

EBRD strategy for Romania 1997-98: a summary

Operational objectives

To further promote the transition to a market economy in Romania, the European Bank for Reconstruction and Development (EBRD) will seek to:

- boost **private sector investment**;
- build up and diversify support for the **financial sector**; and
- shift to **private financing of infrastructure development**.

The EBRD will pursue the above objectives while maintaining a strong **monitoring and implementation capacity**.

Private sector investment

To increase its direct financing in the private sector, the EBRD will maintain a strong local presence in Romania, develop direct operational relations with key institutions affecting private sector investment, and finance selected projects with a high demonstration value. A broad range of EBRD financing instruments, particularly equity, will be required to maximise the Bank's impact on private sector growth.

In the agriculture sector, the EBRD will explore ways of supporting local private sector food processing enterprises through stand-alone projects. Investments will be mainly directed at productivity improvements in commodities for which Romania has a natural comparative advantage. The Bank is currently targeting projects in the sugar and edible oil industries.

The EBRD's objectives in developing projects with local companies in agribusiness is not only to improve the quality of locally produced commodities and to remove production bottlenecks at the processing level, but also to increase production and yields at farm level through injecting working capital and improving production techniques. These benefits are particularly important in the context of the phasing out of state subsidies to the primary agricultural sector.

The EBRD's support for privatisation should focus on key areas affecting the pace of privatisation to date, on activities for which the Bank has a comparative advantage in relation to other agencies, and on activities with an appropriate investment transaction potential. The Romanian Post Privatisation Fund, launched in October 1996, addresses this largely unsatisfied need by targeting medium-sized, private and privatised enterprises unable to raise private equity financing and by providing equity, management assistance and effective governance to support their restructuring and growth.

Plan of action

The EBRD aims to:

- monitor current investments and to bring to closure private sector transactions currently in the pipeline. Current potential transactions are being considered in the telecommunications, distribution, furniture, wood, hotel, chemical and other sub-sectors.
- identify new projects and joint ventures led by foreign investors involved in the establishment or rehabilitation of viable medium to large enterprises.
- identify and fund projects in the food industry – potential sub-sectors include sugar, edible oil, and drink products with reliable domestic and export markets.
- cooperate closely with the new government regarding its long-term programme on legal and regulatory matters affecting private sector investment, especially on the status of the land, import duties and VAT and other taxes of the private companies.
- intensify marketing activities by further strengthening the marketing role of the local office. Special attention will be devoted to small and medium-sized enterprises (SMEs).
- ensure strong implementation of equity funds.
- examine the possibility of a large public enterprise restructuring fund in cooperation with on-going programmes of EC Phare, the World Bank

and bilateral donors. This could include technical cooperation to define specific restructuring programmes for individual medium and large public enterprises and the development of specific transactions to support programme implementation.

- focus its efforts in Bucharest on financing the development of an international-standard office building to service the growing needs of the business community. In addition, the EBRD will consider financing a modern warehousing and distribution scheme on the outskirts of the city. Outside Bucharest, the Bank is considering the privatisation and refurbishment of a chain of mid-range hotel facilities to service the regional business and tourism centres.
- pursue the development of the TurnAround Management (TAM) programme and strengthen linkages with enterprise restructuring processes.
- initiate further legal transition projects for the implementation of particular reform measures.

Support for the financial sector

The EBRD will maintain its dual objective of strengthening specific financial institutions and increasing access to longer-term finance for SMEs in the private sector. New operations will focus on privately owned institutions, and the EBRD will continue to emphasise the merits of bank privatisation. Opportunities to support non-bank financial institutions, such as leasing and insurance, will receive priority consideration to further diversify the Bank's portfolio. If the equity funds prove to be effective and experience strong demand, additional equity resources may be provided through these or similarly structured investment vehicles.

Plan of action

The EBRD aims to:

- remain an active participant in promoting financial sector reform in collaboration with the World Bank and the International Monetary Fund. This cooperation is particularly active regarding bank privatisation. The EBRD will continue to advocate clear regulatory and accounting policies consistent with best international practice.
- continue to allocate increasing resources to portfolio monitoring and implementation. In addition to standard reporting functions, monitoring involves an active dialogue with the client to ensure continued adherence to sound banking principles.

- work with the Romanian government to clarify its position regarding the privatisation of a bank and to confirm its willingness to involve the EBRD.
- review the market for leasing in Romania. A study has been commissioned to review the legal, tax and regulatory issues and to identify specific potential transactions. A project based on leasing or related hire-purchase concepts will be actively considered.
- consider a project with one of the private banks which have been operating in Romania for more than two years.

Private financing of infrastructure development

The EBRD is supporting a shift towards the private financing of infrastructure development, and it is already working on specific projects in the telecommunications and transport sectors. It is also seeking opportunities for private investment in energy.

Energy

The EBRD has the following objectives in the energy sector: (i) to promote energy conservation and demand-side management; (ii) to support and accelerate the establishment of competitive energy markets; (iii) to support the restructuring and financial reform of the sector; (iv) to support the implementation of a least-cost development programme; and (v) to implement tariff adjustment methodology aimed at reflecting real cost for providing the service. Specific attention will be given to ensuring the improvement of cost recovery, to strengthening sector regulation and creating a legal framework and to improving energy efficiency by working to attract private investment, including energy service companies (ESCOs).

Plan of action

In close cooperation with the Romanian government, the EBRD will:

- monitor carefully the Bank's operations in the power and district heating sector with the objective of: (i) ensuring that improvements to existing power and heat stations and the completion of projects under construction are in accordance with least-cost development of these sectors; (ii) supporting the improvement in the environmental performance of power stations and district heating systems; and (iii) promoting and strengthening interconnection with regional energy grids;
- give priority in its new operations to developing energy projects that support and promote private

sector involvement in the power, heat and gas sectors;

- intensify its dialogue with the government on sector policy reform in close cooperation with the World Bank and the European Investment Bank regarding demonopolisation, regulation and privatisation;
- give special attention to support energy-efficiency improvement measures through, for example, installation of metering, demand-side measures in industry and institution building, including the Energy Conservation Agency;
- support the commercialisation, restructuring and eventual privatisation of the national power utility (Renel) and of district heating utilities and services;
- follow the implementation of policies to achieve compliance with EU environmental standards;
- assist in the preparation, financing, implementation and supervision of a thermal energy conservation project within selected municipalities;
- explore the possibilities for implementing demand-side management or ESCO approaches in the municipal heating sector or other energy-related sectors;
- examine potential investment projects in the natural gas sector with the objective of: (i) improving the flexibility of gas supply and increasing underground storage capacity; and (ii) developing a regional gas pipeline grid and increasing gas supply availability.

Telecommunications

The EBRD intends to sustain the restructuring process of the telecommunications sector, to speed up the implementation of the existing projects, to foster the development of advanced telecommunication services in Romania by supporting the competitive private sector high-quality mobile network and to identify private sector projects.

Plan of action

The EBRD aims to:

- assist the Ministry of Communications in the development and implementation of a restructuring strategy for the telecommunications sector, in accordance with EU recommendations. This strategy will aim to increase the competitiveness of Romtelecom and to ensure the necessary compatibility for a faster integration within the European Union.

- monitor implementation of the Romtelecom project and the definition of Romtelecom's medium-term investment programme. Close cooperation is being maintained with the World Bank and the European Investment Bank, with the EBRD focusing on a long-distance transmission network.
- extend the existing financing to Romtelecom within a transition project, subject to the implementation of the commercialisation/privatisation programme. The goal is to foster the privatisation process, strengthen the capital base of the company through the Bank's potential equity participation and also to provide loans for the restructuring/ modernisation process.
- consider financing for the emerging private telecommunications sector in Romania, such as development of a modern, competitive network, rural/local telephony, and cable-TV networks.
- support further reform of the telecommunications sector to develop regulatory instruments, clarify the regulatory responsibilities and establish an independent regulatory body for this sector.

Transport

The EBRD's first priority is to monitor implementation of signed projects in the railway and road sub-sectors. Any new commitments are likely to be private sector operations or the private sector portion of a public-private partnership.

Plan of action

The EBRD aims to:

- sustain strong monitoring of: (a) the European road rehabilitation project; (b) the NAR restructuring and road rehabilitation project; (c) the Bucharest-Pitesti motorway upgrading and tolling project; and (d) the railway rehabilitation project;
- seek private sector opportunities associated with the commercialisation of some activities of SNCFR;
- consider equity investments in road activities and in aviation and port activities;
- monitor on-going technical cooperation providing financial, legal and technical advisory services to assist the government to prepare, tender and award an initial motorway concession;
- consider financing a motorway project either as a build-operate-transfer concession or as a public-private partnership, depending on the scale of financial participation by the state;

- seek other opportunities for private sector projects, probably in the aviation sub-sector (selected infrastructure, equipment and operations) and the port sub-sector.

Municipal development and environmental infrastructure

The EBRD's strategy is to institutionalise the introduction of credit into the system of municipal infrastructure financing, to enhance the credit-worthiness of selected municipalities and municipal utilities, to improve the financial and operational performance of municipal service enterprises and utilities, to stimulate the establishment of a stable, independent and dedicated source of investment funds for local government through the creation of a municipal credit facility to service municipalities across Romania and to stimulate private sector involvement in the provision and financing of municipal and environmental services.

The Municipal Utilities Development Programme (MUDP) incorporated the first three components of this strategy in selected medium to large cities; the Regional Water and Environment Programme is applying a similar approach for a mixed region comprising small towns and rural areas. Further projects, in particular the second MUDP, will expand the approach to other cities, and will support the establishment of a specialised municipal financing facility, which could provide the nucleus of a fully fledged municipal bank able to finance investments, on a non-sovereign basis, in all municipal services.

Plan of action

The EBRD aims to:

- support the new government in refining and implementing the new programme of laws and regulations affecting local government;
- provide technical cooperation to support the development and establishment of a dedicated municipal credit facility, with a view to providing future financial support in the form of a non-sovereign loan to the municipal credit facility;
- explore the potential for developing projects involving private-public partnership, where the EBRD advises the municipality on the preparation and implementation of a tender to select private operators and investors, and for direct lending to the municipality on a non-sovereign basis;
- develop further operations in the municipal and environmental infrastructure sectors.

Cooperation with other international institutions

In implementing its strategy, the EBRD liaises closely with other international financial institutions (IFIs) active in Romania, such as the International Monetary Fund, the World Bank, the European Investment Bank (EIB) and the International Finance Corporation. The Bank is actively cooperating with them regarding the identification, preparation and implementation of its activities.

A large number of the EIB's activities are carried out in close collaboration with the EBRD. In 1996 the EIB co-financed the second roads project with the EBRD for a total of ECU 70 million.

Close cooperation between EC Phare and the EBRD has been established in the sectors of finance, privatisation, municipal development and transport. Regarding Romania's preparation for European integration and the application for full membership of the European Union, the EBRD is strengthening its activities connected with privatisation and restructuring and the strengthening of the trans-European infrastructure.

This document is based on the EBRD's Strategy for Romania, approved by the Board of Directors at its meeting on 11/12 March 1997.