

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

STRATEGY FOR ROMANIA

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	6
1. THE BANK'S PORTFOLIO	9
1.1 OVERVIEW OF ACTIVITIES TO DATE	9
1.2 IMPLEMENTATION OF PREVIOUS STRATEGY	10
1.3 TRANSITION IMPACT OF THE BANK'S PORTFOLIO	10
1.4 PORTFOLIO RATIO	11
2. OPERATIONAL ENVIRONMENT	12
2.1 GENERAL REFORM ENVIRONMENT	12
2.1.1 Political Developments	12
2.1.2 EU Accession and Regional Integration	12
2.1.3 Social Conditions	13
2.1.4 Labour Issues	13
2.1.5 Integrity Issues	14
2.1.6 Legal Reform	14
2.1.7 Environmental Issues	15
2.2 PROGRESS IN TRANSITION AND THE ECONOMY'S RESPONSE	16
2.2.1 Macroeconomic Conditions for Bank Operations	16
2.2.2 Transition Success and Transition Challenges	17
2.3 ACCESS TO CAPITAL	19
3. STRATEGIC ORIENTATIONS	21
3.1 BANK'S PRIORITIES FOR THE STRATEGY PERIOD	21
3.2 SECTORAL CHALLENGES AND BANK OBJECTIVES	21
3.2.1 Infrastructure	21
3.2.2. Corporate Sector	24
3.2.3. The Financial Sector and SMEs	25
4. OTHER IFIs AND MULTILATERAL DONORS	27
4.1 EUROPEAN UNION (EU)	27
4.2 EUROPEAN INVESTMENT BANK (EIB)	28
4.3 INTERNATIONAL MONETARY FUND (IMF)	28
4.4 WORLD BANK GROUP	28
4.5 U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)	29
ANNEX 1 – POLITICAL ASSESSMENT	30
ANNEX 2– LEGAL TRANSITION	32
ANNEX 3– SELECTED ECONOMIC INDICATORS	38
ANNEX 4A – EBRD OPERATIONS TO DATE	40
ANNEX 4B – NET CUMULATIVE BUSINESS VOLUME	43
ANNEX 5A – TC PROJECTS	45
ANNEX 5B – TC FUNDS AND DONORS – AGGREGATE COMMITMENTS	49
ANNEX 6 - TURNAROUND MANAGEMENT PROGRAMME IN ROMANIA	50

ABBREVIATIONS

APAPS	Authority for Privatisation and Administration of State Assets
BCR	Banca Comerciala Romana
BSE	Bucharest Stock Exchange
CCF	Country Cooperation Framework
CEB	Central and Eastern Europe and the Baltics
CEO	Chief Executive Officer
CIS	Commonwealth of Independent States
CFO	Chief Financial Officer
CPI	Corruption Perceptions Index
DC	Democratic Convention
EAP	Environmental Action Plan
EIB	European Investment Bank
EMU	European Monetary Union
ESCO	Energy/Efficiency Services Company
EU	European Union
FDI	Foreign Direct Investment
FIs	Financial Institutions
GDP	Gross Domestic Product
GEF	Global Environmental Facility
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFIs	International Financial Institutions
ISPA	Instrument For Structural Policies For Pre-Accession
IMF	International Monetary Fund
IPO	Initial Public Offering
JSC	Joint Stock Company
MEI	Municipal and Environmental Infrastructure
MELF	Municipal Environmental Loan Facility
MIRO	Microfinance Bank of Romania
NAPO	National Anti-Corruption Prosecutor's Office
NATO	North Atlantic Treaty Organization
NBR	National Bank of Romania
NEAP	National Environmental Action Plan
NGOs	Nongovernmental Organizations
NSC	National Securities Commission of Romania
OECD	Organization for Economic Co-operation and Development
PIP	Public Information Policy
PPP	Purchasing Power Parity
PPP	Public Private Partnership
PSD	Social Democratic Party
PSP	Private Sector Participation
Q	Quarter
RASDAG	Romanian Over-the-Counter Share Market
SAPARD	Special Pre-Accession Programme for Agriculture and Rural Development
SAMTID	Small and Medium Towns Investment Development Programme
SBA	Stand-By Agreement
SDR	Special Drawing Rights
SEE	South-Eastern European countries

SGRF	Societe Generale Romania Fund
SMEs	Small and Medium Sized Enterprises
SOEs	State Owned Enterprises
SMM	Small and Medium Municipalities
SNP	National Petroleum Company
S&P	Standard and Poor's
TAM	Turn-around Management
TC	Technical Co-operation
TFP	Trade Facilitation Programme
UDMR	Democratic Union of Hungarians in Romania
USAID	U.S. Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank

EXECUTIVE SUMMARY

Romania continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. Under the Social Democratic government of Prime Minister Adrian Nastase, which took office in December 2000, the country embarked on a comprehensive programme of economic reforms that aimed at combining market reforms with improved social conditions, with an equal emphasis on both. The accelerated drive to join the European Union was, and still is, seen as the indispensable framework for the implementation of this programme. The Nastase government, though lacking majority in Parliament, has succeeded in ensuring political stability by establishing an alliance with the Democratic Union of Hungarians in Romania (UDMR). Improved regional political stability has led to the signing of bilateral free trade agreements with most of Romania's neighbours and the planning of a regional energy market. Romania is a candidate to join the European Union (EU) in the next accession round in 2007 provided it makes significant progress in several fields notably in the implementation of the reform of the civil service and of the judiciary and in the fight against corruption.

Over the past few years, Romania's macroeconomic performance has been favourable in spite of the worsening of the world economic outlook. GDP growth has been strong (above 5 per cent on average since 2001), and driven by high rates of investment in fixed capital formation, while the growth in public consumption moderated thanks to a tightening in fiscal policy. Inflation decreased faster than expected, to reach 18 per cent at end-2002 from 30 per cent in 2001, and is projected to decline to single digit levels by year-end 2004. The country's international standing has strengthened, as improved macroeconomic conditions and enhanced market sentiment toward Romania have resulted in the narrowing of bond spreads and thus improved borrowing terms on the international financial markets. Exports have performed well despite the slowdown in the EU, Romania's main trading partner. The competitiveness of Romanian manufactured goods on the international markets has increased. Comparatively low wages, rising productivity, attractive market size and location, and the prospect of EU accession are key factors for foreign investors willing to relocate production facilities into Romania. However, the country's poor investment climate and the high level of bureaucracy and other administrative barriers remain major obstacles to further private sector development and higher net foreign direct investment (FDI) inflows.

Against a favourable macroeconomic background stands the much less impressive progress in privatisations and structural reforms. Financial discipline in state-owned enterprises remains weak and the privatisation process of targeted enterprises under the IMF and WB-PSAL II programmes has faced some delays. In the energy sector, where there is a large quasi-fiscal deficit, the government agreed to implement corrective measures to address the problem of low collection rates by utilities, and to accelerate the restructuring and privatisation process. After the second failure to privatise the largest state-owned bank, Banca Comerciala Romana (BCR), in November 2002 the Bank and International Finance Corporation (IFC) have agreed on a pre-privatisation equity participation of 25% in BCR. This involvement would target a sale to a strategic investor in three to four years.

The coming two years will thus be crucial to Romania's determination to accelerate the privatisation process, push ahead with institutional and structural reforms that are needed to support the EU negotiation process and sustain long-term growth. The key transition challenges for Romania are to:

- Improve the country's investment climate and implement reforms in the public sector administration and the judiciary, to accelerate private sector development and to attract higher net FDI inflows.

- Complete the privatisation and accelerate the implementation of the structural reform agenda, especially in the energy sector.
- Strengthen financial and commercial discipline in state-owned enterprises and public utilities, by controlling public wage increases and improving collection rates, in order to reduce tax and inter-companies arrears and thus the government's quasi fiscal deficit.
- Promote institution building to increase the public administration's absorption and implementation capacity, to be able to fully utilise EU pre-accession funds.

The Bank's activities increased significantly in 2001 and 2002, with new annual commitments of EUR 282 million (USD 328 million) and EUR 447 million (USD 520 million), respectively. The Bank is a major catalyst for investments in Romania, with cumulative business of EUR 2.37 billion (USD 2.75 billion) and total funds mobilised of EUR 7.5 billion (USD 8.7 billion), while cumulative FDI in Romania is less than EUR 10.0 billion (USD 11.6 billion). The Bank is ready to play a crucial role in supporting Romania through the challenges ahead. The objective remains to proactively expand its activities in the private sector and public sector involvement will be focused on projects where significant transition impact will be achieved, or with a regional dimension. The Bank's strategic priorities will be:

Infrastructure

In the context of much needed investments in infrastructure and the limited amounts available for sovereign guarantees the Bank will seek to support ambitious investment programmes by creating further non-sovereign finance structures for public utilities, concessions and other instruments.

Power, Energy Efficiency and Natural Resources - The Bank's focus will include the broader regional impact of energy investments in Romania. It will support the privatisation momentum in the energy sector, particularly for SNP Petrom, the electricity and gas distribution companies as well as electricity generation plants. Thereby it will contribute to the improvement of the environmental conditions of those projects. The Bank will also support the required regulatory reforms as well as focus on the affordability issues raised by privatisation and reforms. Energy efficiency considerations will be paramount in the Bank's operations, in co-ordination with donors and other international financial institutions (IFIs).

Transport - The Bank will continue to support the on-going process of commercialisation and to explore ways to increase non-sovereign opportunities in the transport sector. Specific activities may include supporting the National Administration of Roads in restructuring its activities, strengthening its capabilities to act as administrator of contracts with the private sector and encouraging greater private sector involvement in the development and maintenance of the road network. In addition, selected infrastructure investment in key rail corridors to complement the on-going Instrument For Structural Policies For Pre-Accession (ISPA) programme will be supported.

Municipal and Environmental Infrastructure - Romania has established numerous institutional and regulatory reforms to support decentralised borrowing by municipal utilities. The Bank will continue to build on its presence in the municipal sector by extending sub-sovereign loans to water companies to support EU/ISPA projects in the wastewater sector and to develop and implement an urban transport programme, including sub-sovereign loans and technical assistance.

Corporate Sector

In view of the efforts to attract higher FDI inflows and to create new employment the Bank, through its on-going business development efforts, will co-finance through equity and/or loans new investments and expansion of projects sponsored by strategic foreign and local investors. A special emphasis will be given to develop equity investments, supplier and vendor schemes and increase syndication with commercial banks. *The Agribusiness sector will be given special*

attention. The Bank will apply a variety of financial schemes such as supplier credit through funded or unfunded risk-sharing agreements. The introduction of commodity-based financing is expected to support the enhancement and development of the Romanian agricultural sector. In addition, the Bank will support strategic investments in the rapidly developing retail sector and seek to identify local food processing companies for finance.

Financial Institutions

Banking and Non-Banking - The activities in the financial sector will target the increase of finance to the real economy. The Bank will support the efforts of the Romanian authorities on the privatisation of State owned banks, in particular BCR. The Bank will continue to provide mortgage facilities to selected banks and work on the establishment of a secondary mortgage market and consider investing in specialised mortgage institutions. The development of capital markets in the context of pension reforms and the growth of the insurance sector will be key.

SME - The Bank will continue to provide SME, leasing and microlending facilities through partner banks under the framework of the EU/EBRD SME Finance Facility and the US/EBRD SME Financing Facility, as well as through the Microfinance Bank of Romania (MIRO).

Co-financing and Pre-Accession Funds

The Bank will continue to be a major catalyst in mobilising co-financing, both commercial and donor. The Bank will seek to replicate its experience from projects such as the ones with the National Power Grid Company and SNP Petrom to mobilise financing in co-operation with other IFIs and to syndicate to commercial banks. In addition, the Bank is working closely with the European Commission in order to assist Romania in making full use of the pre-accession funds, primarily in the municipal and environmental sectors, where the Bank has developed a facility to provide co-financing for ISPA projects.

The Bank will pursue the proposed operational objectives in close co-operation with the other IFIs in Romania, the EU and bilateral institutions in order to enhance the successful implementation of its strategy and to optimise the respective impact of each institution. The IMF and the World Bank are working with the government within the framework of the reform programmes, and the Bank's projects are part of a co-ordinated approach.

1. THE BANK'S PORTFOLIO

Overall, the Bank has achieved the operational objectives set out in the 2001 Strategy. The cumulative transition impact has been considerable, portfolio development and performance is good, its quality is very good and the Bank is well positioned to continue to play a major role in the transition process in Romania.

1.1 Overview of Activities to Date

As of end-October 2003, the Bank had achieved a net cumulative business volume of EUR 2,368 million (USD 2,752 million)¹ across all sectors (see Annexes 4A and 4B). The Bank signed to date 106 investment projects, including allocations from 19 regional projects. The Bank approved projects have mobilised total funding of EUR 7,506 million (USD 8,724 million). The cumulative portfolio growth over the last two years was 30 per cent, most of which in the private sector. The Bank committed EUR 282 million (USD 328 million) in 2001 and EUR 447 million (USD 520 million) in 2002. The business volume in 2003 will also be substantial with total signings to date of EUR 277 million (USD 321 million) and end-year estimate of over EUR 400 million (USD 465 million). The current portfolio amounts to EUR 1,523 million (USD 1,770 million) over 106 projects, of which EUR 971 million (USD 1,129 million) are operating assets. The table below summarises the portfolio's development.

Table 1: Romania Portfolio (2001 – 2003)

Indicators	June 2001				October 2003			
	Number	%	Amount	%	Number	%	Amount	%
Total:	56	100	1,311	100	106	100	1,523	100
- of which: public sector	13	25	621	47	21	20	542	36
private sector	43	75	690	53	85	80	981	64
- of which: loans	37	66	1,115	85	62	58	1,272	84
equity	19	34	196	15	40	38	203	13
guarantees	0	0	0	0	4	4	48	3

Note: Some projects include both loans and equity. Figures are net of full repayments and cancellations. Amounts are in EUR millions. Includes regional projects.

The distribution of the portfolio is broad with no single sector dominating: energy 16%, financial institutions 21%, general industry 12%, infrastructure 29% and specialised industries 22%. The disbursement rate is 64%; the respective equity and debt share is 13% and 84%. The equity share will increase before year end due to the Bank's potential involvement in the privatisation of the banking sector. The Bank has not realised any significant capital gains on its equity since 2001, but given the size and quality of its portfolio (i.e. EUR 203 million - USD 236 million – at cost) reasonable gains are expected over the medium term. Guarantees represent 3% of the current portfolio.

The overall quality of the Bank's portfolio is very good. Since the last strategy, restructuring work has been undertaken and the number and amount of classified projects has been significantly reduced. Active portfolio management policy will continue. As of end-October 2003, the average risk rating of the portfolio is better than the country risk rating. Given the

¹ The exchange rate used is EUR/USD = 1.1623 as of end October 2003.

size of the portfolio, the extent of impaired assets (i.e. EUR 11.6 million / USD 13.5 million) to date is very limited. Two projects with the same weak sponsor will have to be restructured/exited in the near future. They represent less than one per cent of total operating assets.

Finally, the Bank has been engaged in 114 technical co-operation projects amounting EUR 34.5 million (USD 40.2 million), targeted at preparation and implementation of infrastructure projects, banking sector support and institutional support for privatisation/commercialisation (see Annex 5A).

1.2 Implementation of the Previous Country Strategy

The last country strategy, approved in November 2001, outlined the following strategic priorities and transition goals for the Bank:

- (i) supporting the restructuring of public enterprises in sectors such as oil, gas and metallurgy, usually in partnership with strategic investors;
- (ii) promoting private sector development through involvement in privatisation/post privatisation and green field projects;
- (iii) further financing of key infrastructure in transport, telecommunications, energy and municipal sectors, with preference whenever possible for private infrastructure or public private partnerships; and
- (iv) addressing requirements of SMEs and micro-enterprises through existing and new financial intermediaries including in the non-banking sector.

During 2002, 20 operations were signed representing aggregate new EBRD commitments of EUR 447 million (USD 520 million), compared to EUR 282 million (USD 328 million) and EUR 125 million (USD 145 million) in 2001 and 2000 respectively. All operations were non-sovereign, contributing substantially to improving the private sector ratio² from 53% the previous year to 66 %. In the municipal sector, the Apa Nova transaction is the first financing of the private municipal infrastructure development in Bucharest. In addition, under the Municipal Environmental Loan Facility (MELF) framework, the Bank developed a structure enabling it to lend to municipal infrastructure projects without sovereign guarantees. The SNP Petrom transaction is noteworthy in terms of potential demonstration effect of a complex restructuring of a state-owned company, impacting not only upstream (oil and gas) but also midstream (refineries), downstream (transportation) as well as service companies, aiming at the future privatisation of the largest Romanian state enterprise. The post-privatisation Sidex loan supports the privatisation and the restructuring of a major (former loss making) state owned enterprise. SME financing facilities included nine operations (SME lines, Micro-credit bank, Trade Facilitation). In 2002 the Micro Finance Bank started its operation. The Mobifon loan is the first large corporate loan to a local successful company. In the ten months of 2003 the Bank signed 28 projects amounting to EUR 277 million (USD 321 million) in sector such as infrastructure, municipalities, banking and non-banking financial institutions, industrial corporates, real estate and retail, all but one in the private sector.

1.3 Transition Impact of the Bank's Portfolio and Lessons Learned

The Bank has financed a considerable number of projects to support private sector development in telecom, banking, agribusiness and general industry. Through these investments, and the

² As defined in the Board Document BDS92-101 (Final)

direct involvement of Bank representatives in the Executive Boards of a large number of investee companies, the Bank succeeded to improve corporate governance practices and enlarging the policy dialogue.

The Bank is able to attract significant co-financings, particularly for infrastructure projects or in the frame of large syndicated transactions in more difficult sectors such as energy, telecoms, etc. The Bank's risk mitigation and co-ordination role was key in mobilising co-financing for the SNP Petrom Pre-privatisation Loan, Sidex I and II, Apa Nova Water Treatment Plant Project, MELF, Mobifon I, II and III, etc.

Valuable lessons related to co-ordination with and between various government bodies, monitoring of TC funding, corporate governance and turnaround, management and debt absorption capacities of public entities have been learned. The Bank will build on this experience to further strengthen co-operation between Romanian authorities and the business community, so as to capitalise on the lessons learned from the past and support the restructuring and modernisation of the remaining companies due for privatisation.

The Bank's experience in Romania has provided lessons to be considered for future operations:

- The role of the Bank working with the Government should continue after privatisation and the creation of an independent Regulatory Agency.
- Management is a key factor in corporate privatisation and turn-around plans.
- Importance of sponsors for projects in weak economies.
- Dedication and experience are keys to success of turning around complex manufacturing situations.
- TC-funding for project preparation enhances sustainability for transition impact.
- Emphasis on good quality monitoring.

Mobilisation of co-financing. In addition to its own investment, the Bank assisted to mobilise a further EUR 5,097 million (USD 5,944 million) of co-investment over the 1991 to September 2003 period, representing a multiplier of 3.18 times³. The total value of projects in which the Bank participated is EUR 7,432 million (USD 8,667 million).

1.4. Portfolio Ratio

Based on the net cumulative business volume of EUR 2,368 million (USD 2,752 million), the private/public portfolio ratio improved since the last strategy from 53/47 to 66/34. The current ratio reflects the focus on private sector investments and the increased business volumes over the last two years. Also initial large public projects started to repay. In the next two years significant annual commitments in the private sector will continue to further improve this ratio. The potential for future sovereign operations is expected in sectors where commercialisation goals are sought on the basis of transactions with a strong transition impact (e.g. transport, energy). The Bank anticipates a demand for sub-sovereign public projects with sponsors such as municipalities/counties in municipal infrastructure and transport. While this finance will not further improve the private/public ratio, it may have a substantial transition impact by being instrumental in creating the conditions for private sector involvement.

³ Calculated as total project cost per net cumulative EBRD business volume

2. OPERATIONAL ENVIRONMENT

2.1 The General Reform Environment

2.1.1 Political developments

Romania is a constitutional democracy with a multiparty, bicameral parliamentary system. Adrian Nastase has been Prime Minister of a minority Social Democratic Party (PSD) government since his party won the most seats in the parliamentary elections in November 2000. His government is supported by the Democratic Union of Hungarians in Romania (UDMR). Ion Iliescu has been President since winning the second round of the presidential election in December 2000. Both elections were judged to be free and fair. Under the law, the judiciary is independent of the government but in practice, the government exercises considerable influence over the judiciary. Political stability has been a feature of the country's political life under the Nastase government, which is strongly reform-minded but has a mixed record as regards the implementation of its own declared policies. Romania faces local elections in June 2004 and parliamentary and presidential elections in December 2004.

2.1.2 EU accession and regional integration

The country is pursuing a strongly pro-EU and pro-US course. Romania was invited to join NATO in November 2002 and is a candidate to join the European Union in the next accession round in 2007. By the end of October 2003, Romania had closed 20 out of the 30 chapters of the EU's *acquis communautaire* opened so far. The European Commission's Regular Report on Romania's progress towards EU accession, published in November 2003, stated that Romania continued to fulfil the political criteria for membership. However, the Report noted that Romania "can be considered as a functioning market economy once the good progress made has continued decisively". The report also states that "a vigorous and sustained implementation of its structural reform programme is required in order for Romania to be able to cope with competitive pressure and market forces within the Union in the near term". The EU once again made it clear that significant progress in several fields - including in strengthening the judicial system and improving the quality of the state and local administration - will be necessary if the 2007 target date is to be achieved. On 18-19 October 2003 amendments to the Romanian Constitution to accord with EU accession requirements were approved in a referendum.

Relations with the neighboring countries have improved significantly since 2001. An amicable accommodation was reached between Bucharest and Budapest in July 2003 over the so-called 2001 Status Law under which Hungary offers various educational and other facilities to ethnic Hungarians in the neighbouring countries. For its part, the Nastase government has made a number of educational and other concessions to the Hungarian minority. The relations with Serbia and Montenegro continue to be good as do those with Bulgaria. Those with Moldova, which has an ethnically mixed population, remain wary. Relations with the Russian Federation have improved with the long-overdue signing in July 2003 of the treaty of cooperation between the two countries. Relations with Ukraine are normalising slowly despite some outstanding disputes over the borders in the mouth of the Danube.

In South-Eastern Europe Romania has been playing a constructive role in various regional co-operation schemes such as the Stability Pact for South-East Europe and others. By August 2003, the country had signed or initialled bilateral free-trade agreements with all the South-Eastern European members of the Stability Pact. These are expected to boost regional

integration and trade. Currently, SEE accounts for less than 5 per cent of total Romanian exports, against a 68 per cent export share of the European Union.

2.1.3 Social conditions

Romania's population of 21.7 million has been declining ever since 1990, due to declining birth rates, increasing mortality rates and emigration. According to the 2002 census, 19 million citizens declared themselves as ethnic Romanians, making up 87.5 per cent of the country's population. Ethnic Hungarians, at 1.4 million, remain the largest minority group but their proportion in the country's total population fell from 7.1 per cent in 1992 to 6.5 per cent in 2002. There are another 13 minorities, including the Roma officially accounting for 2.5 per cent of the population in 2002, compared to 1.8 per cent in 1992 (according to some estimates, the actual number of the Roma is possibly as high as 2 million). According to the government, only 27 per cent of Roma have steady jobs and only half of those are skilled jobs. Illiteracy among Roma older than 45 is estimated to be 30 per cent. Roma population is exposed to social discrimination.

Poverty and income inequality have increased dramatically since the early years of transition. According to World Bank data, based on national surveys, almost 20.5 per cent of Romania's population was living below USD 2 a day in 2000, compared to less than 2 per cent in Poland and the Czech Republic. Poverty rates are higher in rural areas, especially among the ethnic minorities. Per capita income at purchasing power parity (PPP) was estimated by the World Bank at about USD 6,270 in 2001, less than 25 per cent of the EU average. In cooperation with the World Bank, the Romanian government is approaching the issue of tackling poverty on a nation-wide basis, with concrete proposals still under consideration.

Together with Latvia, Romania has the lowest life expectancy of the 12 accession countries. Life expectancy was 66 years for men and 74 years for women in 2001. The infant mortality rate has declined to 19 per 1,000 in 2001 from 27 deaths per 1,000 live births in 1989. Public expenditure on education has been stable and averaged 3.3 per cent of GDP in the 1990s.

The US Department of State Country Report on Human Rights Practices in Romania, published on 31 March 2003, noted that trafficking of young human beings for the purposes of prostitution was a problem which the government took steps to address. In November 2001, a law that prohibits trafficking was passed in parliament and two generals were nominated by the government as national coordinators of the Human Trafficking Task Force. A full-time prosecutor was assigned to the Force. However, regulations for the full implementation of the new law have not been issued to date.

2.1.4 Labour issues

Romania is a middle-income emerging economy. The private sector accounts for 65 percent of GDP (EBRD, Transition Report 2003) and employs about 75 per cent of the labour force in agriculture, industry, commerce and services. In 2002, gross average monthly earnings in the economy equalled EUR 148 (USD 163), significantly lower than the EU and CEE average. The labour force participation rate decreased from 80 per cent in the early 1990s to 63.2 per cent in 2000. The largest job losses have been in industry, especially in the large enterprises: the number of those employed in industry fell from 4,143 thousands in 1989 to 1,786 thousands in 2002. The majority of workers are members of approximately 18 nationwide trade union confederations and smaller independent trade unions. Registered unemployment was 8.1 per

cent in December 2002, one of the lowest in South-Eastern Europe. Estimates of the size of the black economy indicate that it accounted for about 35 per cent of the country GNP in 2000⁴.

A new labour code, designed to improve employees' legal protection and bring Romania into line with EU legislation, came into force on March, 1 2003. According to the new law, all employers will have to establish a staff register by December 2003. Dismissal on the basis of gender, nationality, race and a number of other specified criteria is forbidden and employees have the right to a minimum of 20 days annual leave. However concerns have been raised that some of the provisions are too restrictive and could amplify labour market rigidities, thus hampering further private sector development by increasing labour costs.

2.1.5 Integrity issues

The Regular Report on Romania's progress towards EU accession published by the European Commission in November 2003 notes that "corruption in Romania continues to be widespread and affects all aspects of society". The Report also states that "a number of high-profile measures were launched over the reporting period - but the implementation of anti-corruption policy as a whole has been limited. The measures taken have yet to have an impact and substantially increased efforts are needed.

Transparency International, in its latest Corruption Perceptions Index (CPI)⁵ of 133 countries published in 2003, ranks Romania in the 83rd place with India and Malawi. In 2002 Romania was ranked in the 77th place together with Pakistan, Philippines and Zambia, in 2001 in the 69th place and in 2000 in the 68th place. In Europe, according to the 2003 Index, Romania is ahead of the following transition countries: Albania (82nd), Russia (86th), Moldova (100th), FYR of Macedonia, Serbia and Montenegro and Ukraine (106th). The Index, which draws on 14 surveys from seven independent institutions, is a poll of polls, reflecting the perceptions of businesspeople, academics and country analysts. The CPI focuses on corruption involving public officials.

2.1.6 Legal reform

Romania has made considerable progress in reforms which have led to improvements in the legal environment. Romania's implementation of the Europe Agreement has improved considerably and lead to the further advancement of harmonisation of Romanian laws with EU law. Measures were taken to remove the obstacles to EU law firms establishing themselves in Romania; the export restrictions on sensitive raw materials were eliminated; and the discriminatory system of profit taxation is being phased out. Notable progress has been made in recent years in relation to company law and corporate governance, competition, public procurement, money laundering, consumer protection, and advertising.

Some progress has been made in relation to Romania's lengthy bankruptcy proceedings, initially a result of poor bankruptcy legislation, with amendments to the Bankruptcy Law. Additional progress has been made in the area of pledge law, but it is still too early to judge the ability of creditors to effectively enforce their secured interests. Despite certain legislative

⁴ Estimates are derived from F. Schneider (2002) "The size and Development of the Shadow Economies and Shadow Economy Labor Force of 22 Transition and 21 OECD Countries: What Do We Really Know?". Most recent estimates of the grey economy by the National Institute of Romania point to a much lower share of about 18 per cent of GNP.

⁵ The total number of countries included in the index changes each year, therefore comparing countries' relative rank across time is problematic. In 2003, for example, 30 countries with largely mid-level CPI scores were introduced, which pushed several of the transition countries, including Romania, down in the ranking.

advancements, Romania's business environment is still facing notable legal problems. Corruption still exists in the government bureaucracy, civil service, and business community, and the ability of citizens to start businesses is encumbered by red tape and lack of access to low-level secured loans or other risk capital. Although improving, courts cannot be relied upon to enforce contracts or resolve cases impartially, due in large part to an under-trained, low-paid, and inexperienced judiciary that is often susceptible to corruption.

2.1.7 Environmental issues

The National Environmental Action Plan (NEAP) of 1999 updated the preceding one to comply with the National Plan for the Adoption of the *Acquis Communautaire* in order to provide a key instrument for setting the measures within the European integration process. Romania made progress towards finalising its sectoral environmental approximation strategies. However, according to the latest Council decision on principles, priorities, intermediate objectives and conditions contained in the Accession Partnership with Romania, there are a number of gaps that still need to be addressed by the country in the environmental field. Priorities include improving the manner in which legislation is prepared by allowing for full consultation with stakeholders (including other ministries, economic operators and NGOs), and giving full consideration to the implementation requirements, including a thorough and adequate assessment of the implementation costs. Reinforcing co-ordination between ministries to ensure integration of environmental protection requirements into the definition and implementation of all sectoral policies for promoting sustainable development is key. More training as well as sufficient resources are needed for enforcing capacity of the Environmental Protection Inspectorates at local level and regional levels as well as for co-ordination between ministries in particular to manage industrial pollution.

Romania still faces severe environmental problems concerning air, water and soil pollution, which require large investments and the participation of both public and private sectors. Serious air pollution from power stations and other industrial plants, especially heavy metals, motor vehicles, and domestic heating needs to be further addressed. Strong improvements are still needed in the fields of waste management, improving access to the sewage treatment plants, improving drinking water quality; reducing underground water pollution; enforcing integrated pollution prevention and control. To address environmental quality improvements, EBRD has been actively pursuing Municipal Utilities Development Programme I and II, Regional Water and Environment Programme, representing water and waste water and some district heating investments for municipal utilities in 16 cities of Romania. In addition, the Bank has seen an increased interest in the private sector in investing in water and waste water concessions.

EBRD also had a training programme in Romania to help Financial Intermediaries in the implementation of environmental due diligence procedures and in becoming more proactive in the development of investments that improve the state of the environment.

Although the country has already introduced good reforms to reinforce administrative capacity at local and national levels, the issue remains critical for the success of the *acquis* implementation.

Romania ratified Kyoto Protocol in March 2001 and the country has considerable potential for the development of Joint Implementation projects which can attract additional financing to further improve environmental conditions in the country. A number of energy related projects are being financed by the Bank, including efficiency services company (ESCO) developments.

Among other IFIs the World Bank and the United Nations Development Programme (UNDP) are supporting a number of projects related to the Global Environmental Facility (GEF) including the Danube Delta Biodiversity and the Capacity Building for GHG Emission Reduction through Energy Efficiency (Climate Change). IFC has been involved in water and sewage services projects, and the EU has supported a number of environmental regeneration activities.

2.2 Progress in Transition and the Economy's Response

2.2.1 Macroeconomic conditions for Bank operations

In 2002, the Romanian economy enjoyed a third consecutive year of strong economic growth. End-year real GDP growth was 4.9 per cent, driven by high rates of investment in gross fixed capital formation and positive net exports growth. This positive performance continued albeit at a slower pace in the first half of 2003, with an estimated GDP growth rate of 4.3 per cent year-on-year. On the demand side, household consumption and capital investment rose by an estimated 5.4 and 7.8 per cent in H1 2003, while the contribution of net exports decreased with respect to end-2002. Higher nominal and real wage growth, spurred by a 43 per cent nominal increase in the minimum wage effective as of January 2003, and a fast increase in credit to non-government sector, partially account for the higher private consumption and import growth observed in the first half of 2003.

Monetary policy is conducted within a managed float exchange rate regime. The National Bank of Romania (NBR) intervenes in the foreign exchange market to prevent an excessive real appreciation of the national currency against a 60/40 basket of EUR/USD, while guiding the exchange rate on a path consistent with the disinflation target. This policy has been successful in reducing the inflation rate to 15.8 per cent by end-October 2003, from 30 per cent at the end of 2001. However, the end-year inflation rate is likely to be higher than the 14 per cent target due to increases in energy prices in the second half of 2003. From March 2003, the NBR switched to the EUR as its reference currency for open market operations, in order to reflect the relative weight of this currency in the economy, to prepare the ground for EU accession and, eventually, European Monetary Union (EMU) entry. Over time, the capital account has been gradually liberalised, accompanied by lower interest rates. However, in May 2003, the NBR suspended cuts in its policy interest rate (the interest rate cap on its deposit auctions) and it tightened its monetary control in order to help contain an excessive nominal depreciation of the ROL, while preventing a depletion of its forex reserves. Moreover, in the second half of the year the NBR raised its policy interest rate in three occasions – in August, October, and November – with a view to temper the rapid expansion of credit to the non-government sector which has fuelled a high import demand. By October 2003, the average interest rate on sterilisation operations had reached 21.25 per cent from 17.4 per cent in March 2003.

The cumulative current account deficit in 2002 narrowed to EUR 1.5 billion (USD 1.6 billion), from EUR 2.1 billion (USD 2.3 billion) in 2001. This corresponds to an adjustment of 2.4 percentage points of GDP between 2001 and 2002. However, the trade performance deteriorated in the first half of 2003, with import growth outpacing export growth. As a result, the cumulative trade deficit in the first eight months of 2003 almost doubled in nominal terms with respect to the same period of last year. Increased remittances from abroad and reduced external debt service contributed to reduce the impact of this increased trade deficit on the current account. The latter is financed by a combination of net FDI inflows (at about EUR 731 million (USD 850 million) in the first eight months of 2003) and other capital. In June, the government tapped the international markets with a seven-year Eurobond issue carrying a 5.75

per cent coupon (226 basis points above the euro-denominated benchmark), raising EUR 700 million (USD 816 million)..

Fiscal policy has been gradually tightened to reach a consolidated general government deficit target of 2.65 per cent of GDP this year, down from the 3.5 per cent of GDP in 2001. However, intra-companies arrears and arrears to public utilities threaten fiscal sustainability in the long-term, as they are a source of high quasi-fiscal deficits. The government is currently working on a proposal to freeze the accrual of penalties for late payments and, eventually, cancelling the stock of arrears of selected state-owned enterprises (SOEs), on condition that they comply with future energy price increases and pay their energy bills. Romania's indebtedness is low compared to that of its neighbouring countries of SEE and most of Central and Eastern Europe and the Baltics (CEB). Favourable exchange rate movements and higher than expected GDP growth contributed to reduce total public debt (external and domestic) to 29 per cent of GDP by end-2002, from 31 per cent at the end of 2000. Total gross external debt (public and private) totalled 34 per cent of GDP in 2002, up from 31 per cent one year earlier. Debt service obligations (public and private) have peaked during the 1999 crisis, but have decreased since then.

Over the short-term, annual GDP growth is likely to remain in the range of 4.5 to 5 per cent, sustained by strong domestic demand and the expected moderate recovery of the EU markets. However, advances in privatisation and structural reforms are needed to bring further productivity increases and sustain GDP growth in the medium/longer run. Inflation is projected to fall to single digit levels by end-2004. The current account deficit may remain high over the medium term, given the high investment needs of the country ahead of EU accession. The major downside risk is a possible loosening of fiscal policy, due to larger than expected increases in public sector wages, pensions and subsidies to public utilities and extra-budgetary funds. On the external side, the economy is vulnerable to a consumption-led import boom, higher oil prices, or slow growth in Romania's main export markets..

2.2.2. Transition success and transition challenges

A piecemeal approach to reforms and their erratic implementation over the past decade have left Romania behind all the other EU accession countries of CEB. Despite progress in privatisation and price liberalisation, weaknesses in corporate governance, delays in enterprise restructuring, and low financial intermediation have hampered private sector development.

Progress towards reaching the standards of a well-functioning market economy can be assessed by contrasting EBRD transition indicators for Romania with those of other EU applicant countries. As shown in Table 2, first phase reforms, i.e. price and trade liberalisation together with small-scale privatisation, had almost been completed in Romania by mid-2003.

Table 2: Transition Indicators of EU accession countries, 2003

	Small-scale privatisation	Price liberalisation	Trade and foreign exchange system	Large-scale privatisation	Governance & enterprise restructuring	Competition policy	Banking reform and interest rate liberalisation	Securities markets & non-bank financial institutions	Infrastructure reform
Bulgaria	4-	3	4+	4-	3-	2+	3+	2+	3-
Czech Rep.	4+	3	4+	4	3+	3	4-	3	3
Estonia	4+	3	4+	4	3+	3-	4-	3+	3+
Hungary	4+	3+	4+	4	3+	3	4	4-	4-
Latvia	4+	3	4+	3+	3	3-	4-	3	3
Lithuania	4+	3	4+	4-	3	3	3	3	3-
Poland	4+	3+	4+	3+	3+	3	3+	4-	4-
Romania	4-	3+	4	3+	2	2+	3-	2	3
Slovak Rep.	4+	3	4+	4	3	3	3+	3-	2+
Slovenia	4+	3+	4+	3	3	3-	3+	3-	3+

The index ranges from 1, indicating little or no progress, to 4+ pointing to standards similar to advanced economies
Source: EBRD Transition Report 2003

However, the country needs to push ahead firmly the second phase reform agenda which focuses on institution building. As shown in Table 2, Romania still scores below the average of the more advanced EU accession candidates of CEB in the areas of large-scale privatisation, governance and enterprise restructuring, competition policy, financial sector development and infrastructure reform. The completion of the accession process to the EU would not only require substantial additional investments in infrastructure and environment, but also institution building and in particular the reform of Romania's public administration and judicial systems. With corruption being a source of major public concern, regulatory reforms are needed to improve law enforcement and overall governance

The key transition challenges for Romania that the Bank can help to address are:

- to **improve the country's investment climate**. The difficult investment climate and weak judicial system remain key obstacles to private sector development. Although steps have been recently taken to increase tax compliance and simplify tax and registration procedures for both foreign and locally owned businesses, VAT payment and reimbursement procedures are still problematic. There is also some way to go before a stable and transparent tax and regulatory system is in place in Romania. The introduction of the "silent approval procedure" in mid-May 2003, which applies to the issuing of about 477 licences by the public administration, is a first step to reduce bureaucracy and eliminate administrative delays. This procedure allows businesses to assume official consent to undertake certain activities if the relevant authorities have not responded within 30 days of the application. The legal framework in Romania is subject to frequent changes due to the widespread practice of introducing tax/legal amendments through government emergency ordinances rather than following the normal legislative approval process which allows for publication of draft legislation, debates and voting procedures. Existing laws leave room for interpretation, their enforcement is often unsatisfactory and the appeal procedures are lengthy. Foreign exchange regulations, which impose limitations on locally incorporated borrowers in respect of, *inter alia*, foreign currency deposits and payments have yet to be liberalised.

- to **complete the privatisation agenda and make decisive progress in structural reforms, especially in the energy sector**. While most small and medium-sized enterprises have been privatised, the restructuring and privatisation of several large state-owned enterprises and utilities is running behind the schedule agreed with both the World Bank and the IMF under their respective programmes. As of mid-2003, about 1,342 companies remained in the

portfolios of the Authority for Privatisation and Administration of State Assets (APAPS), the Ministry of Industry and Trade, and the Ministry of Finance⁶.

In the energy sector, where there is a large quasi-fiscal deficit, the key challenges facing the Government are improving the regulatory and legal framework, strengthening the independence of the regulator, improving utilities' collection rates, and successfully completing the privatisation process. Some preliminary steps in this direction have been taken, with the privatisation of the first two electricity distribution companies, Electrica Banat and Electrica Dobrogea, launched early in January 2003. The Italian company, ENEL, submitted the only non-binding offer at the end of July. In March 2003, the privatisation advisors for another two electricity distributors (Electrica Oltenia and Electrica Moldova) and the first two natural gas distributors (Distrigaz Sud and Distrigaz Nord) were selected. The privatisation of SNP Petrom, the integrated state-owned oil and gas company, commenced earlier this year and is proceeding according to the schedule agreed by both the Bank and the World Bank.

- to ***strengthen the financial and commercial discipline in state-owned enterprises and public utilities***. Excessive wage increases in SOEs and the high level of arrears to the state and public utilities have been among the key sources of fiscal policy loosening and led to strong inflationary pressures in the past. The failure to address these concerns was one of the key factors that led the IMF to postpone the completion of the 18-month Stand-By Arrangement (SBA) from end-March 2003 to mid-October 2003.

The authorities agreed earlier this year to take steps in order to restructure some of the loss-making public enterprises by laying off by end-June 2003 about 22,000 employees in a number of targeted enterprises and mines. Another 16,500 employees of the railway companies and 4,000 in two agricultural companies were laid-off between August and mid-September 2003. In the energy sector, progress has been recently made in improving payment collection rates from large industrial customers as the government threatened to cut-off the major non-payers. However, payment arrears from households have increased, as a result of recent sharp increases in tariffs, which were introduced as part of a plan to bring power and heating end-user prices closer to cost-recovery levels.

- to ***promote institution building and improve the utilisation of EU pre-accession funds***. EU financial assistance to Romania through PHARE, ISPA, and SAPARD programmes will increase considerably prior to accession (up to an estimated EUR 2.8 billion (USD 3.3 billion) over the 2004-2006 period), conditional on progress in implementing the country roadmap and on a significant improvement in the public administration's ability to manage and make effective use of EU funds. Although a programme reforming public administration was launched in 2002, the overall capacity to implement and enforce the adopted legislation remains limited.

2.3. Access to Capital

After the liquidity crisis in 1999, Romania regained access to the international capital markets in the third quarter of 2000, with a EUR 250 million (USD 260 million) Eurobond issue with a three years maturity, paying an interest rate of 11 per cent. Since then, the country has tapped the international markets each year, to establish reference benchmarks and gradually extend the maturity of its outstanding external debt portfolio. In April 2002, the Ministry of Finance issued its first ten year Eurobond, raising a total of EUR 700 million (USD 750 million) at an interest

⁶ In September-October, progress was made with the sale to strategic investors of some ailing automotive producers (ARO, Roman, Tractorul), a steel mill (Siderurgica), and pipe maker (Petrotub),

rate of 8.5 per cent. The most recent issuance is a seven-year Eurobond of EUR 700 million (USD 750 million) launched in June 2003, carrying a 5.75 per cent coupon.

The good macroeconomic performance and low debt burden have warranted Romania a series of upgrades by the major international rating agencies. S&P's raised Romania's foreign currency sovereign rating to BB (positive outlook) in September 2003. Fitch confirmed the foreign currency sovereign rating at BB- with a positive outlook, while Moody's rating is still B1, two notches below S&P's. The ten year Eurobond is now traded at 274 basis points above the Euro benchmark, significantly down from the spread of 422 basis points one year ago. Net FDI inflows have been at above EUR 930 million (USD 1 billion) for the past four years and are forecast to increase this year if the on-going large-scale privatisations in the banking and energy sector will be successfully finalised. However, a key challenge for the future is to attract greenfield investments.

Albeit from a very low base, lending to the non-government sector increased by 44 percent - in real terms and year-on-year - in the first nine months of 2003. The loan portfolio of domestic banks is dominated by short maturities and private sector access to medium, long-term financing remains limited. However, since the beginning of the year, medium and long-term non-government credit to companies has grown, in real terms, by 38 percent and 65 percent, respectively. Furthermore, medium and long-term loans have increased their share in total company credit from 29 to 35 percent. The development of the local capital market is still in its early days. Despite a large number of quoted companies, the total value traded on the Bucharest stock exchange is valued at less than 10 per cent of GDP in 2003.

3. STRATEGIC ORIENTATIONS

3.1 Bank's Priorities for the Strategy Period

The Bank will support the government's efforts toward implementation of its reform agenda and toward improving the country's investment climate to attract higher level of FDI and accelerate the development of the local private sector. The Bank's operational priorities will be broadly covering the general development of the private sector and the rehabilitation of the country's infrastructure and energy sectors. The Bank will leverage its close relationship with the government and its constructive dialogue with local business associations and the foreign investors' community. The Bank will aim in the upcoming strategy period to continue its important transition impact, with annual commitments similar to the past two years. The Bank's range of activity and action for institution development will cover all sectors and will include various financial instruments. As of 31 October 2003, the project pipeline is strong with more than EUR 844 million (USD 981 million) of which EUR 198 million (USD 230 million) passed final review.

The Bank's strategy will focus over the next two years on areas of priority consistent with the aforementioned transition challenges:

- Infrastructure development including privatisation/commercialisation of public utilities in the energy and transport sectors; co-financing and improved utilisation of the EU pre-accession funds via institution building;
- private sector development, including improvement of investment climate, level playing conditions, completion of privatisation;
- Further strengthening of the financial sector (including non-banking) and SMEs.

In line with the Bank's mandate to actively support environmentally sound and sustainable development through its investment projects, the Bank will focus on optimising the environmental benefits associated with the prioritised areas of investment in Romania. This is consistent with actions required by the process of adoption of the EU *acquis communautaire*. All EBRD operations in Romania are subject to the Bank's Environmental Policy and Environmental Procedures. Environmental Action Plans are incorporated where appropriate into the legal documentation in order to address issues raised during due diligence.

3.2 Sectoral Challenges and Bank Objectives

3.2.1 Infrastructure

The major challenges associated with the development of the infrastructure as identified in Section 2.2 above, remain the privatisation of the utilities, enhancing energy efficiency and energy sector policy reforms, commercialisation and privatisation of operational activities and increasing private sector participation, strengthening the independence of the regulatory environment, improving the legal framework, eliminating the price distortions, improving institutional capacities (for utilities, supervisory/regulatory bodies, central/local government), reform budgetary and fiscal set-up in central and local government, increase the absorption capacity for EU funds.

In the context of much needed investments in infrastructure and the limited amounts available for sovereign guarantees the Bank's operational response will be to support ambitious investment programmes in infrastructure by creating new non-sovereign finance structures to support public utilities, concessions and other sector involvement. However, government

support will continue to be required to mobilise significant private investment and the development of Public Private Partnership (PPP) concepts providing greater comfort to private sector, together with the strengthening of the public sector's ability to implement and administer them will be key to a bigger involvement and influx of private investment.

Power, Energy Efficiency and Natural Resources: Priorities will be to provide support the key transition challenges relating to the on-going privatisation efforts in the following areas:

- SNP Petrom;
 - the electricity distribution companies;
 - gas distribution companies;
 - specific electricity generation plants.
- In light of the reduced international interest in energy investments the Bank will seek to provide support on the required regulatory reforms through use of technical cooperation funds and development of public-private structures to attract scarce private investments.
 - To support the sustainability of these measures the Bank will also focus on the affordability issues raised by the privatisation and reform process. The Bank is currently working on a study to review the impact of electricity tariff increases in Romania within the context of the regional energy market.
 - The Bank will continue to address the key transition challenge deriving from the heightened need to rehabilitate the ageing energy infrastructure, in order to bring it closer to EU standards. Specifically, the Bank will engage in asset rehabilitation, optimisation and reorganisation, through loans and investments in the areas of gas, crude oil and oil products transportation, electricity distribution, transmission and generation and district heating. At the same time such investments will be prioritised along the following lines:
 - those which are competitive regionally as well as nationally;
 - those necessary to meet pending EU environmental standards and/or contribute to the environmental conditions of such projects.
 - Energy efficiency considerations will be paramount in the Bank's operations in co-ordination with donors and other IFIs. The Bank will continue to support investments targeted to meeting EU environmental guidelines in energy and to reduce the high level of energy intensity (roughly double that of Western Europe) present in Romania. The Bank will seek to use financial intermediaries for accessing small projects.
 - Specifically, the Bank will seek to partner with strategic investors for the energy companies being privatised. These include SNP Petrom and electricity distribution followed by gas distribution companies. Gas storage and the pipeline from Constanta to Omisalj through Serbia are also important transition challenges that could be supported with investments from the Bank, and are particularly crucial in the context of the on-going support for the creation of a more integrated regional energy market.
 - A critical area for Bank support will be the financially vulnerable but strategically important thermal generation plants requiring rehabilitation. The Bank is engaged in a study to identify those most suitable for private participation and will continue to work with the government in this area.

Transport:

Roads. The main challenges in the road sector over the next few years are to continue commercialisation and privatisation of operational activities, increase private sector participation, including establishing roads operated by the private sector under concession arrangements and improve road sector public finance to move towards full cost recovery. The public sector's capabilities in preparing projects for tender, tendering, negotiating and

administering such contracts will need strengthening, to maximise the benefits arising from private sector involvement.

Railways. Following the Bank's first railway Project in Romania, signed in 1997, the Government of Romania reorganised the Romanian National Railways into five separate companies, which commenced independent operations in October 1998. The changes agreed with the Bank in the Railway Restructuring Plan have led to considerable improvements in financial transparency in the sector. Whilst the separation of businesses created the need for additional administrative structures, it has also provided new management focus, which has highlighted deficiencies in services and cost inefficiencies in service provision. The newly established companies continue to require support in terms of investment and commercialisation.

Ports & Inland Waterways. The development and rehabilitation of port infrastructure will remain one of the transport infrastructure priorities in view of the importance of the ports to the Romanian economy. The main objective would be to develop a balanced approach to financing using public funds where necessary but at the same time increase efforts in attracting private sector initiatives, in particular, in the area of port terminals.

Specific activities may include:

- Additional support to the National Roads Administration to restructure its activities and provide a further sovereign loan for development of the Cluj Bypass, together with support for the tendering and implementation of future road PPPs; and provide finance for various sections of the Bucharest to Brasov or other motorways.
- Support to the Romanian Rail Infrastructure Company in selected investments along the key transport corridors to complement the on-going ISPA funded programme on Trans-European Network Corridors.
- Lending on a non-sovereign basis to the train operating companies, to upgrade rolling stock and encourage policies aiming at commercialising/privatising operations.
- Safety related rehabilitation investments in the inland waterway sector.
- Investment support for port infrastructure projects which are required for operational safety reasons or are needed to attract the private sector participation in development of future port operations.

Municipal and Environmental Infrastructure: Romania has instituted numerous institutional and regulatory reforms to enable decentralised borrowing of municipal utilities. The Bank will continue to seek to build on the Bank's presence in the municipal sector, exploring ways to translate its experience in the water sector to other municipal utilities and sectors. The Bank will focus on projects that promote long term sustainability in reform-oriented cities and counties. Environmental compliance with EU standards also will be an important focus for the Bank's work.

In evaluating projects in this sector, the Bank will carefully evaluate tariffs. Affordability constraints will remain an issue and the Bank will calibrate investment sizes, structures and tenors to ensure long term affordability.

Although the Bank's focus continues to be sub-sovereign, it will work closely with utilities to increase private sector involvement. The Bank sees an increased role to mobilise commercial banks for the municipal infrastructure sector and plans to leverage its loans through syndication, where possible. In addition, it is also envisaged that the Bank may extend

sovereign loans for projects that have significant transition impact. Specifically, the Bank may support regionalisation of water utilities through the creation of viable and self sustainable utilities at a regional level that are capable of attracting and implementing investment programmes.

Specific activities during the strategy period may include:

- Extending and implementing sub-sovereign loans to municipal utilities to support EU ISPA environmental projects both in the wastewater and solid waste sectors to ensure compliance with EU standards. Creditworthiness of borrowers and local authorities will be important criteria for determining eligible projects.
- Working with those utilities involved in public private partnerships by providing long term debt and other products. Currently the Bank is working to support Constanta County, which plans to finalise a tender for a concession for its water utility in 2004. Other local authorities are also exploring private sector participation (PSP) in the water sector and are participating in option studies. Depending on the outcome of these studies, there could be one or two further PSP projects in the municipal sector.
- Extending a sovereign loan to support the Small and Medium Towns Investment Development Programme (SAMTID), a sovereign project which seeks to create larger and more efficient water companies to serve small and medium sized towns. A key challenge for SAMTID will be how to structure the Bank's investment to promote maximum transition impact.
- Developing and implementing urban transport projects by making sub sovereign loans and technical assistance available to financially strong and reform-minded municipalities. Investments may entail public transport fleet renewal and street management and refurbishment.
- Using financial intermediaries for investment in the municipal sector through a Small and Medium Municipalities (SMM) facility.

3.2.2. Corporate Sector

As described in Section 2.2, the key challenges to be addressed related to the development of the private corporate sector are improving the country's investment climate and the judicial system. Specific challenges also include addressing inefficiencies and inconsistencies in the regulatory environment, the lack of financial and commercial discipline in state-owned enterprises and public utilities, the need for institution building in areas like corporate governance, public procurement and modern management, the lack of local capital and the low level of FDI, poor infrastructure and the difficulty to access financing for SMEs, working capital and capital investment. Over the next two years the following will be the Bank's main operational priorities:

Greenfield investments/FDI: Supporting strategic investors with commercially viable investment plans through the full range of the Bank's products and thereby encouraging and increase new investments across all competitive industrial and commercial businesses. The focus will be on greenfield projects and expansions with the target to increase the Bank's equity portfolio.

Agribusiness:

- Work closely with local banks in order to promote lending to agribusiness SMEs and applying a variety of financial schemes adapted to the sector's specifics such as suppliers credit through funded or un-funded risk-sharing agreements.

- Introduce commodity based financing, such as the Warehouse Receipts Programme, expected to support the enhancement and development of the Romanian agricultural sector, providing the necessary seasonal working capital to farmers as well as medium term financing for related logistical support investments such as grain storage and handling.
- Provide long-term financing to strategic investors in the rapidly developing retail market. This has been identified as one of the sectors fostering economic growth and promoting efficiencies in primary agriculture.
- Identify successful local food and drinks processing companies with the capacity to sustain long-term investment programmes and the related financing.

Telecommunications: As of 1st of January 2003 the Romanian telecommunication market was fully liberalised and the regulatory environment was significantly changed to allow for full competition in all telecoms services, including local and long distance voice telephony. The challenge faced now by the sector is to significantly increase access to communications networks, provide new services, and improve the overall quality of the service.

The Bank will support the private participation in the development of the Romanian telecoms market with an aim to increase the investments in the sector, to further increase access to communication services via the incumbent and alternative operators' networks, to improve the quality of service, to encourage the emergence of innovative and advanced communication services in the context of the newly liberalised market, and to further increase competition.

Property and Tourism:

- Offer selective support to projects that promote better office, logistics/warehouse and retail infrastructure in response to demand.
- Increase the focus on residential developments to meet increased demand as GDP grows and the required legal framework is put in place, enabling long-term bank mortgage finance to develop over the long-term.
- Support the development of hotels and other tourism related facilities in response to demand in the capital city and the regions of the country.

3.2.3. Financial Sector and SMEs

Despite the progress in privatisation and restructuring of the banking sector, the main challenges identified in Section 2.2 above faced by the financial sector include: the weak judiciary and the unstable and imperfect legal framework, the sector consolidation and specialisation, the lack of conditions to permit growth of financial intermediation and product diversification, the under developed non-banking financial system, the much needed reforms in the insurance and pension systems, the completion of the bank sector privatisation and the institution building in the regulatory framework. The Operational Objectives of the Bank for the Strategy period are as follows:

Banking Sector: Despite the progress achieved, banks and other financial institutions have still to further improve their levels of efficiency. Domestic credit to the private sector is the lowest in CEE at 8% of GDP in 2002, with local companies facing limited availability of funding. The financial sector must also increase the diversity of financial services and products provided to its clients, in particular to SMEs and the retail market. The Bank will continue to take initiatives that contribute to the development of a dynamic and stable financial system.

In this context, the activities of the Bank in Romania's financial sector will target the increase of financing to the real economy and will concentrate mostly on three goals:

- *Privatisation and Consolidation.* Supporting the efforts of the Romanian authorities on the privatisation of State owned banks. State-owned banks account for 45% of the assets of Romania's banking sector. The privatisation of Banca Comerciala Romana (BCR), the largest of the three remaining state-owned banks in Romania, was launched in March 2002. BCR accounts for about 30 per cent of the total assets of the banking system. After two unsuccessful attempts to privatise the BCR to a strategic investor, the Bank together with the IFC will take a minority stake in BCR within a revised privatisation strategy articulated in two phases. Following the EBRD and IFC investment, BCR will undergo operational restructuring in preparation for a full privatisation by 2005-2006. The Bank will also consider its potential involvement with the Romanian Savings Bank and with Eximbank in the context of their restructuring and privatisation in the medium term. Further, the Romanian banking sector is still fragmented and there is room for further bank consolidation. In this context, the Bank may support selected mergers and acquisitions opportunities among local private banks.
- *Introduction of new products* to consumers and SMEs. Continuing to provide mortgage facilities to selected banks, making sure that mortgage lending is done in accordance with EU regulations related to consumer protection. The Bank will also work on the establishment of a secondary mortgage market, by assisting local banks to develop standard mortgage products that can be used either for the issuance of mortgage bonds or, in the medium to long term, securitisation of mortgage receivables. The Bank will also consider supporting specialised mortgage institutions.
- *Leasing* is also proving an attractive financing option for the modernisation of fixed assets and business expansion. The activities of leasing companies have grown considerably. Through the EU Phare programme, the Bank will continue to provide local leasing companies with the long-term funding necessary to lend to small and medium sized investment projects with longer payback periods.

SME and Micro Sector: Supporting the development of sustainable provision of finance to SMEs. The Bank will continue to provide SME and micro-lending facilities to partner banks under the framework of the EU/EBRD SME Finance Facility and the US/EBRD SME Financing Facility, as well as through MIRO Bank, the dedicated microfinance bank in which the Bank has a 20.8% stake. The Bank will continue its fruitful cooperation with KfW as a partner in Miro Bank and use the leverage of both institutions in the improvement of the overall legal and regulatory framework for microlending. Participation between KfW (via the German Romanian Fund) and the Bank will also continue in the technical assistance provided to partner banks (e.g. Banca Romaneasca downscaling program). The Bank will also pursue opportunities to participate in equity funds that invest into Romanian SMEs.

Non-Banking Financial Sector: The ongoing reform of the state pension system is based on a three-pillar system, with the introduction of both voluntary and mandatory pension schemes. The Bank will support the introduction of proper private pension legislation which offers stability and safety to the sector while delivering quality services to the future retirees. Once such legislation is adopted, the Bank will support private pension fund companies on a selected basis. On the other hand, insurance penetration remains very low as, in addition to the lack of an insurance culture, legislation and supervision still need improvements. The Bank will consider opportunities for further potential investments in the sector and will support the introduction of new products in the market such as health insurance. The development of the insurance and pension sectors is important also to the creation of a growing pool of long-term savings that may be used to support the growth of local capital markets, in particular the corporate bond market and a secondary market for instruments backed by receivables from products such as mortgages (as mentioned above), leasing, consumer credit and credit cards. When backed by adequate legislation, these instruments lower the issuer's cost of funds and therefore provide lower cost long-term finance to the real economy.

4. OTHER IFIS AND MULTILATERAL DONORS

Donor and IFIs Co-operation

The Bank's co-operation with other IFIs in Romania has been intensive and regular for many years. These included consultations and meetings among donors, either on general issues or specific projects, in order to avoid unnecessary duplication of efforts and to increase the complementary nature of the interventions. As a result there is a high level of co-ordination among the Bank, the World Bank, the IMF, the EU Delegation and EIB and also common objectives to support on-going public sector restructurings and enhancement of the public administration, environmental improvement, and infrastructure development. In order to continue the co-ordination between the IFIs, this new strategy has been discussed and endorsed by the local representatives of the organisations.

4.1 European Union (EU)

Total EU multilateral grant-financed pre-accession assistance to Romania is now running at EUR 685 million (USD 799 million) per year. This is the highest amount to any candidate country, apart from Poland, and is equivalent to about 1.7 per cent of Romania's GDP. In the Roadmap for accession of Romania and Bulgaria of November 2002, the European Commission has foreseen a substantial increase of financial assistance in the years 2004 (+20%), 2005 (+30%), to reach about EUR 1 billion (USD 1.17 billion) in 2006 (+40%), conditional upon Romania making progress in implementing the road map and improving the capacity of managing EU funds. The assistance is channelled through several programmes.

PHARE: Since 2000, the Phare programme aims at providing support to help Romania prepare for accession to the EU in three main areas: institution building and effective implementation of the "acquis communautaire" (2/3) and economic and social cohesion (1/3). The Phare allocation to Romania amounts to EUR 279 million (USD 325 million) for the budget years 2002 and 2003. Phare's total commitments to Romania during the period 1990-2003 amounted at end September 2003 to EUR 2.2 billion (USD 2.6 billion) with contracts worth EUR 1.5 billion (USD 1.7 billion) and disbursements of EUR 1.4 billion (USD 1.6 billion)

ISPA (Instrument For Structural Policies For Pre-Accession): The ISPA programme which commenced in 2000 supports major environmental and transport infrastructure projects. Romania's total project portfolio at the end of September 2003 amounted to EUR 1.6 billion (USD 1.9 billion) including ISPA grants for a total amount of EUR 1.2 billion (USD 1.4 billion). Contracts have been awarded at a value of EUR 390 million (USD 455 million). So far ISPA has supported 31 projects in Romania. ISPA supports currently the modernisation of drinking water distribution, waste water treatment and sewerage networks in 20 cities (47%) and major road and rail networks (53%). As of end September 2003, 10 additional ISPA applications are under preparation for a project value of EUR 427 million (USD 498 million) in the field of railways, solid waste and waste water management.

SAPARD (Special Action Programme for Agriculture and Rural Development): The SAPARD programme supports agricultural and rural development measures. Starting 2000 Romania's annual allocation from SAPARD is EUR 150 million (USD 175 million). By the end of September 2003 the credits granted for SAPARD projects amount to EUR 448 million (USD 522 million). These include 90 projects worth EUR 98 million (USD 114 million) related to the improvement of processing and marketing of agricultural and fishery products, 438 projects worth EUR 349 million (USD 407 million) related to the development and improvement of

rural infrastructure as well as 5 projects worth EUR 0.6 million (USD 0.7 million) related to technical assistance.

4.2 European Investment Bank (EIB)

The EIB has an outstanding portfolio of EUR 3.0 billion (USD 3.5 billion) in Romania out of which 53% has been disbursed. The portfolio includes 41 projects in transportation (roads, airport and railways), energy, telecommunications, environment, industry and SMEs. In 2002-2003 EIB approved 7 projects with the total commitment of EUR 651 million (USD 759 million). EIB plans to continue to increase its support for Romania in the coming years. It also plans to focus its efforts on (i) priority projects which will prepare Romania for EU accession, specifically on transport, energy, and environmental protection; (ii) support for the development of SMEs and (iii) support for private sector projects, notably with international sponsors. EIB and the Bank will strengthen their cooperation in the country in different sectors to finance projects mainly in infrastructure.

4.3 International Monetary Fund (IMF)

Over the past two years, the IMF has been assisting Romania with a 18-month Stand-By Arrangement (SBA) covering the period October 2001 to March 2003 for a total amount of SDR 300 million (about USD 413 million). Due to delays in completing the third review, the SBA was extended until October 15, 2003, when the IMF Board approved the release of the final tranche of the loan. This has been the first time ever, since the beginning of transition, that Romania has successfully completed a programme with the Fund.

In addition to the SBA, IMF has provided support to Romania in a number of areas with more than 40 technical assistance missions since 1990. Expert Fund assistance was focused on a number of key areas, including: fiscal reforms, modernisation of the central bank and the banking system, creating a market-oriented legal structure as well as improving the collection and reporting of statistics. The implementation of a comprehensive tax administration reform designed in line with the recommendations of several technical assistance missions has started in January 2003.

4.4 World Bank Group

The World Bank's (WB) activity in Romania since 1991 resulted in approvals of 50 IBRD-financed operations, with a total commitment of USD 3.8 billion, thus positioning itself as the largest creditor to Romania.

As of July 2003, the WB active portfolio amounted to USD 1.34 billion, of which 22 are IBRD-lending operations and three are Global Environmental Facility grants. In addition to these operations the overall portfolio includes seven smaller grants (under USD 1 million) to the Romanian Government. Thus, the active portfolio is the second largest in the Europe and Central Asia region in terms of number of projects and the third in terms of commitments. Disbursement ratio is 47.7%.

The WB's portfolio structure and instruments used reflect alignment towards Country Assistance Strategy and Government's objectives of poverty reduction and accession to the EU. The portfolio increasingly supports targeted poverty interventions, promotion of growth through private sector development, governance and institutional reform.

To date the IFC approved and disbursed over USD 245 million, for 22 projects in industries such as building materials, paper, mobile telephony, brewery, leasing and financial sector. The good co-operation with the EBRD is reflected in joint projects such as the pre-privatisation of BancPost, Sical (paper industry), the Danube Fund and the most recent BCR transaction.

4.5 U.S. Agency for International Development (USAID)

USAID commenced its activities in Romania in 1991. Since its establishment, USAID's total allocation for Romania surpassed USD 400 million. In 2003 USAID's annual budget for Romania amounted to USD 26.2 million. 44% of this budget (USD 11.65 million) was allocated to the USAID's Private Sector Programme aiming at improving policies, laws and regulations supporting market expansion; encouraging privatisation; and strengthening private business associations, NGOs, and government institutions to make SMEs more competitive and increase their exports. 29% of the 2003 budget (USD 11.65 million) was allocated to the USAID's Local Democratic Governance Programme providing technical assistance and training with the remaining 27% (USD 7.05 million) allocated to Child Welfare & Woman's Health Programme.

ANNEX 1

POLITICAL ASSESSMENT

Political developments

The first attempt at introducing wide-ranging economic reforms in the aftermath of the fall of the Nicolae Ceausescu's regime in December 1989 was made in 1991 by Prime Minister Petre Roman. It was abandoned after violent demonstrations by miners who occupied government buildings in Bucharest. Roman left the National Salvation Front, which had ruled the country since Ceausescu's overthrow, and was replaced as Prime Minister by Theodor Stolojan. The Front remained the largest party after the 1992 election. Ion Iliescu, who had founded it, was re-elected President. Under the minority government of Prime Minister Nicolae Vacaroiu, which relied on the support of ultra-nationalist and Communist deputies in parliament, the pace of economic reforms slowed down still further. Lax economic policies in the run-up to the 1996 elections led to increased inflation, devaluation and the introduction of price and currency controls.

An umbrella organisation of centre-right parties called the Democratic Convention (DC) formed a government in November 1996 under Victor Ciorbea, with the support of the ethnic Hungarian party (UDMR) and a small social-democratic party led by Petre Roman. In the presidential elections held at the same time Emil Constantinescu, the DC candidate, won in the second round against Iliescu by 54 per cent to 46 per cent. Ciorbea announced radical, market-oriented reforms, including the removal of price controls, tighter fiscal and monetary policies and the liberalisation of the foreign-exchange regime, but failed to carry out the restructuring of obsolete industries. Romania's failure to be invited to join NATO in 1997 was perceived by the population as a big setback for the government. Ciorbea was dropped in 1998, but his successor as Prime Minister, Radu Vasile, failed to stem the government's growing unpopularity. He in turn was replaced in December 1999 by Mugur Isarescu, Governor of the National Bank of Romania. Constantinescu decided not to stand again as President.

In the general election in November 2000, the Social Democratic Party (PSD) got most seats. The ultranationalists obtained 20 per cent of the popular vote and became the second largest party in parliament. However, their support in the country has decreased. Iliescu was elected President for a third time in December 2000 after a second-round run-off against Vadim Tudor, leader of the ultranationalist Greater Romania Party. Since taking office in December 2000, the minority government of Adrian Nastase has relied on the support of the UDMR. This has ensured a high degree of political stability. Romania faces local elections in June 2004 and parliamentary and presidential elections in December 2004.

Relations with the EU and NATO

- Under the Nastase government, Romania's firm orientation has been towards the EU and NATO. A major success for the government was the invitation in November 2002 for Romania to join NATO, strongly supported by the United States. Romania has offered strong backing to the United States over the wars in Afghanistan and Iraq, including the provision of military bases and provision of troops for service in Afghanistan and Iraq. Romania is not among the 10 countries scheduled to join the European Union on 1 May 2004, but it has set itself 2007 as the date for its accession. By end of October 2003, Romania had closed only 20 of the 30 EU chapters of the EU's *acquis communautaire*. Nevertheless, the government plans to close all the chapters in the course of 2004. The European Commission's Regular Report on Romania's progress towards EU accession, published in November 2003, stated that Romania

continued to fulfil the political criteria for membership. It also confirmed that 2007 as the targeted date for Romania's accession has become the common objective for the Union since the Copenhagen summit in December 2002, depending on its further progress in complying with the membership criteria. The Report also noted that Romania "can be considered a functioning market economy once the good progress made has continued decisively". It also noted that the reform process was at an early stage and that the key issue of judicial and administrative reform needed to be addressed urgently. The Report also acknowledged that the political will to address administrative reforms existed and noted that a number of positive initiatives had been launched over the last year to reform the public administration and the judiciary. Corruption was highlighted as an area of continuing and urgent concern.

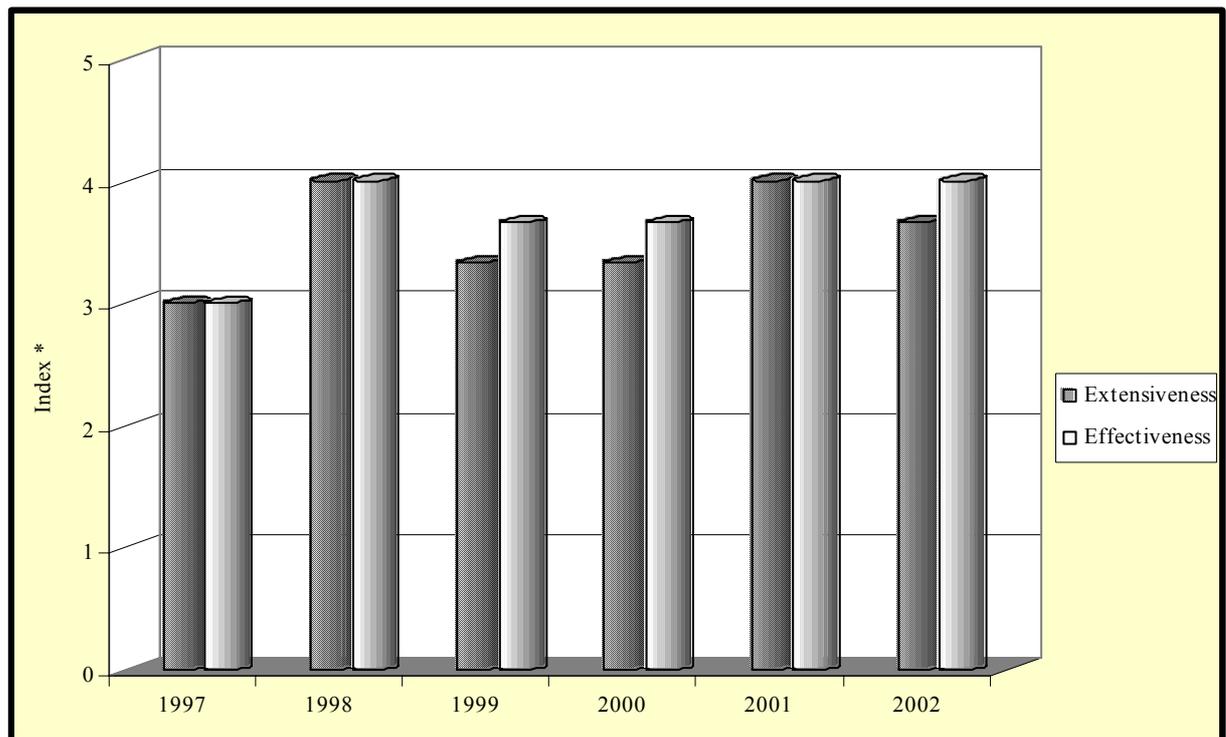
ANNEX 2

LEGAL TRANSITION

COMPARATIVE ASSESSMENT OF ROMANIA'S COMMERCIAL LAW

I. Assessment Over Time

Extensiveness and Effectiveness of Romania's Commercial Law⁷



Source: OGC Legal Indicator Surveys; 1997 - 2002

*Note: Indicators along the y axis range from 1 (little progress) to 5 (substantial progress)

While Romania's commercial laws have been gradually improving over the past six years, they still fall short of standards that are generally acceptable internationally. Annual EBRD Legal Indicator Surveys over the past six years confirm that lawyers familiar with Romania's commercial laws share this view.

II. Situation in Other Transition Countries

Although Romania's normative laws do not yet approximate the relevant international standards and lack adequate institutional support ensuring their effective implementation, the country overall compares well with the rest of the Bank's countries of operations. According

⁷ The EBRD conducts a Legal Indicator Survey each year to measure the progress in legal reform in Central and Eastern Europe, the Baltic States and the Commonwealth of Independent States, as viewed by local lawyers and academics. The results of such survey are based on responses to the questionnaire sent out to lawyers practising in any given country. The survey represented their perception of the country's legal system and, in particular, the degree to which key commercial and financial laws have reached internationally acceptable standards (extensiveness) and to which extent these laws are implemented and enforced (effectiveness). The survey is based purely on local lawyers' perception of their own country legislation and does not represent EBRD's own view on these legal systems. In addition, it must be noted that each respondent is asked to answer the questionnaire for his/her country only, and not on a comparative basis.

to the 2002 EBRD Legal Indicator Survey, which measured the perception of local lawyers, the commercial laws of Romania can be characterised as adequate for supporting investment and other commercial activity.

Romania's commercial law is perceived by lawyers in the field as being broadly on a par with that of some of the more advanced transition countries of Central Europe (but even those do not have laws that can be characterised as meeting international standards).

LEGAL SECTOR ASSESSMENT

Bankruptcy

Bankruptcy is governed by the Bankruptcy Law No.64/1995 ("the Law"), which has been amended several times since its adoption.

Overall, Romania's insolvency legislation is comprehensive and provides the flexible framework necessary to bring about either the liquidation of a failed enterprise or its reorganisation. It is balanced in its approach to debtor and creditor rights and responsibilities. Prior to June 1999, syndic (bankruptcy) judges were required to act in a quasi-executive capacity, performing many functions that are, in most other bankruptcy systems, left to accountants, turnaround managers, insolvency professionals, or others with specialised business training. The syndic judges were, understandably, uncomfortable with these non-judicial roles, and the 1999 amendments were enacted in part to make it easier for the syndic judge to utilise business professionals as administrators in the case of a reorganisation, and as liquidators in the case of a liquidation, without yielding oversight responsibility and control of the case.

At present, the law does place enormous responsibilities on judges, whose power has been increased by legislative amendments adopted in 2002. Hence, and in addition to the previous powers, the judge can cancel the illegal decisions taken by the administrator *ex officio* (i.e. even if not requested explicitly by an interested party) and replace the administrator anytime during the administration procedure. Aiming to improve bankruptcy framework, the above mentioned recent amendments introduced new judicial fines against the administrator (i.e. when he/she refuses to accept his/her appointment as administrator, when he/she fails to timely perform his/her duties as a result of negligence or wilful misconduct) and created four more crimes in relation to bankruptcy (i.e. fraudulent bankruptcy, fraudulent management, dilapidation and a crime consisting of a filing of a bankruptcy claim for a fictitious debt).

Whilst acknowledging Romania's efforts to foster bankruptcy law, EBRD's recently conducted insolvency law assessment, which included an analysis of Romania's legal system, revealed some areas that fall short of the compliance standards and should be improved. These areas include (i) providing more specific 'financial condition' grounds for the commencement of insolvency proceedings; (ii) stating more precisely the nature and extent of control over the management and property of a debtor upon the opening of an insolvency case; (iii) clarifying, by more explicit statements, the effect of the opening of an insolvency case on secured creditor rights and on the exercise of those rights thereafter; (iv) clarifying whether claims for civil wrong qualify as debts or liabilities of the debtor.

It is expected that a new bankruptcy law, pending currently in front of the Romanian Parliament will improve the existing insolvency framework and bring it closer to international standards.

Capital Markets

The primary legislation governing the capital market is the Law on Securities and Stock Exchange (the "Securities Law") promulgated in 1994. The Securities Law has been amended several times since 1994, most recently in 2002 (through Emergency Government Ordinance No. 28/2002, Law No. 525/2002 and Emergency Government Ordinance No. 122/2002). Among the major changes introduced in 2002, the following measures which enhance investors' protection in listed companies are worth mentioning. The range of shareholders to whom the company must report has been broadened to cover shareholders holding of at least 5% of the total shares issued by the company. The definition of the "operations" that a company is required to report has been broadened. A resolution by the general shareholders meeting in a company deciding the dividend must be filed with the Trade Registry within 15 days and such resolution represents an enforceable title for shareholders. Directors in a company must disclose any transactions, of which the value is EUR 50,000 (USD 55,000) or more, concluded between the company and its directors, employees and major shareholders or other affiliated persons. There are also new measures introduced in 2002 concerning delisting a company.

The National Securities Commission of Romania (the "NSC") is the main regulatory and supervisory body for the securities market. The NSC was established in October 1994 as an independent regulator under the control of Parliament. The independent status of the NSC has been reconfirmed under an Emergency Government Ordinance issued in 2002. The Bucharest Stock Exchange (the "BSE") resumed operations in 1995 (after 47 years of inactivity). In addition, an over-the-counter market (RASDAQ) was launched in 1996.

The current Insurance Law was adopted in 2000 in order to bring Romanian insurance legislation into line with EU legislation. Compared to its predecessor, this Law of 2000 introduces higher capital requirements for insurance companies in order to promote the consolidation of the industry. In addition, it provides for the establishment of a new independent Insurance Commission as the supervisory body for the sector.

Company Law and Corporate Governance

The Companies Law, adopted in 1990, applies to all types of commercial companies, including state-owned, private, domestic and foreign companies. There is a chapter dedicated to joint stock companies ("JSC"), under which the general shareholders meeting is defined as the supreme organ in a JSC. The general shareholders meeting designates a board of directors with overall responsibility for the administration of the company and a "censor's committee" for supervision matters. The corporate governance legal framework created by the Companies Law (as recently amended by the enactment of Law No. 161 of 19 April 2003) is mainly supplemented by the Securities Law mentioned above. The most recent amendments to the Companies Law were made in 2003.

According to the 2002 results of the Bank's Corporate Governance Sector Assessment Project, Romania whose existing corporate governance related laws (i.e., "law on the books", as opposed to how the relevant legislation is being implemented) when compared to the OECD *Principles of Corporate Governance* was rated as a "Low Compliance" country. A reform priority for countries in this category is to continue strengthening the institutional design for enforcing the laws by bringing them into line with international standards. Also, these countries should make special efforts to raise general awareness of shareholders' rights and of

corporate governance issues in general. In connection with the above, it should be noted that when the 2002 assessment was conducted, the amendments to the Company Law in 2003 and to the Securities Law in 2002 as mentioned above were not taken into consideration, the reason being that the relevant amendments had not been published in the relevant government gazette when the Bank's assessment was conducted. Therefore the extent to which the relevant amendments have improved the corporate governance legal framework of Romania will be reviewed in the 2003 assessment. In addition, it is worth mentioning that there is a voluntary Governance Code of best practice in Romania. This Code was initiated and adopted by business associations in March 2000. The Code consists of a set of reference standards for use by any reputable company which adopts its own corporate governance code. Companies to be listed on the "plus tier" at the BSE are required to adopt the Code.

Concessions

The rules governing concessions in Romania are contained in the following laws: The Concession Law No 219/1998 (the "Concession Law"), Government Resolutions No 216/1998 approving the Methodological Norms (Regulations), and the Law on Public Property No 213/1998. In addition, special rules applicable to particular sectors can be found in respective special laws, for instance transport law, mining law, gas sector law, etc. Various recent Government's programmes and statements as well as the adoption of the 2002 PPP Ordinance and announcements of public tenders suggest that public private partnerships are being encouraged in Romania.

The Concession Law lists property, services and activities that can be subject to concessions, however, the list is not exhaustive. The term of a concession is limited to 49 years. The Concession Law together with the regulations cover concession procedures distinguishing between public tender and direct negotiating. The Concession Law allows in some instances for a unilateral modification of a contract by the authorities for exceptional reasons related to national interests and provides for compensation of damages to the investor in such cases. The Concession Law applies equally to domestic and foreign investors and sets forth basic minimum requirements for the concession contract. Some of the shortcomings of the Concession Law include a lack of clarity on whether international arbitration may be chosen for dispute resolution; and conflicts among provisions in the Concession Law, special sector laws and municipal regulations.

In practice, however, the regime works and there have been concessions granted on both State level and municipal level. According to the EBRD 2002 Legal Indicator Survey, the concessions legal framework in Romania was perceived as adequate.

Secured Transactions

Secured transactions on movable assets are covered by the law entitled 'Legal Treatment of Security Interests in Personal Property' (Title VI of Law No. 99/1999, hereafter the "Law on Security Interests"), published in the *Official Gazette* of 27 May 1999. The Law on Security Interests came into force when the 'Electronic Archive of Security Interests in Personal Property' was established in late December 2000. It is administered by two authorised operators: the Trade Registry and the Institute for Research and Development in Computer Systems. Registration may be undertaken at a number of offices throughout the country.

The Law on Security Interests allows for the creation of possessory and non-possessory charges, subject to registration in an electronic registry (the Archive). Under the Civil Code

(articles 1685 - 1696), it is still possible to create a possessory charge (known as 'pawn'), which is subject to the registration requirements in the Law on Security Interests. The Law is generally modern and market oriented, providing a number of features required for economic efficiency of the credit market. The procedures provide for a more rapid enforcement than under the previous regime but it seems that in practice, enforcement is hampered by a deficient institutional framework. Furthermore, the position of the secured creditor in bankruptcy is not clear and certain other creditors may supersede the chargeholder.

Recently, the government created concern among the business community by adopting the Governmental Ordinance No. 61/2002 regarding the budgetary debts, published in *Official Gazette* No. 644 of 30 August 2002 (the “Ordinance”). Article 43 (3) allowed some of the assets of the tax delinquent to be frozen by taking a pledge or a mortgage over these assets (movable or immovable) as the case may be. The security would be submitted to the same conditions as ordinary security rights, in particular to the requirement of publicity, by inscription of the right in the Electronic Archive. The provision was however ambiguous as to its impact on the priority ranking, in particular whether it granted a super-privilege to the tax offices (i.e. superseding a prior registered secured claim). Following policy dialogue initiated by the EBRD and others, the Ordinance was amended by Law No. 232/2003 on the approval of Governmental Ordinance No. 36/2003 regarding the correlation of some legal provisions from the fiscal-financial legislation, published in the *Official Gazette* No. 373 of 31 May 2003 (the “Law No. 232/2003”). It provides that the rank of a secured creditor starts from the moment of making his security public by registering it with the Electronic Archive and the respective rank is opposable to all third parties, including the state, i.e. the tax offices. Unfortunately, the clarification brought by Law No. 232/2003 has left unchanged some other legal provisions of the Ordinance regulating the order of distribution of proceeds and therefore, a degree of ambiguity persists. Also, the amendment seems to cover only movable security and not mortgages.

Telecommunications

The telecommunications sector in Romania is currently regulated by a combination of The Ministry of Communications and Information Technology (the “Ministry”) and the National Regulatory Authority for Communications (the “Regulator”). The legislative basis for the sector is currently contained in two Emergency Government Ordinances of 2002, which replaced the Telecommunications Act of 1996. These Ordinances provide the general regulatory framework for the sector as well as a number of supplementary regulations governing, *inter alia*, interconnection, numbering and significant market power designation and obligations.

While the Ministry has broad responsibility including defining strategic telecommunications policy, the Regulator has, since its establishment in July 2002, assumed responsibility for the day-to-day policing of the telecommunications market. The Regulator is responsible for monitoring and supervising authorised operators and service providers to ensure compliance with obligations set out in laws, regulations, and general authorisations or individual licences. The Regulator is also responsible for the management of numbering resources and has the power to issue licences and authorisations. Though the Ministry retains its authority to manage the radio frequency spectrum and will only grant access to those companies or organisations that succeed in obtaining general authorisations to offer radio-based services.

The Government Ordinance package of 2002 provided for the formal liberalisation of the Romanian telecommunications market as of January 2003, with the abolition of ROM

Telecom's exclusive rights and the Regulator is currently implementing the reforming measures dictated by these Ordinances.

Earlier criticism from the European Union (EU) over slow progress in adopting the telecommunications *acquis* encouraged apparently rapid progress in establishing an independent regulator, issuing licences and preparing a competitive framework. While the authorities' enthusiasm to implement a competitive market place based upon EU standards is commendable, individual reforming measures can have a significant impact upon the sector. Accordingly, though unjustifiable delays should not be entertained it is crucial that appropriate time is nonetheless allowed for the implementation of the reforming measures.

Romania appears committed to EU accession and current expectations are that the country will join during 2007. The telecommunications chapter was provisionally closed in November 2002 and no transitional arrangements have been requested. Notwithstanding this progress, it is important that the authorities concentrate upon continuing to build independent regulatory capacity and completing the revision of the sector's legislative base.

ANNEX 3

SELECTED ECONOMIC INDICATORS

Romania	1995	1996	1997	1998	1999	2000	2001	2002	2003
								<i>Estimate</i>	<i>Projection</i>
Output and expenditure	<i>(Percentage change in real terms)</i>								
GDP ¹	7.1	4.0	-6.1	-4.8	-1.2	1.8	5.3	4.9	4.5
Private consumption	12.9	7.6	-6.6	1.4	-1.1	0.1	6.4	3.0	4.8
Public consumption	1.0	1.5	-8.4	1.8	-19.1	15.8	-1.9	1.0	3.9
Gross fixed capital formation	6.9	5.7	1.7	-5.7	-4.8	4.6	6.6	8.5	9.5
Exports of goods and services	17.0	2.0	11.4	-1.7	9.7	23.9	10.6	16.0	12.0
Imports of goods and services	16.4	8.7	7.5	11.4	-5.1	29.1	17.5	12.0	13.5
Industrial gross output, unadjusted series	9.5	9.8	-5.6	-17.3	-8.8	8.2	8.2	6.0	na
Agricultural gross output	4.5	1.3	3.4	-7.6	5.5	-14.1	na	na	na
Employment	<i>(Percentage change)</i>								
Labour force (end-year)	-6.6	-4.3	-1.3	-0.7	-2.9	0.9	-2.6	-1.4	na
Employment (end-year)	-5.2	-1.2	-3.8	-2.3	-4.5	2.5	-0.8	-0.7	na
	<i>(In per cent of labour force)</i>								
Unemployment (end-year) ²	9.5	6.6	8.9	10.4	11.8	10.5	8.8	8.2	na
Prices and wages	<i>(Percentage change)</i>								
Consumer prices (annual average)	32.3	38.8	154.8	59.1	45.8	45.7	34.5	22.5	15.5
Consumer prices (end-year)	27.8	56.9	151.4	40.6	54.8	40.7	30.2	17.9	15.3
Producer prices (annual average)	35.1	49.9	156.6	33.2	42.2	51.5	40.9	24.6	na
Producer prices (end-year)	32.0	60.4	154.3	19.8	62.9	48.6	29.9	21.9	na
Gross average monthly earnings in economy (annual average)	50.5	54.2	98.2	60.3	44.3	46.9	48.9	27.3	na
Government sector	<i>(In per cent of GDP)</i>								
General government balance	-2.5	-3.9	-4.6	-5.0	-3.5	-3.7	-3.5	-2.7	-2.7
General government expenditure	34.7	33.8	34.0	34.7	35.2	34.8	33.4	32.7	33.2
General government debt	20.5	27.8	27.7	27.6	33.2	31.3	28.6	28.6	27.7
Monetary sector	<i>(Percentage change)</i>								
Broad money (M2, end-year)	71.6	66.0	104.9	48.9	45.0	38.0	46.2	38.1	31.6
Domestic credit (end-year)	123.6	82.1	82.1	95.2	26.8	7.5	31.5	39.9	na
	<i>(In per cent of GDP)</i>								
Broad money (M2, end-year)	25.3	27.9	24.6	24.8	24.6	23.0	23.2	24.9	27.2
Interest and exchange rates	<i>(In per cent per annum, end-year)</i>								
Discount rate	35.0	35.0	40.0	35.0	35.0	35.0	35.0	29.0	na
1-week BUBOR	na	51.7	102.4	159.0	68.9	47.3	39.3	20.0	na
Deposit rate (average)	36.5	38.1	51.6	38.3	45.4	32.7	23.4	12.8	na
Lending rate (average)	48.6	55.8	63.7	56.9	65.9	53.5	40.6	28.9	na
	<i>(Lei per US dollar)</i>								
Exchange rate (end-year)	2,578	4,035	8,023	10,951	18,255	25,926	31,597	33,500	35,150
Exchange rate (annual average)	2,033	3,083	7,168	8,875	15,333	21,693	29,061	33,055	31,898
External sector	<i>(In millions of US dollars)</i>								
Current account	-1,774	-2,584	-2,137	-2,917	-1,296	-1,347	-2,349	-1,573	-2,840
Trade balance	-1,577	-2,494	-1,980	-2,625	-1,092	-1,684	-2,969	-2,613	-3,550
Merchandise exports	7,910	8,061	8,431	8,302	8,503	10,366	11,385	13,869	17,150
Merchandise imports	9,487	10,555	10,411	10,927	9,595	12,050	14,354	16,482	20,700
Foreign direct investment, net	417	415	1,267	2,079	1,025	1,051	1,154	1,080	1,350
Gross reserves (end-year), excluding gold	278	547	2,194	1,375	1,526	2,497	3,960	6,145	8,100
External debt stock	6,484	8,402	9,552	9,935	9,215	10,271	12,470	15,227	17,885
	<i>(In months of imports of goods and services)</i>								
Gross reserves (end-year), excluding gold	0.3	0.5	2.1	1.3	1.6	2.1	2.9	3.9	4.0
	<i>(In per cent of exports of goods and services)</i>								
Debt service ³	10.5	13.5	20.4	23.3	28.5	25.3	20.5	18.5	17.8
Memorandum items	<i>(Denominations as indicated)</i>								
Population (mid-year, millions)	22.7	22.6	22.6	22.5	22.5	22.4	22.3	21.7	21.7
GDP (in billions of lei)							1,167,24	1,499,90	1,810,69
	72,136	108,920	252,926	373,779	545,730	803,773	3	8	5
GDP per capita (in USDs)	1,564	1,563	1,565	1,872	1,585	1,651	1,804	2,091	2,616
Share of industry in GDP (in per cent)	32.9	34.2	35.6	26.3	24.8	27.3	28.2	na	na
Share of agriculture in GDP (in per cent)	19.8	19.1	18.8	14.4	13.3	11.1	13.2	na	na
Current account/GDP (in per cent)	-5.0	-7.3	-6.1	-6.9	-3.6	-3.6	-5.8	-3.5	-5.0
External debt - reserves, in USD millions	6,206	7,856	7,358	8,560	7,689	7,774	8,510	9,083	9,785
External debt/GDP (in per cent)	18.3	23.8	27.1	23.6	25.9	27.7	31.0	33.6	31.5

External debt/exports of goods and services (in per cent)	68.9	87.3	96.0	104.4	93.4	84.7	93.5	94.0	88.5
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¹ From 2001, growth rates are calculated by the National Statistical Institute using a new methodology in compliance with European standards of national accounting. As a result, the official growth figure for 2000 was revised upwards to 1.8 per cent from 1.6 per cent.

² Registered unemployed. Based on ILO methodology, unemployment was lower (8.0, 6.7, 6.0, 6.3 and 6.8 per cent for 1995, 1996, 1997, 1998 and 1999 respectively).

³ Debt service payments on private and public external debt.

ANNEX 4

ANNEX 4A – EBRD OPERATIONS TO DATE (as of 31 October 2003, EUR millions)

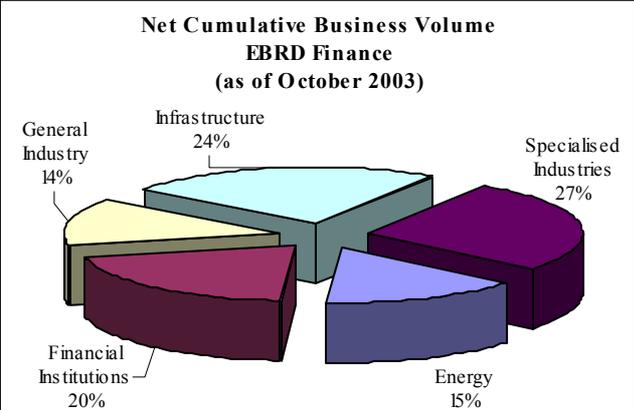
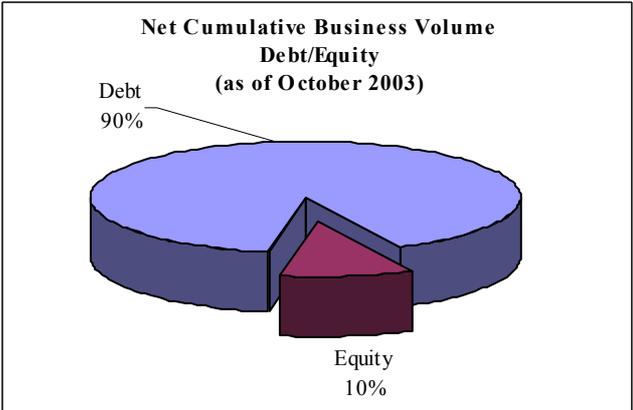
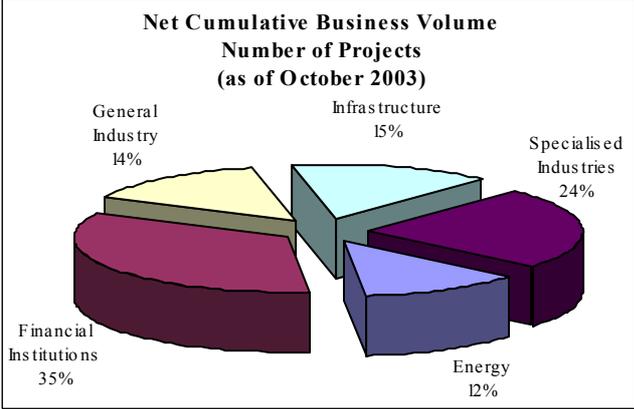
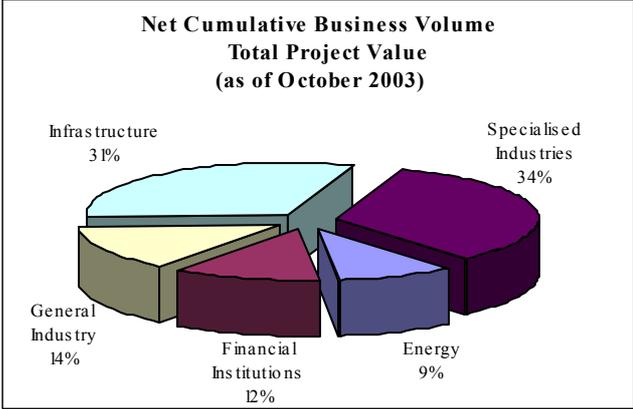
Op ID	Op Name	Regional/Direct	Signing Date	Total Project Value	EBRD Finance	Debt	Equity	Operation Stage
5049	AIG New Europe Fund	Regional fund investment	29/06/99	41.4	6.5	0.0	6.5	Repaying
19104	APA NOVA Water Treatment Plant Project	Direct	19/12/02	155.2	55.4	55.4	0.0	Signed
4607	Advent Central & Eastern Europe II - Regional Fund	Regional fund investment	18/12/97	9.9	3.4	0.0	3.4	Repaying
6	Agribusiness Development Project	Direct	14/09/92	60.2	60.2	60.2	0.0	Completed
318	Alpha Bank Romania (portage equity)	Direct	20/07/93	17.7	1.7	1.7	0.0	Completed
3415	Alpha Bank Romania Equity Investment	Direct	17/12/97	15.3	1.8	0.0	1.8	Completed
32168	Arctic Partial Write off (OPID 3283)	Direct	14/10/97	1.7	1.8	0.0	1.8	Completed
3283	Arctic Privatisation and Modernisation	Direct	14/10/97	40.0	14.5	8.0	6.5	Repaying
33287	Astral Telecom	Direct	18/09/03	34.4	6.0	6.0	0.0	Signed
345	Athenee Palace, Bucharest	Direct	04/11/94	52.7	12.3	12.3	0.0	Repaying
32900	BRD SocGen Warehouse Receipts	Direct	15/07/03	88.9	40.0	40.0	0.0	Signed
34594	BT Leasing SME Credit Line	Direct	08/10/03	5.0	5.0	5.0	0.0	Signed
31768	Banc Post Mortgage Loan	Direct	14/05/03	20.0	20.0	20.0	0.0	Signed
2369	Banca Agricola Credit Line Extension	Direct	06/12/95	12.9	12.9	12.9	0.0	Completed
95	Banca Agricola IT Loan	Direct	09/12/94	21.8	5.8	5.8	0.0	Completed
29023	Banca Comerciala Romana Mortgage Loan	Direct	14/01/03	50.0	50.0	50.0	0.0	Disbursing
17414	Banca Romaneasca	Direct	22/05/03	5.2	3.4	3.4	0.0	Disbursing
34609	Banca Tiriace Capital Increase	Direct	23/09/03	0.5	0.5	0.0	0.5	Disbursing
6121	Banca Transilvania (equity)	Direct	09/10/01	5.4	6.8	0.0	6.8	Disbursing
32209	Banca Transilvania - Credit Line for SMEs	Direct	05/06/03	5.0	5.0	5.0	0.0	Disbursing
1758	Bank Coop	Direct	12/12/94	4.6	4.6	4.6	0.0	Completed
4453	Bank Post Convertible Loan	Direct	10/07/98	17.2	8.6	8.6	0.0	Disbursing
4260	Baring Communications Equity	Regional fund investment	05/12/97	6.4	1.2	0.0	1.2	Repaying
27040	Billa	Regional fund investment	20/03/03	70.8	15.8	15.8	0.0	Disbursing
4542	Black Sea Fund	Regional fund investment	26/08/98	18.7	6.8	0.0	6.8	Repaying
26174	Black Sea Fund - Capital Increase	Regional fund investment	31/05/02	8.3	2.7	0.0	2.7	Signed
26313	Bucharest Multi-Sector Project (Municipality)	Direct	24/04/03	21.4	18.8	18.8	0.0	Signed
33932	Bucharest Multi-Sector Project (Radet)	Direct	24/04/03	26.5	20.3	20.3	0.0	Signed
22	Bucharest Wholesale Market	Direct	09/06/94	33.1	21.5	21.5	0.0	Repaying
1653	Bucharest-Pitesti Motorway Upgrading and Tolling Project	Direct	05/08/96	89.0	45.7	45.7	0.0	Repaying
12936	CFR City Stations Enhancement Project	Direct	04/04/03	27.9	24.0	24.0	0.0	Signed
667	Capital SA	Direct	29/04/93	5.1	1.7	0.0	1.7	Completed
5058	Central & Eastern Europe Power Fund	Regional fund investment	16/12/99	1.6	0.4	0.0	0.4	Disbursing
340	Coca-Cola Bihor & Iasi	Direct	06/08/93	21.5	4.3	4.3	0.0	Completed
6504	Dalkia ESCO Romania	Direct	14/12/99	18.3	7.1	4.7	2.4	Disbursing
5222	Danone MPF - Danone SRL	Direct	13/10/98	25.7	7.2	0.0	7.2	Disbursing
2419	Danube Fund	Direct	30/10/96	15.8	3.4	0.0	3.4	Repaying
25760	EFES - EBI	Regional fund investment	15/04/02	3.2	1.3	1.3	0.0	Disbursing
4166	EPH Grain Handling Project	Direct	08/01/98	20.4	7.6	7.6	0.0	Repaying
7145	EU/EBRD Phase I - Banca Transilvaniei	Direct	17/12/99	4.3	5.2	5.2	0.0	Repaying
13120	EU/EBRD Phase I - Euroventures Danube BV	Regional fund investment	26/02/01	0.2	0.0	0.0	0.0	Disbursing
27067	EU/EBRD Phase I - Ext. - Bank Post Romania	Direct	18/05/02	10.0	10.0	10.0	0.0	Disbursing
26081	EU/EBRD Phase I - Ext. Banca Transilvania	Direct	21/01/02	4.3	4.8	4.8	0.0	Disbursing
22704	EU/EBRD Phase II - Alpha Bank Romania	Direct	20/11/01	10.0	10.0	10.0	0.0	Repaying
34476	EU/EBRD Phase II - Alpha Bank Romania SME Facility II	Direct	07/10/03	10.0	10.0	10.0	0.0	Signed

31151	EU/EBRD Phase II - BRD Sogelease SME Credit Line	Direct	17/09/03	10.0	10.0	10.0	0.0	Signed
14809	EU/EBRD Phase II - Banca Comerciala Romana	Direct	22/01/01	20.0	20.0	20.0	0.0	Repaying
27155	EU/EBRD Phase II - Ext. - RZB Leasing Romania (debt)	Direct	15/01/03	5.0	5.0	5.0	0.0	Signed
27449	EU/EBRD Phase II - Ext. - Raiffeisen Bank Romania	Direct	20/05/02	15.0	10.0	10.0	0.0	Disbursing
27042	EU/EBRD Phase II - Ext. - Volksbank Romania	Direct	20/05/02	10.0	10.0	10.0	0.0	Disbursing
30443	EU/EBRD Phase II-Ext-Banca Comerciala Romana SME Facility II	Direct	09/12/02	20.0	20.0	20.0	0.0	Disbursing
191	Emcom-Siemens	Direct	16/12/93	26.8	7.4	7.4	0.0	Completed
1992	Energy Conservation and SME credit line	Direct	18/12/96	11.0	7.5	7.5	0.0	Completed
5422	Energy Efficiency and Emissions Reduction Fund	Regional fund investment	22/12/99	10.7	3.0	0.0	3.0	Disbursing
354	Euromerchant Balkan Fund	Regional fund investment	15/12/94	3.6	3.6	0.0	3.6	Disbursing
329	European Roads Rehabilitation Project, Romania	Direct	23/04/93	415.5	68.8	68.8	0.0	Repaying
934	Eurovision - Romanian Television	Direct	26/11/92	0.9	0.9	0.9	0.0	Completed
6354	Fibrex	Direct	30/11/00	55.0	10.0	10.0	0.0	Completed
31209	Global Growth Fund	Regional fund investment	09/05/03	8.5	3.3	0.0	3.3	Disbursing
27587	Heitman Central Europe Property Partners Fund II	Regional fund investment	09/12/02	7.5	2.1	0.0	2.1	Disbursing
4761	IMGB/FECNE	Direct	24/09/98	37.0	5.2	0.0	5.2	Completed
14808	Innova/3	Regional fund investment	23/04/01	37.7	4.5	0.0	4.5	Repaying
5024	Innova/98 LP	Regional fund investment	10/06/98	9.9	1.9	0.0	1.9	Disbursing
17210	Interamerican Romania (equity)	Direct	10/06/02	2.9	3.4	0.0	3.4	Disbursing
4921	Ion Tiriac Bank Capital Increase	Direct	20/02/98	8.8	2.8	0.0	2.8	Disbursing
27928	Ispat-Sidex Phase II	Direct	18/11/02	388.0	86.0	86.0	0.0	Disbursing
4560	Italian-Romanian Industrial Development Enterprise	Direct	17/12/98	47.2	13.1	10.9	2.2	Repaying
1826	Leventis Extension	Direct	05/05/95	19.4	3.7	3.7	0.0	Completed
2148	MBA Loan Project (guarantee)	Regional fund investment	06/03/95	0.7	0.2	0.2	0.0	Disbursing
6176	MBA Loan Project II (guarantee)	Regional fund investment	07/12/98	0.3	0.1	0.1	0.0	Signed
18466	MELF: Subproject Arad	Direct	12/12/01	20.2	4.5	4.5	0.0	Signed
18595	MELF: Subproject Brasov	Direct	18/05/02	58.7	14.5	14.5	0.0	Disbursing
15374	MELF: Subproject Constanta	Direct	18/11/00	102.6	20.0	20.0	0.0	Disbursing
16527	MELF: Subproject Iasi	Direct	12/12/01	55.0	13.2	13.2	0.0	Disbursing
29852	MELF: Subproject Targu Mures	Direct	23/10/03	48.8	7.0	7.0	0.0	Signed
4730	MPF Lafarge: Romcim	Direct	21/01/98	187.4	69.9	0.0	69.9	Disbursing
19757	Michelin Romania	Direct	27/12/01	61.7	19.4	19.4	0.0	Disbursing
11484	Microfinance Bank Romania (MIRO)	Direct	11/04/02	11.5	2.3	0.0	2.3	Disbursing
31968	Microfinance Bank Romania (MIRO) - capital increase	Direct	03/04/03	2.3	0.7	0.0	0.7	Disbursing
34785	Microfinance Bank of Romania (MIRO) - Loan	Direct	15/10/03	5.0	4.9	4.9	0.0	Disbursing
27720	MobilFon Corporate Loan Facility	Direct	27/08/02	258.1	94.6	94.6	0.0	Disbursing
5132	MobilFon Romania GSM - Phase II	Direct	20/01/99	129.3	6.6	6.6	0.0	Completed
3633	Mobifon - Romania GSM	Direct	22/09/97	337.2	89.0	89.0	0.0	Completed
400	Municipal Utilities Development Programme	Direct	09/04/95	60.7	24.1	24.1	0.0	Repaying
1869	Municipal Utilities Development Programme - Phase II	Direct	04/08/97	162.3	64.5	64.5	0.0	Repaying
2877	NAR Restructuring and Road Rehabilitation Project	Direct	20/11/96	513.0	73.9	73.9	0.0	Repaying
29124	ORCO APARTHOTELS	Regional fund investment	07/03/03	18.5	1.9	0.0	1.9	Signed
5855	PPF - Romanian - ADESGO, S.A.	Direct	10/07/98	7.4	1.2	0.0	1.2	Completed
15917	PPF - Romanian - ARCTIC	Direct	05/10/00	0.8	1.1	0.0	1.1	Completed
16747	PPF - Romanian - Advantage Software Factory	Direct	09/10/00	0.9	0.5	0.0	0.5	Disbursing
4907	PPF - Romanian - Continental S.A.	Direct	23/12/97	3.5	2.3	0.0	2.3	Disbursing
6192	PPF - Romanian - IRIDE	Direct	17/12/98	8.9	1.5	0.0	1.5	Disbursing
16969	PPF - Romanian - IRIDE	Direct	07/12/00	0.6	0.6	0.0	0.6	Disbursing
4587	PPF - Romanian - ISAF	Direct	01/08/97	20.5	0.9	0.0	0.9	Disbursing
5208	PPF - Romanian - Isaf/Prestar SRL	Direct	25/03/98	3.8	2.1	0.0	2.1	Repaying
7755	PPF - Romanian - PC-NET	Direct	09/09/99	1.2	0.7	0.0	0.7	Disbursing
17413	PPF - Romanian - PCNET Net Backbone	Direct	21/12/00	1.3	1.7	0.0	1.7	Disbursing
12065	PPF - Romanian - REGEV & INSTAL	Direct	21/03/00	1.2	0.8	0.0	0.8	Repaying
14311	PPF - Romanian - REGEV & INSTAL Loan	Direct	05/07/00	1.8	1.4	0.0	1.4	Completed

5031	PPF - Romanian - Regisco	Direct	05/12/97	0.0	0.0	0.0	0.0	Disbursing
6328	PPF - Romanian - Remayer	Direct	26/03/99	7.1	2.2	0.0	2.2	Disbursing
7754	PPF - Romanian - Sicomed	Direct	20/07/99	13.0	2.4	0.0	2.4	Disbursing
4591	Parmalat MPF - Romania	Direct	17/11/98	15.0	5.0	5.0	0.0	Disbursing
322	Petroleum Pilot Modernisation Project, Romania	Direct	14/09/92	31.7	23.5	23.5	0.0	Completed
18514	Power Sector Op. Efficiency Improvement - Termoeletrica	Direct	10/11/95	43.6	43.6	43.6	0.0	Repaying
20619	Power Sector Op. Efficiency Improvement - Transelectrica	Direct	10/11/95	67.5	26.8	26.8	0.0	Repaying
2038	Power Sector Operational Efficiency Improvement Project	Direct	10/11/95	120.3	57.2	57.2	0.0	Completed
5919	Privatisation of Romanian Development Bank (equity)	Direct	24/11/99	190.0	20.5	0.0	20.5	Disbursing
2455	Prompt SA	Direct	19/06/96	9.8	3.1	0.0	3.1	Completed
1838	Railway Rehabilitation	Direct	23/07/96	429.4	59.0	59.0	0.0	Repaying
17767	Regional Europolis Portfolio	Regional fund investment	17/12/01	75.0	26.3	10.9	15.3	Repaying
28010	Regional TFP: Banc Post	Direct	18/05/02	1.8	1.4	1.4	0.0	Signed
19336	Regional TFP: Banca Transilvania	Direct	22/05/01	3.0	3.9	3.9	0.0	Signed
27315	Regional TFP: Robank (Guarantee & Pre-export)	Direct	18/04/02	1.7	1.7	1.7	0.0	Disbursing
2833	Regional Water and Environment Programme	Direct	05/08/96	41.1	13.8	13.8	0.0	Repaying
9144	Regional/Private Equity Fund Facility - Trigranit	Regional fund investment	07/12/99	7.6	1.4	0.0	1.4	Completed
115	Rom Telecom	Direct	27/02/92	549.2	142.0	142.0	0.0	Repaying
1980	RomTelecom Transition Project	Direct	06/01/98	565.8	86.0	86.0	0.0	Repaying
4729	Romania National Power Grid Company (NPGC)	Direct	08/12/00	176.6	44.3	44.3	0.0	Disbursing
13119	Romania: Road Sector Restructuring and Pitesti By-Pass	Direct	31/12/01	114.1	60.0	60.0	0.0	Disbursing
109	Romanian Development Bank Project	Direct	19/04/94	6.6	6.6	6.6	0.0	Completed
2109	Romanian Development Bank Project (credit line)	Direct	19/04/94	38.9	38.9	38.9	0.0	Repaying
27888	Romanian Industrial Energy Efficiency Fund	Direct	13/05/03	7.4	7.0	7.0	0.0	Signed
1677	Rompak S.R.L	Direct	17/01/96	26.2	6.5	6.5	0.0	Completed
4410	SNP Petrom Pre Privatisation Loan	Direct	01/08/02	129.1	86.0	86.0	0.0	Disbursing
3645	Sical	Direct	05/11/99	61.8	6.0	6.0	0.0	Repaying
16382	Sidex	Direct	30/10/01	137.7	86.0	86.0	0.0	Completed
13828	TBIH Financial Services Group N.V. (debt & equity)	Regional fund investment	04/12/00	4.3	3.7	1.4	2.3	Disbursing
32431	Terapia SA	Direct	05/08/03	21.3	4.4	0.0	4.4	Disbursing
2969	Thermal Energy Conservation Project (TECP)	Direct	13/04/97	76.0	38.3	38.3	0.0	Repaying
666	Tiriac Bank (equity)	Direct	09/04/93	7.5	7.0	0.0	7.0	Repaying
1767	Tiriac Bank, Stand by Loan	Direct	27/07/95	17.2	17.2	17.2	0.0	Completed
2765	United Romanian Breweries SRL	Direct	08/10/96	66.8	28.4	28.4	0.0	Repaying
10972	Victoria Office Building	Direct	28/12/00	18.7	6.5	6.5	0.0	Repaying
333	Virolite	Direct	03/12/93	25.2	6.3	5.8	0.5	Completed
22908	Virolite - Write Off	Direct	03/12/93	6.2	6.9	3.7	3.2	Completed
3722	Virolite S.A. Extension	Direct	28/04/97	1.7	1.7	1.7	0.0	Completed
31469	Wienerberger - First Brick Factory	Direct	06/10/03	18.0	2.0	2.0	0.0	Signed
ROMANIA TOTAL				7,506.5	2,368.0	2,130.8	237.2	

ANNEX 4B
NET CUMULATIVE BUSINESS VOLUME
(as of 31 October 2003, EUR millions)

Sector Business Group (SIC)	Sector Team (SIC)	No. of Projects	Total Project Value	EBRD Finance	Debt	Equity	% Share of Commitments
Energy	Energy Efficiency	2.8	139	76	70	5	3%
	Natural Resources	2.0	161	110	110	0	5%
	Power and Energy	4.1	409	172	172	0	7%
Sub-total Energy		8.9	709	357	352	6	15%
Financial Institutions	Bank Equity	6.5	245	41	2	39	2%
	Bank Lending	11.8	382	350	350	0	15%
	Equity Funds	3.6	226	56	0	56	2%
	Non Bank Financial Institutions	1.5	27	24	16	7	1%
	Small Business Finance	1.1	24	11	8	3	0%
Sub-total Financial Institutions		24.5	904	482	376	105	20%
General Industry	General Industry	10.4	1,052	323	229	95	14%
Sub-total General Industry		10.4	1,052	323	229	95	14%
Infrastructure	Municipal & Env Inf	4.9	726	236	236	0	10%
	Transport	6.0	1,589	331	331	0	14%
Sub-total Infrastructure		10.9	2,315	567	567	0	24%
Specialised Industries	Agribusiness	6.7	391	141	134	7	6%
	Property and Tourism	3.5	227	64	41	23	3%
	Telecoms Informatics & Media	7.3	1,908	434	433	1	18%
Sub-total Specialised Industries		17.5	2,526	638	607	31	27%
ROMANIA TOTAL		72.1	7,506	2,368	2,131	237	100%



ANNEX 5

BILATERAL ASSISTANCE (TC) + BILATERAL DONOR SUPPORT

ANNEX 5A - TC PROJECTS

Commitment Name	Fund Short Code	EUR Committed	EUR Disbursed	Fund Approved Date	Sector	Team Name
Rom Telecommunications - project planning and monitoring	AUS	34,329	34,329	09/02/93	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media
Post-privatisation Fund - legal advice	BEL	49,827	49,827	25/01/96	Community/Social Services	GC/General Counsel/Legal Transition
Bucharest Municipal Multi-Sector Programme	BRSF	49,690	49,690	13/02/02	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure
Municipal Environmental Loan Facility Legal Advice	CAN2	24,000	24,000	15/09/00	Energy	GC/General Counsel/Bkng. Ops./Labadi
CEI Romanian Railways Cooperation Project - Project Preparation and Implementation	CEI	425,829	412,724	09/02/01	Transport, Storage	BG/Op. Teams/Transport
CEI Romanian Railways Cooperation Project	CEI	16,512	0	05/06/03	Transport, Storage	BG/Op. Teams/Transport
Rom Telecommunications - cost optimisation study	ECP	585,000	585,000	10/04/92	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media
Municipal diagnosis	ECP	181,748	181,748	20/06/92	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure
Danube Delta environment programme	ECP	717,760	717,760	20/07/92	Energy	BG/Op. Teams/Municipal & Environmental Infrastructure
Petroleum pilot modernisation - commercial accounting systems	ECP	579,490	579,490	20/07/92	Extractive Industries	BG/Op. Teams/SEEC Headquarters
Petroleum pilot modernisation - optimisation of oil production	ECP	368,880	368,880	20/07/92	Extractive Industries	BG/Op. Teams/SEEC Headquarters
Financial sector restructuring	ECP	578,000	578,000	10/08/92	Finance, Business	BG/Op. Teams/Financial InstitutionsA
Banca Agricola - credit adviser	ECP	209,472	209,472	20/12/92	Finance, Business	BG/Op. Teams/Agribusiness
Rom Telecommunications - cost optimisation study (extension of EC-1992-04-04)	ECP	88,733	88,733	20/12/92	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media
Bank Co-operative audit	ECP	204,104	204,104	20/07/93	Finance, Business	BG/Op. Teams/Financial InstitutionsA
Financial and operational audit of Dacia Felix Bank and Bank Post	ECP	260,000	260,000	20/07/93	Finance, Business	BG/Op. Teams/Financial InstitutionsA
Emergency Urban Investment Programme preparation - implementation support	ECP	856,869	856,869	17/12/93	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure
Banca Agricola - information technology	ECP	632,323	632,323	09/02/94	Finance, Business	RO/Bucharest (Romania)
Bank Co-operative Credit Adviser	ECP	312,000	312,000	12/09/94	Finance, Business	BG/Op. Teams/SEEC Headquarters
Demand-side district heating - energy conservation	ECP	415,841	415,841	18/08/95	Energy	BG/Op. Teams/Energy Efficiency
NAR divestiture and commercialisation of periodic road maintenance project	ECP	889,000	889,000	04/10/96	Construction	BG/Op. Teams/SEEC Headquarters
Initial motorway concession project (Bucharest-Giurgiu)	ECP	997,634	997,634	08/10/96	Transport, Storage	BG/Op. Teams/Transport
Institutional development and implementation support - extension for Municipal Utilities Development Programme	ECP	764,004	764,004	22/05/97	Energy	BG/Op. Teams/Municipal & Environmental Infrastructure
Bucharest Municipality - Bucharest north-east electric and district heating station - financial advisory services	ECP	219,690	219,690	24/09/97	Energy	BG/Op. Teams/Power and Energy

Legal advisory services to the Municipality of Bucharest	ECP	46,719	46,719	03/12/97	Energy	BG/Op. Teams/Power and Energy
Romanian Port commercialisation enhancement programme	ECP	320,234	320,234	26/08/98	Transport, Storage	BG/Op. Teams/Transport
Establishment of National Power Grid Company	ECP	1,057,820	1,057,820	03/11/98	Energy	BG/Op. Teams/Power and Energy
NAR divestiture and commercialisation of road maintenance project - extension of contract	ECP	338,765	338,765	15/12/98	Construction	BG/Op. Teams/SEEC Headquarters
Oradea - Romania District Heating Concession Programme	ECP	310,682	292,247	28/03/01	Energy	BG/Op. Teams/Financial InstitutionsA
Romania District Heating Rehabilitation - Municipal Services	ECP	302,410	302,085	18/07/01	Energy	BG/Op. Teams/Energy Efficiency
Assistance with Road Sector Restructuring	ECP	499,925	465,633	18/12/01	Construction	BG/Op. Teams/Transport
Preparation of a PPP Strategy for Roads	ECP	249,998	231,264	18/12/01	Construction	BG/Op. Teams/Transport
Legal Advice to Country of Constanta for Privatisation of Water Services	ECP	600,000	453,518	05/12/01	Energy	BG/Op. Teams/Municipal & Environmental Infrastructure
Romania District Heating Concession Programme: Municipal Services - Bistrita	ECP	335,000	318,233	07/09/99	Energy	BG/Op. Teams/Energy Efficiency
Romania district heating concession programme - banking services	ECP	184,200	93,920	26/11/99	Energy	BG/Op. Teams/Energy Efficiency
Romania district heating concession programme - municipal services - Ramnicu Valcea	ECP	221,145	221,145	07/09/99	Energy	BG/Op. Teams/Energy Efficiency
Romania District Heating Concession Programme: Municipal Services - Tigru Mures	ECP	345,000	301,429	07/09/99	Energy	BG/Op. Teams/Energy Efficiency
Regional water and environment - feasibility study	ENE	138,403	138,403	01/04/96	Energy	BG/Op. Teams/Municipal & Environmental Infrastructure
Romanian Post Privatisation Fund - Exit Strategy Advice and Assistance "B"	EURPP	250,000	33,857	20/08/01	Finance, Business	RO/Bucharest (Romania)
Romanian Post Privatisation Fund - Exit Strategy Advice and Assistance "A"	EURPP	250,000	74,275	20/08/01	Finance, Business	RO/Bucharest (Romania)
Romanian Post-Privatisation Fund - Specialised Advisory Services - Individual Contracts	EURPP	931,783	457,521	26/09/01	Finance, Business	RO/Bucharest (Romania)
Romanian Post-Privatisation Fund - Investment Advisory Services - KPMG	EURPP	101,860	47,540	26/09/01	Finance, Business	RO/Bucharest (Romania)
Romanian Post-Privatisation Fund - Investment Advisory Services - Arthur Andersen	EURPP	530,829	264,725	26/09/01	Finance, Business	RO/Bucharest (Romania)
Romania Post Privatisation Fund - Fund Manager	EURPP	1,004,688	1,004,688	18/12/01	Finance, Business	BG/Op. Teams/Financial InstitutionsA
Romanian Post-privatisation Fund - fund manager fees	EURPP	2,999,563	2,999,563	20/12/96	Finance, Business	BG/Op. Teams/Financial InstitutionsA
Romanian Post-privatisation Fund - procurement agent	EURPP	617,266	617,266	20/12/96	Finance, Business	BG/Op. Teams/Financial InstitutionsA
Investment advisory services I	EURPP	1,253,603	1,196,983	20/12/96	Finance, Business	RO/Bucharest (Romania)
Romanian PPF: Investment advisory services II - Arthur Andersen	EURPP	1,069,171	1,005,666	20/12/96	Finance, Business	RO/Bucharest (Romania)
Romanian PPF: Specialised Investment Advisory Services - procurement agent	EURPP	990,799	931,361	20/12/96	Finance, Business	RO/Bucharest (Romania)
Telecommunications project - management review	FIN	53,829	53,829	15/01/92	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media
Financial management systems	FIN	185,332	185,332	17/01/97	Energy	BG/Op. Teams/Energy Efficiency
Motorways and railways concession law	FRA	44,685	44,685	06/02/96	Transport, Storage	General Counsel
Romania District Heating Rehabilitation - Municipal Services	FRB	32,590	0	11/03/03	Energy	BG/Op. Teams/Energy Efficiency
Financial management systems	GER	176,089	176,089	31/01/97	Energy	BG/Op. Teams/Energy Efficiency

Thermal Energy Conservation Project - Monitoring Assistance Adviser	GERK	49,066	49,066	12/12/00	Community/Social Services	BG/Op. Teams/Energy Efficiency
Transelectrica SA- Environmental Management System	GERK	182,400	137,753	25/10/01	Energy	BG/Op. Teams/Power and Energy
Rom Telecommunications - tender evaluation	HOL	56,395	56,395	29/10/92	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media
Establishment of Export-Import Bank	HOL	75,274	75,274	16/11/92	Finance, Business	RO/Bucharest (Romania)
Emergency urban investment programme - investment programme preparation	HOL	220,086	220,086	30/09/93	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure
Emergency urban investment programme - project preparation management	HOL	51,553	51,553	24/11/93	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure
Regional water and environment - feasibility study	HOL	12,147	12,147	01/04/96	Energy	BG/Op. Teams/Municipal & Environmental Infrastructure
Viromet S.A. restructuring - energy efficiency audit and investment plan	HOL	52,429	52,429	27/06/96	Manufacturing	BG/Op. Teams/SEEC Headquarters
Alro Environment Audit	HOL	70,489	70,489	27/07/00	Manufacturing	BG/Op. Teams/SEEC Headquarters
Municipal Utilities Development Programme II - Continued Support in Programme Implementation	HOL	184,073	184,073	09/05/01	Energy	BG/Op. Teams/Infrastructure Front Office
SNP Petrom PP Corporate Governance - Outside Board Directors	HOL	71,500	0	31/07/03	Extractive Industries	BG/Op. Teams/SEEC Headquarters
Consultancy services for the Romania municipal utilities development project	NE07	2,435,302	2,435,302	31/01/95	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure
Support for Private Participation in Romanian Thermal Generation Sector	IRL	46,106	20,925	12/07/02	Energy	BG/Op. Teams/Power and Energy
Arctic S.A. privatisation and modernisation	ITA	129,438	129,438	05/06/96	Manufacturing	BG/Op. Teams/SEEC Headquarters
TurnAround Management Programme (TAM) - SC Exfor SA	ITA	8,258	8,258	06/07/00	Manufacturing	PE/ESE/TurnAround Management Group
TurnAround Management Programme (TAM) - SC Marmosim SA	ITA	60,000	59,909	07/08/00	Manufacturing	PE/ESE/TurnAround Management Group
TAM Programme - SC Marmosim SA (Extension)	ITA	7,310	0	15/05/03	Manufacturing	PE/ESE/TurnAround Management Group
Trans-European Motorway - pre-investment study	JAP	355,912	355,912	01/09/92	Transport, Storage	BG/Op. Teams/SEEC Headquarters
Bucharest wholesale market	JAP	173,231	173,231	01/10/92	Manufacturing	BG/Op. Teams/Agribusiness
Petroleum sector environmental assessment	JAP	479,343	479,343	01/12/92	Energy	BG/Op. Teams/Financial InstitutionsA
Financial sector restructuring - legal advice	JAP	81,699	81,699	01/12/92	Finance, Business	BG/Op. Teams/Financial InstitutionsA
Financial sector restructuring project (Phase II)	JAP	195,692	195,692	01/05/93	Finance, Business	BG/Op. Teams/Financial InstitutionsA
Agriculture sector investment strategy	JAP	111,781	111,781	01/05/93	Manufacturing	BG/Op. Teams/Agribusiness
TurnAround Management Programme - Electric Group SA	JAP	49,758	49,758	01/05/93	Manufacturing	BG/Op. Teams/Financial InstitutionsA
TurnAround Management Programme - Precizia S.A.	JAP	49,423	49,423	01/05/93	Manufacturing	BG/Op. Teams/Early Stage Equity
TurnAround Management Programme - Plevnei S.A.	JAP	49,801	49,801	01/05/93	Manufacturing	PE/ESE/TurnAround Management Group
Romanian Development Bank - credit adviser	JAP	196,262	196,262	08/02/94	Finance, Business	RO/Bucharest (Romania)
Banca Agricola - credit adviser	JAP	89,057	89,057	01/05/94	Finance, Business	BG/Op. Teams/Agribusiness
Energy conservation	JAP	217,171	217,171	01/03/95	Energy	BG/Op. Teams/SEEC Headquarters
TurnAround Management Programme - Industria Sarnei II	JAP	40,800	40,800	01/09/97	Manufacturing	PE/ESE/TurnAround Management Group
TurnAround Management Programme - TurnAround Management Programme operational teams Corint S.A.	LUX	55,916	55,916	23/09/93	Manufacturing	PE/ESE/TurnAround Management Group

Microenterprise Credit Romania - stipends for trainee loan officers	LUX	36,787	36,787	13/09/00	Finance, Business	BG/Op. Teams/Group for Small Business
Microenterprise Credit Romania - stipends for trainee loan officers	LUX	213,213	193,797	26/06/02	Finance, Business	BG/Op. Teams/Group for Small Business
Bucharest water project assessment (task group I)	NOR	36,921	36,921	01/09/93	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure
Romanian Banking Institute - training programme	SWI	231,600	231,600	01/04/92	Finance, Business	RO/Bucharest (Romania)
Telecommunications quality control training	SWI	12,219	12,219	02/12/92	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media
Preparation of Investment Plan - Bucharest District Heating	SWI	44,706	44,706	19/04/02	Finance, Business	PE/ESE/Project Preparation Committee
Bucharest District Heating: Baseline Study and MVP	SWI	40,500	36,106	08/05/02	Finance, Business	BG/Op. Teams/Energy Efficiency
Privatisation and economic reform advice	TAI	153,214	153,214	01/02/92	Community/Social Services	BG/Op. Teams/Financial InstitutionsA
Romanian Banking Institute - computer equipment (tied portion)	TAI	133,697	133,697	01/08/92	Finance, Business	RO/Bucharest (Romania)
Banca Agricola - credit adviser	TAI	216,745	216,745	01/10/92	Finance, Business	BG/Op. Teams/Agribusiness
Bucharest water project assessment (task group II)	TAI	11,159	11,159	01/09/93	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure
Romanian Banking Institute (tied portion)	TAI	69,658	69,658	14/03/95	Finance, Business	RO/Bucharest (Romania)
Evaluation of Taiwanese suppliers in the water sector	TAI	3,786	3,786	29/03/96	Energy	BG/Op. Teams/Municipal & Environmental Infrastructure
Light sources financial review	UK9505	12,687	12,687	01/04/95	Manufacturing	BG/Op. Teams/SEEC Headquarters
Agribusiness development - Banca Agricola (Phase II)	UKC	181,312	181,312	03/08/95	Finance, Business	BG/Op. Teams/Agribusiness
Viromet S.A restructuring - strategic assessment	UKC	181,831	181,831	16/05/96	Manufacturing	BG/Op. Teams/SEEC Headquarters
Viromet S.A. restructuring - environmental audit	UKC	38,203	38,203	16/05/96	Manufacturing	BG/Op. Teams/SEEC Headquarters
Arctic S.A. privatisation and modernisation	UKC	87,455	87,455	21/06/96	Manufacturing	BG/Op. Teams/SEEC Headquarters
Arctic S.A. privatisation and modernisation	UKC	12,277	12,277	03/10/96	Manufacturing	BG/Op. Teams/SEEC Headquarters
TurnAround Management Programme - Tomiris II	UKC	50,176	38,347	15/08/97	Manufacturing	PE/ESE/TurnAround Management Group
TurnAround Management Programme - Industria Sarnei II	UKC	9,371	9,371	01/09/97	Manufacturing	PE/ESE/TurnAround Management Group
TurnAround Management Programme (TAM) - Policolor II	UKE	59,102	59,102	30/05/00	Manufacturing	PE/ESE/TurnAround Management Group
Romania Railways Station Energy Efficiency Component	UKE	49,916	46,489	14/03/02	Transport, Storage	BG/Op. Teams/Financial InstitutionsA
Restructuring and privatisation of Regii Autonome diagnostic and scoping mission	USA	27,525	27,525	20/07/98	Energy	BG/Op. Teams/Municipal & Environmental Infrastructure
Municipal Environmental Loan Facility Legal Advice	USA	21,272	21,272	14/09/00	Energy	GC/General Counsel/Bkng. Ops./Labadi
Legal Framework for Financing & Provision of Local Government Services	USA	22,748	22,748	16/10/01	Energy	BG/Op. Teams/Municipal & Environmental Infrastructure
Microfinance Bank of Romania	USSP	379,579	379,579	07/09/01	Finance, Business	PE/ESE/TurnAround Management Group
Microfinance Bank of Romania	USSP	1,479,080	950,923	08/05/02	Finance, Business	BG/Op. Teams/Group for Small Business
MIRO Bank Romania - Operation and Regional Expansion	USSP	911,494	0	21/07/03	Finance, Business	BG/Op. Teams/Group for Small Business

Report Total EUR Amount:

35,489,026

32,064,372

No of Commitments:

114

ANNEX 5B

TC FUNDS AND DONORS - AGGREGATE COMMITMENTS⁸

<i>Donor</i>	<i>EUR Committed</i>
European Commission	13,672,444
EU Romania Post Privatisation Fund	9,999,563
Netherlands	3,367,651
US	2,841,697
Japan	2,089,930
UK	682,330
Taipei China	588,259
Central European Initiative	442,341
Germany	407,554
Switzerland	329,025
Luxembourg	305,916
Finland	239,161
Italy	205,006
France	77,275
Belgium	49,827
Balkan Region Special Fund	49,690
Ireland	46,106
Norway	36,921
Austria	34,329
Canada	24,000
TOTAL:	35,489,026

⁸ Administered in co-operation with the Bank

ANNEX 6

TURNAROUND MANAGEMENT PROGRAMME IN ROMANIA

The TAM Programme brings industry specific management expertise to enterprises. Providing the advisory services of experienced former CEOs and directors of large companies from economically developed countries, TAM assists enterprises to operate successfully and develop new business skills at the senior management level. To date, Donors have committed EUR 64 million (USD 70 million), allowing TAM to undertake nearly 1000 projects.

The TAM Programme was developed in the early nineties by the EBRD and the United Nations Development Programme, with the support of the European Union Phare Programme. TAM works directly with individual enterprises, providing industry-specific advice, developing management skills, and assisting them to operate successfully in a market economy

The TAM Programme maintains a pipeline of eligible projects so that funds provided by the donors can be utilised swiftly.

Objectives

The TAM Programme supports economic reform by transferring management and technical know-how, conveying the principles of responsible corporate governance and sharing commercial experience directly with potentially viable enterprises.

In addition to improving business performance, TAM may, if the enterprises request it, assist enterprises to communicate with potential investors, including the EBRD and EBRD-related financial intermediaries. However, transformation of the management of the enterprise is the primary TAM objective.

By developing strong management at the SME level, the TAM Programme acts as a catalyst for economic and social transition, contributing to donor objectives for alleviating poverty, improving standards of living and increasing social cohesion in both the EU accession and the lower transition countries.

Overview of Activities

As of September 2003 TAM had undertaken 83 projects in Romania with 72 enterprises utilising EUR 4.74 million (USD 5.2 million) of Donor funding. 89% of the funding for TAM in Romania has been provided by the EU Phare Programme, with additional support coming from individual donor countries, namely Japan, Luxembourg, Canada, UK and Italy. The "success rate" of TAM projects in Romania is 84%, which is above the overall rate of 81% for TAM in all countries of operation.

Case Study - Romania

Furniture and Plyboard Manufacturer – Project funded by the EU Phare Programme

Partner Enterprise

The enterprise was one of the largest wood processing companies in Romania, exporting plywood and furniture products to the Middle East, Russia and throughout Western Europe. Although the company had demonstrated growth in recent years, profits and cash flow had

been marginal. As a result all, investment has been based upon high interest external, financing.

TAM support

The TAM team and the CEO agreed that the objectives of the project should be to introduce cash flow management and to develop a business plan including:

- mission and vision;
- management philosophy for team building;
- marketing and sales strategies;
- methods for increased productivity in administration and production; and
- the introduction of newly designed furniture for direct sale both on the domestic and on the export markets.

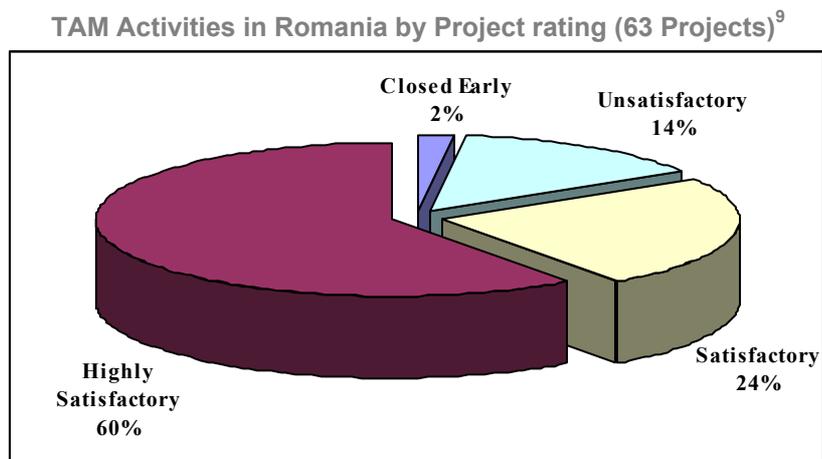
A cash flow management system was quickly introduced and a comprehensive Business Plan prepared. During the initial stages of implementing the plan:

- there has been a significant increase in productivity;
- new plywood products based upon TAM Team recommendations have been introduced;
- three new ranges of furniture have been developed, one of which has already been introduced to the market with immediate success; and
- the furniture plant now has orders for next year exceeding its current capacity.

Outcome

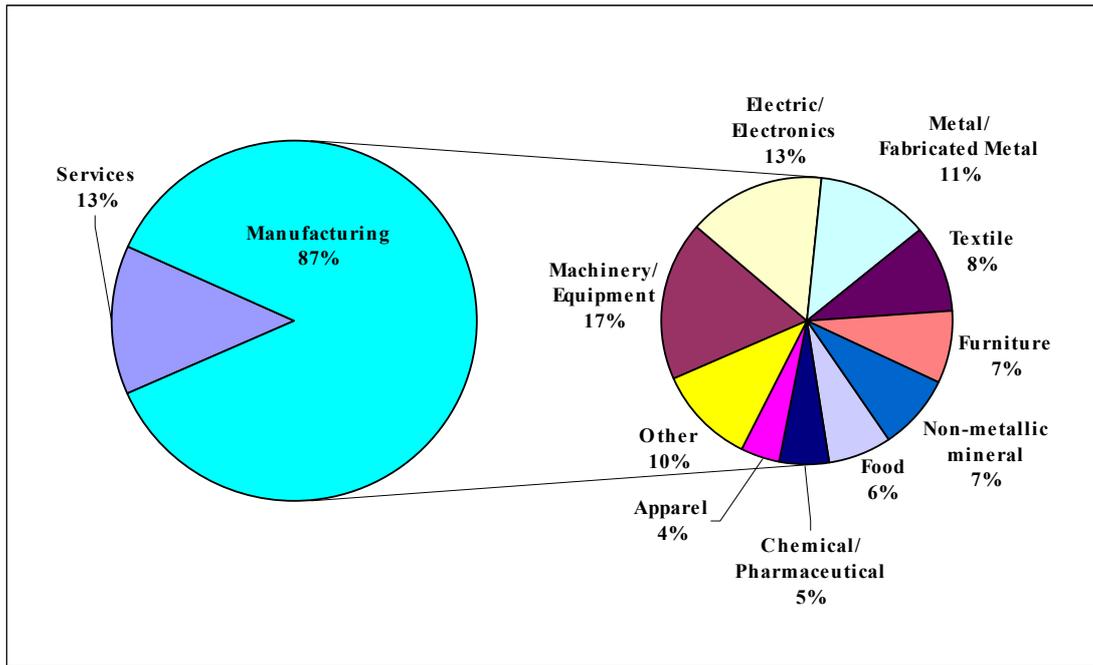
The CEO and the managers were, at the start of the TAM Project, rather sceptical but became fully engaged, enthusiastic and responsive during the process of developing the business plan. At the end of the project, the management team had a much better understanding of how to develop their business and has applied to the TAM Programme for a continuation of the project. They would value TAM's further assistance in implementing all of the TAM Team's recommendations and then further enhancing and expanding the enterprise.

TAM Programme Statistics as of September 2003



⁹ As of September 2003, 20 out of 83 TAM projects have not been finalised.

TAM Activities in Romania by Industry Sector (83 Projects)



TAM Activities in Romania by Geographic Location (83 Projects)

