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Romania Country Assistance Evaluation



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Abbreviations and Acronyms

| | | | |
|-------|--|-------|---|
| AAA | Analytical and advisory activities | IICCR | Institutional Investor Country Credit Risk |
| ASAL | Agricultural sector adjustment loan | IMF | International Monetary Fund |
| BEEPS | EBRD-World Bank Business Environment and Enterprise Performance Survey | IRR | Internal rate of return |
| CAE | Country assistance evaluation | MIGA | Multilateral Investment Guarantee Agency |
| CAS | Country assistance strategy | NBR | National Bank of Romania |
| CEEB | Central Eastern European Countries and the Baltics | OED | Operations Evaluation Department |
| CEM | Country economic memorandum | OEG | Operations Evaluation Group |
| CY | Calendar year | OEU | Operations Evaluation Unit, MIGA |
| DFI | Direct Foreign Investment | PAL | Programmatic adjustment loan |
| EBRD | European Bank for Reconstruction and Development | PIBL | Private Sector Institution Building Loan |
| ECA | Europe and Central Asia | PIU | Project Implementation Unit |
| EIB | European Investment Bank | PMU | Project Management Unit |
| ESW | Economic and sector work | PPIBL | Private and Public Sector Institution Building Loan |
| EU | European Union | PSAL | Programmatic structural adjustment loan |
| FDI | Foreign direct investment | PSAPT | Private sector advisory and privatization |
| FESAL | Financial and Enterprise Sector Adjustment Loan | PSD | Private sector development |
| FIAS | Foreign Investment Advisory Service | SAL | Structural adjustment loan |
| FY | Fiscal year | SDF | Social development fund |
| GDP | Gross domestic product | TA | Technical assistance |
| IBRD | International Bank for Reconstruction and Development | TAAS | Technical assistance and advisory services |
| ID | Institutional development | TATF | Technical assistance and trust funds |
| IDA | International Development Association | XPSR | Expanded project supervision report |
| IFC | International Finance Corporation | | |
| IFI | International financial institution | | |

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Preface

This Country Assistance Evaluation (CAE) examines the relevance and efficacy of World Bank assistance to Romania. It covers the period following the fall of the Ceaușescu regime in December 1989 through 2004. Over this time, the key issue facing Romania gradually evolved from how to transition from a centrally planned to a free market economy, to how to transition from an as yet imperfectly operating market economy to European Union (EU) accession.

An Operations Evaluation Department (OED) mission visited Romania and the EU in Brussels from September 13 to September 28, 2004. The mission held discussions with Government and state entity officials, business leaders, bankers, other private sector representatives, civil society, international donors and EU representatives, as well as World Bank staff. The cooperation of all interviewees is gratefully acknowledged. The mission received excellent assistance from the World Bank's office in Bucharest in helping to arrange interviews and field trips.

The report is organized as follows. Chapter 1 provides country background. Chapter 2 reviews the Bank's strategy and its three main objectives: (1) promotion of sustainable private sector growth, through (a) an improved environment for private sector development (PSD), (b) infrastructure development, and (c) agricultural reform; (2) poverty reduction and human development through social sector initiatives; and (3) improvements in governance and institution building. Chapter 3 evaluates Bank impact in these three areas. PSD and infrastructure initiatives are discussed together because of their complementarity in impact. Agriculture is discussed separately because of the unique challenges it presents. Chapter 4 summarizes overall outcomes of the Bank's programs, as well as Bank performance. Chapter 5 concludes with major findings and recommendations. Annex G contains the Management Action Record.

This evaluation was prepared by René Vandendries (consultant, task manager) with assistance from Chandrashekar Pant, Will Candler and Gene Tidrick (consultants) and Maria Claudia Pachon (OED). Agnes Santos provided administrative and editorial support.

The report includes a contribution by the Operations Evaluation Group (OEG) of the World Bank's International Finance Corporation (box 2.1 and annex E), prepared by Anna Zabelina and Nisachol Mekharat. A contribution by the Evaluation Unit (OEU) of the World Bank's Multilateral Investment Guarantee Agency (MIGA), prepared by Stephan R. Wegner is included as annex F.

The draft report was sent to the Government for comments; the comments received from the Government, and OED's response, are attached as Attachment 1. Government comments have received full consideration in the final report.

Summary of CAE Outcome Ratings

| <i>Objectives</i> | <i>1991-99</i> | | <i>2000-04</i> | |
|--|--|---------------------------|---|-------------------------|
| | <i>Performance</i> | <i>Ratings</i> | <i>Performance</i> | <i>Rating</i> |
| Sustainable Private Sector Growth (PSD and Infrastructure) (Agriculture) | Macro stability not achieved, slow advance in privatization, negative growth, lack of hard budget constraint (para 3.21) Infrastructure improved Agricultural decline (para 3.34) | Unsatisfactory | Progress towards macro stability, substantial growth, accelerated privatization, especially of banks (para 3.21) Agricultural stagnation (para 3.34) | Satisfactory |
| Poverty Reduction and Human Development | Poverty increased (para 3.21) Quality of education improved (paras 3.39-3.40) Health sector financing reform limited. Urban/Rural disparities remain large (paras 3.37-3.38) Social protection institutions established or strengthened (para 3.41) | Moderately Unsatisfactory | Poverty declined (para 3.21) Quality of education improved (paras 3.39-3.40) Health sector financing reform limited. Urban/Rural disparities remain large (paras 3.37-3.38) Social protection institutions established or strengthened (para 3.41) | Moderately Satisfactory |
| Governance and Institution Building | Important progress in institutional development (para 3.50) Governance indicators still weak (para 3.46-3.48) | Moderately Satisfactory | Important progress in institutional development (para 3.50) Governance indicators still weak (para 3.46-3.48) | Moderately Satisfactory |
| Overall | | Unsatisfactory | | Satisfactory |

Summary

Following the fall of the Ceaușescu regime in 1989, Romania faced some of the worst starting conditions among the transition economies. In addition to all the well-known market distortions and structural problems common to all transition countries, the legacy of Ceaușescu's highly personalized rule left a bureaucracy that was insecure, politicized, and prone to corruption, and the forced repayment of external debt during the final years of the regime and the ensuing austerity had left the population poor and weary. The latter in particular led new governments to attempt to introduce reforms as gradually as possible. The result was that vacillating government commitment became a major trait of Romania's reform efforts, especially early on.

The 1990s first saw a precipitous drop in GDP and then economic and financial instability throughout the decade, accompanied by many half-hearted reform efforts. By 1999 a major financial crisis ensued and the poverty rate peaked at 36 percent in 2000. But the crisis itself and pressure from the international financial institutions (IFIs) changed the political will to reform, and far-reaching structural reforms followed. The decision by the EU Council of Ministers in December 1999 to open EU accession negotiations for Romania appears to have had a further catalytic effect on the momentum for reform. Since then good progress has been made in stabilization, growth, and private sector development. Growth helped reduce the poverty rate to 29 percent by 2002. But much remains to be done. Romania continues to lag behind comparator countries in the region, both in terms of depth of the reforms and in the private sector's response to these reforms.

The IFIs and especially the World Bank provided considerable assistance to Romania's transition, particularly during the 1990s when EU accession was not yet a driving force for reform. Between FY91 and FY04 the Bank committed a total of US\$4 billion for 40 projects, amounting to an average of US\$285 million per year. But commitments were significantly higher during the 1990s, at a yearly average of US\$335 million, than during FY00–04 when they averaged US\$200 million. The Bank strategy correctly reflected the important role that the private sector must play for generating growth and reducing poverty: 60 percent of its commitments were for private sector development and supporting infrastructure, and another 18 percent for agriculture. Fifteen percent of the Bank's commitments were devoted to social sector development.

Despite the large volume of Bank assistance in the 1990s, progress in market reforms was slow and development outcomes were unsatisfactory during this period. The Government's unwillingness or inability to implement reforms is the main reason. However, the Bank failed in practice to recognize that Government commitment was weak and persisted with adjustment lending in an un-reforming economy. Also, despite its financial clout, the Bank failed to have any impact on some of the crucial issues of the time. Its presence did not deter the Government from undertaking a huge bailout of state-owned banks that supported loss-making state enterprises. In addition, investment lending in the highly distorted policy environment at that time simply did not yield results. However, there were some bright spots. In agriculture, considerable progress was made in 1997 in reducing subsidies, making them transparent, and privatizing or closing loss-making large enterprises. But the process was derailed as government commitment waned. On balance, during most of the 1990s, outcomes of the Bank's interventions were unsatisfactory.

The 1999 crisis was a turning point in Romania's reform process. The country was financially broke and its relations with international creditors at an impasse. The Bank, through a well-designed adjustment program broke the impasse. It now focused on the larger issues—shutting down Bancorex, the large state bank with a huge portfolio of non-performing loans, and preparing for privatization Banca Agricola, the conduit for subsidized lending to agriculture—and accompanied its adjustment lending with TA loans to ensure that the country had the right kind of technical expertise to implement the reforms. The prospect of EU accession helped maintain the reform momentum even after the financial crisis had abated. However, little further progress was made in agricultural reforms, and the Bank's growing involvement in social sector development had both positive and mixed results. The latter considerations, however, are far outweighed by the Bank's success in helping turn the tide in private sector development reforms. The overall outcome of the Bank's assistance strategy since mid-1999 has therefore been satisfactory.

The primary lessons from this evaluation are that adjustment lending is counterproductive when government commitment is lacking, while investment lending often does not bear fruit in a highly distorted policy environment. On the other hand, crisis situations can present a golden opportunity for reform, while contributions to institutional development through TA loans are part and parcel of successful adjustment assistance efforts.

Looking forward, it is essential for the Bank to take fully into account that future strategy development will include not only the Government as a partner, but also the EU, which will determine many administrative arrangements. The first task is to complete ongoing reforms. Two areas are of particular importance as they hold the key to economic growth. They are improving the environment for private businesses and forcing further exit/restructuring of loss-making activities, because payment arrears are still a major issue. The second task revolves around agricultural and rural development. Currently there is no framework for action. An important first step would be to develop an understanding and consensus on priorities between the Government, the EU, and the Bank. Issues to be resolved include how to develop an agricultural credit market as well as a marketing system for small farmers, and how to find a solution to the lack of clear land ownership given the EU's agricultural subsidy policy of paying on a per hectare basis. Most importantly, Romanian agricultural progress requires development and job creation in other sectors of the economy. Thought should be given to the best modalities to support rural development through transport linkages, improved education and health services, water and sewer facilities and the like, in the hope of attracting industrial investment.

Other areas in need of attention in the near future are expenditure management and civil service reform. Expenditure management is still very weak and reform should include developing monitoring and evaluation systems. Civil service reform is critical because an underpaid civil service perpetuates corruption. The Bank has so far provided assistance in policy formulation but has not yet been much involved in civil service reform.

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1. Country Background

1.1 Romania is a lower middle income country with a 2003 per capita income of US\$2,310 (atlas method) and a population of 22 million, the second largest among the Central Eastern European Countries (CEEB).¹ The population has fallen over the last several years largely as a result of declining birth rates and emigration. The poverty rate is high, estimated at 29 percent (2002). The country is very rural, with 46 percent of the population and two-thirds of the poor.

1.2 As in other transition economies, GDP dropped precipitously following the fall of the communist Ceaușescu regime in December 1989. Economic and financial instability prevailed during the 1990s, culminating in a major crisis in 1998–99. The crisis was overcome and was followed by steady economic growth, driven by a strong investment and export performance. Inflation fell gradually and is currently running at about 12 percent per year, the lowest level since the start of the transition. It is estimated that by 2004 per capita income had returned to its 1989–90 level. Since 1989, the industrial and agricultural sectors both shrank in real terms and as a percent of GDP. Of particular significance has been the evolution in agriculture: while the share of the sector in GDP declined from 23 percent in 1990 to about 13 percent today, the share of the labor force in agriculture increased from 30 percent to about 40 percent suggesting that the sector functioned as a safety net, keeping large numbers of people out of extreme poverty.

1.3 Romania faced some of the worst starting conditions among the transition economies, including extremely distorted markets, all-encompassing state ownership, over-dependence on energy and heavy industry, and a badly eroded capital base, including a precarious physical infrastructure. Science, technology, and intellectual capital were crippled by long years of international isolation. In addition, the legacy of Ceaușescu's highly personalized rule left a bureaucracy that was insecure, politicized, and prone to corruption, in a socially unstable environment, and the forced repayment of external debt during the final years of the regime and the ensuing austerity had left the population poor and weary. On the positive side were the absence of external debt and a wide range of natural resources, including a fertile agricultural base, and substantial deposits of coal and lignite, oil and natural gas.

1.4 Given this legacy, the broad goals of the governments' socio-economic policies (except for the period 1996–2000, the same political party under different names was in power during 1990–2004) were to establish political and economic freedoms, promote sustainable economic growth, and provide a social safety net for the poor. The market economy and private sector development were desirable not only because they reflected new freedoms, but they were also viewed as instrumental for re-kindling economic growth and reducing poverty. At the same time, given the positives (no external debt, substantial natural resources), the minority nature of governments, and above all the fact that the population had already suffered from years of austerity, the inclination was to avoid shock therapy and introduce reforms as gradually as possible.

¹ CEEB is defined to include Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

1.5 Vacillating government commitment has indeed been a major trait of Romania's reform efforts, especially early on. This has been combined with complex institutional and social factors and limited capacity to implement reforms. For much of the early and mid-1990s economic policies were characterized by false starts, policy reversals and half-hearted reforms. Private sector development was hampered by continuing macro-economic instability, the slow pace of privatization, the continuing state support for state-owned enterprises, an unreformed financial sector, and legal and regulatory barriers to the growth of new firms. During the late 1990s, however, and especially as the threat of the financial crisis grew and under pressure from the IFIs, far reaching structural reforms took hold. They included the removal of off-budget subsidies and of directed credit, as well as the beginnings of a real restructuring of the banking sector. The political will to reform had clearly become much stronger.

1.6 The decision by the European Union (EU) Council of Ministers in December 1999 to open EU accession negotiations for Romania appears to have had a further catalytic effect on the momentum for reform. Since then good progress has been made in stabilization and growth and in private sector development. The political will is now focused on the requirements for EU accession. The EU, in its October 2004 report on Romania's progress, granted the country Functioning Market Economy status, a prerequisite for EU entry, although the report also expressed a number of lingering concerns.

Box 1.1: Romania and the EU

Romania submitted its application for EU membership on June 22, 1995. In March 1998, the EU formally launched the process that would make enlargement possible for 13 applicant countries, including Romania. Since then, the EU Commission has produced an annual "Regular Report on Romania's Progress Towards Accession." In its second Regular Report (October 1999) the Commission recommended starting accession negotiations with Romania, which was approved by the EU Council of Ministers in December 1999. In its October 2004 Report on Romania, the Commission recognized Romania as a "functioning market economy" and suitable for full EU membership, but expressed concerns about political freedoms. Negotiations were formally concluded in December 2004 and the signing of the accession treaty for Romania (and Bulgaria) is now set for April 2005. Accession itself is expected to take place on January 1, 2007.

The process of negotiations, however, has not been smooth. As compared to other countries, Romania has been slow to adopt the 30 chapters of EU law in the *acquis communautaire* as required to finalize negotiations on entry. Romania will continue to be monitored to ensure that it completes all necessary reforms and commitments undertaken especially in three chapters of the *acquis*: Justice and Home Affairs, Competition, and Environment. A safety clause was introduced in the draft treaty, specifying that entry may be delayed by one year if Romania does not comply with key requirements.

1.7 In view of its starting conditions it is clear that Romania's progress towards creating a market-friendly private sector-oriented economy has been considerable. Prices, foreign trade, and exchange regimes have been largely freed of state control. Privatization has crossed a critical threshold and is moving faster. State owned enterprises are no longer subsidized through the banking system. In the financial sector, many state owned banks were privatized and the largest share of banking sector assets is in banks with majority private foreign ownership.

1.8 Despite this progress, Romania continues to lag behind comparator countries in the region, both in terms of depth of the reforms and in the private sector's response to these reforms (table 1.1). Achievements in reform are measured by the European Bank for Reconstruction and Development's (EBRD) Composite Transition Index which

summarizes progress in various aspects including price and trade liberalization, privatization and enterprise restructuring, and financial sector reforms. A separate index measures progress in infrastructure sector reforms. With the exception of the latter, Romania lags behind other countries in stabilizing their economies and implementing market oriented reforms.

Table 1.1: Romania's Performance in Perspective

| | <i>Inflation rate (Proj 2004)</i> | <i>EBRD Composite Transition Index for Market Reforms (2004)</i> | <i>EBRD Index for Infrastructure Reform (2004)</i> | <i>Broad Money as Percent of GDP (Estimate 2003)</i> | <i>Claims on Private Sector as Percent of GDP (2004)</i> | <i>Private Sector Share of GDP mid-2004 (EBRD estimate in %)</i> | <i>Cumulative DFI per capita 1989-2003 (\$ million)</i> |
|-----------------|-----------------------------------|--|--|--|--|--|---|
| Romania | 11.9 | 3.17 | 3.33 | 24.4 | 9.5 | 70 | 486 |
| Bulgaria | 6.0 | 3.79 | 3.00 | 47.8 | 27.6 | 75 | 775 |
| Croatia | 2.5 | 3.50 | 3.00 | 66.8 | 54.3 | 60 | 1,923 |
| Czech Republic | 3.2 | 3.79 | 3.33 | 69.7 | 32.4 | 80 | 3,709 |
| Estonia | 3.5 | 3.79 | 3.33 | 39.9 | 33.2 | 80 | 2,362 |
| Hungary | 6.8 | 4.33 | 3.67 | 46.2 | 43.0 | 80 | 2,089 |
| Latvia | 6.2 | 3.63 | 3.00 | 35.7 | 34.6 | 70 | 1,435 |
| Lithuania | 1.5 | 3.58 | 2.67 | 31.5 | 20.6 | 75 | 1,163 |
| Poland | 3.6 | 3.71 | 3.33 | 42.0 | 29.0 | 75 | 1,105 |
| Slovak Republic | 7.5 | 3.67 | 2.67 | 62.1 | 32.6 | 80 | 1,873 |
| Slovenia | 3.7 | 3.42 | 3.00 | 47.3 | 41.7 | 65 | 1,646 |
| Average CEEB | 5.1 | 3.66 | 3.12 | 46.7 | 32.4 | 74 | 1,611 |

Note: The EBRD Composite Transition Index ranges from 1 to 4 +, with 4 + indicating standards and performance norms of advanced industrial economies.

Source: EBRD Transition Report 2004; and IMF's International Financial Statistics (IFS) June 2004.

1.9 The outcomes reflect the reform progress. Four indicators are shown. The share of broad money in GDP, an indicator of financial depth; the share of banking system credit to the private sector, a measure of banking system confidence in the private sector; the share of the private sector in GDP; and, cumulative direct foreign investment per capita. By all measures Romania is at the bottom of the CEEB.²

1.10 A large reform agenda remains to be accomplished. Macro-economic stability remains fragile. Privatization is far from complete. Soft budget constraints continue to exist in the form of payment arrears, which also discourages financial intermediation. The financial sector is underdeveloped. In agriculture, credit is hard to come by because of a lack of collateral and a vast smallholder sector has developed with no organized marketing outlets; above all, alternative employment has to be created to absorb the labor surplus before efficiency gains become possible.

1.11 Poverty remains high and the rural sector lags far behind the rest of the economy in the provision of infrastructure and social services. Over the longer term, the social security system is likely to be a source of fiscal vulnerability as is the need for increased spending for the environment where Romania has much ground to cover to reach standards required by the EU. In the area of government, the capacity for policy development and expenditure management remains weak, and there is a critical need for civil service reform.

² The exception is the private sector's share of GDP, where Romania is third to last.

2. The Bank's Program and Strategy

2.1 After the fall of the Ceaușescu regime in 1989, the Bank sent an economic mission to Romania in 1990 and resumed lending in 1991 after a hiatus of almost a decade. Because this is also the beginning of the country's transition to a market economy, it is the starting point for this evaluation. Between FY91 and FY04 the Bank committed a total of US\$4 billion for 40 projects, amounting to an average of US\$285 million per year. But commitments were significantly higher during the 1990s, at a yearly average of US\$335 million, than during FY00–04 when they averaged US\$200 million. Adjustment lending (six operations) made up 42 percent of total lending.

2.2 The IFIs and especially the Bank played a major role in Romania's transition, particularly during the 1990s when EU accession was not yet a driving force for reform. The Bank's financial assistance accounted on average for 34 percent of all net multilateral assistance over the 1992–2002 period, and for 16 percent of all (public and private) net inflows. By the end of 2002 debt to IBRD represented 15 percent of all external debt outstanding. The Bank's financial support not only helped finance the costs of transition but at times was crucial to avert external liquidity crises. Its imprimatur served to signal confidence in the Romanian economy. Equally important was the intellectual contribution the Bank (and IMF) provided to the design of the Government's reform efforts throughout the period. The Bank's economic and sector work, its ongoing policy dialogue, and the technical assistance (TA) it financed served also to build capacity in market-friendly institutions.

Bank Strategy

2.3 The overriding objective of the Bank's strategy since 1991 has been to help Romania's transformation to a market economy, complemented by measures to protect the most vulnerable during the transition. When the first loan was made in FY91 (the Technical Assistance/Critical Imports Project) commercial lenders were not yet ready to extend financing and other donors were hesitant. In essence, the early Bank strategy was to provide highly needed foreign exchange and help mobilize other donor resources in order to facilitate the first structural reforms and support selected sectoral development efforts. There were loans to support health services rehabilitation, agriculture, transport, education, industry and the petroleum sector, as well as a structural adjustment loan (SAL).

2.4 Starting in FY94, the Bank's strategy has been outlined in three country assistance strategies (CASs), covering the periods FY95–97, FY98–00 and FY02–04. On the whole the strategy in the CASs closely mirrored the Government's agenda except that external policy advice on stabilization issues was largely left to the International Monetary Fund (IMF). All three CASs followed the election of new Governments and were upbeat about "renewed" government commitment. All three CASs contained a high case scenario, to be interpreted as the upper limit of lending, as well as a much reduced low case scenario, in the event of lagging reform efforts.

2.5 The primary focus of the Bank's strategy throughout was on restoring growth through private sector development and privatization. The March 1994 CAS covering the FY95–97 period, in addition, aimed at pricing reform in the energy sector and the

development of education, a land market, and infrastructure. The CAS made it very clear that lending would proceed only in those areas where there was progress in reform and would be delayed in areas where reform was lagging. As it turned out Bank lending peaked during those years and the high lending scenario was fully achieved even though the implementation of structural reforms was unsatisfactory and the economy was heading towards a financial crisis: the triggers for the high lending scenario were substantial progress in reform and an adequate macro framework; neither of these conditions was fulfilled.

2.6 The May 1997 CAS covering the period FY98–00 placed increased emphasis on poverty reduction, rationalization of the role of the state, and environmental protection. In this case, the Bank's actual lending volume was only 40 percent of the planned high case and there were major changes in composition as the Bank adjusted its support to reform implementation and deteriorating macroeconomic conditions. But the crisis itself provided the opportunity to accomplish some very basic reforms, under the guidance of Bank adjustment lending, which were a turning point in Romania's overall reform achievements, as will be discussed later.

2.7 The FY02–04 CAS strategy was a continuation of the earlier one with relatively more weight given to institution building and governance reform. Reflecting a better record of policy implementation and an improved macro-economy, the high case lending scenario largely materialized, with the exception that proposed programmatic adjustment lending slipped into FY05.

2.8 The Bank's strategic objectives, as outlined in successive CASs, can be grouped, roughly, into three main categories.

- (1) *The promotion of sustainable private sector growth.* This was to be pursued through macro-economic stability, exposure to world prices, increased competition in markets, privatization, and improved financial intermediation. Sustained growth also required the development of essential infrastructure, and agriculture took on a special place because of the size of the labor force in the sector.
- (2) *Poverty reduction and human development.* This objective became increasingly important with the second CAS and was to be pursued through rural development, social protection, improvements in health and education, and environmental sustainability.
- (3) *Improvements in governance and institution building.* This was to be pursued through rationalization of the role of the state and strengthening public administration and regulatory agencies as well as local institutions.

2.9 A breakdown of the Bank's lending by major sector (table 2.1) suggests that the bulk of commitments was in support of objective number 1. Any such classification is clearly arbitrary given that a project can serve multiple purposes: privatization e.g., also generally rationalizes the role of the state in the economy. There has been in fact very little lending thus far directly in support of objective number 3, with the exception of two adaptable program loans for the Social Development Fund, designed specifically to help improve administrative functions.

Table 2.1: Composition of Bank Commitments, FY91–04
(in millions of US\$)

| | 1991–04 | % Share | 1991–94 | CAS 1995–97 | CAS 1998–00 | 2001 | CAS 2002–04 |
|----------------------|----------------|--------------|----------------|----------------|--------------|--------------|--------------|
| CAS Proposals | | | | | | | |
| High case | – | – | – | 1,235.0 | 1,400.0 | – | 995.0 |
| Low case | – | – | – | 225.0 | 450.0 | – | 60.0 |
| Actual | 4,029.7 | 100.0 | 1,350.6 | 1,190.4 | 583.1 | 130.0 | 775.6 |
| <u>Of which</u> | | | | | | | |
| Macro/PSD | 1,498.6 | 37.2 | 575.0 | 280.0 | 325.0 | – | 318.6 |
| Infra. (inc. energy) | 874.2 | 21.7 | 295.6 | 405.0 | 91.6 | – | 82.0 |
| Agriculture | 711.5 | 17.7 | 100.0 | 350.0 | 36.5 | 80.0 | 145.0 |
| Social sectors | 585.4 | 14.5 | 200.0 | 155.4 | 120.0 | 50.0 | 60.0 |
| Governance | 30.0 | 0.7 | – | – | 10.0 | – | 20.0 |
| Other * | 330.0 | 8.2 | 180.0 | – | – | – | 150.0 |
| <u>Memo item</u> | | | | | | | |
| Annual average | 287.8 | | 337.7 | 396.8 | 194.4 | 130.0 | 258.5 |

*FY91 TA/critical imports loan, FY04 Hazard Mitigation Loan

2.10 About 37 percent of commitments in the period FY91–04 (\$1,498.6 million) was in projects that either supported market-oriented, PSD friendly reforms, or directly financed private (or soon-to-be privatized) enterprises. Another 22 percent (\$874.2 million) financed rehabilitation of infrastructure critical to the needs of the emerging private sector, such as energy, transport and telecommunications: much of this was in the FY91–97 period. Almost 18 percent of total commitments went into projects that served the agricultural sector, while the social sectors received 15 percent. The main shift in focus over time was the scaling down of infrastructure lending starting in the late 1990s where funding from other donors and the private sector was expected to play an increasing role. The International Finance Corporation’s (IFC) strategy and program are described in box 2.1 and annex E. MIGA’s activities are summarized in annex F.

Outcome Ratings for Closed Projects

2.11 Twenty-one of the 40 Bank operations have been evaluated thus far by OED. Seventy-six percent of the amounts disbursed was rated as having had a satisfactory outcome, roughly similar to Bank-wide and Europe and Central Asia (ECA) averages. Adjustment lending did not fare as well: sixty-one percent of the amounts disbursed was rated as having had a satisfactory outcome, significantly below Bank-wide and ECA averages.

2.12 The outcome ratings on closed projects, all of which were approved prior to FY00, at 76 percent satisfactory, do not appear at first to be consistent with a main finding of this evaluation (discussed below) on the lack of impact of the Bank’s program during the earlier period, up to FY00. This is due in part to examining the impact of the assistance program at a country level. For example, an FY92 SAL for \$400 million, which had a satisfactory rating when it closed in the mid-1990s because the policy conditions were met, did not result in a sustained improvement in the policy environment: there was backtracking on price liberalization, and basic fiscal discipline and macroeconomic stability were not sustained (para 3.3). As another example, a

Box 2.1: IFC Operations in Romania

(Source: Operations Evaluation Group, IFC)

IFC's strategy in Romania has tracked the trajectory of the country's progress from socialism to free market and EU accession candidacy, all within the past decade. IFC's development objectives in Romania have been to support structural reform for private sector development, and to help increase foreign investment flows and improve investor confidence. Consistent with these objectives, IFC pursued a strategy that focused on assisting the Romanian government with privatization planning and specific privatization transactions in selected sectors; financial sector reform and development; improving the business environment; and assisting small and medium-size enterprises (SMEs). The strategy targeted a broad range of sectors and included a significant technical assistance and advisory services (TAAS) component.

In pursuit of the strategy, IFC made strong efforts to become firmly engaged in Romania, and while earlier efforts were hampered by political and macroeconomic obstacles, IFC's activities picked up more recently as the prospect of EU accession and the attendant political coalescence behind reform momentum led to investment climate improvements.

During FY91-04, IFC approved US\$548 million in 29 investments in Romania and committed US\$401 million in 26 investments. IFC's approvals in the CEEB countries have been over-weighted towards Romania compared to its share of regional FDI and GDP. This overweighting appears appropriately in line with IFC's corporate frontier strategy as Romania both had the lowest period average GDP per capita in CEEB and has been on average the second riskiest CEEB country, with the slowest progress, as measured by the period average Institutional Investor Country Credit Risk (IICCR) rating.

The sector distribution of IFC's Romania approvals has been generally consistent with country strategies, except where precluded by deficiencies in the enabling environment. The bulk of approvals were made in financial markets, and these have been heavily concentrated by volume in two large pre- and post-privatization investments in one bank. Other sectors where IFC had significant approvals are telecommunications and general manufacturing. In pursuit of IFC's development objective of helping increase FDI in Romania to accelerate its transition, both real sector and financial markets investments were made alongside foreign technical partners.

Instrument-wise, IFC's net commitments in Romania have been weighted towards equity. The main reason is that the two bank investments mentioned above had a substantial equity component. Accordingly, equity commitments have been concentrated almost exclusively in financial markets. This instrument and sector overweighting appears to have brought good investment results so far, given that, while IFC's equity returns in real sector Romania investments have been close to the IFC real sector average, the returns on non-fund financial markets investments have been much higher than the corresponding IFC average and would in aggregate correspond to an Excellent rating under OEG's investment outcome rating guidelines. On the other hand, the negative IRR of a closed investment in funds has resulted in an aggregate nominal IRR for all IFC's Romania equity investments that is below the aggregate IRR for other CEEB countries and equal to the rest of IFC.

Development outcome success rates (both overall and by constituent indicators) for the seven evaluated Romania investments approved in 1992-98 are similar to the rest of IFC and somewhat below the other CEEB countries. In terms of investment outcome success rates, Romania is similar to the rest of IFC but substantially outperforms the other CEEB countries. However, these findings may not be representative of relative portfolio outcome or patterns given the small number of evaluated projects.

Like IFC's strategies for other early transition economies, IFC's Romania strategy appropriately emphasized the importance of delivering a significant donor-funded TAAS component ahead of and alongside its investment operations to develop the soft infrastructure of a market economy, especially in recognition of Romania's investment climate weaknesses. Among CEEB countries, Romania was the beneficiary of the largest amount (more than a third) of IFC's TAAS support by volume and nearly one-fifth by number of operations, an appropriate over-weighting of IFC effort given Romania's relatively worse investment climate quality and poverty. The bulk of TAAS budgets were used in private sector advisory and privatization transactions. IFC has not yet begun systematically evaluating its TAAS operations, so no judgment of its overall relative execution and outcome quality (or their drivers) is possible. *See also Annex E for more details.*

\$100 million line of credit, the Private Farmer and Enterprise Support Project (FY92), was fully disbursed as planned and considered satisfactory, but it did not lead to improvements in agricultural growth or productivity (para 3.31). Thus, the satisfactory outcomes of individual projects did not translate into equally positive outcomes at a country level.

The CDF, Partnerships, and Aid Coordination

2.13 The Bank launched the Comprehensive Development Framework (CDF) in early 1999, at a time when Romania's economy was deteriorating and heading for financial crisis. The country became the first CDF pilot country and the experience has been evaluated by OED in a 2003 Report.³ As a first step, the Bank organized a broad-based consultative process to help create a shared vision for the country. The OED study found that most participants felt that the 1999 consultation experience had been worthwhile and cited as the main outcome the identification of poverty reduction and EU accession as *the long-term vision* of where the country should be heading. The myriad implications of EU accession, however, were not well understood. Several CDF-type consultations on specific subject matters were subsequently held, implying some *country ownership* of CDF principles. With time, however, the CDF approach has faded as EU accession became the prime objective. Unfortunately, the EU's Acquis Communautaire, designed to bring new entrants' practices in line with those of EU countries, does not provide a coherent strategy for social policy issues, including health, education, and poverty reduction, which are mostly left to the individual countries. With regards to *results orientation* the OED study stresses that monitoring and reporting on development results remains weak.

2.14 The OED study also points out that *country-led partnerships*, or aid coordination, has generally been limited and ineffective. Aid projects remain primarily donor-driven. Most aid coordination is at the project level only, with a couple of important exceptions: national efforts in the areas of child protection and HIV/AIDS. The explanation appears to lie in the lack of information on existing assistance, a lack of agreement on who in Government should lead coordination efforts and, above all, weak government capacity to do so. On the other hand, the CAE mission found that, at least among the donors themselves, coordination is very good, with the exception that some bilateral donors find the multilaterals too inflexible when disagreements arise. Bank-Fund coordination has been excellent, especially during the 1999 crisis as will be discussed below. More recently, the EU was encouraged by the Bank's focus on governance issues in its programmatic adjustment lending. Most importantly, while there are no formal meetings, there is synergy between the political clout of the EU and the technical advice provided by the IMF, World Bank, and EBRD. Interlocking conditionality on policies has made for good outcomes.

2.15 One area of special interest is TA, where grant-funded TA from bilaterals or the EU, combined with Bank lending, has worked well. Conversely, when the Bank included TA components in its own loans there were often delays because the Government was reluctant to borrow for TA. Nevertheless, Romania may need to be persuaded that TA may be valuable enough to warrant using loan as well as grant financing. In particular, after accession, EU grant funds are likely to be more readily available for hardware than for TA.

³ *Toward Country-led Development. A Multi-Partner Evaluation of the Comprehensive Development Framework. Findings from Six Country Case Studies.* OED. 2003.

3. The Bank's Development Impact

A. SUSTAINABLE PRIVATE SECTOR GROWTH

A.1 Private Sector Development and Infrastructure

3.1 To promote private sector development (PSD), the Bank's strategy focused largely on creating the right policy environment and market institutions in which the private sector could prosper. The bulk of PSD supportive lending was in the form of four adjustment loans, two of which were accompanied by loans that mainly financed specialized TA for implementing the reform program. The only investment lending in support of PSD was an Industrial Development project that financed the investment needs of private firms producing for export. The Bank also helped the private sector by financing rehabilitation of critical infrastructure in energy, transport, and telecoms. These loans also financed technical assistance for developing and implementing options for sector restructuring to promote private investment and competition in the sector. Economic and sector work (ESW) in the form of country economic memorandums (CEMs) and sector reviews (in finance, energy, transport) served as inputs in the design of Bank lending operations. The economic report in the early 1990s, for instance, outlined the core of the reform program that was supported by the first SAL. The ESW also served to promote better understanding in Romania about the imperative and directions for reform and to help mobilize other donor support.

Table 3.1: List of Loans in Support of PSD and Infrastructure

| | <i>Macro/PSD</i> | | <i>Infrastructure</i> | |
|------------------|------------------|-------------|-----------------------|--------------|
| | <i>Approval</i> | <i>\$mn</i> | <i>Approval</i> | <i>\$mn</i> |
| SAL | Jun 92 | 400 | Transport | Apr 93 120 |
| Ind. Development | May 94 | 175 | Petrol. Rehab. | Apr 94 175.6 |
| FESAL | Jan 96 | 280 | Power Rehab. | Aug 95 110 |
| PSAL I | Jun 99 | 300 | Railway Rehab. | Jan 96 120 |
| PIBL (TA) | Jun 99 | 25 | Roads 2 | Jan 97 150 |
| PSAL 2 | Sep 02 | 300 | Telecoms Reform | Apr 98 30 |
| PPIBL (TA) | Sep 02 | 18.6 | Electricity mkt | Jun 03 82 |
| Total | | 1,498.6 | | 787.6* |

* Not included are three small infrastructure loans with different objectives: Bucharest Water Supply (\$25 million), Mine Closure (\$44.5 million) and Trade and Transport Facilitation in SE Europe (\$17.1 million).

Adjustment Lending Outcomes

3.2 The reform agenda supported by adjustment lending was typically comprehensive and covered most of the important issues, although there were shifts in emphasis and approaches over time. The importance of macro-economic stability and its links with structural reforms in state-owned enterprises and banks was recognized early on. All the loans focused on privatization and restructuring of state-owned enterprises, and reforms to tighten financial discipline. Liberalization of prices and foreign trade and exchange regimes was part of the agenda of the SAL and the financial and enterprise sector adjustment loan (FESAL), but they were no longer an issue for later operations. Reform

of the financial sector was an important component of the FESAL in the mid-1990s, and became the central focus of a programmatic structural adjustment loan (PSAL 1) in 1999 to rid the source of the financial crisis at the time. Energy pricing reforms were supported in all operations but comprehensive sector reforms took center stage only in PSAL 2 in 2002.

3.3 Very little was achieved under the *SAL* and *FESAL*. This failure reflected not only the Government's weak commitment and its inability to implement reforms, but also problems in design of the loans. In the *SAL*, the objectives were overly modest. Though all the conditions for tranche release were met in a technical sense after much delay, very little of substance improved in the overall policy environment. Macro-economic conditions remained unstable with inflation at 137 percent in 1994 when the second tranche was released. There was no perceptible improvement in financial discipline and by end-1994 inter-enterprise arrears were in excess of 20 percent of GDP. Privatization targets were achieved but only about 14 percent of medium and large commercial companies had been privatized by end 1995. More importantly, not enough attention was paid to the mode of privatization: most privatization took the form of management-employee buy-outs (MEBO) which did not provide incentives for restructuring the privatized enterprises. Though prices were liberalized, controls were reintroduced after release of the second tranche with the result that as late as end-1996 (two years after the *SAL* closed) the IMF estimated that nearly 40 percent of the consumer price basket was under some form of state control.

3.4 The record of implementation of the *FESAL*, which sought to address financial sector reforms in particular, was even worse than the *SAL*. Soon after the loan was approved in January 1996, the program floundered. Inflation surged again from 32 percent during 1995 to 155 percent in 1997. Yet the Bank bent over backwards with as many as five waivers to accommodate the release of the second tranche in June 1997. It should have come as no surprise that reforms faltered after that tranche release, and the Bank cancelled the loan in April 1998, ten months after the scheduled closing, with the last tranche of US\$100 million remaining undisbursed. In addition to the weak implementation record, the loan design had failed to confront the most critical issue in the sector. By 1995–96, and certainly by early 1997, when the loan was reconfigured, there were clear signs that some of the major state-owned banks had huge non-performing loans that were a threat to the financial system. Yet, the Bank did not make this a central issue, instead acquiescing in repeated bailouts of two of the largest state-owned banks (Bancorex and Banca Agricola) at a cost of more than a billion dollars in 1997.

3.5 Thus nine years after the start of reforms, with two adjustment loans from the Bank (and four standbys from the IMF—all uncompleted) there was little to show, except for the liberalization of prices, trade and foreign exchange regimes, and some strengthening of banking laws and supervision. Macroeconomic stability was still elusive. Privatized enterprises comprised less than 10 percent of the total capital stock of state-owned enterprises. Financial discipline was still poor: total payments overdue (arrears between enterprises, arrears from enterprises to the budget, and the built-up bad loan portfolio in the state banks) were estimated at the equivalent of 35 percent of GDP in 1997 (see para 3.23, box 3.1 for a discussion of arrears). State owned banks continued to dominate the banking sector.

3.6 By mid-1999 Romania's worsening economic and financial difficulties had come to a crisis stage. Peak amortization payments had resulted in a precariously low level of reserves. Financial market confidence, including that of the IFIs, was low following years of disappointing reform efforts. The IMF, for its part, insisted that the Romanian authorities obtain foreign private sector financing to defray at least part of the amortization payments, which had been paid out of reserves, before concluding a new standby. The Bank emphasized the need to ensure adequate burden sharing between the IMF and the Bank if it were to engage in more adjustment lending.

3.7 In the event the Bank took the initiative and broke the impasse. The Board approved PSAL 1 on June 10, 1999. The loan included some real and long overdue reforms. This action helped restore some confidence to private sector financiers. At the same time, the Board made it clear that PSAL 1 would become effective only after a new IMF Standby had been approved by its Board. PSAL 1 was accompanied by a technical assistance loan, the private sector institution building loan (PIBL).

3.8 While this was a risky strategy and a highly unusual sequence of decision-making between the Bank and the IMF, it paid off. An IMF Standby was approved on August 5. PSAL 1 became effective on August 25. Contrary to all previous experience, implementation of PSAL 1 was largely satisfactory. The financial crisis was overcome and macroeconomic performance improved: in 2000 GDP grew for the first time since 1996; tight fiscal and monetary policy, and reductions in quasi-fiscal expenditures helped bring down inflation to about 46 percent. But the main achievement of the loan was reducing the drain on the economy from the banking sector. The turning point was shutting down Bancorex, one of the large state banks with a huge portfolio of non-performing loans. Banca Agricola (the state bank that was used as a conduit for lending to the agricultural sector) was effectively taken over by NBR (the Central Bank) to prepare for its privatization, which came in 2001. At the initiative of the Bank, an Asset Resolution Agency was established to manage the non-performing loans of the state-owned banks.

3.9 In the enterprise sector too, progress was made. The pace of privatization picked up. A centerpiece of PSAL 1 was that some of Romania's major industrial enterprises were targeted for sale to private investors under the guidance of international privatization advisers. These enterprises included the two highly profitable aluminum companies ALRO and ALPROM, the giant steel company SIDEX, and TAROM, the Romanian airline. With the exception of TAROM which could not be sold because of lack of investor interest (partly reflecting the over-capacity in the airline industry world-wide), the three other companies were ultimately sold to private investors and are performing satisfactorily. However, in all these three cases, questions were raised (and doubts still remain) whether the sale transactions were carried out in a fully transparent manner.

3.10 There were several reasons for the good results under PSAL 1. First, the initial conditions were so bad that the authorities simply had no option but to take the tough decisions that were required to resolve the financial crisis. Decisive steps to close down Bancorex was a precondition for Bank and IMF support. Second, EU accession became a real possibility for Romania in the late 1990s. This goal became the prime driving

force for market oriented reforms and helped maintain the momentum even after the financial crisis had been overcome. Third, the design of conditionality was appropriate. It focused on some of the big issues (such as closing Bancorex and restructuring Banca Agricola, initiating the process of privatization and liquidation of a few large enterprises), outlined a transparent process and realistic sequence of steps, made sure key steps were implemented before release of the second tranche, and ensured that the process was managed by professionals. It did not seek to impose artificial deadlines on completing privatization or closures. Fourth, the Romanian counter-part team was led by a dynamic reformer who had strong political support and could push the reforms in a divided government. A well-staffed Project Management Unit (PMU) (funded by the Bank's PIBL) helped him do his job well. Finally, by twinning the PSAL 1 with the PIBL, the Bank ensured that the country had the right kind of technical expertise at the right time to implement some of the major reforms. The timely availability of international investment and privatization advisers to assist with the restructuring, privatization and liquidation of major state enterprises and banks introduced an element of transparency, professionalism, and objectivity to the process and provided the impetus these important reforms needed.

3.11 The restructuring/privatization process of banks and enterprises was continued under PSAL 2 (also accompanied by a TA loan—the private and public sector institution building loan, PPIBL), with special focus on reforms in the energy sector which remained a major source of subsidization of state-owned enterprises. The loan also supported the implementation of an action plan to remove administrative barriers to private business, drawn up on the basis of recommendations of a foreign investment advisory service (FIAS) study under PSAL 1. Driven by the EU accession time-table, implementation was generally satisfactory, but much slower than envisaged. Major achievements included the sale of majority shares of the giant petroleum company (PETROM) to private foreign investors in July 2004 and the sale of two electricity distribution companies to an Italian firm, soon expected to be followed by further privatizations. But progress was slower than anticipated in continuing banking sector reform.

Investment Support Outcomes

3.12 The Industrial Development Project (FY94) was the Bank's only attempt to provide funds for on-lending through participating intermediary banks to private (or soon-to-be privatized) firms to finance investments for export expansion or to cover pre-shipment finance needs for imported inputs. But the project was a misguided effort at helping the private sector. It was wrong to have assumed, as the project implicitly did, that lack of credit was the binding constraint for the private sector in the mid-1990s. The distorted incentive environment presented the private sector with a far more serious challenge. The project was also flawed in its details. It underestimated the difficulties involved for banks to be accredited as participating financial intermediaries, or for newly privatized firms to be eligible sub-borrowers. Predictably, the results were poor.

Outcomes of Assistance for Infrastructure

3.13 A considerable share of the Bank's assistance program was directed to rehabilitation of Romania's infrastructure, essential for the development of the private sector. While the bulk of Bank financing went for investment and equipment needs for rehabilitation and expansion, loans typically also included a technical assistance component to improve the policy making capacity of the ministry in charge, and for developing plans for restructuring the sectors to make them efficient. Indeed, often the rationale for the Bank's involvement was to facilitate sector restructuring to promote competition and private sector investment.

3.14 On the whole, the infrastructure projects were successful in increasing production capacities and they often contributed significantly to institutional development. On the other hand, they were, by themselves, not effective instruments for promoting major sector restructuring such as that needed in the energy sector. Conditionality under adjustment loans, IMF Standbys, and EU accession requirements were the driving force behind sector policy reforms and restructuring.

3.15 The Bank's objectives in the *roads* sector were to upgrade the system, increase its efficiency, strengthen the private sector's role in transport, introduce competition in public works, and help reshape transport institutions. Cofinancing was provided by EBRD, European Investment Bank (EIB) and EU-PHARE. Physical achievements have been substantial and much of the road network has been rehabilitated or strengthened. Progress was made in commercialization and privatization of road maintenance and in modernizing, privatizing, and improving the efficiency of the construction industry. Vehicle inspection capacity was improved and is now in line with EU standards. Under the first of two projects the Bank helped establish a Road Fund to ensure funding for road maintenance: it was later abolished as arguments against earmarking prevailed.

3.16 Despite the long and continued involvement in the roads sector in Romania by the Bank as well as by other donors, decision-making in the sector is not uniformly transparent, as demonstrated recently by the government's determination to proceed with a large motorway project, estimated to cost in excess of \$2 billion. While the Bank was not involved in this process, and quite independent of the economic merits of the project, the decision has major implications for government finances and the process of decision making was not transparent, given that there was no tendering.

3.17 The Bank's objectives in *railway rehabilitation* were to support restructuring, improve efficiency, and increase passenger comfort and safety. Cofinancing was provided by EBRD and EU-PHARE. Implementation was satisfactory, though with some delays. Apart from improvements in physical infrastructure (track renewal, integrated railway information system, improved telecommunications), significant restructuring took place. The national railway company was unbundled into five autonomous companies—infrastructure, asset management, freight, passengers, and accounting and finance. There was a significant retrenchment of staff. A new Railway Law provides an appropriate legal environment for the industry. The main driving force for these changes was pro-reform leadership in the sector, but the Bank made an important contribution.

3.18 The Bank's objectives in *Petroleum Sector Rehabilitation* were to increase domestic oil and gas production, and to facilitate sector restructuring so as to encourage private investors. The project financed modern equipment, materials and TA, and was cofinanced by the EIB and EU-PHARE. Physical objectives were achieved as was considerable institution building: the TA helped in developing a legal framework for the hydrocarbon sector and a national geological data base was created. However, the project was not effective in promoting sector restructuring or reforms in energy pricing and payment discipline. While much progress has been achieved in these areas, it is attributable mostly to EU accession negotiations and cross conditionality in IMF Standbys and Bank adjustment lending, especially PSAL 2.

3.19 The same can be said about the Bank's *Power Rehabilitation Project*. The goals were both physical output targets and sector restructuring. The physical targets were achieved, with much delay, and restructuring was initiated in 1998, two years after loan effectiveness. But the main driving force behind subsequent reforms was the prospect of EU accession and Bank-Fund cross conditionality in adjustment operations and Standbys.

3.20 The Bank's involvement in *Telecommunications* led to successful outcomes, although the fundamental transformation of the sector was driven primarily by the prospects of EU accession. The Bank's involvement in the *Electricity Market* is too recent to make informed judgments.

Summary Outcome

3.21 The balance of the development outcomes of the Bank's interventions during most of the 1990s was unsatisfactory: the physical achievements in infrastructure development were far outweighed by the poor outcomes of adjustment lending, discussed in para 3.5. Macroeconomic stability was never achieved, growth rates were negative, privatization had advanced very slowly and state-owned banks continued to dominate the banking sector requiring repeated bailouts. Accompanying the long recession, the poverty rate increased from 25 percent in 1995 to close to 36 percent by 2000. Starting in 1999 some important outcomes turned around as can be read from table 3.2. The Bank's prime achievement was to help gradually stabilize the economy (currently inflation is running at about 12 percent per year) which contributed to the turnaround in growth. At the same time, the poverty rate declined to 29 percent in 2002.⁴ A crucial element in this

Table 3.2: Economic Indicators, 1991–03

| | 1991–99 | 1999–03 |
|-----------------------|--------------------|--------------------|
| Yearly GDP growth | – 0.7 | 4.4 |
| Yearly inflation rate | 102.6 | 29.0 |
| | Ave 1991–99 | Ave 2000–03 |
| FDI/GDP | 1.9 | 2.8 |
| Fiscal balance | – 3.7 | – 3.1 |

Source: WB Database, Nov. 28, 2004; Romania CEM, June 2004.

turnaround was the reduction in the losses to the economy of major state banks: one large bank was shut down, another was privatized. By 2003 the state-owned banking sector accounted for 40 percent of total net assets, compared with 75 percent in 1998: this share

⁴ The close association between economic growth and poverty reduction is examined in "Romania: Poverty Assessment." September 30, 2003. World Bank.

is expected to fall to less than 10 percent as soon as the remaining large bank is privatized. Table 3.3 illustrates the significant progress made in large scale privatization as well as in infrastructure reform. The outcome of the Bank's assistance since 1999 is rated satisfactory.

3.22 Tables 3.2 and 3.3 also give hints as to where reforms failed to progress and where much remains to be done. The FDI/GDP ratio, at 2.8 percent, is

below what it could be, reflecting continued weakness in the business environment; the privatization process is far from complete: by end-2003 Romania had privatized only about 40 percent of its large enterprises, and two-thirds of its medium-sized enterprises; little progress has been made in recent years in enterprise reform and competition policy.

Table 3.3: EBRD Transition Indicators

| | 1995 | 1999 | 2003 | 2004 |
|-------------------------------|------------|--------------|--------------|--------------|
| Initial Phase | | | | |
| Small Scale Privatization | 2.7 | 3.7 | 3.7 | 3.7 |
| Price Liberalization | 4 | 4.3 | 4.3 | 4.3 |
| Trade and FX (average) | 4 (3.6) | 4.3 (4.1) | 4.3 (4.1) | 4.3 (4.1) |
| Second Phase | | | | |
| Large Scale Privatization | 2 | 2.7 | 3.3 | 3.7 |
| Enterprise Reform | 2 | 2 | 2 | 2 |
| Competition Policy | 1 | 2.3 | 2.3 | 2.3 |
| Banking Reform | 3 | 2.7 | 2.7 | 3 |
| Reform of Non-bank Fin. Inst. | 2 | 2 | 2 | 2 |
| Infrastructure (average) | 1 (1.8) | 2.7 (2.4) | 3 (2.6) | 3.3 (2.7) |
| Overall average | 2.4 | 3.0 | 3.1 | 3.2 |

Source: The EBRD transition indicators range from 1 to 4.3 (or 4+) with 4.3 indicating standards and performance norms of advanced industrial economies. The distinction between Initial Phase and Second Phase reforms was drawn by EBRD.

The averages are unweighted averages of the individual indicators.

Box 3.1: The Arrears Problem

Payment arrears have been an important issue in many transition economies. In Romania the problem is pervasive and does not appear to have eased over time. While there are several reasons for the build-up of arrears, a major factor was the loss of access by state-owned enterprises to directed credit and large budget subsidies during the 1990s, which led them to resort to arrears, a practice tolerated by the Government. Arrears now constitute a much more important source of financing for enterprises than bank credit.

Total enterprise payment arrears are estimated to have remained at the equivalent of close to 40 percent of GDP between 2000 and 2003. About half of these are inter-enterprise arrears, one-third are arrears to the public sector (taxes, social security contributions) and the remaining arrears to other creditors (wage earners) and banks. This is not to say that these are all truly delinquent debts: the Ministry of Finance defines arrears as payments overdue by 30 days; a breakdown for 30, 60 and 90 days shows that about a third of the arrears falls into each category.

It is difficult to comment on trends in arrears by sector. Arrears of state-owned enterprises appear to have fallen while those of private enterprises increased, but this may be the result of the privatization process which shifted some arrears from the public to the private sector. Nevertheless private sector enterprises now account for more than half of all arrears, illustrating the pervasiveness of the problem in Romanian society. In addition there are also fairly substantial local government arrears to the utility companies.

The lack of transparency associated with arrears hinders structural reform efforts and progress towards a truly competitive market system. Because the problem permeates through the economic system, a broad-based solution is required which addresses the very culture of arrears. This will require more aggressive restructuring and privatization of public enterprises combined with strong enforcement of contract and bankruptcy laws as well as tax and utility payments.

Source: Romania: Selected Issues and Statistical Appendix. IMF Country Report No. 04/220. July 2004.

It is interesting to note the reported lack of progress in banking reform. While the financial losses of the state-owned banks have been much reduced, contributing to the gains in stabilization, the financial system remains underdeveloped. Banks are reluctant to lend, among others because they do not have the staff to properly evaluate investment projects.

3.23 In addition to the above, enterprise payment arrears, and the accompanying loss of transparency, are still prime obstacles to the transition to a market economy. IMF estimates show that total arrears in Romania have not been reduced and continued to be close to the equivalent of 40 percent of GDP during the period 1998–2003.

A.2 The Case of Agriculture

3.24 Following the 1989 Revolution, Romanian agriculture, as other sectors of the economy, faced daunting obstacles to becoming a competitive market system. Only with hindsight has it become clear how many and how binding these constraints were. There were poor price signals, quantitative market interventions, bureaucratic management, soft budget constraints, pervasive state ownership, inappropriate and worn-out capital stock, and underdeveloped processing/marketing channels. Agriculture could not be expected to prosper until all of these constraints were eased, and removing any one of them would likely have little perceptible effect. Over time, additional constraints emerged. By the time the Bank became involved the first stage of land reform had already been completed. It took the form of “restitution” of land to its original owners or heirs, which, in essence, resulted in a proliferation of small plots for much of the agricultural land. In addition, as the rest of the economy failed to grow and workers were laid off, many of them moved to rural areas, further worsening the already high labor/land ratios.

3.25 The Bank’s broad objectives in agriculture were to support a series of policy reforms and engage in investment lending to foster the transition to an efficient agricultural market economy. The ultimate goal was to help increase rural incomes and employment, foreign exchange earnings and growth. At first, the Bank was quite optimistic about the prospects for agriculture, calling it a “candidate for rapid export growth” (1994 CAS).

3.26 The Bank’s involvement in Romanian agriculture started early on and has been significant, including substantial ESW, and lending as shown in table 3.4. The one adjustment operation in FY97

Agricultural Sector Adjustment loan (ASAL) absorbed half of all commitments. Starting with the findings of a huge economic mission in Oct/Nov 1990, which included a seven person agricultural team, the Bank has had a good understanding of the key constraints holding back agriculture, and, as will be seen

Table 3.4: List of Loans in Support of Agriculture

| | <i>Approval</i> | <i>\$ million</i> |
|---------------------------------|-----------------|-------------------|
| Private Farmer and Ent. Support | Jun 92 | 100 |
| ASAL | Jun 97 | 350 |
| General Cadastre | Dec 97 | 25.5 |
| Agri Support Services | Jan 00 | 11 |
| Rural Finance | Mar 01 | 80 |
| Rural Development | Mar 02 | 40 |
| Forest Development | Dec 02 | 25 |
| Irrigation Rehab | Jul 03 | 80 |
| | | <u>711.5</u> |

below, important progress has been made towards relieving some of these constraints. Yet many of the same problems were described in the 1994, 1997, and 2001 CASs and in the 2004 CEM, suggesting that much still remains to be done to ease the multiple binding constraints on the sector. And the Bank tended to be optimistic. Thus, while the 1991 CEM advocated consolidation of the small farms, it did not go the extra step and address the likely performance of unconsolidated smallholdings, or the very specialized services needed if such holdings were to venture beyond subsistence; while it correctly urged privatization, it did not warn that competition might not accompany privatization if the *nomenklatura* managers retain control. Instead, it suggests that “the contribution of the private sector in total agricultural output is certain to soar. . .” The positive tone of the CEM was soon followed by lending: the Bank made its first loan to agriculture during the period under review in June 1992.

Outcome of Agricultural Policy Support

3.27 One of the early improvements in the agricultural policy environment came as a by-product of the otherwise unsatisfactory FY92 SAL. One achievement of the SAL was that energy prices, though not liberalized, were raised closer to world levels. This resulted in the almost complete disappearance of the highly uneconomic irrigation subsector, which depends heavily on energy.

3.28 In 1993 the Bank sponsored a national conference/workshop on the problems of the agricultural sector, inviting Romanian experts to contribute their views, and achieving both an element of consensus in Romania on these problems, and an element of trust between Romanian and Bank professionals. At the time, the government was essentially unreceptive to market-based solutions; thus sector work and building a constituency outside government made good sense. Later the Bank hired two young Romanian agricultural economists to work in the Bank office to help with the preparation of a project that eventually became the ASAL. Most importantly the young Romanians benefited from the views of Romania’s leading agricultural economist, a strong pro-market advocate, who was to become Minister of Agriculture in the new 1997 Government. Thus the ASAL, approved in June 1997, was at least as much a Romanian as a Bank creation.

3.29 The achievements of ASAL were significant. Most importantly Central Bank refinancing of agriculture was ended and the much reduced subsidies were transparently placed “on budget.” Privatization targets were achieved, though with much delay: the ASAL privatized or closed a large number of loss making enterprises, particularly the very large livestock *kombinats*. Also, conditions aimed at removing legal obstacles to agricultural land sales and leasing were fulfilled.

3.30 This said, much of what the loan wanted to achieve remained unfulfilled as the minister of agriculture lost political support before the project’s second tranche could be fully implemented. In particular the Ministry of Agriculture’s role was not changed to be consistent with market-oriented behavior and there was considerable backtracking on incentives’ reform. In the end the loan was closed with the final tranche undisbursed, primarily because of the lack of an acceptable macro-economic program at that time. While OED rated the outcome of the ASAL as unsatisfactory, the achievements were

fundamental and proved sustainable even though, given the many other constraints on agriculture, not enough to promote growth.

Outcome of Non-adjustment Support

3.31 The Bank's record on project lending is more mixed. On the whole, the merits of project lending in an agricultural environment as distorted as Romania's were questionable at best. This was clearly the case of the first agricultural operation, the *FY92 Private Farmer and Enterprise Support project*, which provided an injection of modern imported machinery to the sector. Technically this operation was a success, closing on schedule and fully disbursed. But there were two major problems. First, it was a badly designed project, since the foreign exchange risk was passed on to the final borrowers, the vast majority of whom reportedly went bankrupt. Second and more importantly, the policy environment in which the investments were made was all wrong, making it unlikely that the private farmer could prosper, and the Bank, though by then well aware of what ailed the sector, did not use the opportunity to have a serious discussion with the Government.

3.32 All other projects are still ongoing. The *FY98 General Cadastre* project was clearly needed, since clear title is essential to the operation of a land market, which in turn was being relied upon to achieve land consolidation. However, implementation has been delayed, partly because the cost of land registration is turning out to be much larger than originally expected, and partly because, at first, registration and geographical definition of holdings were assigned to different public entities, a problem now resolved. Meanwhile, the Common Agricultural Policy (CAP) of the EU requires the location and ownership of all eligible agricultural land to be identified by 2007. This will be done by the cadastre office, in parallel with its main program, largely on the basis of aerial photographs. It is expected that by January 2007 the EU will have a database enabling it to pay subsidies on 7 million hectares, while the cadastre project will only have provided secure title to a small fraction of these recipients.

3.33 The *Agricultural Support Services Project (FY00)* was motivated by the country assistance strategies' identification of agriculture as one of the priority sectors on grounds of good prospects for supply response. It is narrowly focused on research and extension and is reported to have had beneficial impact on the research community. The *Rural Finance Loan (FY01)* faces the fundamental problem that the current private bank culture is heavily collateral oriented and not staffed to lend on the basis of productivity. Absent some new initiative the sector seems likely to be starved of credit for the foreseeable future. The *Rural Development (FY02)* and *Forest Development (FY03)* loans provide primarily program support as little is expected to be spent in foreign exchange. The Bank's most recent project, *Irrigation Rehabilitation and Reform (FY04)*, is meant to support efforts to revitalize the agricultural sector. The project's strategy is defined as "economize the use of irrigation subsidies." As mentioned, the irrigation subsector was largely uneconomic and most of it disappeared as energy prices were brought more into line with world prices. While the project addresses deficiencies in the current use of

irrigation subsidies, the continued reliance on subsidies poses a danger of perpetuating the system which, furthermore, is not recognized in the EU.⁵

Summary Outcome

3.34 In contrast to the high expectations for agricultural growth as expressed in the CASs, agricultural value added has fallen by half over the period 1990–2003 while the labor force in agriculture has grown by about a third. While there has been progress in reducing the subsidies to the sector and hence the drain on the budget, in making the subsidies transparent, and in privatizing or closing loss-making large enterprises, these achievements were not enough to promote growth given the many other constraints. In the highly distorted policy environment the relevance of investment lending has been questionable and its efficacy low. On balance, the *outcome* of the Bank’s assistance to agriculture has been unsatisfactory.

B. SOCIAL SECTOR DEVELOPMENT

3.35 The austerity imposed during the final decade of the Ceaușescu regime had starved the social sectors of funds and led to a serious deterioration in the provision of basic social services. Romania’s health status in particular had declined both in absolute terms and in relation to neighboring countries. Comparative key social indicators for the period 1990–2002 are shown in Annex Table 2b.⁶ The Bank’s first involvement in the social sectors was a sizeable loan for health services rehabilitation in October 1991, followed by lending for education in April 1994, and then increasing assistance for social protection and poverty reduction. Over the period FY91–04, 15 percent of the Bank’s commitments for Romania was in support of social sector development, roughly equally split between health, education, and social protection (table 3.5). In addition, in FY05 policy reforms were supported through the Programmatic Adjustment Loan (PAL).

Table 3.5: List of Loans in Support of Social Sector Development

| | <i>Approval</i> | <i>\$ mn</i> | | <i>Approval</i> | <i>\$ mn</i> |
|------------------|-----------------|--------------|------------------------|-----------------|--------------|
| <u>Health</u> | | | <u>Soc. Protection</u> | | |
| Rehab. | Oct 91 | 150 | Employment | Mar 95 | 55 |
| Reform | Jun 00 | 40 | Adjustment | Jun 97 | 50 |
| <u>Education</u> | | | Soc. Sector Dev. | Jun 01 | 50 |
| Reform | Apr 94 | 50 | <u>Soc. Dev. Funds</u> | | |
| Higher educ | Sep 96 | 50 | APL 1 | Jan 99 | 10 |
| School Rehab | Jul 97 | 70 | APL 2 | Dec 01 | 20 |
| Rural Educ | May 03 | 60 | <u>Other</u> | | |
| | | | Child Welfare | Jun 98 | 5 |
| | | | Cultural Heritage | Dec 98 | 5 |

⁵ *Romania: Restructuring for EU Integration—The Policy Agenda*. CEM. June 2004, vol. II para 4.51.

⁶ Comparisons of poverty data across countries are difficult because of a variety of methodological and measurement problems. Estimates of absolute poverty rates in transition economies for the late 1990s are provided in *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia*. The World Bank. 2000. In a comparison of poverty levels with average per capita income levels across countries, the study finds that poverty in Romania exceeds the norm.

3.36 The objectives of the Bank's assistance were highly relevant for the following reasons. In health the focus was first on rehabilitation and upgrading of the primary health care delivery system which was near collapse, and then on reforms of the sector's financing and management to ensure a sustainable and cost-effective system. The driving force of the education strategy was to help develop the new skills required to manage a democratic government and market oriented economy. Bank interventions in social protection were designed to help alleviate poverty for the more vulnerable groups in society and those most affected by the market reforms. Lending was underpinned by substantial ESW, including: a Local Social Services Delivery Study in 2002; Poverty Assessments in 1997 and 2003; a Health Sector Study in 1992 and a Health Sector Support Strategy in 1999; a human resource strategy study for the 1990s; and education work.

3.37 The Bank's development impact in the *health* sector has been slow to materialize. Project implementation has encountered many bottlenecks largely because of the country's lack of capacity to deal with complex Bank projects especially during the early years. The initial optimism about the prospects for health sector reform proved unfounded because of a lack of commitment until a new government came to power in November 1996. Some important reforms were adopted in 1997, including the establishment of compulsory health insurance funded through the payroll, the decentralization of service to the district level, increased hospital autonomy, and the creation of family doctors as private practitioners. The Bank has continued to push for further reform and through the combined impact of the Health Sector Reform loan and Programmatic Structural Adjustment lending a National Health Services Strategy for the public health sector was finally developed. Bank projects in the health sector also included support for capacity building and institutional development in critical areas, such as development of capacity for policy analysis, training in health services management and public health. Because of the relatively high level of the Bank's financial assistance for rehabilitation of health equipment and infrastructure and for supplies, the Bank probably also contributed to recent improvements in health indicators, such as infant mortality and life expectancy.

3.38 However, the reform process is still in its early stages. Thorough health sector financing reform is still needed for system sustainability. The large disparities between service provision in urban and rural areas remain, and access to service in rural areas or for uninsured minorities, such as the Roma (see box 3.2), should become a central part of the debate.

3.39 Outcomes in the *education* sector have been much better than in health, largely because there was early agreement both within the Government and between the Government and the Bank (and other donors) on the need for reform if Romania was to compete in the international environment. The Bank's initial focus was on upgrading the quality of basic and secondary education through the development of new curricula and teachers' training programs, the updating of textbooks, educational materials, and developing new evaluation and assessment systems. Subsequently the Bank supported the adaptation of post-secondary education to the demands of the market economy as well as improvements in access to higher education through grant awards under the "Reform of Higher Education and Research Project loan." Almost all objectives were achieved.

Box 3.2: The Roma Minority

Estimates of the size of the Roma population vary significantly: officially they are about 2.5 percent of the total population or 550,000 people, but some estimates place their numbers up to three times as high. Their socio-economic status poses a major development challenge. Compared with a national poverty rate of 29 percent in 2002, 79 percent of the Roma were estimated to live in poverty. Though solid information is scarce, disparities in access to education, health and social services are equally striking. For example, while 79 percent of all 15-18 year olds attend school, only 36 percent of the Roma do. Their relative seclusion from the rest of society is partly self-imposed by culture and reinforced by discrimination. Roma tend to live in secluded settlements in rural areas or in high density poverty pockets in the cities. Having no entitlement to land also made it impossible to rely on subsistence agriculture as a safety net.

In 2001 the Government launched a strategy for improving the conditions of the Roma. The strategy has received strong backing from the EU, which has been monitoring the status of Roma closely as part of the political criteria for accession.

In the past the Bank has not had direct interventions to address Roma issues in Romania. Nevertheless some efforts have been made to target assistance towards Roma through the Social Development Fund (SDF), by providing finance for projects in Roma communities and targeting social service providers to work in Roma areas. Through the SDF efforts were also made to have Roma facilitators bridge the communications gap between the authorities and local communities. The Bank is now launching a region-wide initiative to address Roma issues.

3.40 The Bank also supported the Government's efforts to rehabilitate schools up to established safety standards and to improve the Ministry of Education's institutional capacity at the national and district levels to plan, develop, and maintain the public educational physical plant. Though with some delay, both objectives were achieved. The work done by the Government in this area, in school selection, design and subproject implementation, with Bank financial and policy support, became a model for future projects to be funded by other donors. In future, continued efforts will be needed in education sector reform, particularly in education financing.

3.41 The Bank pursued its overall objective in *social protection* and poverty alleviation through several means: strengthen the capacity of labor offices to provide employment services, strengthen the Ministry of Labor and Social Protection to monitor and evaluate employment and social protection programs; labor retraining; pension reform; improved targeting of social assistance; and the promotion of Community Driven Development (CDD). Much progress has been made. A National Agency for Employment was created in 1998, comprising a network of offices with country-wide reach and operating effectively. A National Adult Training Board and five regional training centers were established and are fully functional. Progress was also made towards pension reform but delays have been significant because of weak government commitment and especially political opposition to the introduction of private pension funds. Nevertheless the outlook for, and the financial sustainability of, the public pension system has improved considerably: a new Pension Law was eventually adopted in 2001 (almost five years after the Bank introduced reform proposals in the Employment and Social Protection project); the retirement age is being increased gradually and contribution rates are being updated, with the result that the burden of the public pension system on public finances has been reduced. And progress is being made towards private pension schemes: parliament has recently discussed and approved legislation introducing voluntary private pensions, while work continues on legislation to introduce compulsory contributions managed by private funds.

3.42 A main disappointment of the Bank's efforts in the social protection area is the overall lack of progress in monitoring and evaluation systems. While the Government's capacity to formulate policy strengthened, its capacity to monitor and evaluate developments in the labor market and in social protection programs was not improved. Thus, while much was achieved in an institutional sense, it is not possible yet to estimate the quantitative impact of the measures. At the same time, it should be noted that there has been progress in the capacity to evaluate the poverty status by the Romania Anti-Poverty and Social Inclusion Commission (CASPIIS).

3.43 The Bank also lent in support of a Social Development Fund (SDF) to promote CDD, as well as for child welfare. The first stage of the SDF has proven the potential of local self-help capacity for providing rural infrastructure. It became an example in the region for its implementation success. The Child Welfare project was meant mainly to promote community-based approaches as sustainable and cost-effective alternatives to institutionalized child welfare. There has been a large-scale reduction of children in state-run institutions, but weak monitoring and evaluation makes it impossible to judge the contribution of the Bank project.

Overall Outcomes

3.44 Because of time lags involved, it is clearly not possible to measure the quantitative impact of the Bank's assistance on social indicators; one can only look at individual project achievements. In health, while the rehabilitation of physical infrastructure was successful, financial and management reform are still in very early stages, suggesting a moderately unsatisfactory outcome rating. In education the outcomes were satisfactory. In the social protection area, progress was made in several areas, but it was slow and no monitoring and evaluation systems were developed, implying a moderately satisfactory outcome rating. On balance, an overall moderately satisfactory *outcome* rating is appropriate. The main disappointment is the lack of adequate monitoring and evaluation systems, except in the case of education. In terms of subperiods, most of the reforms have come after the late 1990s, suggesting that the outcome of Bank assistance has improved over time. Also, as noted earlier in para 3.21, poverty increased up to 2000, and then began to decline.

C. GOVERNANCE AND INSTITUTION BUILDING

Recent Developments

3.45 Like other countries in Eastern Europe after the fall of communism, Romania lacked the basic institutions needed to support the transition to a market economy such as: an appropriate legal and regulatory framework; separation of regulatory and commercial interests; and a financial system which could operate on a commercial basis to enforce a hard budget constraint on borrowers. Unlike some of its neighbors, Romania had hardly experimented with even limited policy or institutional reforms to separate commercial and regulatory functions or to promote private sector activity. Moreover, among the consequences of Ceaușescu's rule was an insecure and corrupt bureaucracy.

3.46 Romania has made some progress over the past 15 years in developing institutions compatible with a market economy as discussed earlier in paras 3.21–3.23. But the country has lagged behind other Central and East European Countries in policy reform and institutional development, and its level of institutional development remains below the regional average as measured by EBRD Transition Indicators. Romania is at the bottom of the CEEB on both the initial and second phases of reforms (see annex c).⁷

Corruption Indicators

3.47 Ratings of perception of corruption in Romania have remained at a high level in recent years. In an EBRD-World Bank Business and Enterprise Performance Survey (BEEPS) of thousands of firms in transition countries in 2002 Romania ranked 24th highest of 26 countries on corruption as an obstacle to business, and was at the bottom of the CEEB.⁸ The impact on the business environment is significant. The so-called “bribe tax” (reported bribes as a share of enterprise total revenues) was over 2.5 percent in Romania, the 21st highest of the same 26 countries, and also at the bottom of the CEEB.⁹ Households also experience the effects of corruption directly. A 2001 World Bank study, *Diagnostic Surveys of Corruption in Romania*, found that some low income households paid 11 percent of their income as bribes, and the widespread practice of requiring unofficial payments for medical services deterred 41 percent of low income households from seeking medical care even though it was needed.¹⁰

3.48 Another source, the World Bank Institute (WBI), provides a breakdown of six governance indicators for most developing countries. From 1996-2002 Romania has improved on four indicators (voice and accountability; government effectiveness; regulatory quality; and the rule of law), and declined on two indicators (political stability and control of corruption), with many ups and downs in intervening years on most variables. Nevertheless, Romania is below the East European regional average on all six indicators.

⁷ Indicators for the initial phase of reform are an unweighted average of indicators for: small-scale privatization, price liberalization, and trade and foreign exchange system. Indicators for the second phase are an unweighted average of indicators for large-scale privatization, enterprise reform, competition policy, banking reform, non-bank financial institutions, and infrastructure reform.

⁸ The February 2005 International Country Risk Guide (ICRG) corruption rating is 2.5, the same as the average for CEEB countries.

⁹ It is sometimes argued that the adverse impact of corruption (and other impediments such as licensing delays) on the business environment is overstated. In this view, bribery is simply a cost of business which firms, especially foreign investors, can easily absorb. The argument is erroneous for several reasons: a cost equivalent to 2.5 percent of revenue is a much higher share of profits; corruption may deter some firms from locating in Romania; and, most importantly, corruption distorts incentives. The volume and profitability of investment in a corrupt environment may thus give a highly misleading indication of its true economic and social value.

¹⁰ See annex E of the 2001 CAS. Not all households reported paying bribes, but of the low income households that did, an average of 11 percent of household income was spent on bribes.

Bank Strategy

3.49 The Bank was slow to focus on governance and institutional development, at least in the context of its adjustment lending, but these topics have gradually become a central element in the Bank's assistance strategy. One objective of the 1997 CAS was strengthening and rationalizing the role of the state. The 2001 CAS stated that a major lesson of the previous CAS period was the need for the Bank to take an active role to support strengthening institutions for a market economy (governance, anti-corruption, and business environment). High-case triggers under the 2001 CAS included reforms of the Government's institutional, regulatory, and governance framework. The main instrument for implementing these objectives was to be a second Private Sector Adjustment Loan (PSAL 2), followed by a series of programmatic adjustment loans.

Outcome

3.50 The Bank has been fairly successful in promoting institutional development (ID) through investment projects, but did not initially promote ID through its adjustment operations. Eleven of thirteen investment loans have been rated successful with respect to ID (ratings of substantial or high), but only one of six adjustment operations successfully promoted ID (see annex table 5c). The Bank's investment projects were usually designed to combine investments with management and regulatory improvement, and typically included technical assistance (TA) to promote institutional change. Notable accomplishments included:

- Regulatory frameworks were developed in telecommunications, the petroleum sector, and water supply. One of the most successful efforts at supporting a regulatory framework has been in the power sector.¹¹
- The Education Reform loan developed institutions for teacher training and strengthened the assessment and exam system.
- The Transport project successfully supported commercialization and privatization of road maintenance, and helped modernize and privatize the construction industry.
- In the Railway project, a new legal and institutional framework was established. Supervision was intensified to ensure that ID received adequate attention.

¹¹ Though the impetus for power sector reform came from EU accession, the contours of the restructuring were developed in-house in Romania even before the EU came up with its guidelines. In 1998 a technical committee was created to work out options for power sector reform. Based on recommendations of this committee, and unlike most other countries in the region, Romania chose to adopt a more liberal and competitive framework for the sector (the so-called Third Party Model, in contrast to the Single Buyer Model). Consequently, Romania was one of the few countries in the region that did not have to modify its power sector framework when the EU came up with its guidelines for the sector. However, the Bank is credited with a key supporting role through: ideas; funding of TA for supporting the committee; and support through project funding and conditionality.

- The Employment and Social Protection Fund project helped to reform social insurance and social assistance programs. A major achievement was the institutional development of the National Agency for Employment and its country-wide network.

3.51 There were also shortcomings under some projects. Thus, for example, the Health Services project was too complex for project management and the implementation skills of the Ministry. By being over-ambitious it overwhelmed rather than built capacity. A major challenge for Bank ID and capacity building efforts comes from the complexities of coordinating activities with other donors. Because of the availability of grant-funded TA from bilaterals and the EU, the government is reluctant to borrow from the Bank for TA. For the most part, the Bank has been able to use grant co-financing for TA components, but this has sometimes led to delays. In many cases in which the Bank has included TA components in its own loans, the government has delayed approval of the use of these funds. Finally, Bank use of project implementation units (PIUs) for most projects has lessened the ID impact of Bank assistance. Higher salaries for PIU employees have sometimes led to reducing capacity elsewhere (including, at times, in the project management units of the EU, which relies more on civil service recruitment.) The problem is the salary and recruitment policy of the civil service, and the solution is civil service reform. This is not to say that the Bank was wrong in using PIUs, but it does mean that attention should increasingly be directed toward addressing this larger problem of institutional development.

3.52 In contrast to investment lending, adjustment loans have had a modest impact on ID. The primary reason is that the early operations mainly sought stroke of the pen policy reforms and privatization with little regard for ID. There was little relevant TA associated with early loans, and given the broad objectives of these operations, TA might have had little impact on ID in any case. As adjustment lending evolved, the Bank became more concerned with the mode and quality of privatization and with the regulatory framework—ID became an explicit objective. Beginning with PSAL 1 (the first adjustment operation to achieve a satisfactory ID rating), adjustment operations were accompanied by a parallel TA operation (in this case the PIBL) specifically designed to provide support for the reforms and ID of the SAL. PSAL 1 was also underpinned by analytical work by FIAS, *Romania: Administrative Barriers to Investment*, published in 2002. PSAL 2 was also accompanied by a TA loan (the PPIBL) to finance specialized assistance for design of reforms, and again drew on the FIAS study for development of an action plan.

3.53 In recent years, the Bank has focused increasingly on issues of institutional development and governance reforms. Analytical and advisory activities (AAA) on governance and business environment (BEEPS, the diagnostic survey of corruption, and the FIAS study of administrative barriers) have had a substantial impact in raising awareness of the effect of governance on development. Bank fiduciary safeguard work (an internal report on country procurement assessment, a Country Financial Accountability Assessment in 2003) has made useful recommendations on improving financial management and accountability. Public Expenditure Reviews in 1998 and 2002 and a Local Services Delivery study in 2002 provided solid analysis of expenditure management issues.

3.54 The most important step the Bank has taken to support institutional development and governance reform is the first PAL, approved by the Board in August, 2004. The PAL has explicit governance and ID objectives including legal reform, civil service reform, strengthening transparency and governance through laws on declaration of assets and conflict of interest, and regulatory reform in the energy sector. Design of the PAL has been coordinated with the EU. This increases its potential effectiveness because of Romania's strong motivation for EU accession and the credible commitment that provides to locking in reforms. The government is eager for advice on issues of concern to the EU, and the PAL helps the EU monitor progress. Conditionality for judicial and other reforms is more likely to gain traction under these conditions. At this stage, however, we can only say that the PAL appears highly relevant. It is too soon to assess its efficacy.

4. Overall Outcome and Bank Performance

Overall Outcome

4.1 Despite the large volume of Bank assistance in the 1990s, progress in market reforms was slow and development outcomes were unsatisfactory during this period. Adjustment lending outcomes were poor and investment lending in the highly distorted policy environment at that time did not yield results. There were some bright spots. In agriculture, considerable progress was made in 1997 in reducing subsidies, making them transparent, and privatizing or closing loss-making large enterprises. But the process was derailed as government commitment waned. On balance, and taking into account the preponderance of PSD in the Bank's assistance program during most of the 1990s, outcomes of the Bank's interventions were *unsatisfactory*.

Table 4.1: Summary of Outcome Ratings by Objective

| <i>Development Objective</i> | <i>FY1991–99</i> | <i>FY2000-04</i> |
|--|---------------------------|-------------------------|
| | <i>Outcome Rating</i> | <i>Outcome Rating</i> |
| 1. Sustainable private sector growth | Unsatisfactory | Satisfactory |
| 2. Poverty reduction and human development | Moderately Unsatisfactory | Moderately Satisfactory |
| 3. Governance and institution building | Moderately Satisfactory | Moderately Satisfactory |

4.2 The 1999 crisis was a turning point in Romania's reform process. The country was financially broke and its relations with international creditors at an impasse. The Bank, through a well-designed adjustment program broke the impasse. It now focused on the larger issues—shutting down Bancorex, the large state bank with a huge portfolio of non-performing loans, and preparing Banca Agricola, the conduit for subsidized lending to agriculture, for privatization—and accompanied its adjustment lending with TA loans to ensure that the country had the right kind of technical expertise to implement the reforms. The prospect of EU accession helped maintain the reform momentum even after the financial crisis had abated. Little further progress was made in agricultural reforms, and the Bank's growing involvement in social sector development had both positive and mixed results. The latter considerations, however, are far outweighed by the Bank's success in helping turn the tide in private sector development reforms. The overall outcome of the Bank's assistance strategy since mid-1999 has been *satisfactory*.

Bank Performance

4.3 The Bank did several things well. At the broadest level, its strategy reflected the important role that the private sector must play for generating growth and reducing poverty. The large allocation of resources to PSD testifies to this. With the exception of some of the investment lending, it also rightly focused on creating a PSD friendly environment rather than lending for a private sector that had no chance to develop in the highly distorted policy conditions at the time. With one exception (see below) it focused on the right policy issues and constraints. Specifically, the importance of hard budget

constraints was acknowledged and reflected (though not successfully) in policy conditionality from the start. The importance of strengthening institutions for a market economy was not ignored, though not all areas were covered by Bank assistance, and more could have been done. TA for institution building was imbedded in lending operations in various sectors. The Bank also experimented successfully with TA loans to finance specific expertise required to implement key elements of the government's reform program such as privatization and enterprise restructuring. In addition, common conditionality in Bank and IMF operations in key reform areas (such as energy pricing, arrears, privatization) increased their chances of implementation. In agriculture, the Bank correctly identified the formidable challenges facing Romania in the early 1990s and began to address them effectively through well-designed ESW, dialogue, and the FY97 ASAL. But the process was derailed as government commitment waned. The Bank's interventions in the social sectors were well-focused and relevant, but delays and inaction thwarted the assistance efforts.

4.4 But there were errors of omission and commission as well. Until recently, the Bank's PSD strategy neglected one important dimension. This was the barriers to entry of private firms resulting from administrative and regulatory practices, and the cost these practices imposed on the operations of small firms. Labor market rigidities were another constraint that was not seriously addressed until recently. These were formidable barriers, but serious efforts to identify these constraints and eliminate them began only in 2000-02 in the context of PSAL 1 and PSAL 2. This might have been a costly lapse: experience in other countries has demonstrated that it is the growth of new private firms that provides the impetus to economic growth in the early years of transition.

4.5 There were other areas where the Bank lacked experience, or was too late. Though privatization of state owned enterprises was a major policy objective, until the late 1990s the Bank endorsed a program (and method) of privatization that neither accelerated the process nor, in retrospect, created the right incentives for restructuring privatized firms. In the case by case privatizations, the Bank was not always effective in ensuring that the transactions were transparent. In the vital area of financial discipline, for most of the 1990s, the Bank did not insist on the hard decisions needed on cutting off known sources of subsidization of state owned enterprises (such as loans from the banking system at negative real interest rates) or liquidating large loss making enterprises. The turnaround came with PSAL 1 which achieved the closure of one of the biggest sources of financial indiscipline in the banking system, and targeted large state owned enterprises for privatization or closure.

4.6 The Bank also failed to exert sufficient pressure to accelerate restructuring in the power sector despite the importance of this not only for sector efficiency but also for the economy as a whole. This delay was costly—by 1998-99 when restructuring started, foreign investor interest in the electricity sector had waned. Given the large clout that the Bank and the IMF had in the country, especially in the early and mid-1990s, it is not clear why a stronger approach was not adopted and enforced earlier. The OED mission found this a constant refrain among Romanian interlocutors. The Bank's forceful intervention in the financial sector in 1999 was greatly appreciated, but there was also the lament that the Bank should have acted sooner. The same sentiment was echoed in the energy sector. In agriculture, after the ASAL experience during the 1990s, neither the Government nor

the Bank have been able to articulate a credible strategy to address the remaining key obstacles. Without an appropriate policy framework for agriculture, investment lending decisions have questionable value. The Bank's excellent work in preparing and implementing the FY97 ASAL stands in contrast to its subsequent lack of strategic focus on the sector.

4.7 While the unsatisfactory development outcomes of the Bank assistance in the 1990s were largely attributable to the government's unwillingness or inability to implement reforms, the Bank must take its share of the blame. First, it failed to acknowledge that government commitment to reforms was weak and implementation unsatisfactory. Lending continued without adequate progress on key reforms. Second, despite its financial clout, it failed to make any impact on some of the crucial issues of the time. Its presence did not deter the government from undertaking a huge bailout of state owned banks that supported loss making state enterprises. The failure in these two aspects was also a major reason for the unsuccessful macro-economic stabilization during this period and the debt difficulties of the late 1990s.

4.8 The Bank was a major player in the shift in structural reform performance starting from the end of the 1990s. It played an important supportive role in ensuring necessary reforms were carried out in a proper way. Its intervention was especially helpful during the 1999 financial crisis when it was the catalyst in the economic and financial turnaround of the country: the Bank provided critical financial support, linked its support to tough measures to restructure the banking system (including the closure of Bancorex, the privatization of Banca Agricola), and supported the acceleration of privatization of prominent industrial state enterprises. With the EU accession negotiations driving the process, and with the strong support of the IMF, important breakthroughs (such as the privatization of PETROM and the privatization of electricity and gas distribution companies) were achieved in restructuring the energy sector under the auspices of Bank operations.

5. Main Findings and Recommendations

Findings

5.1 Some of the major findings from this evaluation are not new but rather reinforce lessons from other CAEs. First, when government commitment is clearly weak, it is important for the Bank to acknowledge this explicitly and refrain from continuing with adjustment lending. Second, much of the investment lending in a distorted policy environment is unlikely to achieve its objectives, as shown by the industrial development project loan and some of the loans for agriculture.

5.2 Third, crisis situations may present a good opportunity for reform. While the Bank took risks with its PSAL 1 in 1999, the risk was worth taking because the loan was well-designed. The outcome was highly satisfactory. Fourth, institutional progress is part and parcel of successful assistance efforts. The Bank incorporated institutional development components in much of its investment lending and, since the late 1990s, accompanied its adjustment lending with TA loans, all with satisfactory results. Finally, Romania illustrates the case that major structural reforms are mostly supported through adjustment lending, not through investment loans.

Recommendations

5.3 It is essential for the Bank to take fully into account that future strategy development will include not only the Government as a partner, but also the EU which determines many administrative arrangements. The first task clearly is to complete and accelerate ongoing reforms. Two areas are especially important as they hold the key to economic growth: improving the environment for private businesses, and forcing the exit or restructuring of loss-making activities/enterprises. The first means that recent initiatives undertaken under PSAL 2 to eliminate administrative barriers to private enterprise development should be continued, as should anti-corruption activities. The labor code needs simplification and more reforms are needed in the energy sector to ensure improved supply of electricity. The second revolves around payment arrears which are still a major issue. Major reforms are still required in the mining and railways sectors, and the process of liquidation/restructuring of enterprises that are accumulating arrears to the budget needs to be accelerated. Further action is also needed in the financial sector.

5.4 The second major task revolves around the agricultural and rural sectors which present a major development challenge and for which there is currently no framework for action. Given the difficulty of the issues, it is important for the Government, the Bank and the EU to consult a wide range of Romanian agricultural experts and other stakeholders in the development of a long term agricultural and rural development policy. From the Bank's viewpoint, the need is to achieve a consensus on sector priorities and action. At least four challenging issues deserve attention.

5.5 Agricultural credit is a major problem. The privatized banking system is “collateral-oriented” and finds ample demand for such lending. Dynamic, young farmers often are devoid of assets. Commercial banks should be introduced to lending based on productivity and potential cash flow. This requires the lender to have the knowledge to judge loan applications on their technical merits rather than on collateral. The second issue is marketing. The small “subsistence” producers do have marketable surpluses but no organized outlets. A farmer-controlled cooperative may be the best arrangement, but also here it is important to guard against the cooperative being captured by “management.”

5.6 A third issue is the cadastre. Since the EU is sponsoring a Land Parcel Identification system, which will be used as the basis for paying the per hectare agricultural subsidy, it might be necessary to rethink the strategic approach of the national cadastre. Finally, and most importantly, Romanian agricultural progress requires development and job creation in other sectors of the economy. Thought should be given to the best modalities to support rural development through transport linkages, improved education and health services, water and sewer facilities and the like, in the hope of attracting industrial and services investment. Currently the Romanian rural sector is unique in that “rural” essentially means “agricultural” with limited non-agricultural employment opportunities in rural areas.

5.7 Other areas in need of attention in the near future are expenditure management and civil service reform. Expenditure management is still very weak in Romania. There is an evident need for a medium-term expenditure framework which has been analyzed in Bank PERs. But in this area of overlapping responsibility, neither the Bank nor the IMF has provided (or been allowed to provide) technical assistance, nor have they tried to forcefully urge the Romanians to that end. Developing monitoring and evaluation systems would be an integral part of this process. Civil service reform is a critical issue because an underpaid civil service creates incentives for corruption, yet the fiscal implications are daunting. The problem is much broader than the civil service as such. In addition to nearly 100,000 regular civil servants in the core administrative services, there are some 1.2 million public sector workers, most of them contract workers. The Bank has provided useful assistance to help streamline policy formulation, but has not been much involved in overall civil service reform.

Annex A: Statistical Annex

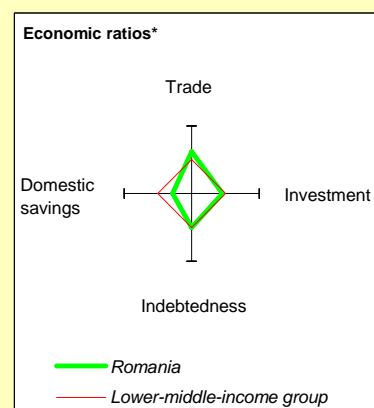
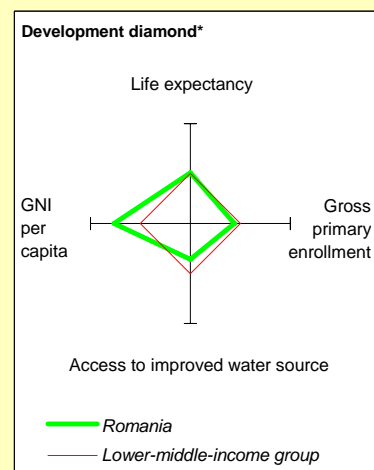
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|----------------|--|
| Annex Table 1: | Romania at a glance |
| Annex Table 2: | Romania: Key economic and social indicators |
| Annex Table 3: | Romania: Development assistance and World Bank lending |
| Annex Table 4: | Romania: Economic and sector work |
| Annex Table 5: | OED ratings and supervision ratings |
| Annex Table 6: | Romania: Millennium development goals |
| Annex Table 7: | Romania: Senior Management, CY1991–2004 |

Annex Table 1

Romania at a glance

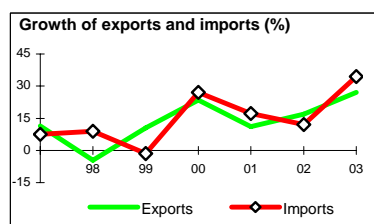
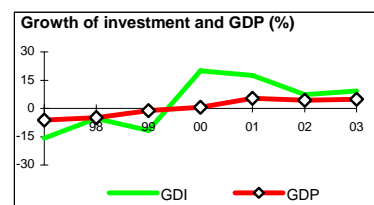
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| POVERTY and SOCIAL | Europe & Central Asia | | Lower-middle-income | | |
|--|-----------------------|----------------|---------------------|-------------|----------------|
| | Romania | Asia | | | |
| 2003 | | | | | |
| Population, mid-year (millions) | 21.7 | 473 | 2,655 | | |
| GNI per capita (Atlas method, US\$) | 2,260 | 2,570 | 1,480 | | |
| GNI (Atlas method, US\$ billions) | 49.2 | 1,217 | 3,934 | | |
| Average annual growth, 1997-03 | | | | | |
| Population (%) | -0.6 | 0.0 | 0.9 | | |
| Labor force (%) | 0.1 | 0.2 | 1.2 | | |
| Most recent estimate (latest year available, 1997-03) | | | | | |
| Poverty (% of population below national poverty line) | 25 | .. | .. | | |
| Urban population (% of total population) | 56 | 63 | 50 | | |
| Life expectancy at birth (years) | 70 | 69 | 69 | | |
| Infant mortality (per 1,000 live births) | 20 | 31 | 32 | | |
| Child malnutrition (% of children under 5) | .. | .. | 11 | | |
| Access to an improved water source (% of population) | 58 | 91 | 81 | | |
| Illiteracy (% of population age 15+) | 2 | 3 | 10 | | |
| Gross primary enrollment (% of school-age population) | 99 | 103 | 112 | | |
| Male | 100 | 104 | 113 | | |
| Female | 98 | 102 | 111 | | |
| KEY ECONOMIC RATIOS and LONG-TERM TRENDS | | | | | |
| | 1983 | 1993 | 2002 | 2003 | |
| GDP (US\$ billions) | .. | 26.4 | 45.7 | 57.0 | |
| Gross domestic investment/GDP | .. | 28.9 | 23.1 | 24.6 | |
| Exports of goods and services/GDP | .. | 23.0 | 35.4 | 36.3 | |
| Gross domestic savings/GDP | .. | 24.0 | 17.3 | 16.8 | |
| Gross national savings/GDP | .. | 24.2 | 19.7 | 18.2 | |
| Current account balance/GDP | .. | -4.5 | -3.3 | -5.8 | |
| Interest payments/GDP | .. | 0.5 | 1.2 | 1.4 | |
| Total debt/GDP | .. | 16.2 | 34.3 | 39.8 | |
| Total debt service/exports | 15.2 | 6.3 | 19.0 | 17.5 | |
| Present value of debt/GDP | .. | .. | 33.2 | .. | |
| Present value of debt/exports | .. | .. | 91.3 | .. | |
| | 1983-93 | 1993-03 | 2002 | 2003 | 2003-07 |
| <i>(average annual growth)</i> | | | | | |
| GDP | -3.1 | 0.7 | 4.3 | 4.9 | 5.0 |
| GDP per capita | -3.3 | 1.2 | 7.2 | 5.2 | 5.0 |
| Exports of goods and services | .. | 11.2 | 16.9 | 27.0 | 7.1 |



STRUCTURE of the ECONOMY

| | 1983 | 1993 | 2002 | 2003 |
|--------------------------------|----------------|----------------|-------------|-------------|
| <i>(% of GDP)</i> | | | | |
| Agriculture | .. | 22.6 | 13.1 | 13.0 |
| Industry | .. | 42.1 | 38.1 | 37.9 |
| Manufacturing | .. | 28.7 | .. | 31.5 |
| Services | .. | 35.3 | 48.8 | 49.1 |
| Private consumption | .. | 63.7 | 76.0 | 70.8 |
| General government consumption | .. | 12.3 | 6.6 | 12.4 |
| Imports of goods and services | .. | 28.0 | 41.2 | 44.1 |
| | 1983-93 | 1993-03 | 2002 | 2003 |
| <i>(average annual growth)</i> | | | | |
| Agriculture | 1.4 | -1.5 | -3.9 | 3.0 |
| Industry | -4.3 | 0.9 | 7.2 | 4.6 |
| Manufacturing | .. | .. | .. | .. |
| Services | .. | 1.5 | 5.6 | 5.2 |
| Private consumption | .. | 3.2 | 3.0 | 7.3 |
| General government consumption | .. | -0.3 | 2.1 | 4.6 |
| Gross domestic investment | .. | 0.3 | 7.3 | 9.2 |
| Imports of goods and services | .. | 11.9 | 12.1 | 34.4 |

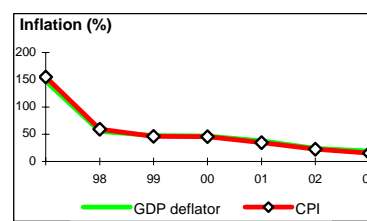


Note: 2003 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

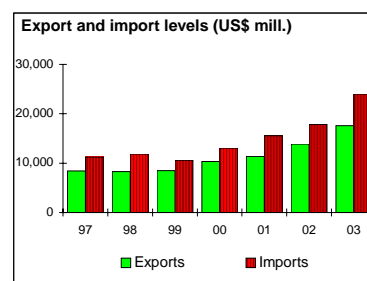
PRICES and GOVERNMENT FINANCE

| | 1983 | 1993 | 2002 | 2003 |
|-------------------------------------|------|-------|------|------|
| Domestic prices | | | | |
| (% change) | | | | |
| Consumer prices | .. | 256.1 | 22.5 | 15.3 |
| Implicit GDP deflator | -0.4 | 227.4 | 24.2 | 19.2 |
| Government finance | | | | |
| (% of GDP, includes current grants) | | | | |
| Current revenue | .. | 33.2 | 29.6 | 29.9 |
| Current budget balance | .. | 4.3 | 0.6 | 1.3 |
| Overall surplus/deficit | .. | -0.4 | -2.6 | -2.2 |



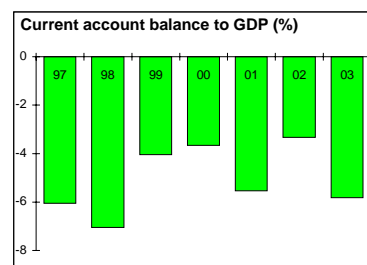
TRADE

| | 1983 | 1993 | 2002 | 2003 |
|-------------------------------|------|-------|--------|--------|
| (US\$ millions) | | | | |
| Total exports (fob) | .. | 4,892 | 13,876 | 17,618 |
| Textiles | .. | 959 | 1,782 | 2,282 |
| Metals | .. | 574 | 1,181 | 1,482 |
| Manufactures | .. | 2,856 | 9,851 | 12,534 |
| Total imports (cif) | .. | 6,522 | 17,862 | 23,983 |
| Food | .. | 964 | 1,174 | 1,737 |
| Fuel and energy | .. | 1,872 | 2,272 | 2,615 |
| Capital goods | .. | 1,432 | 5,111 | 7,017 |
| Export price index (1995=100) | .. | .. | 79 | 79 |
| Import price index (1995=100) | .. | .. | 70 | 71 |
| Terms of trade (1995=100) | .. | .. | 114 | 111 |



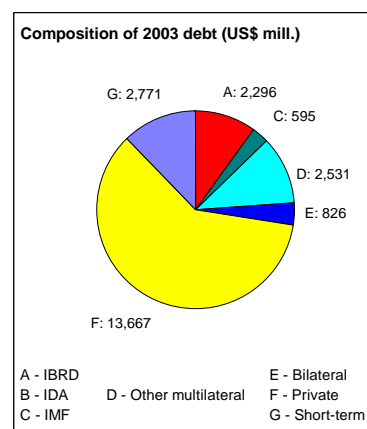
BALANCE of PAYMENTS

| | 1983 | 1993 | 2002 | 2003 |
|---|--------|--------|----------|----------|
| (US\$ millions) | | | | |
| Exports of goods and services | 12,239 | 5,691 | 16,223 | 20,646 |
| Imports of goods and services | 10,369 | 6,934 | 18,825 | 25,113 |
| Resource balance | 1,870 | -1,243 | -2,602 | -4,467 |
| Net income | -710 | -145 | -459 | -705 |
| Net current transfers | 0 | 214 | 1,536 | 1,861 |
| Current account balance | 1,160 | -1,174 | -1,525 | -3,311 |
| Financing items (net) | -1,538 | 1,120 | 3,327 | 4,445 |
| Changes in net reserves | 378 | 54 | -1,802 | -1,134 |
| Memo: | | | | |
| Reserves including gold (US\$ millions) | .. | 956 | 7,306 | 9,364 |
| Conversion rate (DEC, local/US\$) | .. | 760.0 | 33,055.5 | 33,200.1 |



EXTERNAL DEBT and RESOURCE FLOWS

| | 1983 | 1993 | 2002 | 2003 |
|--------------------------------------|-------|-------|--------|--------|
| (US\$ millions) | | | | |
| Total debt outstanding and disbursed | 9,129 | 4,282 | 15,680 | 22,686 |
| IBRD | 1,742 | 403 | 2,173 | 2,296 |
| IDA | 0 | 0 | 0 | 0 |
| Total debt service | 1,875 | 363 | 3,163 | 3,673 |
| IBRD | 220 | 19 | 196 | 214 |
| IDA | 0 | 0 | 0 | 0 |
| Composition of net resource flows | | | | |
| Official grants | 0 | 99 | 259 | 0 |
| Official creditors | 317 | 743 | 143 | 16 |
| Private creditors | -123 | 167 | 2,060 | 1,967 |
| Foreign direct investment | 0 | 94 | 1,144 | 0 |
| Portfolio equity | 0 | 0 | 21 | 0 |
| World Bank program | | | | |
| Commitments | 0 | 120 | 340 | 222 |
| Disbursements | 362 | 189 | 335 | 131 |
| Principal repayments | 102 | 0 | 120 | 145 |
| Net flows | 259 | 189 | 214 | -14 |
| Interest payments | 118 | 19 | 76 | 69 |
| Net transfers | 141 | 169 | 139 | -82 |



Annex Table 2b. Key Social Indicators

| | <i>GNI per capita</i> | <i>Life Expectancy</i> | | <i>Infant Mortality</i> | | <i>Literacy Rate (Adult)</i> | | | <i>Literacy Rate (Youth)</i> | | |
|---------------------|-----------------------|------------------------|------|-------------------------|------|------------------------------|------|------|------------------------------|------|------|
| | 2003 | 1990 | 2002 | 1990 | 2002 | 1990 | 2000 | 2002 | 1990 | 2000 | 2002 |
| Romania | 2,310 | 69.7 | 70.0 | 27.0 | 19.0 | 97.1 | 97.1 | 97.3 | 99.3 | 99.6 | 97.8 |
| Bulgaria | 2,130 | 71.4 | 71.8 | 14.0 | 14.0 | 97.2 | 97.2 | 98.6 | 99.4 | 99.7 | 99.7 |
| Croatia | 5,350 | 72.2 | 73.8 | 12.0 | 7.0 | 96.9 | 96.9 | .. | 99.6 | 99.8 | 99.6 |
| Czech Republic | 6,740 | 71.7 | 75.0 | 10.0 | 4.0 | .. | .. | .. | .. | .. | .. |
| Estonia | 4,960 | 69.5 | 70.6 | 15.0 | 10.0 | 99.8 | 99.8 | .. | 99.8 | 99.8 | .. |
| Hungary | 6,330 | 69.3 | 72.3 | 15.0 | 8.0 | 99.1 | 99.1 | 99.4 | 99.7 | 99.8 | 99.8 |
| Latvia | 4,070 | 69.3 | 70.4 | 16.0 | 17.0 | 99.8 | 99.7 | .. | 99.8 | 99.8 | .. |
| Lithuania | 4,490 | 71.3 | 72.7 | 17.0 | 8.0 | 99.3 | 99.6 | .. | 99.8 | 99.8 | .. |
| Poland | 5,270 | 70.9 | 73.8 | 16.0 | 8.0 | .. | .. | .. | .. | .. | .. |
| Slovak Republic | 4,920 | 70.9 | 73.3 | 14.0 | 8.0 | .. | .. | .. | .. | .. | 99.6 |
| Slovenia | 11,830 | 73.3 | 75.9 | 8.0 | 4.0 | 99.6 | 99.6 | 99.7 | 99.8 | 99.8 | 99.8 |
| ECA | 2,570 | 69.3 | 68.6 | 37.3 | 30.7 | 96.0 | 96.0 | .. | 98.3 | 98.9 | 98.9 |
| Lower-Middle Income | 1,480 | 67.4 | 69.1 | 43.5 | 32.1 | 80.7 | 80.7 | .. | 93.5 | 96.8 | .. |

| | <i>Net Enrollment in Primary</i> | | <i>HDI</i> | | | |
|---------------------|----------------------------------|------|------------|-------|-------|-------|
| | 1990 | 2000 | 1990 | 1995 | 2000 | 2002 |
| Romania | .. | 92.8 | 0.771 | 0.769 | 0.773 | 0.778 |
| Bulgaria | 86.1 | 92.7 | 0.795 | 0.784 | 0.791 | 0.796 |
| Croatia | 78.8 | 88.2 | 0.806 | 0.798 | 0.823 | 0.830 |
| Czech Republic | .. | 90.3 | .. | 0.843 | 0.856 | 0.868 |
| Estonia | .. | 97.6 | 0.817 | 0.796 | 0.839 | 0.853 |
| Hungary | 91.3 | 89.9 | 0.807 | 0.810 | 0.837 | 0.848 |
| Latvia | .. | 90.6 | 0.807 | 0.765 | 0.808 | 0.823 |
| Lithuania | .. | 97.5 | 0.823 | 0.789 | 0.829 | 0.842 |
| Poland | 96.6 | 97.7 | 0.802 | 0.816 | 0.843 | 0.850 |
| Slovak Republic | .. | 89.4 | .. | .. | .. | 0.842 |
| Slovenia | .. | 93.4 | .. | 0.852 | 0.883 | 0.893 |
| ECA | .. | .. | .. | .. | .. | 0.796 |
| Lower-Middle Income | 95.1 | 91.3 | .. | .. | .. | 0.756 |

Note: HDI – Human Development Index.

Source: WB Database and HDI from UNDP Human Development Report 2004.

Annex Table 3 Romania: Development Assistance and World Bank Lending

Table 3a. Total Receipts Net (ODA*, OOF, Private). 1990-2003**
Data in US\$ million

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 1990-2003 | |
|--|-------|------|-------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|-------|
| Total All Donors | 1,000 | 497 | 1,853 | 952 | 777 | 777 | 1,914 | 1,272 | 1,103 | 1,291 | 1,829 | 1,045 | 1,377 | 2,138 | 7,825 | |
| DAC*** Countries, Total | 919 | 353 | 1,049 | 586 | 303 | 323 | 1,464 | 525 | 531 | 644 | 1,187 | 421 | 604 | 1,334 | 10,245 | |
| Multilateral, Total | 65 | 122 | 824 | 378 | 445 | 430 | 440 | 731 | 563 | 630 | 630 | 619 | 758 | 788 | 7,422 | |
| o/w EC | 62 | 112 | 607 | 184 | 98 | 221 | 135 | 201 | 201 | 297 | 286 | 479 | 517 | 638 | 4,037 | |
| o/w EBRD | | | 1 | | 82 | 73 | 69 | 153 | 201 | 80 | 38 | 109 | 57 | 84 | 946 | |
| o/w IBRD | | | 3 | 211 | 189 | 263 | 128 | 228 | 371 | 84 | 233 | 293 | 31 | 188 | (14) | 2,208 |
| IBRD/ IDA Total | | | 3 | 211 | 189 | 263 | 128 | 228 | 371 | 84 | 233 | 293 | 31 | 188 | (14) | 2,208 |
| IBRD & IDA Share of Multilateral Assistance, % | 0 | 2 | 26 | 50 | 59 | 30 | 52 | 51 | 15 | 37 | 47 | 5 | 25 | -2 | 30 | |
| IBRD & IDA Share of Total Assistance, % | 0 | 1 | 11 | 20 | 34 | 17 | 12 | 29 | 8 | 18 | 16 | 3 | 14 | -1 | 12 | |

Source: OECD International Development Statistics (IDS) Online. Dec. 22, 2004.

*ODA - Official Development Assistance: Grants or loans to countries and territories on Part 1 of the DAC List of Aid Recipients (developing countries) that are: 1) Undertaken by the Official Sector; 2) Have promotion of economic development and welfare as their main objective, 3) Are granted at concessional terms (the loan has a grant element of at least 25%).

**OOF - Other Official Flows: Transactions by the official sector with countries on the List of Aid Recipients that do not meet the conditions of Official Development Assistance or Official Aid eligibility, either because they are not primarily aimed at development, or because they have a grant element of less than 25 percent.

*** DAC - Development Assistance Committee: The committee of the OECD which deals with development cooperation matters.

Annex Table 3b. World Bank Commitments by Sector Board 1990–2005

| Sector- Board | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | TOTAL |
|----------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------|
| Economic Policy | | 400 | | | | 280 | | | | | | | | | 150 | 830 |
| Infrastructure | | | 120 | 176 | | 230 | 175 | 30 | | 62 | | | 82 | | | 874 |
| Environment | | | | | | | | 26 | | | | | | 150 | | 176 |
| Financial Sector | | | | | | | | | 300 | | | | 300 | | | 600 |
| Health, Nutrition and Population | | 150 | | | | | | | | 40 | | | | | | 190 |
| Private Sector Development | | | | 175 | | | | | 25 | | | | 19 | | | 219 |
| Public Sector Governance | 180 | | | | | | | | | | | | | | | 180 |
| Rural Sector | | 100 | | | | | 350 | | | 11 | 80 | 40 | 25 | 80 | 50 | 736 |
| Social Development | | | | | | | | | 5 | | | | | | | 5 |
| Social Protection | | | | | 55 | | 50 | 5 | 10 | | 50 | 20 | | | | 190 |
| TOTAL | 180 | 650 | 120 | 351 | 55 | 510 | 575 | 61 | 340 | 113 | 130 | 60 | 426 | 230 | 200 | 4,000 |

Source: World Bank Database. November 2004.

Annex Table 3c. Romania: List of IBRD/IDA Projects, 1990–2004

| <i>Proj ID</i> | <i>Proj. Name</i> | <i>Appr. FY</i> | <i>Sector Board</i> | <i>IBRD/IDA Amt.</i> | <i>Latest DO</i> | <i>Latest IP</i> | <i>Latest Risk Rating</i> | <i>Project Status</i> | <i>Date, Rev. Closing</i> | <i>Outcome</i> | <i>Sustainability</i> | <i>Inst. Development</i> |
|----------------|---------------------------------|-----------------|-----------------------------------|----------------------|------------------|------------------|---------------------------|-----------------------|---------------------------|---------------------------|-----------------------|--------------------------|
| P008794 | POWER SECTOR REHAB | 1996 | Energy and Mining | 110 | S | S | N | Active | 8/31/2004 | | | |
| P039250 | SECOND ROADS | 1997 | Transport | 150 | S | S | N | Active | 11/30/2004 | | | |
| P034213 | GEN'L CADASTRE | 1998 | Environment | 26 | S | S | M | Active | 6/30/2005 | | | |
| P039251 | PIBL | 1999 | Private Sector Development | 25 | S | S | N | Active | 6/30/2004 | | | |
| P044176 | BIODIV CONSV MGMT (GEF) | 1999 | Environment | | | S | N | Active | | | | |
| P058284 | CULTURAL HERITAGE | 1999 | Social Development | 5 | S | S | M | Active | 12/31/2004 | | | |
| P008797 | HEALTH SECTOR REFORM | 2000 | Health, Nutrition and Population | 40 | S | S | S | Active | 6/30/2004 | | | |
| P043882 | AGR SUPPORT SERVS | 2000 | Rural Sector | 11 | S | S | M | Active | 12/31/2004 | | | |
| P056337 | MINE CLOSURE | 2000 | Energy and Mining | 45 | S | S | M | Active | 6/30/2005 | | | |
| P065041 | TRADE & TRANS FACIL IN SE EUR | 2000 | Transport | 17 | S | S | M | Active | 6/30/2004 | | | |
| P008783 | SOC SECT DEV (SSD) | 2001 | Social Protection | 50 | S | S | M | Active | 6/30/2006 | | | |
| P056891 | RURAL FIN (APL #1) | 2001 | Rural Sector | 80 | S | U | S | Active | 1/31/2006 | | | |
| P057960 | RURAL DEV (APL #1) | 2002 | Rural Sector | 40 | S | U | S | Active | 12/31/2006 | | | |
| P066065 | AG POLLUTION CONTROL (GEF) | 2002 | Environment | | S | HS | M | Active | | | | |
| P068808 | SDF 2 (APL #2) | 2002 | Social Protection | 20 | HS | HS | N | Active | 8/31/2006 | | | |
| P067367 | FOREST DEVT | 2003 | Rural Sector | 25 | S | S | S | Active | 6/30/2009 | | | |
| P067575 | PSAL 2 | 2003 | Financial Sector | 300 | S | S | S | Active | 12/31/2004 | | | |
| P068062 | ENERGY EFF (GEF) | 2003 | Energy and Mining | | S | S | S | Active | | | | |
| P069679 | PPIBL | 2003 | Private Sector Development | 19 | S | S | M | Active | 6/30/2005 | | | |
| P073967 | RURAL EDUC | 2003 | Education | 60 | S | S | S | Active | 9/15/2009 | | | |
| P081406 | ELEC MARKET | 2003 | Energy and Mining | 82 | S | S | S | Active | 6/30/2008 | | | |
| P043881 | IRRIG REHAB | 2004 | Rural Sector | 80 | S | S | S | Active | 3/31/2011 | | | |
| P075959 | AFFORESTATION (PCF) - RO | 2004 | Rural Sector | | S | S | M | Active | | | | |
| P075163 | HAZ MITIG | 2004 | Environment | 150 | | | | Active | 12/31/2009 | | | |
| P008791 | PAL | 2005 | Economic Policy | 150 | S | S | M | Active | 1/3/2005 | | | |
| P008780 | TA/ CRITICAL IMPORTS | 1991 | Public Sector | 180 | | | | Closed | 12/31/1996 | Moderately Satisfactory | Unlikely | Negligible |
| P008759 | HEALTH SERV REHAB | 1992 | Health, Nutrition and Population | 150 | S | S | M | Closed | 6/30/1999 | Moderately Satisfactory | Likely | Modest |
| P008772 | PRIVATE FARMER & ENT | 1992 | Rural Sector | 100 | S | S | N | Closed | 6/30/1998 | Satisfactory | Likely | Substantial |
| P008779 | SAL I | 1992 | Economic Policy | 400 | S | S | S | Closed | 12/31/1994 | Satisfactory | Likely | Modest |
| P008771 | TRANSPORT | 1993 | Transport | 120 | HS | HS | M | Closed | 12/31/1998 | Highly Satisfactory | Likely | Substantial |
| P008774 | INDUST DEV | 1994 | Private Sector Development | 175 | S | S | S | Closed | 12/31/2000 | Unsatisfactory | Likely | Negligible |
| P008777 | PETROL SECT REHAB | 1994 | Energy and Mining | 176 | S | S | M | Closed | 6/30/2003 | Satisfactory | Highly Likely | Substantial |
| P008784 | EDUCATION REFORM | 1994 | Education | 50 | S | S | M | Closed | 2/28/2002 | Satisfactory | Likely | High |
| P008689 | DANUBE DELTA BIODIVERSITY (GEF) | 1995 | Environment | | S | S | N | Closed | | Satisfactory | Likely | Substantial |
| P008776 | EMPLYMT & SOC PROTECTION (ESSP) | 1995 | Social Protection | 55 | S | S | M | Closed | 9/30/2003 | Satisfactory | Likely | Substantial |
| P008773 | FESAL | 1996 | Economic Policy | 280 | U | U | H | Closed | 4/30/1998 | Moderately Unsatisfactory | Likely | Modest |
| P036013 | RAILWAY REHABILITATION | 1996 | Transport | 120 | S | S | M | Closed | 9/30/2003 | Highly Satisfactory | Highly Likely | High |
| P008778 | BUCHAREST WATER SUPPLY | 1997 | Water Supply and Sanitation | 25 | S | S | S | Closed | 12/31/1998 | Satisfactory | Likely | Substantial |
| P008793 | HIGH EDUC | 1997 | Education | 50 | HS | S | M | Closed | 9/30/2002 | Satisfactory | Likely | High |
| P008795 | ASAL | 1997 | Rural Sector | 350 | S | U | H | Closed | 12/31/2000 | Moderately Unsatisfactory | Unlikely | Modest |
| P050432 | SOCIAL PROTECT. ADJ. | 1997 | Social Protection | 50 | S | S | M | Closed | 12/31/1997 | Moderately Satisfactory | Likely | Modest |
| P008788 | TELECOMMUNICATION | 1998 | Global Information/CommTechnology | 30 | S | S | N | Closed | 6/30/2003 | Satisfactory | Likely | Substantial |
| P044614 | SCHOOLS REHABILITATION | 1998 | Education | 70 | HS | S | N | Closed | 1/31/2004 | Highly Satisfactory | Likely | Substantial |
| P055495 | CHILD WELFARE REFORM | 1998 | Social Protection | 5 | HS | HS | M | Closed | 9/30/2003 | Satisfactory | Likely | Substantial |
| P049200 | SDF (APL #1) | 1999 | Social Protection | 10 | HS | S | N | Closed | 12/31/2001 | Satisfactory | Likely | Substantial |
| P064853 | PSAL | 1999 | Financial Sector | 300 | S | S | S | Closed | 6/30/2000 | Satisfactory | Highly Likely | Substantial |

Source: WB Database as of November 24, 2004 and OED Database.

H = High S = Substantial M = Modest N = Low or Negligible HS = Highly Satisfactory S = Satisfactory U = Unsatisfactory

Annex Table 3d. IBRD/IDA Commitments per capita by FY

| | <i>IBRD/IDA Commitments by FY</i> | | | | | <i>IBRD/IDA Commitments per Capita</i> | | | | |
|-----------------|-----------------------------------|------------------|------------------|------------------|--------------|--|------------------|------------------|------------------|--------------|
| | <i>1991-1994</i> | <i>1995-1997</i> | <i>1998-2000</i> | <i>2001-2004</i> | <i>Total</i> | <i>1991-1994</i> | <i>1995-1997</i> | <i>1998-2000</i> | <i>2001-2004</i> | <i>Total</i> |
| Romania | 1,350.6 | 1,190.4 | 583.1 | 905.6 | 4,029.7 | 59.4 | 52.8 | 26.0 | 40.8 | 181.5 |
| Bulgaria | 593.0 | 340.3 | 497.5 | 520.7 | 1,951.5 | 70.2 | 40.9 | 60.9 | 66.6 | 249.4 |
| Croatia | 128.0 | 390.5 | 244.2 | 483.0 | 1,245.7 | 26.8 | 87.6 | 54.9 | 108.4 | 279.5 |
| Czech Republic | 776.0 | - | - | - | 776.0 | 75.1 | - | - | - | 76.1 |
| Estonia | 80.4 | 45.3 | 25.0 | - | 150.7 | 55.0 | 32.4 | 18.2 | - | 111.6 |
| Hungary | 1,292.0 | 330.7 | 368.0 | - | 1,990.7 | 125.9 | 32.6 | 36.7 | - | 196.7 |
| Latvia | 70.0 | 178.4 | 107.0 | 60.6 | 416.0 | 27.5 | 72.8 | 45.1 | 26.1 | 179.2 |
| Lithuania | 86.4 | 186.8 | 76.7 | 141.0 | 490.9 | 23.6 | 52.2 | 21.9 | 40.8 | 142.1 |
| Poland | 2,876.0 | 463.5 | 1,009.7 | 580.5 | 4,929.8 | 74.6 | 12.0 | 26.1 | 15.2 | 129.1 |
| Slovak Republic | 135.0 | - | - | 281.6 | 416.6 | 25.2 | - | - | 52.3 | 77.4 |
| Slovenia | 80.0 | 73.2 | 24.5 | - | 177.7 | 40.2 | 36.9 | 12.3 | - | 90.5 |

Source: WB Database as of Dec. 6, 2004.

Annex Table 3e. Cumulative Disbursements 1991–2004

| <i>Category</i> | <i>1991–1999</i> | <i>2000–2004</i> |
|-----------------|------------------|------------------|
| Social Sector | 273.8 | 176.9 |
| Infrastructure | 465.2 | 202.0 |
| Agriculture | 394.5 | 21.8 |
| PSD | 762.2 | 178.3 |
| Grand Total | 1,895.7 | 579.0 |

Source: WB Database Dec. 22, 2004.

Annex Table 4. Romania: Selected Economic and Sector Work, 1990–2004

| <i>No.</i> | <i>Document Title</i> | <i>Date</i> | <i>Report No.</i> |
|------------------------------------|--|-------------|-------------------|
| Country Assistance Strategy | | | |
| 1 | Romania - Country Assistance Strategy Vol. 1 (English) | 5/9/1997 | 16559 |
| 2 | Romania - Country assistance strategy (CAS) Vol. 1 of 1 (Romanian) | 5/22/2001 | 22180 |
| 3 | Romania - Country assistance strategy (CAS) Vol. 1 (English) | 5/22/2001 | 22180 |
| 4 | Romania - Country assistance strategy public information notice (CPIN) Vol. 1 (English) | 6/7/2001 | PIN60 |
| Economic Report | | | |
| 5 | Romania - Country economic memorandum Vol. 1 (English) | 8/31/1980 | 2757 |
| 6 | Romania - Public expenditure review Vol. 1 (English) | 6/26/1998 | 17743 |
| 7 | Romania - Public expenditure review Vol. 2 (English) | 6/26/1998 | 17743 |
| 8 | Romania - Building institutions for public expenditure management : reforms, efficiency and equity - a Public Expenditure and Institutions Review Vol. 1 (English) | 8/31/2002 | 24756 |
| 9 | Romania - Restructuring for EU integration - The policy agenda : country economic memorandum Vol. 1 of 2 / Summary report (English) | 6/1/2004 | 29123 |
| 10 | Romania - Restructuring for EU integration - The policy agenda : country economic memorandum Vol. 2 of 2 / Main report and annexes (English) | 6/1/2004 | 29123 |
| Sector Report | | | |
| 11 | Romania - Agriculture sector survey Vol. 1 (English) | 10/31/1976 | 953 |
| 12 | Romania - Poverty and social policy Vol. 1 (English) | 4/30/1997 | 16462 |
| 13 | Romania - Poverty and social policy Vol. 2 (English) | 4/30/1997 | 16462 |
| 14 | Romania - Health sector support strategy Vol. 1 (English) | 6/22/1999 | 18410 |
| 15 | Romania - Local social services delivery study Vol. 1 (English) | 1/16/2002 | 23492 |
| 16 | Romania - Local social services delivery study Vol. 2 (English) | 1/16/2002 | 23492 |
| 17 | Romania - Poverty assessment Vol. 1 of 2 / Main report (English) | 9/30/2003 | 26169 |
| 18 | Romania - Poverty assessment Vol. 2 of 2 / Background papers (English) | 9/30/2003 | 26169 |
| 19 | Romania - Poverty assessment Vol. 1 of 1 (Romanian) | 10/1/2003 | 26169 |
| Other Reports | | | |
| 20 | Romania - Secondary education and training Vol. 1 (English) | 8/31/2001 | 22857 |
| 21 | Romania - Country Financial Accountability Assessment Vol. 1 of 1 (English) | 12/31/2003 | 27941 |
| 22 | Romania - Diagnostic Surveys of Corruption in Romania | 3/9/2001 | 28997 |
| 23 | Romania - Administrative Barriers to Investment (FIAS) | July, 2000 | |

Source: World Bank as of December 15, 2004, and additional reports.

Annex Table 5. OED Ratings and Supervision Ratings

Annex Table 5a. Key OED Ratings, FY1990–2004 (By Exit Fiscal Year)

| <i>Region</i> | <i>Total Evaluated (No)</i> | <i>Outcome % Sat (No)</i> | <i>Inst Dev Impact % Subst (No)</i> | <i>Sustainability % Likely (No)</i> | <i>Total Evaluated (\$M)</i> | <i>Outcome % Sat (\$)</i> | <i>Inst Dev Impact % Subst (\$)</i> | <i>Sustainability % Likely (\$)</i> |
|-----------------|-----------------------------|---------------------------|-------------------------------------|-------------------------------------|------------------------------|---------------------------|-------------------------------------|-------------------------------------|
| Romania | 21 | 85.7 | 66.7 | 90.5 | 2,415.1 | 76.1 | 44 | 80.2 |
| Bulgaria | 23 | 82.6 | 59.1 | 80.0 | 1,347.2 | 96.4 | 57 | 86.1 |
| Croatia | 13 | 84.6 | 46.2 | 84.6 | 722.6 | 88.9 | 58 | 98.9 |
| Poland | 29 | 79.3 | 58.6 | 75.0 | 3,272.7 | 87.3 | 70 | 90.6 |
| Slovak Republic | 3 | 100.0 | 100.0 | 66.7 | 130.4 | 100.0 | 100 | 100.0 |
| ECA | 492 | 79.3 | 51.1 | 73.9 | 37,711.4 | 73.5 | 49 | 75.2 |
| World Bank | 3,458 | 71.1 | 39.3 | 56.8 | 257,674.9 | 77.0 | 43 | 67.1 |

Source: WB database as of Dec. 22, 2004.

Annex Table 5b. Projects at Risk

| <i>Region</i> | <i># Proj</i> | <i>Net Comm Amt</i> | <i># Proj At Risk</i> | <i>% At Risk</i> | <i>Comm At Risk</i> | <i>% Commit at Risk</i> |
|-----------------|---------------|---------------------|-----------------------|------------------|---------------------|-------------------------|
| Romania | 21 | 1,490.5 | 3 | 14.3 | 145.0 | 9.7 |
| Bulgaria | 8 | 376.3 | 1 | 12.5 | 30.0 | 8.0 |
| Croatia | 12 | 495.2 | 4 | 33.3 | 168.0 | 33.9 |
| Poland | 11 | 1,260.2 | 2 | 18.2 | 76.7 | 6.1 |
| Slovak Republic | 4 | 104.3 | 0 | 0.0 | 0.0 | 0.0 |
| ECA | 288 | 14,619.6 | 49 | 17.0 | 2,977.5 | 20.4 |
| Overall Result | 1,391 | 94,149.6 | 267 | 19.2 | 17,101.5 | 18.2 |

Source: WB database as of Dec. 22, 2004.

Annex Table 5c: OED Project Ratings

| | <i>Approval FY</i> | <i>Outcome</i> | <i>Sus.</i> | <i>ID</i> |
|------------------------------|--------------------|----------------|-------------|-----------|
| <u>Adjustment Loans</u> | | | | |
| TA. Critical Imports | 1991 | MS | U | Negative |
| SAL | 1992 | S | L | Modest |
| FESAL | 1996 | MU | L | Modest |
| ASAL | 1997 | MU | U | Modest |
| Social Protection Adjustment | 1997 | MS | L | Modest |
| PSAL | 1999 | S | HL | Subst. |
| <u>Investment Loans</u> | | | | |
| Health Service Rehab. | 1992 | MS | L | Modest |
| Private Farmer & Enterprise | 1992 | S | L | Subst. |
| Transport | 1993 | HS | L | Subst. |
| Education Reform | 1994 | S | L | High |
| Ind. Development | 1994 | U | U | Neg. |
| Petrol Sector Rehab. | 1994 | S | HL | Subst. |
| Danube Delta Biodiv. (GEF) | 1995 | S | L | Subst. |
| Emp. & Social Protection | 1995 | S | L | Subst. |
| Railway Rehab. | 1996 | HS | HL | High |
| Buch. Water Supply | 1997 | S | L | Subst. |
| High Education | 1997 | S | L | High |
| Child Welfare Reform | 1998 | | | |
| School Rehab. | 1998 | | | |
| Telecom | 1998 | S | L | Subst. |
| SDF | 1999 | S | L | Subst. |

HS = Highly Satisfactory
 S = Satisfactory
 MS = Moderately Satisfactory
 MU = Moderately Unsatisfactory
 HL = Highly Likely
 L = Likely
 U = Unlikely

Annex Table 6. Romania: Millennium Development Goals

| <i>Click on the indicator to view a definition</i> | 1990 | 1995 | 2001 | 2002 |
|--|--|--------------|--------------|--------------|
| 1 Eradicate extreme poverty and hunger | <i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i> | | | |
| Population below \$1 a day (%) | .. | .. | 2.1 | .. |
| Poverty gap at \$1 a day (%) | .. | .. | 0.6 | .. |
| Percentage share of income or consumption held by poorest 20% | .. | .. | 8.2 | .. |
| Prevalence of child malnutrition (% of children under 5) | 5.7 | .. | .. | 3.2 |
| Population below minimum level of dietary energy consumption (%) | .. | 2.5 | 2.5 | .. |
| 2 Achieve universal primary education | <i>2015 target = net enrollment to 100</i> | | | |
| Net primary enrollment ratio (% of relevant age group) | 76.9 | 92 | 92.8 | .. |
| Percentage of cohort reaching grade 5 (%) | .. | .. | .. | .. |
| Youth literacy rate (% ages 15-24) | 99.3 | 99.5 | 99.6 | 97.8 |
| 3 Promote gender equality | <i>2005 target = education ratio to 100</i> | | | |
| Ratio of girls to boys in primary and secondary education (%) | 99.3 | 100.4 | 100.1 | .. |
| Ratio of young literate females to males (% ages 15-24) | 99.9 | 100 | 100.2 | 100.2 |
| Share of women employed in the nonagricultural sector (%) | 42.7 | 42 | 45.7 | .. |
| Proportion of seats held by women in national parliament (%) | .. | 4 | .. | .. |
| 4 Reduce child mortality | <i>2015 target = reduce 1990 under 5 mortality by three-fourths</i> | | | |
| Under 5 mortality rate (per 1,000) | 32 | 25 | 22 | 21 |
| Infant mortality rate (per 1,000 live births) | 27 | 21 | 19 | 19 |
| Immunization, measles (% of children under 12 months) | 92 | 93 | 98 | 98 |
| 5 Improve maternal health | <i>2015 target = reduce 1990 maternal mortality by three-fourths</i> | | | |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | .. | .. | 49 | .. |
| Births attended by skilled health staff (% of total) | .. | 99 | 97.9 | .. |
| 6 Combat HIV/AIDS, malaria and other diseases | <i>2015 target = halt, and begin to reverse, AIDS, etc.</i> | | | |
| Prevalence of HIV, female (% ages 15-24) | .. | .. | 0 | .. |
| Contraceptive prevalence rate (% of women ages 15-49) | .. | 57.3 | 64 | .. |
| Number of children orphaned by HIV/AIDS | .. | .. | .. | .. |
| Incidence of tuberculosis (per 100,000 people) | .. | .. | 139 | 148.1 |
| Tuberculosis cases detected under DOTS (%) | .. | .. | 11 | 40.8 |
| 7 Ensure environmental sustainability | <i>2015 target = various (see notes)</i> | | | |
| Forest area (% of total land area) | 27.4 | .. | 28 | .. |
| Nationally protected areas (% of total land area) | .. | 4.6 | 4.7 | 4.7 |
| GDP per unit of energy use (PPP \$ per kg oil equivalent) | 2 | 2.7 | 3.7 | .. |
| CO2 emissions (metric tons per capita) | 6.7 | 5.5 | 3.8 | .. |
| Access to an improved water source (% of population) | .. | .. | 58 | .. |
| Access to improved sanitation (% of population) | .. | .. | 53 | .. |
| Access to secure tenure (% of population) | .. | .. | .. | .. |
| 8 Develop a Global Partnership for Development | <i>2015 target = various (see notes)</i> | | | |
| Youth unemployment rate (% of total labor force ages 15-24) | .. | 20.9 | 17.5 | .. |
| Fixed line and mobile telephones (per 1,000 people) | 101.9 | 131.3 | 355.6 | 430.1 |
| Personal computers (per 1,000 people) | 2.2 | 13.2 | 35.7 | 69.2 |
| General indicators | | | | |
| Population | 23.2 million | 22.7 million | 22.4 million | 22.3 million |
| Gross national income (\$) | 40.0 billion | 33.4 billion | 38.5 billion | 41.7 billion |
| GNI per capita (\$) | 1,730.00 | 1,470.00 | 1,720.00 | 1,870.00 |
| Adult literacy rate (% of people ages 15 and over) | 97.1 | 97.6 | 98.2 | 97.3 |
| Total fertility rate (births per woman) | 1.8 | 1.3 | 1.3 | 1.3 |
| Life expectancy at birth (years) | 69.7 | 69.5 | 69.9 | 70 |
| Aid (% of GNI) | 0.6 | 0.8 | 1.6 | 1.5 |
| External debt (% of GNI) | 3 | 19.3 | 28.9 | 32.4 |
| Investment (% of GDP) | 30.2 | 24.3 | 22.6 | 23.1 |
| Trade (% of GDP) | 42.9 | 60.8 | 74.4 | 76.7 |

Source: World Development Indicators database, April 2004

Note: In some cases the data are for earlier or later years than those stated.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Annex Table 7: Romania – Senior Management, CY 1991-2004

| <i>Year</i> | <i>Vice President</i> | <i>Div.Chief/Country Director</i> | <i>Resident Representative</i> |
|-------------|-----------------------|-----------------------------------|--------------------------------|
| 1991 | Willi A. Wapenhans | Eugenio F. Lari | |
| 1992 | Wilfried Thalwitz | Michael H. Wiehen | |
| 1993 | Wilfried Thalwitz | Michael H. Wiehen | Arntraud Hartmann |
| 1994 | Wilfried Thalwitz | Michael H. Wiehen | Arntraud Hartmann |
| 1995 | Wilfried Thalwitz | Rachel Lomax | Arntraud Hartmann |
| 1996 | Johannes F. Linn | Kenneth Lay | Francois M. Etori |
| 1997 | Johannes F. Linn | Kenneth Lay | Francois M. Etori |
| 1998 | Johannes F. Linn | Kenneth Lay | Francois M. Etori |
| 1999 | Johannes F. Linn | Andrew N. Vorkink | Francois M. Etori |
| 2000 | Johannes F. Linn | Andrew N. Vorkink | M. Ziad Alahdad |
| 2001 | Johannes F. Linn | Andrew N. Vorkink | M. Ziad Alahdad |
| 2002 | Johannes F. Linn | Andrew N. Vorkink | M. Ziad Alahdad |
| 2003 | Shigeo Katsu | Anand K. Seth | Owaise Saadat |
| 2004 | Shigeo Katsu | Anand K. Seth | Owaise Saadat |

Source: World Bank Directories.

Annex B. List of People Met on Mission

(September 13-29, 2004)

Romania

Government and State Entity Officials

| | |
|------------------------------|---|
| Mr. Viorel Alicus | Head of Electricity Tariffs Department, Romanian Electricity and Heat Regulatory Authority (ANRE) |
| Mr. Laurentiu Dumitru Andrei | Coordinator Program, Department of the Treasury, Ministry of Public Finance |
| Ms. Armenia Androniceanu | Director, Public Policy Unit, Chancellery of the Prime Minister |
| Ms. Carmen Angheluta | PMU Director, Ministry of Health |
| Mr. Gavril Baican | Secretary of State, Ministry of Economy and Commerce |
| Ms. Nicoleta Bala | Director, Ministry of Public Finance PIBL Project Management Unit |
| Mr. Mihail Basulescu | General Director, National Company of Motorways and National Roads S.A. |
| Mr. Ion I. Bazac | Secretary of State, Ministry of Health |
| Ms. Roxana Bichel | Vice President, Authority for State Assets Recovery (AVAS) |
| Ms. Maria Bouruc | Senior Expert, The Authority for Privatization and Management of the State Ownership |
| Dr. Ovidiu Brinzan | Minister, Ministry of Health |
| Mr. Mihai Calineanu | PMU Director |
| Dr. Lusine Caracasian | Head of Public Information and International Cooperation Office, ANRE |
| Ms. Silvia Ciobanovschi | Deputy General Director, National Administration of Roads (NAR) |
| Mr. Petre Ciotlos | Secretary General, CNPAS - National Pension House, Ministry of Labor and Social Solidarity |
| Ms. Adriana Ciuceha | General Director, National Institute of Statistics |
| Ms. Gabriela Coman | Secretary of State, National Authority for Child Protection and Adoption |
| Ms. Paula Constantin | Program Coordinator, Community Social Service, Romanian Social Development Fund |
| Mr. Jean Constantinescu | President, ANRE |
| Mr. Adam Crasciunwscu | Secretary of State, MAFRD, Forestry |
| Ms. Veronica Crisu | Deputy Director, Financial Accounting and Assets Active Division, National Power Grid Company "TRANSELECTRICA"-S.A. |
| Ms. Bianca Culea | National House of Pensions, Minister of Labor and Social Solidarity |

| | |
|-------------------------------------|---|
| Mr. Florin Dascalu | Deputy General Director, National Company of Motorways and National Roads S.A. |
| Ms. Adina Dragatoiu | EU Rapporteur, Ministry of Labor and Social Solidarity |
| Ms. Cristina Dumitrescu | Chief Officer, European Integration Directorate, Romanian National Securities Commission |
| Ms. Otilia Frolu | Deputy General Director, General Department for External Public Finance, Ministry of Public Finance |
| Mr. Corneliu Gavaliugov | Counsellor to the Minister, Ministry of Labor and Social Solidarity |
| Mr. Dinu Gavrilescu | General Director, Institute for Agrarian Economy |
| Ms. Raluca Georgescu | Head of European Integration Directorate, Romanian National Securities Commission |
| Ms. Carmen Ghita | Chief of Division, General Directorate for External Finance, Ministry of Public Finance |
| Mr. Toni Michail Grebla | Minister's Advisor, Ministry of Administration and Interior, Rural Development Project |
| Arc. Dipl. Szabolcs Istvan Guttmann | Architect SEF, Sibiu Municipality |
| Mr. Paul Ichim | Secretary of State, Ministry of Public Finance |
| Ms. Mioara Ionescu | Minister's Advisor, Ministry of Public Finance PSAL, PIBL, RICOP Coordinator |
| Mr. Traian Iordanescu | Director, Romanian Agency for Foreign Investments |
| Mr. Enache Jiru | CEO and Chairman, Romanian Savings Bank |
| Dr. Cristian Jura | Secretary of State, National Minorities, Department for Inter-Ethnic Relations |
| Mr. Dan Jurcan | Deputy Head, The Agency for Governmental Strategies |
| Mr. Alexandru Lapusan | Deputy Chamber, Former Secretary of State, MAFRD Agricultural Sector Adjustment Loan |
| Mr. Alexandru Lazarovici | PR and International Cooperation Officer, TRANSELECTRICA-S.A. |
| Ms. Iustina Lutan | Counsellor, Romanian Agency for Foreign Investments |
| Mr. Alexandru Mihart | Head of Human Resources Office, TRANSELECTRICA-S.A. |
| Mr. Luca Mircea | General Director, MAFRD, Brazov Region |
| Ms. Adriana Miron | Director General, Authority for the Realization of State Assets (AVAS) |
| Mr. Cornel Mondea | President, ELECTROPUTERE, Craiova |
| Mr. Andrei Naumescu | Director, Ministry of Administration and Interior, Rural Development Project |
| Ms. Ileana Neamtu | Executive Director, Poverty Strategy and Studies Commission |

| | |
|----------------------------|--|
| Mr. Constantin Olteanu | Director, Foreign Founded Projects Coordination Directorate, Ministry of Labor and Social Solidarity |
| Ms. Elena Paris | Counsellor of the Minister of Justice |
| Ms. Diana Peligrad | Program Coordinator, General Directorate for External Public Finance, Ministry of Public Finance |
| Mts. Mihaela Peter | Deputy Director, Romanian Social Development Fund |
| Mr. Alexandru Popa | Head of Romanian Agency for Foreign Investments Prime-Minister's Adviser for Economic Affairs |
| Mr. Dan Ioan Popescu | State Minister, Ministry of Economy and Commerce |
| Mr. Bogdan Popescu-Vifor | Director of Strategy, Planning, Marketing and Sales Division, TRANSELECTRICA-S.A. |
| Ms. Irina Mihaela Popovici | Vice President, Romanian National Securities Commission |
| Mr. Marius Profiroiu | Secretary of State, Ministry of Administration and Internal Affairs |
| Mr. Petru Sabaila | Director, ELECTROPUTERE, Craiova |
| Mr. Alexandru Sandulescu | Director General, ANRE |
| Mr. Ionut Savoiu | Deputy General Director, National Agency for Cadastré and Real Estate Publicity |
| Ms. Cornelia Maria Simion | Director, Business Environment Division, Ministry of Economy and Commerce |
| Ms. Alexandra Stan | Director, IFI and Trading Credits Directorate, Ministry of Transport, Constructions and Tourism, National Company of Motorways and National Roads |
| Mr. Valeriu Steriu | Secretary of State, MAFRD, Bank Program |
| Mr. Mihail Tanaescu | Ministry of Public Finance |
| Ms. Marta Nora Tornea | Secretary of State, Ministry of Labor and Social Solidarity |
| Ms. Gabriela Tascau | Councillor to General Director, Forestry Sector, MAFRD |
| Ms. Janina Diana Toader | Diplomatic Counselor to The Minister, MAFRD |
| Mr. Nicolae Turdean | Director, Projects Management Unit, Ministry of Industry and Resources |
| Mr. Nicu Sorin Turturea | Superior Counsellor, Policies and Programs Department, National Authority for Child Protection and Adoption |
| Mrs. Liliana Vasilescu | Executive Director, Romanian Social Development Fund |
| Mr. Gheorghe Visan | Deputy Director, Investment Projects Management Division, TRANSELECTRICA-S.A. |

Central Bank

| | |
|--------------------------|--|
| Mr. Nicolae Cinteza | Director, Supervision Department, National Bank of Romania (NBR) |
| Mr. Valentin Lazea | Chief Economist, National Bank of Romania (NBR) |
| Ms. Adriana Marinescu | Director, European Integration and International Relations Department, NBR |
| Ms. Rodica Popa | Head of Supervision Department, NBR |
| Ms. Verónica Raducanescu | Head of División, Regulation and Licensing Department, NBR |
| Ms. Surica Rosentular | Director, Research and Publications Department, NBR |
| Mr. Petre Tulin | Director, Regulation and Authorization Department, NBR |

Business Leaders and Bankers

| | |
|---------------------------|--|
| Mr. Peter Braun | Vice President, ALRO S.A. |
| Mr. Gheorghe Dobra | Managing Director, ALRO S.A. |
| Mr. Aurelian Dochia | Director General, Romanian Bank for Development |
| Mr. Florin Georgescu | Former Minister of Finance Chairman of the Board of Administration, Banca Comerciala Romana |
| Mr. Radu Gratian Ghetea | President, Romanian Banking Association Executive First Vice President, Alpha Bank |
| Mr. S.C. Manaktala | Director, ALRO, S.A. |
| Mr. Christian Mosessohn | Manager, MC DATAPIPE |
| Mr. Marian Nastase | Director, ALRO S.A. |
| Mr. Cristian Parvan | General Secretary, The Businessmen's Association of Romania |
| Mr. Bujor Bogdan Teodoriu | Chairman, Romanian Centre for Small and Medium-sized Enterprises |
| Ms. Moira Stoian Visan | President, Romanian Rural Tourism Association |

Other Private and Civil Society

| | |
|--------------------------|--|
| Ms. Ecaterina Andronescu | Former Minister of Education; Rector, Polytechnic University, Bucharest |
| Mr. Traian Basescu | General Mayor of Bucharest, Former SAL Coordinator |
| Ms. Christina Cionga | Former Secretary General, MAFRD |
| Prof. Daniel Daianu | Former Finance Minister, Former NBR Chief Economist, Romanian Center for Economic Policies |
| Ms. Carmen Epure | Executive Director, Civil Society Development Foundation |
| Prof. Ovidiu Filipescu | President, Caminul Fundatia Phillip |

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|-----------------------|---|
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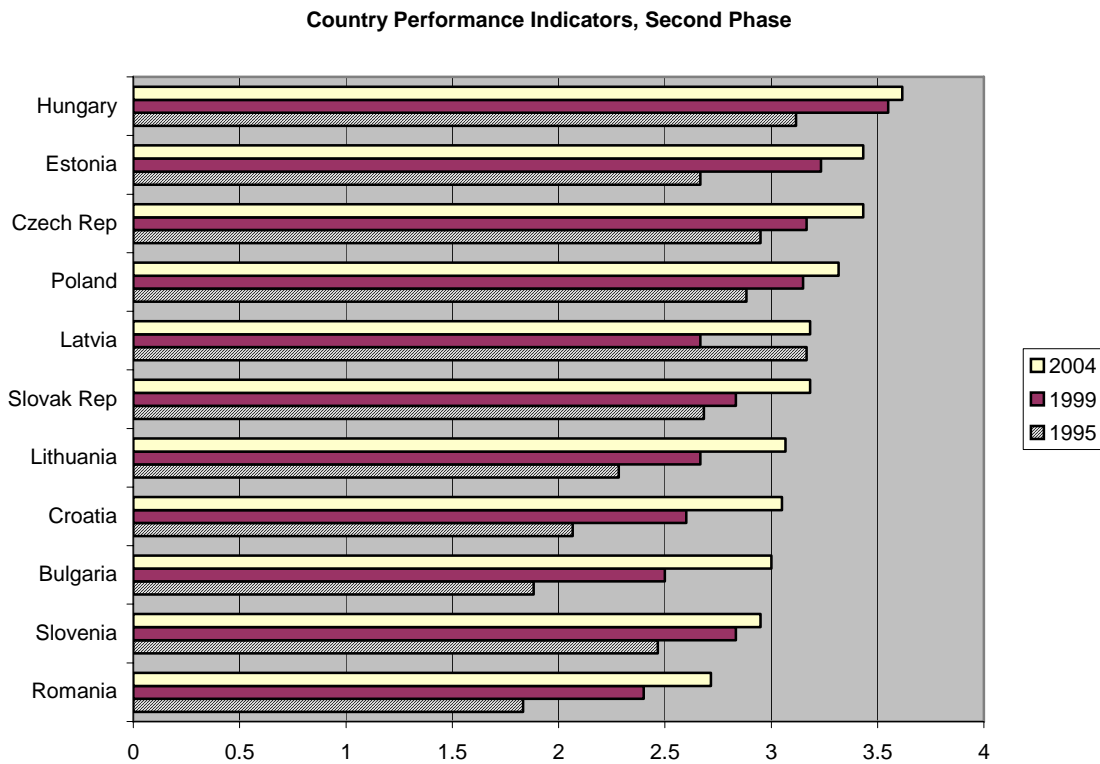
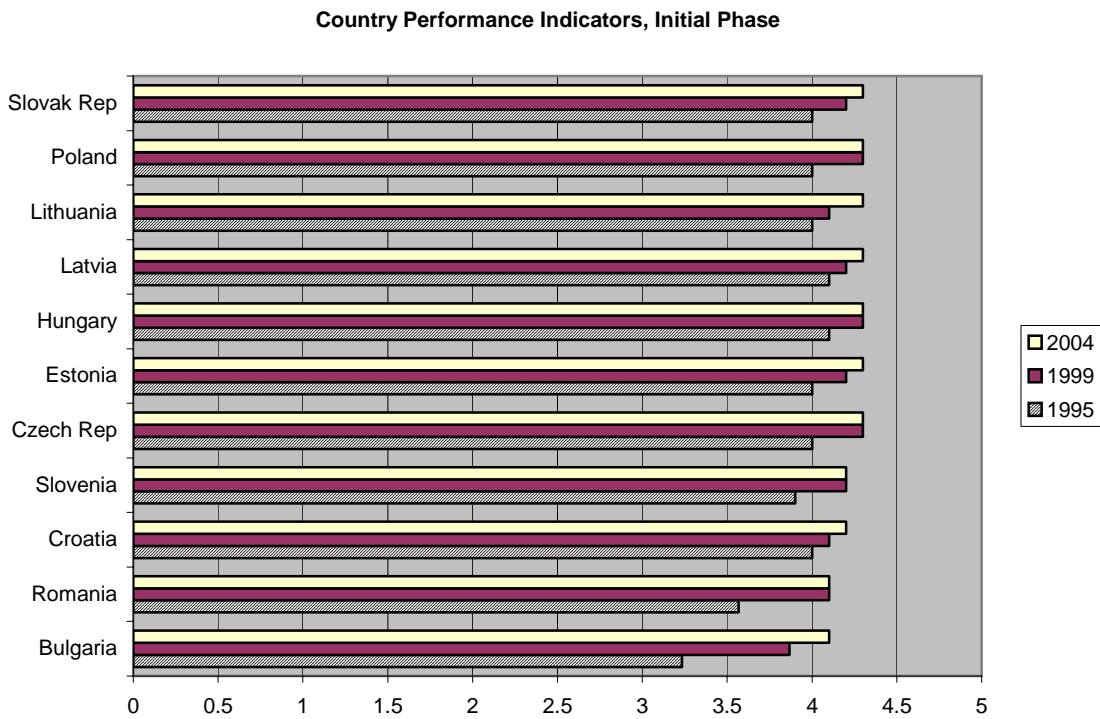
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Annex C: Chart on Country Performance Indicators



Source: EBRD Transition Indicators.

Indicators for the initial phase of reform are an unweighted average of indicators for: small-scale privatization, price liberalization, and trade and foreign exchange system. Indicators for the second phase are an unweighted average of indicators for large-scale privatization, enterprise reform, competition policy, banking reform, non-bank financial institutions, and infrastructure reform.

Annex D. Guide to OED's Country Evaluation Rating Methodology

1. This methodological note describes the key elements of OED's country assistance evaluation (CAE) methodology.¹

CAEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress

2. A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, OED rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same

4. By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

¹ In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

5. OED measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of the Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

Rating Assistance Program Outcome

6. In rating the outcome (expected development impact) of an assistance program, OED gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. OED's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

7. For each of the main objectives, the CAE evaluates the relevance of the objective, the relevance of the Bank's strategy towards meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the Government and exogenous factors.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

9. OED utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

| | |
|-----------------------------------|---|
| <i>Highly Satisfactory:</i> | The assistance program achieved at least acceptable progress toward all major relevant objectives, <u>and</u> had best practice development impact on one or more of them. No major shortcomings were identified. |
| <i>Satisfactory:</i> | The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified. |
| <i>Moderately Satisfactory:</i> | The assistance program achieved acceptable progress toward <i>most</i> of its major relevant objectives. No major shortcomings were identified. |
| <i>Moderately Unsatisfactory:</i> | The assistance program did <i>not</i> make acceptable progress toward <i>most</i> of its major relevant objectives, <i>or</i> made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation. |
| <i>Unsatisfactory:</i> | The assistance program did not make acceptable progress toward <i>most</i> of its major relevant objectives, <i>and</i> either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation. |
| <i>Highly Unsatisfactory:</i> | The assistance program did not make acceptable progress toward <i>any</i> of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation. |

10. The **institutional development impact (IDI)** can be rated as: *high, substantial, modest, or negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

11. **Sustainability** can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and,
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

Annex E. Summary Overview of IFC Operations in Romania

Source: Operations Evaluation Group, IFC

IFC's strategy in Romania focused appropriately on investment climate, which in turn influenced strategy execution

IFC's strategy in Romania has tracked the trajectory of the country's progress from socialism to free market and EU accession candidacy, all within the past decade. Until the late 1990's Romania was perceived by investors and observers in general as a high-risk market. The country's major asset seemed to be a relatively large, educated and skilled population of about 20 million. It is not surprising, then, that in the mid- to late 1990's, when the investment program of the IFC was gathering momentum, the focus was on priorities related to the transition to market, and primarily on institutional development and attracting foreign investors to the country.

Accordingly, IFC's development objectives in Romania have been to support structural reform for private sector development, and to help increase foreign investment flows and improve investor confidence. Consistent with these objectives, IFC pursued a strategy that focused on assisting the Romanian government with privatization planning and specific privatization transactions in selected sectors; financial sector reform and development; improving the business environment; and assisting small and medium size enterprises (SMEs). The strategy targeted a broad range of sectors – financial markets (both privatization of state-owned banks and creation of new institutions, as well as providing them funds for on-lending to SMEs), telecommunications, infrastructure, mining, agribusiness, tourism, forestry, and general manufacturing, as well as investments in newly privatized state-owned enterprises across the economic spectrum. It also included a significant technical assistance and advisory services (TAAS) component aimed at improving the investment climate and promoting private sector development through assistance in drafting legislation, privatization advisory, and other services in the above sectors.

In pursuit of the strategy, IFC made strong efforts to become firmly engaged in Romania, but a muted response from private sector partners in a politically ambiguous environment initially limited the progress that could be made. Nevertheless, IFC achieved considerable progress in 1997-1998 before its activity in Romania slowed in 1999, hampered by a financial crisis and constrained by the pace of reform in the country, particularly with respect to infrastructure investments and privatization of state-owned enterprises. The level of IFC activity picked up more recently as the prospect of EU accession and the attendant reform momentum led to investment climate improvements¹.

¹ Sources: Country Assistance Strategy of the World Bank Group for Romania, May 1997 and May 2001; IFC Briefs, World Bank/IMF Annual Meetings, 1997-2003; IFC Country Strategy, August 1997; September 1998; September 1999; and January 2001.

In line with IFC's strategies, Romania received a high proportion of IFC's CEEB country investment approvals

During FY91-04, IFC approved US\$548 million in 29 investments in Romania and committed US\$401 million in 26 investments (see Table 1). The approvals correspond to 1% of IFC's global approvals for the period and to 16% of its approvals in the CEEB countries, the latter over-weighted towards Romania since it accounted for only 9% of the CEEB countries' aggregate GDP and 6% of their FDI over the period. This overweighting appears appropriately in line with IFC's frontier strategy for two reasons. First, although Romania's average annual GDP is very close to the CEEB average, Romania's period average GDP per capita is the lowest in CEEB. Second, Romania has been on average the second riskiest CEEB country as measured by the period average Institutional Investor Country Credit Risk (IICCR) rating, scoring below 30 (high-risk, zero being riskiest) in 1991-95 and then again in 1999-01. Tracking the investment climate improvements and investment opportunities (discussed in the preceding paragraph) as reflected in IICCR rating changes, IFC's approvals increased in FY97-98, with a more recent upswing in FY01 and a significant ramp-up in FY03-04 (see Table 2).

Table 1. IFC's net investment approvals and macroeconomic data for Romania, CEEB, and IFC, FY91-04

| | <i>Romania</i> | <i>CEEB*</i> <i>(11 countries)</i> | <i>% of CEEB</i> | <i>All IFC</i> <i>(130 countries)</i> | <i>% of All IFC</i> |
|--|----------------|---------------------------------------|--------------------------|--|---------------------------|
| Number of approvals | 29 | 220 | 13.2% | 3,180 | 0.9% |
| Total approvals amount (\$m) | 548 | 3,486 | 15.7% | 44,688 | 1.2% |
| Number of commitments | 26 | N/A | N/A | N/A | N/A |
| Total net committed amount (\$m)** | 401 | 2,367 | 16.9% | 29,535 | 1.4% |
| Aggregate GDP CY91-03 (\$m) | 445,393 | 4,852,555 | 9.2% | 82,297,272 | 0.5% |
| Average country GDP CY91-03 (\$m) | 34,261 | 34,231 | 4 th Largest | 49,646 | 30 th Highest |
| Average GDP per capita CY91-03 (\$/yr) | 1,520 | 4,005 | The Lowest | 2,145 | 59 th Highest |
| Average country population CY91-02 (m) | 22.6 | 10.0 | 2 nd Largest | 36.6 | 32 nd Largest |
| Aggregate FDI CY91-03 (\$m) | 8,859 | 156,284 | 5.7% | 1,512,794 | 0.6% |
| Average country FDI CY91-03 (\$m) | 738 | 1,261 | 5 th Highest | 1,054 | 28 th Highest |
| IICCR period average CY91-04 | 30.7 | 41.5 | 2 nd Riskiest | 28.7 | 80 th Riskiest |
| IICCR improvement, CY93 vs CY04 | +19.8 | +33.2 | The least | N/A | N/A |
| EBRD: number of commitments, CY91-03 | 81 | N/A | 12%*** | N/A | N/A |
| EBRD: total committed amount (\$m) | 1,878 | N/A | 18%*** | N/A | N/A |

* Romania (EU membership expected 2007), Bulgaria (EU membership expected 2007), Croatia (EU membership expected 2005); Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia (EU membership achieved 2004 for latter eight)

** IFC database sources: MPD (IFC net commitment data for FY91-03), MIS (FY04 data). Approvals and commitments data do not include sub-projects in Romania financed through regional funds, multi-country projects, and global facilities.

*** Based on CY91-02 data

The sector distribution of IFC's Romania approvals has been generally consistent with country strategies, except where precluded by deficiencies in the enabling environment. The bulk of approvals were made in financial markets (67% of total FY91-04 approvals by volume and 55% by number), and these have been heavily concentrated by volume in two large pre- and post-privatization investments in one bank: these two together account for 48% of total IFC approvals volume in Romania for the period (although without these two investments, financial markets would still dominate). Other sectors where IFC had

significant approvals are telecommunications (where IFC financed the private placement for Romania's first mobile phone company) and general manufacturing. In pursuit of IFC's development objective of helping increase FDI in Romania, both real sector and financial markets investments were made alongside foreign technical partners.

Table 2. IFC's Romania investment commitments and Romania's IICCR score , FY91-04

| <i>IFC FY</i> | <i>Net Commitment (volume in US\$ m)</i> | <i>% of Romania Total</i> | <i>Net Commitment (number)</i> | <i>% of Romania Total</i> | <i>IICCR score annual average</i> |
|------------------|--|-------------------------------|------------------------------------|-------------------------------|---------------------------------------|
| 1991 | - | - | - | - | 27.3 |
| 1992 | 3 | 1% | 1 | 4% | 25.2 |
| 1993 | - | - | - | - | 24.3 |
| 1994 | - | - | - | - | 25.8 |
| 1995 | 5 | 1% | 1 | 4% | 28.9 |
| 1996 | - | - | - | - | 31.0 |
| 1997 | 2 | 1% | 1 | 4% | 33.4 |
| 1998 | 90 | 22% | 7 | 27% | 34.2 |
| Subtotal: mature | 100 | 25% | 10 | 39% | 28.8 |
| 1999 | 21 | 5% | 3 | 12% | 30.0 |
| 2000 | 6 | 2% | 1 | 4% | 28.9 |
| 2001 | 12 | 3% | 2 | 8% | 28.7 |
| 2002 | 21 | 5% | 3 | 12% | 32.3 |
| 2003 | 87 | 22% | 2 | 8% | 37.6 |
| 2004 | 153 | 38% | 5 | 19% | 42.5 |
| Total | 401 | 100.0% | 26 | 100.0% | 30.7 |

Commitments featured a high proportion of equity in financial markets, so far with good returns

Instrument-wise, IFC's net commitments in Romania (see Tables 2, 3) have been weighted towards equity, with the share of equity in total commitments reaching 33% compared to 19% for the rest of IFC and 28% for the other CEEB countries. The main reason is that the two bank investments mentioned above had a substantial equity component. Accordingly, equity commitments have been concentrated almost exclusively in financial markets (89% of total Romania equity commitments, followed by 9% in private equity funds and 2% in the real sector)². This instrument and sector overweighting appears to have brought good results so far, given that, while IFC's equity returns in real sector Romania investments have been close to the IFC real sector average, the returns on non-fund financial markets investments have been much higher than the corresponding IFC average and would in aggregate correspond to an Excellent rating under OEG's investment outcome rating guidelines. On the other hand, the negative IRR

² For comparison, EBRD, with about the same CEEB weighting in Romania as IFC (Table 1), had more than three times as many private sector commitments totaling nearly five times the volume of IFC's commitments. But EBRD invested only 16% of its total Romania commitments in equity (including 9% in financial institutions, compared to IFC's 29%) and directed the bulk of its resources (59% of total commitments, compared to IFC's 27%) to real sector loans. For a broader analysis of IFC and EBRD operations in transition countries, see OED Evaluation of World Bank assistance to the Transition Economies (Box 2.3, pages 16-17).

of closed investments in funds has resulted in an aggregate nominal IRR for all IFC's Romania equity investments that is below the aggregate IRR for other CEEB countries and equal to the rest of IFC.

Table 3. IFC's net commitments in Romania by sector and instrument, FY91-04

| | Total Commitment (#) | % of All Romania | Total Commitment (\$, m) | % of All Romania | Loan Commitment (\$, m) | % of All Romania | Equity Commitment (\$, m) | % of All Romania |
|-------------------|----------------------------|---------------------|--------------------------------|---------------------|-------------------------------|---------------------|---------------------------------|---------------------|
| Financial Markets | 14 | 54% | 277 | 69% | 160 | 60% | 117 | 89% |
| Equity funds | 2 | 8% | 12 | 3% | 0 | 0% | 12 | 9% |
| Real Sectors* | 10 | 38% | 111 | 28% | 108 | 40% | 3 | 2% |
| Total | 26 | 100% | 401 | 100% | 269 | 100% | 132 | 100% |

* Real sectors for Romania include food & beverages, primary metals, pulp & paper, industrial & consumer products, and information.

In the same period, IFC's loan portfolio in Romania outperformed those of other CEEB countries and the rest of IFC in terms of portfolio quality as evidenced by the weighted average loan loss-provisioning rate over the period.

The number of evaluated projects in Romania is too small for findings to be representative of overall performance or support outcome or cross-country analysis

Development outcome success rates (both overall and by constituent indicators) for the seven evaluated Romania investments approved in 1992-98 (those approved after 1998 were not yet mature through 2003³) are similar to the rest of IFC and somewhat below the other CEEB countries (except for the environmental effects indicator, where Romania outperforms both its region and the rest of IFC). In terms of investment outcome success rates, Romania is similar to the rest of IFC but substantially outperforms the other CEEB countries. However, these findings may not be representative of relative portfolio net profitability results given that evaluated projects comprise half (seven out of 14) of mature

Table 4. Development and investment outcome success rates for evaluated projects (CY96-03 XPSRs)

| | Romania* | Rest of CEEB | Rest of IFC |
|----------------------------|----------|--------------|-------------|
| No. of XPSRs | 7 | 37 | 441 |
| Development Outcome | 57% | 65% | 61% |
| Project Business Success | 43% | 49% | 44% |
| Economic Sustainability | 57% | 59% | 61% |
| Environmental Impact | 86% | 78% | 63% |
| Private Sector Development | 71% | 76% | 71% |
| Investment Outcome | 57% | 41% | 54% |

*The number of evaluated projects in Romania is too small to support statistically meaningful relative performance inferences.

investments and correspond to only 32% of mature commitment volumes and to less than 10% of IFC's total FY91-04 commitment volumes in Romania (see Tables 2, 4). Hence the sample size does not support either internal sample or cross-country patterns analysis of outcome drivers on reliability grounds. However, the evidence from these ratings combined with the equity

³ The 2004 XPSR program (covering mostly CY1999 approved investments that have reached early maturity) is not yet completed as of this writing to be able to draw from its comparative data.

portfolio results suggests that IFC's results from its investment operations in Romania appear to have outperformed IFC's results in countries with similar investment climates over the same period.

Extensive technical assistance and advisory services appropriately targeted Romania's investment climate weaknesses

Like IFC's strategies for other early transition economies, IFC's Romania strategy appropriately emphasized the importance of delivering a significant TAAS component ahead of and alongside its investment operations⁴ to develop the soft infrastructure of a market economy, especially in recognition of Romania's investment climate weaknesses. Among CEEB countries, Romania was the beneficiary of the largest amount (more than a third) of IFC's TAAS support by volume and nearly one-fifth by number of operations, an appropriate over-weighting of IFC effort given Romania's relatively worse investment climate quality and poverty (see Table 5). The bulk of TAAS budgets were used in private sector advisory and privatization (PSAPT) transactions, which accounted for more than half of CEEB PSAPT costs and 8% of IFC's global PSAPT costs (making Romania IFC's second most significant PSAPT recipient after Brazil)⁵. Reflecting IFC's corporate frontier strategy, IFC's PSAPT operations included innovative projects that were to be later replicated within the sector (e.g. concession for the first municipal water utility). All three types of TAAS operations – PSAPT, technical assistance trust funds (TATF), and Foreign Investment Advisory Service (FIAS) - peaked in FY98, when IFC approved 42% of its total TAAS operations in Romania and 55% of total TAAS funding. IFC has not yet begun systematically evaluating its TAAS operations, so no judgment of its overall relative execution and outcome quality (or their drivers) is possible⁶.

⁴ For a discussion of IFC strategies in transition economies, see OED Evaluation of World Bank assistance to the Transition Economies (Box 2.3, pages 16-17).

⁵ More specifically, in terms of investment climate-related TAAS services by both number and volume, Romania was the largest recipient of PSAPT in CEEB and globally and the largest recipient of TATF in CEEB in FY93-02.

⁶ However, in an evaluation of IFC's FY93-02 investment climate TAAS activities in Romania and four other (non-CEEB) countries (see OEG's Evaluation of IFC's Investment Climate Activities, October 2004), in-country stakeholders rated IFC's TAAS projects in Romania consistently higher for project results and impact on the ground.

Table 5. Approval volume and number of technical assistance and advisory projects, FY91-04

| | <i>Romania</i> | <i>CEEB</i> | <i>Rank in CEEB</i> | <i>% of CEEB</i> | <i>IFC</i> | <i>Rank in IFC</i> | <i>% of IFC</i> |
|------------------------------|----------------|-------------|---------------------|------------------|------------|--------------------|-----------------|
| <u>Volume (\$m)</u> | | | | | | | |
| Donor-funded (TATF) | 5 | 16 | 1 st | 30% | 182 | 9 th | 3% |
| PSAPT * | 5 | 8 | 1 st | 56% | 55 | 2 nd | 8% |
| FIAS * | 1 | 4 | 1 st | 17% | 33 | 7 th | 2% |
| Total | 10 | 28 | | 36% | 270 | | 4% |
| <u>Number of assignments</u> | | | | | | | |
| Donor-funded (TATF) | 30 | 145 | 1 st | 21% | 1,462 | 7 th | 2% |
| PSAPT | 7 | 44 | 2 nd | 16% | 220 | 7 th | 3% |
| FIAS | 7 | 49 | 3 rd | 14% | 559 | 12 th | 1% |
| Total | 44 | 238 | | 18% | 2,241 | | 2% |

* Note that PSAPT and FIAS volumes are incomplete. PSAPT does not have cost records of all projects approved and FIAS budget records for FY91-92 are also incomplete. No evaluation results available.

Annex F. Summary Overview of MIGA Activities in Romania

MIGA Activities (FY97-04)

Operations Evaluation Unit, MIGA

Strategy

According to the 1997 CAS, MIGA's strategy was to provide assistance under the objective of promoting structural reform and private sector development, by beginning to provide political risk guarantees and technical assistance (TA) to attract FDI. In particular, TA was to focus on mining and tourism related investment promotion activities and capacity building for Romanian investment promotion agencies (IPAs). The 2001 CAS called on MIGA to support the government's efforts to attract FDI by providing TA to develop the capacity of IPAs and issuing guarantees in banking (focusing on SME and rural finance) and infrastructure, as well as in support of privatization.

Portfolio

Although Romania has been a MIGA member since 1992, MIGA began issuing guarantees in FY97, with guarantee volumes increasing significantly since 2001 (see table). The pattern of MIGA activity is consistent with low levels of FDI in the early to mid 1990s due to poor business environment, and increasing foreign investor interest since 1997. Between 2000 and 2003, MIGA also provided limited technical assistance related to the institutional framework for investment promotion in Romania.

Table: MIGA Guarantee Activities in Romania

| Year* | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Total |
|---|------|-------|-------|------|------|--------|-------|-------|--------|--------|
| FDI (US\$ m) | 263 | 1215 | 2031 | 1041 | 1037 | 1157 | 1144 | 1844 | ... | |
| MIGA Guarantee Contracts | 0 | 1 | 1 | 3 | 0 | 2 | 2 | 2 | 7 | 18 |
| MIGA Guarantee Projects | 0 | 1 | 1 | 1 | 0 | 2 | 1 | 2 | 3 | 11 |
| MIGA Guarantees Issued (gross exposure, US\$ m) | 0 | 15.77 | 29.97 | 7.9 | 0.0 | 134.00 | 19.62 | 51.92 | 131.81 | 390.98 |

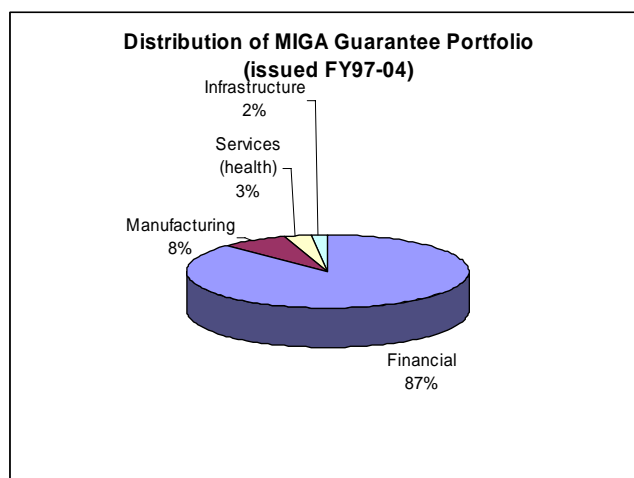
* FDI data: Calendar year; MIGA guarantees: Fiscal year.

Source: IMF, MIGA

Romania is an important recipient country for MIGA guarantees, ranking third in terms of MIGA's *current* gross and net exposure.¹ Among transition economies, Romania accounted for 11 percent of MIGA's *issued* gross exposure, and 5 percent of FDI

¹ MIGA's gross exposure (contingent liability before reinsurance) in Romania was US\$391 million, or 6.4% of MIGA's portfolio. The net exposure (liability after reinsurance) was US\$179 million (both figures as of June 30, 2004).

facilitated by MIGA in transition countries. Overall, between FY97 and FY04, MIGA issued 18 guarantees totaling US\$391 million for 11 projects. MIGA's portfolio is heavily concentrated in the financial sector (see figure).² Forty percent of MIGA's gross liability in Romania originated from one investor client.



Effectiveness of Guarantee Activities

OEU has evaluated one project in the manufacturing sector in Romania³ and conducted a survey of guarantee clients in the financial sector to determine the value of MIGA insurance for their investment decisions.

As noted above, MIGA's involvement with the banking sector in Romania has been significant, supporting the opening and expansion of bank branches in the country, as well as one bank privatization, which provided general banking services, leasing, and SME finance, as well as funding for refurbishing and enlarging a clinic. MIGA's first banking project was underwritten in 1997, when the government had just begun a banking sector reform. At the time, due to concerns about governance and the government's commitment to reform, risks to new entrants were considered high. MIGA-facilitated banking projects have aimed to introduce modern banking facilities, improve the efficiency of the sector, and expand credit in the country.

MIGA clients indicated that its guarantees have helped to reduce the cost of providing funds to the Romanian banking sector, by eliminating concerns of the parent bank about the possible need to increase provisioning for these loans. Clients also indicated that

² The financial sector accounted for 8 projects (87 percent of gross exposure); the balance was in manufacturing (1 project, 7.7 percent of exposure), services (1 project, 2.9 percent), and infrastructure (1 project, 2.0 percent).

³ According to the OEU evaluation, this project had performed reasonably well and overall MIGA's work quality in this project was good.

without MIGA coverage they would have had to either reduce their exposure in Romania, take larger provisions, or run the risk of lower credit ratings, thereby borrowing at more expensive terms.⁴

Effectiveness of Technical Assistance

MIGA's TA focused on establishing an effective investment promotion framework and related capacity-building initiatives. After MIGA provided a diagnostic needs assessment for the Romanian investment promotion agency (IPA), the institutional structure for investment promotion underwent frequent changes, and the roles and responsibilities of the several agencies dealing with aspects of investment promotion were never clearly defined. MIGA appropriately did not continue its assistance beyond the diagnostics stage.

An OEU evaluation of MIGA TA activities in Romania concluded that there were few benefits from MIGA's work in the initial phase (2000-2001), because MIGA recommendations were not implemented, but that the formation of the Romanian Agency for Foreign Investment (ARIS) is attributed to MIGA's advocacy for the establishment of an autonomous IPA. MIGA TA has had several positive outcomes in terms of ARIS's effectiveness in serving foreign investors. A small sample of surveyed ARIS clients rated its effectiveness quite highly. However, ARIS is also perceived as lacking some important features of a successful IPA. The impact of ARIS's activities, in terms of increased foreign investments or foreign investor interest, appeared to have been limited at the time of the evaluation. Investors indicated that the key factors for their decision to invest in Romania were the prospect of EU accession and related improvements in the business environment.

Conclusions

MIGA's activities in Romania have been broadly consistent with the objectives defined in the 2001 CAS. MIGA provided technical assistance to the investment promotion agency, which consisted of diagnostic work. MIGA has also built a relatively large guarantees portfolio, which has grown since 2001, and focuses mainly on financial sector projects, one of the priority areas identified by the CAS, but much less on infrastructure projects and privatizations.

⁴ Based on interviews with guarantee clients in Bucharest and Vienna.

ANNEX G. ROMANIA COUNTRY ASSISTANCE EVALUATION
MANAGEMENT ACTION RECORD

| <i>OED Recommendations Requiring a Response</i> | <i>Management Response</i> |
|---|--|
| <p>1. The Bank should continue its efforts to improve the environment for private enterprise development, through the elimination of administrative barriers, through anti-corruption activities, and through the removal of the practice and culture of payment arrears.</p> | <p>1. Private sector development has been and remains a central theme of Bank assistance strategy in Romania. The multi-phased PAL program is specifically focused on removing the key constraints to private investment. The reform agenda includes improvements in the judicial system, removing the remaining administrative constraints including measures to improve the performance of the public service, and instilling transparency in government as the key instrument for combating corruption. On the culture of payment arrears and quasi fiscal deficits, the Bank is working in tandem with the Fund and the EU to instill discipline and reduce subsidies to the utilities, mining and SOE sectors. The policy interventions are supported by specific operations to ensure that the implementation is not only confined to mechanical interventions. Last but not least, the future AAA and the lending operation would support the development of efficient public expenditure systems including monitoring and prioritization of the budget in the context of MTEF.</p> |
| <p>2. The Bank should help develop a framework for action in agricultural/rural development. The issues—credit, marketing, alternative employment opportunities, land titling—are complex and relate to Romanian culture, suggesting that an important first step might be to arrange for a Symposium for Agricultural/Rural Development, involving many segments of society.</p> | <p>2. This is a very apt recommendation and we agree that a gap exists in the agriculture and rural development strategy. The recent 2004 CEM addresses some of the EU accession related challenges in the agriculture sector and we intend to build upon this work to help the government develop a comprehensive policy framework for the sectors. The idea of the symposium is welcomed but the new Minister of Agriculture has organized a working group, with Bank participation, to identify the key constraints and to prepare a long term strategy which recognizes not only the need of the farming community but of rural development per se.</p> |

| <i>OED Recommendations Requiring a Response</i> | <i>Management Response</i> |
|---|---|
| <p>3. The Bank should strengthen its efforts to improve public expenditure management, preferably through TA activities, and to stimulate civil service reform, which is needed for efficiency as well as to combat corruption, but which also has major fiscal implications.</p> | <p>3. Public expenditure aspects are addressed above. Civil service reform is being pursued in the context of the PAL operation but we recognize the need to underpin the policy prescriptions with a longer term investment operation. The contours of this operation would be discussed with the government and the stakeholders in the context of the forthcoming Country Partnership Strategy (targeted for June/July 2005). The foregoing also applies to the governance aspects including the efficient functioning of the judiciary.</p> |



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MINISTER'S OFFICE

Government's Comments on the Draft CAE and OED's Response

**World Bank
Country Evaluations and Regional Relations
Operations Evaluation Department**

Mr. R. Kyle Peters, Senior Manager

C.c. Owise Saadat, Country Manager

March 18th, 2005

Dear Mr. Peters,

Thank you for the informative and comprehensive draft OED report entitled "Romania: Country Assistance Evaluation" that assesses World Bank assistance to our country during the last decade. We highly appreciated the independent opinion on the performance of both Romanian Government and World Bank operating as an aid donor from the very early times of the transition process of the Romanian economy to a market economy and then, as it has been well said, to the EU structures.

We appreciate also the findings of the report, and the general statement that the driving force of the reform and restructuring that occurred in Romania worked only with the prospect of EU accession. We more than agree with the recommendation regarding the expenditure management and civil service reform. In this respect, we have already informed the Bank during Snagov meeting about our assistance request for strengthening the capacity of the National Agency for Fiscal Administration, with the declared priority to improve the collection capacity and fighting corruption within public structures. We also fully acknowledge the need for a medium-term expenditure framework, developing monitoring and evaluation systems as part of this process.

The Government started working on prioritizing the drafted strategies and their associated action plans, and I hope we will come up with a partnership proposal to the Bank in order to get the objectives achieved benefiting from the Bank expertise. In this vein, we would appreciate the Bank providing more insight on technicalities and methodologies, so as to improve the monitoring process and management for results.

You will find attached the technical comments on the draft evaluation report, and please do not hesitate to keep in contact with us, for any further issue to be clarified, or agreed.

We thank you for the past and future assistance that will be provided by the Bank to our country.

Yours Sincerely,

Ionut Popescu
Minister of Public Finance



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Comments on draft OED report “Romania: Country Assistance Evaluation”

General comments

1. MoPF expected that the chapter 5, “Main Findings and Recommendations”, section “Recommendations”, to comprise a general understanding on some in-depth indicators as for the progress monitoring and evaluation of the Bank operations in Romania, according to the proposed CAS. It has been mentioned in the report that the Bank needs to take into account the future strategy development, where the main partners will be both Government and EU. Therefore, a different vision should be developed, and benchmarks need to be set, relative to which the progress to be monitored.
2. A number of subjects have not been frontally approached, even if they have been marginally mentioned within the OED report: (i) Cost of the delays in investment lending for Romania – physical objectives conditioned by reforms; (ii) Missions in country – number, institutions visited, impact; (iii) JPRs – fundamentals, results, even if too early to get final opinion; (iv) Ratings – OED and supervision ratings, OED project ratings: is there any difference between the ratings during the missions and OED ratings? Is there any change to happen in the methodology? Can we have the rating methodology, or at least quoted the source of this?
3. **Cost of the delays** – there is a general statement, for almost any sector, that the physical targets were achieved eventually with much delay, but the restructuring and reform did not occur until the late 1990s. Institutional development components have been incorporated in much of the investment lending, but they did not take place as planned, working as conditionality for investment disbursement as well. The costs of these delays can be calculated from the associated Bank loans costs, as well as the associated penalties on the commercial side, if any.
4. Assuming that the **Bank missions in the field** have as main objective the evaluation of the individual project performance relative to the indicators proposed to be achieved by the end of the project implementation, it would have been interesting an analytical view on the correlation between the frequency of the missions, the main findings of these missions and their impact on the individual project implementation.



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5. **Joint Portfolio Reviews** started in 2001, as a solution towards improving coordination between the Government policy makers, Bank officers and the assigned Project Management Units, in the context of having the project implementation operations externalized to the PMUs structure. While the process proved relatively efficient in what regards the next steps, it presents also the risk of the key persons not seeing the forest because of the trees. In other words, the clear mandate of the JPR should be first the relation of the portfolio with the CAS objectives and governmental priorities, positioning the projects vis-à-vis the set benchmarks, and then, individually, the projects progress.
6. **Ratings** – Annex 5 comprises three Annex Tables about Key OED Ratings, Projects at Risk, OED Project Ratings. A number of aspects are not clear:
 - a. whether there are differences between the OED ratings and the Sector Team ratings awarded with the occasion of JPR;
 - b. if unique, the methodology in itself is not presented in the Report, at least at the level of principles; however, MoPF considers that a detailed presentation of the Rating methodologies can be beneficial for the portfolio progress;
 - c. any change in the approached Rating methodologies, following lessons learned in previous CAS or JPRs;
 - d. if there is any electronic source of more information on the ratings, we would appreciate having it quoted in the report.

6. Findings and Recommendations

Recommendations

- 5.4. The agriculture and rural development is indeed priority for the integration in EU, and Sapard funds absorption capacity. However, given the experience Romania has had starting with 2000 in the rural finance, the supply side of agricultural credit market has been quite liquid, but the problems came from the demand side and the intermediation, together with marketing services as well.
 - 5.5. However, for solving out these problems in the area, we committed to strategic objectives encompassed in: (i) the ongoing Rural Finance Project, regarding the rural credit lines and banking expansion in rural areas, as well as the survey regarding the warehouse deposits, and (ii) the new MAKIS project, aiming to improved marketing services in the sector; more than that, there are also other governmental actions to complement the legal and practical framework that
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accommodates EU funds absorption (e.g. governmental guarantees for the credits to cofinance SAPARD funds). Additionally, there are particular agencies in charge with sectorial action plans (Sapard agency, Rural Credit Guaranteeing Fund, etc). Therefore, the most of the priorities identified in the OED reports have already been tackled, the Symposium on Agricultural Development under the Bank patronage overlapping with the current actions. Moreover, the financing services have become a market for themselves, where the private sector crowded in, and the government action is supposed to look for an exit strategy, further supervision (e.g. microfinance activities), and innovative approach.

- 5.6. (a) The cadastre is an issue to be clarified and solved out as soon as possible. It is not clear why the Bank project for cadastre could not bring satisfactory results from the presented perspective in the report, while presented with satisfactory rating during its life. (b) The proposal of focusing the government attention on “the redundant labor” that “should be employed elsewhere” is not acceptable from the perspective of getting the efforts focused rather on the overall development process, with the direct consequence of raising the overall level, including the rural living standards. However, we need to mention that there is a number of Bank financed projects, including Rural Development, Rural Education, as well as sub-projects implemented through the Romanian Fund for Social Development, that have as objectives achieving the mentioned priorities, and also an impressive number of projects run by the local governments, with EU funds, oriented towards rehabilitation of municipal services.

7. Overall Outcome and Bank Performance

- a) The Table 4.1 provides for the outcome ratings by objective, whereby it is being understood that the three objectives have not reached the expected results during the 1990s, as follows: (1) sustainable private sector growth is rated as unsatisfactory, (2) poverty reduction and human development is rated as marginally unsatisfactory, and (3) the governance and institution building is rated as marginally satisfactory.

In the same time, in the section regarding the Outcome of Assistance for Infrastructure, it is mentioned the satisfactory implementation in all cases mentioned, corrected only with the mentioning of “some delays”. We think that the information provided in the sections as presented, could be misleading. It is not clear the OED position regarding the individual projects, given the overall ratings.



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- b) In the Case for Agriculture, section 3.32 doesn't provide a clear approach on the Cadastre Project and the series of extensions and hinders on the implementation, even if the permanent project rating has been "satisfactory".
- c) In the Social Sector Development section B, it is not clear why the objectives of the Bank's assistance are highly relevant (3.36). Again, it is difficult to understand the reasons behind the lack of progress in M&E systems in social protection area (3.42), and of the insufficient evidence to establish sustainability (3.43), and how these difficulties can be overcome, as lesson learned.

The World Bank
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March 24, 2005

Mr. Ionut Popescu
Minister of Public Finance
Bucharest, Romania

Your Excellency:

Re: Romania - Country Assistance Evaluation

We thank you for your perceptive and thoughtful comments and we appreciate your endorsement of OED's findings. We also welcome your views on the importance of improvements in public sector management and civil service reform. The final report has given full consideration to your concerns and we have amended it where appropriate. Our responses to key technical comments on the draft are shown below.

Recommendations: indicators of progress

As an independent evaluation unit, OED presents lessons and findings from past Bank activity, but is cautious about the recommendations it makes as these should not be overly specific. We agree on the importance of having indicators of progress, and OED continuously emphasizes this issue. The development of a specific strategy for the future, however, together with monitoring and evaluation indicators, is the prerogative of Bank management.

Ratings

Project ratings by project supervision missions and in JPRs are Bank management tools to keep track of projects under implementation, in which OED is not involved. OED evaluates and rates only closed projects. A brief overview of OED's project rating methodology is available on OED's external website (http://www.worldbank.org/oed/oed_tools.html and http://www.worldbank.org/oed/oed_approach.html); more detail is available upon request.

A CAE differs from project evaluations in that it evaluates the totality of the Bank's assistance strategy in a country over a period of time. It evaluates the total of closed and ongoing projects as well as non-lending activities. The CAE methodology is also available on OED's external website (http://www.worldbank.org/oed/cae_methodology.html) as well as in every final CAE report.

Cost of delays and Bank missions in the field

These are excellent questions about the efficiency of Bank operations and the efficiency of supervision missions. Efficiency is evaluated only for those relatively few projects where cost-benefit ratios can be calculated. We have found it extremely difficult to do at the country level.



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H.E. Ionut Popescu

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March 24, 2005

We have removed the reference to “redundant labor” to “be employed elsewhere” because it could be misunderstood. We have also amended the text to clarify the issues surrounding the Cadastre project. However, this is a still ongoing project and, as noted above, the ratings referred to are management supervision ratings. Implementation suffered delays, partly because two different public entities were involved, a problem now resolved, and partly because costs per plot turned out to be excessively high, given the small size of individual holdings. On the other hand, the project was clearly needed and is helping to strengthen the capacity of the cadastre office.

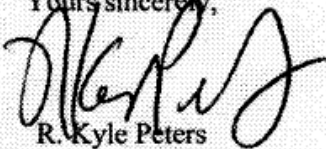
Social sector development

We have revised the text to take account of your observations.

Overall outcome ratings

OED's ratings in table 4.1 are a summary of the findings by major development objective of the Bank's program. “Sustainable private sector growth” was the prime objective by far. This objective was supported by Bank assistance to private sector development, infrastructure and agriculture. The elements for the summary outcome rating are discussed in paragraphs 3.21 and 3.34.

Please accept our sincere thanks for the spirit of cooperation reflected in your comments.

Yours sincerely,

R. Kyle Peters
Senior Manager
Country Evaluation and Regional Relations
Operations Evaluations Department

cc: Mr. Owaise Saadat, Country Manager

Chairman's Summary

Committee on Development Effectiveness

Meeting of April 20, 2005

1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on April 20, 2005 to discuss the Romania Country Assistance Evaluation (CAE) prepared by the Operations Evaluation Department (OED). A written statement was issued by Mr. Hermann.

2. **Background.** The CAE examines the relevance and efficacy of World Bank assistance to Romania for the period from December 1989 through 2004. Over this time, the key issue facing Romania gradually evolved from how to transition from a centrally planned to a free market economy, to how to transition from an as yet imperfectly operating market economy to EU accession. According to the evaluation, in the 1990s, despite the large volume of Bank assistance, progress in market reforms was slow and development outcomes were unsatisfactory—due to a combination of vacillating government commitment and an underestimation by the Bank of the rigidities of the institutional environment. However, after the major economic and political crisis of 1999, the Bank assistance through a well designed adjustment program was instrumental to break the impasse and overcome the crisis. The overall outcome of the Bank's assistance strategy since mid-1999 has therefore been satisfactory. The CAE concluded that, despite EU accession being the main driving force of future development efforts, there is an important remaining role for the Bank in several areas, including agricultural and rural sectors, business environment and governance. Some findings from the Romania CAE confirm earlier lessons from other CAEs discussed in OED's CAE Retrospective: (i) adjustment lending is counterproductive when government commitment is lacking; (ii) investment loans must be selected with great caution in a distorted policy environment; and (iii) contributions to institutional development through technical assistance loans are part and parcel of successful assistance efforts. Management broadly agreed with and welcomed the CAE findings as timely, as the Bank will soon be presenting the new country assistance strategy for Romania. Management stressed that private sector development has been and remains a central theme of the Bank assistance in Romania, supported through a number of specific lending operations and AAA. Management also noted that it is planning to continue, in tandem with other donor partners, to address other issues raised in the CAE—the existing gap in the agriculture and rural development strategy, public expenditure management and civil service reform.

3. The Chair representing Romania thanked the OED and noted that the Government of Romania has endorsed the report and broadly concurred with the CAE's findings and recommendations. She added that the Government intends to use the CAE findings in developing the new Country Partnership Strategy and utilize the lessons learned regarding: selection of instruments; setting of goals; and achieving desired development impacts. The authorities have also expressed strong appetite for the Bank's non-lending products and advocated a flexible mix of lending and non-lending products in future Bank program.

4. **Main Conclusions and Next Steps.** The Subcommittee welcomed the CAE and agreed with the OED ratings of outcomes of the Bank's assistance to Romania: unsatisfactory for 1991-1999 and satisfactory for 2000-2004. Members concurred that overall, and especially in the aftermath of the 1999 crisis, the Bank played an important positive role in Romania, and noted that there is still an unfinished agenda for the Bank, despite the strong driving factor of EU membership magnet. They concurred with the evaluation's main findings and urged to draw

lessons for future Bank's work in the country. Management noted that the Bank's program should be viewed in the context of country-specific issues, such as pressures on fiscal space, heavy flows of FDI and remittances, expected flow of EU grants. Management assured that it will continue to work in close cooperation with the authorities and other donor partners, aiming to add value in three main dimensions: policy, investment and technical assistance.

The following points were raised.

5. **Adjustment lending.** Several members felt that outcome rating of adjustment lending during the 1990s could have been more nuanced and fair to the staff, reflecting on the unprecedented challenges all parties (including the Bank) had to face in the initial stage of transition. OED replied that its intention was to rate the actual outcomes, rather than staff performance, and while the two are not necessarily correlated, most of the outcomes by the end of 1990s were indeed quite low. Some members were interested in the impact of conditionalities on program implementation. Management noted that overall, conditionality proved to be a useful tool of organizing the massive reform agenda. A member expressed concerns about the language used (Bank "bending over backward") in describing release of the second tranche of the FESAL loan, and asked whether it was a correct reflection of the reality. OED replied that one of the reasons was the alarmingly high number of waivers (five) issued in a short period of time. Another speaker clarified that at that time the Bank was the only source of financing for the country, and staff made considerable efforts to avoid triggering a major crisis by not releasing the tranche.

6. **Privatization.** Members stressed the importance of drawing lessons from the privatization process, and noted that while the document mentions that privatization is far from complete, it might have been useful to complement it with a comparative analysis of successes and failures in pre- and post-1999 periods together with specific forward-looking recommendations. Some members noted that the number of enterprises privatized should not be the defining factor for measuring the development impact of privatization. OED agreed with that view and added that other factors, such as fiscal impact of privatization, had also been taken into account. OED also noted that a number of related studies analyzing experience with privatization in the context of transitional economies have been conducted by the Region and OED. One of the main conclusions was that the focus should be on the process, transparency and due diligence rather than numbers. Management noted that Romanian experience with privatization and the lessons learned from it generally reflect the evolution of thinking on the subject and experimentation with various models of privatization.

7. **Agriculture and finance sectors.** A member felt that it might have been misleading to measure the outcome in the agriculture sector based on its contribution to the GDP. He noted that the share of agriculture is usually expected to decline while a country develops, and it might have been more appropriate to use the growth rate of the sector itself. OED replied that decline in the share of agriculture was happening while GDP was stagnant—attesting to the negative growth of the sector. Members stressed the importance of further improving access to credit in agriculture. A member noted that since many recommendations on agriculture relate to credit issues, it might have been useful to make a direct link to the financial sector itself. OED agreed that serious issues remain in the financial sector and noted that it did not spell out specific recommendations for it in order to keep recommendations concise and consolidated. Management added that the issues remaining in the financial sector are well recognized by the authorities and the Bank, and that the government had clearly articulated its demand for the Bank's continuous engagement in the sector. Another member was puzzled by the increase in employment and decline in poverty amid decline in growth of the agricultural sector, both in absolute and relative to GDP terms. OED

noted that this phenomenon could be explained by significant inflow of remittances from abroad in the rural areas and related expansion of construction. Management added that lately there has been a significant rebound in the sector, and agriculture has recorded 7-8 per cent growth in 2005.

8. **Private sector development.** Several members asked about the reasons behind low investment rates amid overall growth of private sector. OED agreed that the document could have had more detailed information on investment and added that the country has recently recorded notable growth in FDI in certain sectors. Management noted that often it is the quality of investment, rather than its volume, that has direct impact on growth.

9. **Results focus and governance.** Some members asked to elaborate on the use of a results-based country assistance strategy (CAS), and especially CAS triggers and benchmarks as monitoring and evaluation mechanism. OED noted that at the time of preparation of the last Romania country assistance strategy it was not customary to incorporate a results-based framework into them. Management added that the next country assistance strategy (which most probably will take the form of a country partnership strategy) will rely on a heavily quantified monitoring system oriented towards the goals of reaching the EU accession criteria and post-accession development goals. A member noted that some diagnostic instruments, presently available to the management (e.g. CPIA), might be helpful for establishing certain thresholds for the width of the Bank involvement and mix of lending and non-lending instruments, in order to avoid the unsatisfactory outcomes of the 1990s. OED replied that the trends in the country's CPIA are more or less consistent with the trends described in the evaluation, and stressed that in case of non-IDA countries there is a number of constraints for using the CPIA indicators. Management added that in MICs CPIA ratings are not used as heavily as in IDA countries. Several members underlined the need to closely monitor achievements in governance, given the perspective EU accession and present situation on corruption in Romania. A speaker noted that the current government came to power in an anti-corruption platform and has already initiated a number of unprecedented measures to curb corruption.

10. **Overall rating and data.** A member asked to elaborate on the rationale behind defining the overall outcome rating, as well as weighting attributed to particular components (e.g. private sector development, governance, poverty reduction, etc.). OED replied that dominant factor was the outcome on private sector development, given its utmost importance for overall development of the country at that stage. Several members underlined the importance of quality of statistics.

11. **Lessons learned.** Some speakers noted that while the evaluation provides interesting lessons from transition experience, they also felt that it does not add much "learning value" and expressed reservations about the utility of an ex-post evaluation of a unique experience of transition from a centralized to a market economy for future Bank work in other countries.

Chander Mohan Vasudev, Chairman