintenance and rehabilitation costs. The transition challenges remain in the following areas: (i) enhancement of private sector participation including development of road concession/PPP projects in line with international best practice; (ii) further improvements in road user charges, possibly including the environmental costs; and (iii) development of performance based road maintenance contracts.

Railways
Market structure: *Small*
Market institutions: *Negligible*

Operating and policy setting functions have been separated and core railway businesses (infrastructure, passenger, freight, etc.) have been unbundled while ancillary services have been divested. Infrastructure access is granted on a non-discriminatory basis, but the regulator is still the Ministry of Transport (i.e. no separation between policy making and regulation). The private sector is involved in a number of private freight and passenger operations. Due to the lack of adequate financing of the state's obligations under the Public Sector Obligations contracts with the passenger companies, the sector is experiencing a severe liquidity crisis, which is unlikely to be resolved quickly given the restrictions on the state budget following EU accession and the current difficult market. The sector has advanced from a structural perspective, but it still looks "unsustainable" in terms of financial and operational conditions.

FINANCIAL INSTITUTIONS

Banking
Market structure: *Small*
Market institutions: *Medium*

The Romanian banking sector consists of 41 banks, of which 36 are foreign-owned. The latter hold 84.6% of the total banking assets. Foreign ownership has helped the sector through the worst effects of the financial crisis. Only two Romanian banks remained state-owned, namely CEC Bank and Eximbank; 93.2% of assets are held by majority-private banks. The privatisation of CEC Bank was postponed in December 2006 after the government deemed the price offered to be too low. Foreign currency deposits represent 34% of deposits. Banking supervision has been strengthened significantly and deposit insurance coverage is in line with EU standards. Alignment of Romanian banking legislation with EU standards has been further advanced by the approval of a bill in June 2010 (subsequently amended in December 2010) which eliminates fees charged to customers on early loan repayment or termination of bank loans which have interest rates linked to money market benchmarks and introduces a ceiling on fees charged for early repayment of loans with fixed interest rates.

Micro, Small and Medium-sized enterprises
Market structure: *Medium*
Market institutions: *Medium*

MSMEs accounted for about 99.6 per cent of the number of companies, and 64 per cent of employment as of end-2008. However, they accounted for only about 42 per cent of value added of non-financial companies in the economy. Local commercial banks, leasing companies and microfinance banks are extending loans or leases to MSMEs, but the cost of credit in terms of interest and collaterals is still very high in Romania in comparison to other EU countries. Financing is limited in rural areas and outside major cities, and for small agricultural enterprises. A private credit information bureau is in place and there has been an increase in the public bureau coverage. Collateral and bankruptcy legislation are supportive of MSME lending. The full implementation in the Romanian legislation of the EU *acquis* provisions on the new capital requirements for credit institutions and investment firms will stimulate the access to financing, particularly in the retail segment. In response to the crisis in 2009, the activity of the National Credit Guarantee Fund for SMEs was consolidated and the Romanian Fund of Counter Guarantees was established. They provide exchange rate risk coverage and full guarantees for priority projects.

Insurance and other financial services
Market structure: *Small*
Market institutions*: Small*

Forty-four insurance companies operate in Romania, the majority foreign-owned players. The amount of gross written premia for non-life and life insurance in 2010 stood at EUR 1.98 billion decreasing by 5.70% compared with 2009, with 80% non-life insurance and 20% life insurance. The insurance penetration rate, gross written premia/GDP, is 1.80%, a low rate compared to other countries in south-eastern Europe. Insurance legislation and regulation almost meet IAIS standards but the regulator needs further strengthening. New leasing volumes have declined to less than 1% of GDP from almost 4% in 2008. Development of the private pension industry has recently taken off, with privately managed funds operating compulsory pension schemes. As of end-2010 total assets under management reached RON 4.66 billion (EUR 1.1 billion) or 0.9% of GDP, 80% higher than in 2009. These were split between Pillar II, mandatory (93%, 9 pension funds) and Pillar III, optional (7%, 13 pension funds). As of end-2010, around 80% of employees in Romania were contributing to these funds. The leasing segment is highly concentrated. The three largest of the 40 market players account for over 80 percent market share. Leasing penetration amounts to 3.9 percent of GDP whilst mortgage penetration stands at 5.23 percent.

Private equity
Market structure: *Large*
Market institutions: *Small*

Only two country-focused institutionally backed dedicated fund managers have been historically present in the market, whilst the number of regional fund managers including Romania in their target region has been identified to amount to around 20. There is limited participation from local investors (both institutionals and private) with foreign investors generally viewing the country as part of a wider region and not as a stand-alone country. The number of new transactions closed in 2010 was also low. The volume of invested and available capital in the private equity segment, is estimated at 0.4 per cent of GDP. Over half of net committed capital is focused on buyouts, followed by over a third in growth funds. Distressed capital is represented, however small-cap, mezzanine and venture capital as well as infrastructure are non- or almost non- existent. Romania shows conformity with the OECD Principles of Corporate Governance; however local pension funds and insurance companies have yet to become active institutional investors in this asset class.

Capital markets
Market structure: *Medium*
Market institutions: *Small*

There are two market operators in Romania: the Bucharest Stock Exchange (BSE) and Sibex. BSE operates three equity markets (a regulated market, the Rasdaq market and an ATS) and a derivative market. The stock exchange also lists and trades municipal, corporate and government bonds, as well as single stock and currency futures. In 2010, market capitalization on the Bucharest Stock Exchange was RON 102.4 billion (19.94% of GDP). Turnover was at RON 5.6 billion, i.e. 1.09% of GDP, and 74 companies were listed on the stock exchange. Only three IPOs were carried out in 2010: two investment funds and one corporate. There are a number of government and municipal bonds listed on the exchange, but the only corporate bonds listed are multilateral issues by the EBRD and EIB. In total the 55 bond issues listed on the exchange had 543 trades, worth RON 2.6 bln, in 2010. Most of this trading was government/municipal bonds; there was limited trading in the EIB issue but the EBRD2019 issue has not traded on the exchange since listing. RON 107 mln in derivatives traded on the BSE. Romania has established core money market infrastructure, with benchmark indices used for almost all transactions except derivatives. Liquidity however is low both in the secured and unsecured inter-bank market as well as in the longer-term currency forward market. The government bond market shows advanced levels of infrastructure both in the primary and secondary segment. All crucial processes and instruments, such as lists of primary dealers and regular and frequent auctions, are in place. Liquidity in secondary trading remains to develop yet.

ANNEX 3 – LEGAL TRANSITION

Overall Assessment

The Romanian authorities made significant efforts to upgrade the country's commercial legislation prior to EU accession in 2007. This has resulted in a number of improvements to the legal and regulatory framework, as reflected in the EBRD legal assessments.[3] There remain areas of concern however, for example as regards the enforcement of security rights, the professional conduct of insolvency administrators, the functioning of local capital markets, and technical aspects of public-private partnership legislation.

Through its Legal Transition Programme, the EBRD helps create an investor-friendly, transparent and predictable environment in transition countries. Programme activities may include policy dialogue, assessment of legislation, and technical cooperation with the country's authorities. Below is a review of legal developments in sectors crucial to the Bank's investment strategy for Romania. Given the scarcity of funding resources for legal technical assistance in EU member states, the Bank is only planning limited specific technical cooperation activities in Romania during the coming strategy period, in particular the publication of a Policy Brief addressing corporate governance of banks, and follow up measures on the publication of a country report on local capital markets. Other initiatives could be considered if there was a compelling case for EBRD intervention, together with available TC funding.

Investment climate / private sector

Secured transactions

The Bank's plan to lend to the agribusiness sector as well as to MSMEs through financial intermediaries relies on a strong regime for secured transactions. In this context, Romania has established one of the most advance regimes in transition countries, both for pledges and mortgages. A new Civil Code is scheduled to come into force in October 2011, which will update the applicable regime.

Notwithstanding the advanced framework for secured transactions, one area of concern remains the delays involved in court-supervised enforcement of security rights, particularly mortgages. This is an area of legal practice that Romanian authorities should consider strengthening.

Micro-lending activities in Romania would also benefit from a better coverage of the Romanian population in the credit reporting system, which at the moment is only around 13 per cent of the adult population.

Corporate governance

The Romanian legislation on corporate governance has been assessed by the EBRD as being in high compliance with the OECD Principles of Corporate Governance. Shortcomings are rather to be found in practice, for example in the preparation and

[3] See http://www.ebrd.com/pages/sector/legal/what/Country.shtml

disclosure by listed companies of compliance statements vis-à-vis the Bucharest Stock Exchange Corporate Governance Code. So far the level of such preparation and disclosure has been disappointing, but the Stock Exchange has undertaken to remedy this situation as of 2012.

In the area of corporate governance of banks, the main issues relates to group practices. The major banks in the country are owned by foreign banking groups, which raises the issue of the relationship between group and subsidiaries, in terms of board control and banking supervision. The EBRD will publish a Policy Brief on corporate governance of banks in South-Eastern Europe in the second half of 2011 (including Romania), with specific recommendations on how to tackle these issues.

Insolvency

The Romanian insolvency legislation has been assessed in 2009 by EBRD as being in high compliance with international standards. Noteworthy in particular is the presence of a solid regime for reorganisations, allowing insolvent companies to continue business activities and repay their debts, with protection from creditors under a court order. There are also out-of-course reorganisation procedures available, whereby the debtor and its creditors can come to an agreement on a restructuring plan under the supervision of a syndic judge. These arrangements have been significantly improved in 2010 by a number of procedural changes. All these developments should facilitate the handling of the pool of non-performing loans, which remain significant in the country.

There are concerns among investors as to the ability of insolvency administrators to perform their duties. Their professionalism has often been questioned. This area of insolvency practice should be looked at by the Romanian authorities. In particular, they should consider making the code of professional standards and ethics apply to the entire insolvency administrator profession (and not only to members of the National Union) and improve professional supervision.

Capital markets

The Bank's recent assessment of Romania in the context of the EBRD Local Capital Markets Initiative has revealed a number of shortcomings. Romanian capital markets have been slow to develop with effectively no local bond market in place. Taxation legislation promotes a public debt securities market, but there are no such provisions for corporate bonds. One area where the legal and regulatory framework is working well in Romania is in investor protection (mainly built on the EU acquis). But there are significant needs for improvement, including: simplifying the offering document approval process and reducing the fees; revising repo law and regulations to reflect current market practices; clarifying the rules and regulations on derivatives transactions; harmonising legislation and regulations to eliminate gaps and overlap resulting from the implementation of EU law; revising the existing bond mortgage legislation and potentially expanding the structure to other assets. Additional long-term recommendations include allowing intermediaries to allocate debt securities on a discretionary basis and improving the availability of credit ratings. The EBRD will consider how to best engage in policy dialogue and potential technical cooperation with the Romanian authorities in the context of its Local Capital Markets Initiative.

Infrastructure and municipal environment

The current EBRD strategy anticipates investments in the road and railways sectors with the aim of attracting private capital to such infrastructure projects. This will call for a strong legal regime for public-private partnerships (PPPs) and concessions. Romania has enacted in 2010 a new piece of legislation governing public-private partnerships (PPPs). The new law contains a number of positive features, but also lacks some components essential to attracting foreign investors, such as unrestricted access to international arbitration to handle disputes relating to the PPP. Another concern is the lack of clear delineation between the new PPP law and the previous framework for concessions.

ANNEX 4 – EGP/BAS ACTIVITY

EGP/BAS supports economic transition by achieving enterprise change in potentially viable MSMEs and contributing to the development of sustainable infrastructures of local business advisory services.

Previous EGP/BAS experience

EGP (formerly TAM) has been operating in Romania since 1993 and has completed 95 projects, using over €3.8 million of funds from the EU Phare Programme and various bilateral donors, including Italy, Japan, Luxembourg, United Kingdom, Belgium, France and Canada. EGPhas a broad geographic coverage, with projects successfully implemented in 32 Romanian cities and rural areas. Approximately 30 per cent of projects were completed in Bucharest alone, with a further 30 per cent of projects carried out in Craiova, Iasi, Blaj, Sibiu, Slatina, and Timisoara. The programme assisted enterprises operating in various industries, in particular electrical equipment, fabricated metal products, furniture, motor vehicles and components manufacturing, textiles and apparel, and food manufacturing. 87 per cent of all projects achieved an EGP rating of satisfactory or higher. Upon completion of the EGP project, 60 per cent of assisted enterprises reported growth in turnover.

Since inception in July 2006, BAS has completed 209 projects with a further 42 ongoing, engaging 165 local consultants. BAS has received a total of €3.7 million in donor funding from Austria. This funding has been matched by €1.6 million in enterprise contributions to projects. 62 per cent of projects were located in rural areas outside Bucharest and the main cities. Despite the difficult business climate, the average turnover of assisted enterprises increased by 33 per cent in the year following project completion. 18 per cent of enterprises secured external investments with an average size of €1 million. BAS has also undertaken more than 20 Market Development Activities (MDAs) with the objective of developing a sustainable infrastructure of local advisory services. In particular, BAS has focused on MDAs promoting Energy Efficiency (EE) and the benefits of environment management in line with the Bank’s strategy to support SMEs’ use of EE technologies through its dedicated EE credit lines in Romania.

MSME support and consulting sector

The MSME sector

The proportion of Romanian MSMEs as a fraction of all enterprises is in line with the EU average, with MSMEs accounting for around 99.6 per cent of all active enterprises according to the statistical office. However the Romanian MSME sector lacks an export orientation with only a few MSMEs selling products and services abroad and more than half of Romania’s overall exports generated by the largest 100 companies. MSMEs are currently facing serious challenges in terms of management skills, branding and marketing skills, but also in human resources and performance based management. In addition, poor entrepreneurial skills and a lack of long term strategic planning have prevented many start-ups from becoming sustainable MSMEs.

The consultancy market

The Romanian consultancy sector faces significant challenges with respect to MSMEs. Romania is characterized by a large discrepancy between the capital and the rest of the country in terms of consultancy market development Market penetration and supporting infrastructure are adequate in Bucharest but not outside the main cities, where issues regarding the quality and variety of services are prevalent. According to the 2010 BAS Annual Consultant Review (ACR), most consultants are located in the capital and consultancy demand is also low outside the capital. According to EBRD's Management and Organisation and Innovation Survey (MOI) from 2009/09, around 25 per cent of medium-sized enterprises are seeking external consultancy services, which is less than regional peers and below the transition country average.

Despite this, a large majority of MSME seem to be lacking basic managerial skills and a strategic business vision. Major international consultancy companies are operating in Romania but do not cater to the MSME market. The quality, prices and spectrum of advisory services offered by local consultants seem adequate, though most surveyed in the 2010 ACR are concentrated in the area of market analysis and development planning. In rural areas the market is significantly underdeveloped especially with regards to sophisticated advice such as strategic planning or restructuring. The Romanian Management Consultancies Association (AMCOR) demonstrates a certain level of consolidation in the market, however, while a member of international networks promoting management standards such as ICMCI and FEACO, the association still faces issues related to financial sustainability.

Institutional Infrastructure of MSME support

Government support for the MSME sector remains inadequate. There is no ministry in charge of SME development and no law or strategy in place to regulate and promote the sector. A public SME agency is overseeing MSME activities, but capacities and funding remain limited. The Romanian education system puts little focus on entrepreneurial education. There are currently no vocational schools operating and the number of MBA programmes is limited and costly. For this reason, most private sector support comes in the form of technical assistance and training in basic business administration. The National Council of Small and Medium Sized Private Enterprises represents the Romanian SME sector and provides support in 98 regional offices across the country. It mainly provides training and technical assistance to its members on an ad-hoc basis. The international donor community is moving its focus away from the Romanian SME sector. In cooperation with the Romanian Ministry for Economy, the United Nations Development Programme (UNDP) has been operating three business incubation facilities across the country since 2005. By end-2011, the establishment of a further seven incubators is planned. However, most support for MSMEs is provided by the European Union and the European Investment Fund in the form of access to structural and cohesion funds and other financial tools.

EGP/BAS continuation in Romania

Continuation of EGP

Romanian SMEs need further support in adjusting to the new “rules of the market”. Most businesses entered the economic crisis of 2009/2010 unprepared, and both the crisis and the increased competition after EU accession revealed SMEs’ lack of management strategy and long term business planning. With further support including advisory services, there is potential for SME growth in sectors such as agribusiness, bio farming, machinery, textiles, tourism, and IT. Due to the scarcity of donor funds, TAM (now known as EGP) operations ended in 2006 when the additionality of the programme in Romania was considered limited relative to other countries and fewer resources were available. However, in line with the Bank’s current strategy in Romania and in parallel with the government’s efforts, EGP can still play a role in supporting SMEs, especially in aiding exporters to improve competitiveness and access finance. The economic situation remains uncertain and, considering the challenges SMEs have been facing since 2008, the Bank will carry out additional EGP projects to assist enterprises struggling to improve their competitive prospects especially in the areas mentioned above. Some of the SMEs benefiting from the EBRD credit lines via the commercial banks may also be suitable candidates for BAS and EGP projects, and vice versa whereby BAS and EGP may be able to refer SMEs to the commercial banks.

Continuation of BAS

The local consultancy market is in need of consolidation and support to improve the sophistication of skills, based on best practice domestically and from international consultants. Moreover, the consultancy market remains underdeveloped in rural areas, where BAS support is highly additional to promote and facilitate access to consultancy services for rural MSMEs.

A Grant Guideline Matrix is proposed for Romania to prioritise intervention and avoid duplication of efforts with international donors. Depending on funding availability, higher grants will be allocated according to:

- *Geographic location*: BAS focus in Romania is to support projects outside the capital city, particularly in rural areas. BAS will support the manufacturing sector concentrated outside the capital city and the rural agribusiness sector.
- *Type of advisory service*: Higher grants will be given to support more complex consultancy services, including those aiming to improve environmental management and promote energy efficiency projects potentially supported by the EBRD or other FIs.

BAS assistance at the enterprise level will be complemented with the following market development activities in order to maximise the programme’s transition impact in Romania:

- *Visibility and dissemination:* Steps will be undertaken to promote the use of business advisory services, especially in areas outside main cities as well as stimulate demand for more sophisticated consultancy services.

- *MSME and consultancy training*: Capacity building for local consultants will be organised to help broaden the supply and improve quality of local advisory services, including the development of EE and agribusiness advisory services for example.
- *Support to and development of existing local institutions*: BAS will continue supporting local institutions that contribute to the development of MSMEs and the business advisory services market. For example, BAS will continue supporting the consolidation and the sustainability of local management consultancy associations such as AMCOR.

ANNEX 5 - TECHNICAL ASSISTANCE

TC COMMITMENTS BY DONOR THROUGH EBRD, 2008-2010

Donor	TC Commitments (€)
Austria	255,008
EBRD Shareholder Special Fund	1,313,850
European Commission	1,939,258
Germany	175,000
Global Environment Facility	131,000
Netherlands	233,057
Spain	575,100
Sweden	292,994
Switzerland	811,678
Grand Total	**5,726,945**

TC COMMITMENTS BY SECTOR THROUGH EBRD, 2008-2010

Sector/Team		TC Commitments (€)
E2C2	E2C2	231,000
Financial Institutions	FI	1,767,620
	SBF	459,638
Infrastructure	MEI	2,537,679
	Power and Energy	450,000
	Transport	249,900
Other	Other	31,108
Total		**5,726,945**

Note: Commitment values based on year end or period end data for each year.

ANNEX 6 - SELECTED ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011 Estimate	2012 Projection
Output and expenditure				(Percentage change in real terms)			
GDP	7.9	6.3	7.3	-6.6	-1.6	2.5	0.8
Private consumption	12.0	10.9	8.9	-9.7	-1.5	n.a.	n.a.
Public consumption	-11.5	2.5	6.2	9.5	-12.9	n.a.	n.a.
Gross fixed capital formation	19.9	30.3	15.6	-28.1	-7.3	n.a.	n.a.
Exports of goods and services	10.4	7.8	8.3	-6.4	13.1	n.a.	n.a.
Imports of goods and services	22.6	27.3	7.9	-20.5	11.6	n.a.	n.a.
Industrial gross output	9.3	10.3	2.7	-5.5	5.5	n.a.	n.a.
Labour Market[1]				(Percentage change)			
Gross average monthly earnings in economy (annual average)	33.2	16.8	16.9	0.0	5.7	n.a.	n.a.
Real LCU wage growth	24.9	11.3	8.4	-5.3	-0.4	n.a.	n.a.
				(In per cent of labour force)			
Unemployment rate (averge)	5.4	4.3	4.0	6.3	7.6	n.a.	n.a.
Prices				(Percentage change)			
Consumer prices (annual average)	6.6	4.8	7.9	5.6	6.1	5.8	3.7
Consumer prices (end-year)	4.9	6.6	6.3	4.7	8.0	3.1	4.2
Fiscal Indicators				(In per cent of GDP)			
General government balance	-1.4	-3.1	-4.8	-7.3	-6.5	-4.4	n.a.
General government revenues	32.3	32.3	32.2	31.4	32.8	n.a.	n.a.
General government expenditure	33.7	35.4	37.0	38.6	39.4	n.a.	n.a.
General government debt	18.4	19.8	21.3	29.4	37.9	n.a.	n.a.
Monetary and financial sectors				(Percentage change)			
Broad money (M2, end-year)	28,08.	34,05	17,28	8,28	6,15	n.a.	n.a.
Credit to the private sector (end-year)	54.5	60,4	33,7	0,9	4,7	n.a.	n.a.
				(in per cent of total loans)			
Non-performing loans ratio	1.8	2.6	4.5	11.9	16.4	n.a.	n.a.
Interest and exchange rates				(In per cent per annum, end-year)			
Local currency deposit rate	5.1	6.8	13.2	9.4	6.7	n.a.	n.a.
Foreign currency deposit rate	3.1	3.63	5.67	3.31	3.04	n.a.	n.a.
Local currency lending rate	0.0	13.1	17.5	16.6	12.7	n.a.	n.a.
Foreign currency lending rate	8.13	8.12	8.12	6.77	6.32	n.a.	n.a.
Money market rate / Discount rate/ Policy rate	8.75	7.5	10.25	8.0	6.3	n.a.	n.a.
				(Lei per US dollar)			
Exchange rate (end-year)	2.6	2.4	2.9	2.9	3.2	n.a.	n.a.
Exchange rate (annual average)	2.8	2.4	2.5	3.0	3.2	n.a.	n.a.
External sector							
				(in per cent of GDP)			
Current account	-10.4	-13.5	-11.6	-4.2	-4.1	-4.5	n.a.
Trade balance	-12.0	-14.3	-13.7	-5.8	-4.9	n.a.	n.a.
Merchandise exports	26.4	23.8	24.1	24.6	30.6	n.a.	n.a.
Merchandise imports	38.4	38.0	37.8	30.4	35.5	n.a.	n.a.
Foreign direct investment	8.9	5.7	6.7	3.0	1.8	2.2	n.a.
Gross reserves, excluding gold (end-year)	22.9	21.8	18.0	24.8	26.8	n.a.	n.a.
External debt stock	44.2	50.5	49.8	71.2	76.5	n.a.	n.a.
Public external debt	10.7	8.4	7.3	17.0	22.9	n.a.	n.a.
Private external debt	33.6	42.1	42.5	54.2	53.6	n.a.	n.a.
				(In months of imports of goods and services)			
Gross reserves, excluding gold (end-year)	6.2	6.0	4.9	8.1	7.8	n.a.	n.a.
Memorandum items				(Denominations as indicated)			
Population (end-year, million)	21.610	21.565	21.529	21.499	21.462	n.a.	n.a.
GDP (in billions of Lei)	344.651	416.007	514.700	501.139	513.641	n.a.	n.a.
GDP per capita (in US dollars)	5,677.7	7,911.7	9,491.5	7,596.6	7,536.2	n.a.	n.a.
Share of industry in GDP (in per cent)	24.5	24.3	23.0	24.3	26.4		
Share of agriculture in GDP (in per cent)	7.8	5.8	6.6	6.4	6.0	n.a.	n.a.
FDI (In million of US dollars)	10,971.0	9,647.0	13,606.0	4,934.0	2,963.0	4,107.0	n.a.
External debt - reserves (in US$ million)	26,191.1	48,972.9	64,869.0	76,183.6	80,263.8	n.a.	n.a.
External debt/exports of goods and services (in per cent)	137.8	172.3	162.5	231.5	212.2	n.a.	n.a.
Broad money (M2, end-year in per cent of GDP)	32.2	35.6	33.8	38.1	39.5	n.a.	n.a.

ANNEX 7 – GENDER EQUALITY

According to the UNDP's Human Development Index (HDI), Romania is at the top of the high human development countries at 50th place. The Gender Inequality Index, designed to reveal if national human development achievements are eroded by gender inequality, shows a similar picture. When reproductive health, education, political and labour dimensions of gender equality are examined, Romania remains at 50th place.

	Index/% (1.0 max)	Ranking (out of 169)	Year
Human Development Index	.767	50	2010
Gender Inequality Index	.486	50	2009

Source: UNDP Human Development Index 2010

Romania has faced a situation of decreasing economic output throughout the 1990s, which contributed to a significant decline in the labour force participation of both men and women. Women's participation in employment has been decreasing steadily since the transition began. It was at its highest point in 1980 at 67.3 per cent and decreased throughout the 1990s and 2000s to reach 54.1 per cent in 2009, which is low compared to EU standards. According to the UNDP, over 90 per cent of women who are inactive or engaged in part time work do so due to the lack of care services for children and other dependents, which is three times the European average. Unemployment is currently higher for men than women as a result of the financial crises and it represents a particular problem for the younger generation.

	Female	Male	Year
Labour Force Participation (15-64)	54.1	68.3	2009
Unemployment Rates (15+)	5.8	7.7	2009

Source: ILO Key Indicators of the Labour Market 2009

The gender wage gap in Romania has shown a strong downward trend over the last 15 years as a result of wage setting procedures. It fell from 21 per cent in 1995 to only 9 per cent currently, which is significantly lower than the average EU gap of 17.5 per cent. According to the US Department of State, the gap is higher in the private sector and highest within the manufacturing sector.

Occupational and sectoral segregation are also below the European Union average, although these have both grown since the early 2000s. Health and social work, education, and financial intermediation are sectors with strongest female labour participation. Roma women lack training, marketable skills and experience and are at greater risk of facing discrimination in the labour market. Sexual harassment also occurs in the workplace because of lack of awareness and knowledge about relevant laws.

Women are still less well represented than men in managerial positions in the private sector and the percentage of women business leaders (28.7 per cent) is below the average for the EU. Measures of female participation in terms of firm ownership (48 per cent) and top level management (25 per cent) are well above the average for Eastern European countries, however. The Global Entrepreneurship Monitor concludes that entrepreneurial activity in Romania is low, but that women's share of early stage entrepreneurship compares favourably to the rate in other countries. Additionally, the Romanian government provides training and assistance for women entrepreneurs. According to the EBRD/World Bank BEEPS survey in 2008-2009, access to finance for women-owned enterprises is not a significant obstacle. From the sample, 49.4 per cent of firms who applied for loans had women among owners and 6.9 per cent got rejected, while 46.4 per cent of firms had no females among owners and 10.1 per cent of these firms were rejected.