

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

**STRATEGY  
FOR  
ROMANIA**

As approved by the Board of Directors at its Meeting on 29 April 2008

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## EXECUTIVE SUMMARY

Romania continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. Since the last strategy, the country has made further progress with market-oriented reforms, in an environment of strong economic growth and major inflows of foreign direct investment (FDI). Romania's accession to the EU on January 1 2007 was an important landmark and reflects the remarkable progress made by the country in its transition, especially during the current decade. The country remains well placed to capitalise further on the advantages of EU membership and to continue the catch-up process with other EU countries. However, Romania still faces significant economic and institutional post-accession reform challenges, and the Bank aims to assist the country in meeting these challenges successfully over the strategy period.

The Romanian economy grew by 7.9 per cent in 2006 and 6 per cent in 2007. The main driver of growth has been domestic demand, with strong wage and credit growth helping to fuel a consumption boom, whilst at the same time investment has grown rapidly. Signs of overheating, however, are apparent. Inflation rose during 2007 to end the year at an annual rate above 6 per cent, fiscal pressures have been increased by major spending increases on public sector wages and benefits, and the current account deficit has expanded to around 14 per cent of GDP. These trends have increased the risks facing the economy and call for a determined policy response in the short-term and an enhanced focus on corporate and bank governance to mitigate these macroeconomic vulnerabilities.

Romania has made significant progress over the transition period towards the standards of advanced market economies. In many respects, these standards have been fully achieved; for example, the degree of liberalisation in price setting, trade and foreign exchange is fully comparable to other EU countries. However, the transition in Romania is not yet complete, and the country continues to face some post-accession transition challenges. Mostly, these challenges are associated with deepening and sustaining market forces, for example through the promotion of better standards of corporate governance, the enforcement of competition rules, the further expansion of financial intermediation (especially in the non-banking sector), the commercialisation of infrastructure services and the development of the local capital market infrastructure. These objectives are difficult to achieve, but they will be necessary to ensure long-term prosperity.

The business environment in Romania has improved since the last strategy was approved, but competition from the EU's single market has highlighted the urgent need to restructure many companies. Better governance standards and the enforcement of regulations are needed to support this restructuring. As noted by the European Commission, judicial reform and the fight against corruption are key challenges facing the country and, while progress has been made in the past year in these areas, efforts must be stepped up in order for Romania to remain an attractive destination for investment.

The Bank is well placed to assist Romania in meeting the remaining transition challenges effectively. The Bank's cumulative commitments to Romania have now reached EUR 3.54 billion and the Bank has signed 248 transactions (as at the end December 2007). In

addition the Bank has mobilised further funding of EUR 6.5 billion or over 10 billion of total funding. The Bank has identified a number of key areas where it can still have a strong transition impact. Accordingly, the Bank will focus on the following priorities over the forthcoming strategy period.

- The Private Enterprise Sector – the Bank will provide support to the local private sector, with a special focus on competitiveness and expansion throughout Romania and cross-border. The Bank will pay particular attention to the development of businesses in less advanced regions of Romania in order to promote regional integration. The single EU market and competition from Asia are challenges to the Romanian private sector which the Bank will help address through finance and expertise. Investment requirements will be addressed in a range of areas including services, manufacturing, technology and skills training. Funding requirements will be considered in close collaboration with local banks and private equity funds. The Bank will diversify its range of financing products to include more high-risk instruments (such as equity, quasi equity, and structured debt) to support the restructuring, consolidation and expansion of local companies on the Romanian market and to attract further FDI. The Bank will enhance its efforts to lend in local currency to those borrowers which generate local currency revenue streams. Local currency loans are critical to mitigate potential foreign exchange exposure which may arise for borrowers whose revenues are denominated in RON but which do not have matching RON liabilities. Financial tools, such as dedicated credit lines utilising EU post accession funds, will be tailored to help local businesses.
- The Energy Sector – The Bank will continue to invest with both the public and private sectors in energy generation, transmission and distribution, including policy dialogue to promote appropriate regulatory and institutional reform in line with the EU Directives and the Government’s recently approved energy strategy. In addition there is a particular need to invest in the upgrade and rehabilitation of electricity assets, especially power stations. Energy efficiency and renewable energy projects will be promoted as part of the Bank’s Sustainable Energy Initiative. The Bank will work to help address Romania’s high energy intensity challenge (which is negatively affecting the economy’s competitiveness) by promoting energy efficiency projects, for municipalities, industries and households.
- Infrastructure – The Bank plans to assist Romania improve its infrastructure, including the transport sector, to ensure enhanced regional cooperation, improved trade and the utilisation of Single Market benefits. This includes improving the administrative capacity for structuring PPPs and supporting private sector capital in key transport infrastructure projects that will enhance economic development. In addition, the Bank will continue its activities in the municipal sector throughout the country, especially in view of the opportunities arising from the EU post-accession structural and cohesion funds. This will include a focus on the smaller municipalities. The Bank will continue to pursue lending on a commercial basis directly to regional water and waste water companies to upgrade and expand their assets and to municipalities for urban transport and roads, energy efficiency and solid waste transactions.

During the strategy period the Bank will continue to work very closely with the government, the EU and the EIB (including through the joint JASPERS initiative) on how to facilitate and properly use Structural and Cohesion Funds as part of the EU Agenda. In accordance with this Strategy, the Bank will continue to ensure that all EBRD operations in Romania meet sound banking principles have transition impact, are additional, comply with the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans to also support the country to meet its EU environmental acquis objectives.

## LIST OF ABBREVIATIONS

ABV	Annual Business Volume
AFI	Financial Markets Association
BAS	Business Advisory Services
BCR	Banca Comerciala Romana (Romanian Commercial Bank)
BRD	Banca Romana de Dezvoltare (Romanian Development Bank)
BSE	Bucharest Stock Exchange
ROBOR	Romanian Inter-Banking Offered Rate
CAP	Common Agricultural Policy
CBIT	Ion Tiriac Bank
CEC	Savings Bank
CPI	Corruption Perceptions Index
CNVM	National Securities Commission of Romania ( <i>Comisia Națională a Valorilor Mobiliare</i> )
DP	Democratic Party
EC	European Commission
ECSEE	Energy Community of Southeast Europe
EIB	European Investment Bank
ERU	Emission Reduction Unit
EU	European Union
EUR or €	Euro
FDI	Foreign Direct Investment
FY	Financial Year
GDP	Gross Domestic Product
ILO	International Labour Organisation
IPO	Initial Public Offering
IPPC	Integrated Pollution Prevention and Control
ISPA	Instrument for Structural Policies for Pre-Accession
JASPERS	Joint Assistance for Preparing Projects in European Region
LiTS	Life in Transition Survey
MCCF	Multilateral Carbon Credit Fund
MELF	Municipal Environmental Loan Facility
MSMEs	Micro and Small and Medium Enterprises
NBR	National Bank of Romania

NCMNR	National Company for Motorways and National Roads
NBFI	Non-Banking Financial Institutions
NGOs	Non-Governmental Organisations
NDP	National Development Plan
NSRF	National Strategic Reference Framework
PHARE	Poland Hungary Aid for Reconstruction of the Economy
PNL	National Liberal Party
PPF	Post Privatisation Fund
PPP	Purchasing Power Parity, or depending on the context
PPP	Public Private Partnership
PSC	Public Service Contract
PSD	Social Democratic Party
RON	Romanian Lei
SAPARD	Special Action Programme for Agriculture and Rural Development
SEFF	Sustainable Energy Financing Facility
SEI	Sustainable Energy Initiative
SMEs	Small and Medium Enterprises
SOP	Sector Operational Programme
STEM	Science, Technology and Engineering and Mathematics
TAM	Turn-Around Management
TC	Technical Co-operation
TFP	Trade Facilitation Programme
UDMR	Democratic Union of Hungarians in Romania
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD or US\$	United States Dollar
WHO	World Health Organisation

# 1. THE BANK'S PORTFOLIO

## 1.1. Introduction

The Bank's cumulative commitments to Romania have now reached EUR 3.54 billion and the Bank has signed 248 transactions (as at the end December 2007). In addition the Bank has mobilised further funding of EUR 6.5 billion or over EUR 10 billion of total funding. Within the last strategy period (since December 2005), the Bank's portfolio has developed further, with new business volumes of EUR 601 million in 58 new projects (including regional projects). The portfolio growth over the last two years has been 22 per cent, most of which has been in the private sector and there have been some new innovative equity investments. The financial performance of the Bank's portfolio has been good and the Bank has achieved significant transition impact through its projects and associated policy dialogue.

## 1.2. Overview of Activities to Date

The Bank's outstanding portfolio in Romania amounts to just over EUR 1.8 billion and is spread across a broad range of sectors: Corporate 28%, Energy 11%, Infrastructure 33% and Financial Institutions 28% (see Chart 1).

**Chart 1: Sectoral Breakdown of Current Portfolio in EUR million**

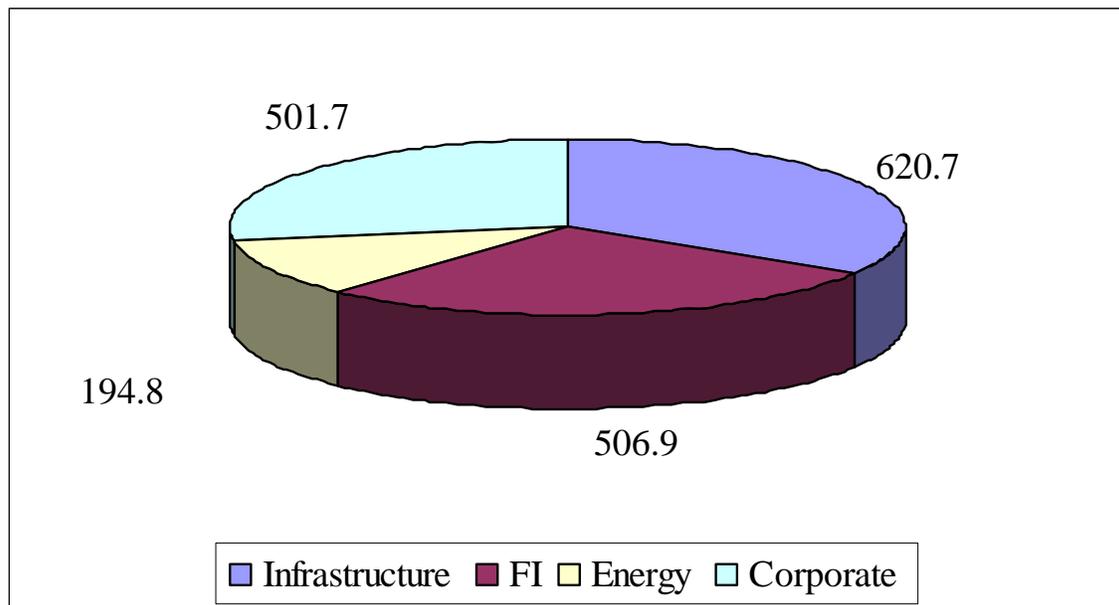


Table 1 below illustrates how the portfolio has evolved over the last two years since the previous Country Strategy was approved.

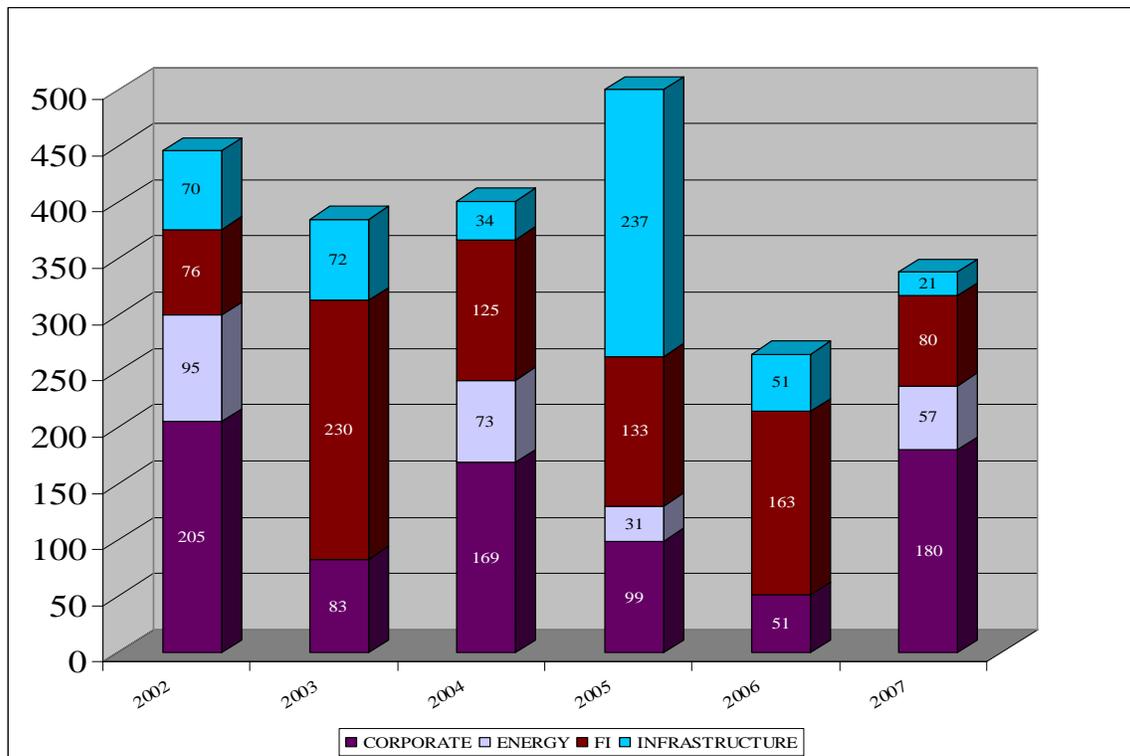
**Table 1: Romania Portfolio (2005 – 2007)**

Indicators	December 2005				December 2007			
	Number	%	Amount €m	%	Number	%	Amount €m	%
<b>Total:</b>	<b>110</b>	<b>100</b>	<b>1,881</b>	<b>100</b>	<b>111</b>	<b>100</b>	<b>1,824</b>	<b>100</b>
- of which: state sector	34	31	707	37	44	40	658	35
private sector	76	69	1,174	63	67	60	1,166	65
- of which: loans	88	80	1,454	79	91	82	1,364	75
equity	24	20	426	21	20	18	459	25
guarantees	0	0	1	0	0	0	1	0

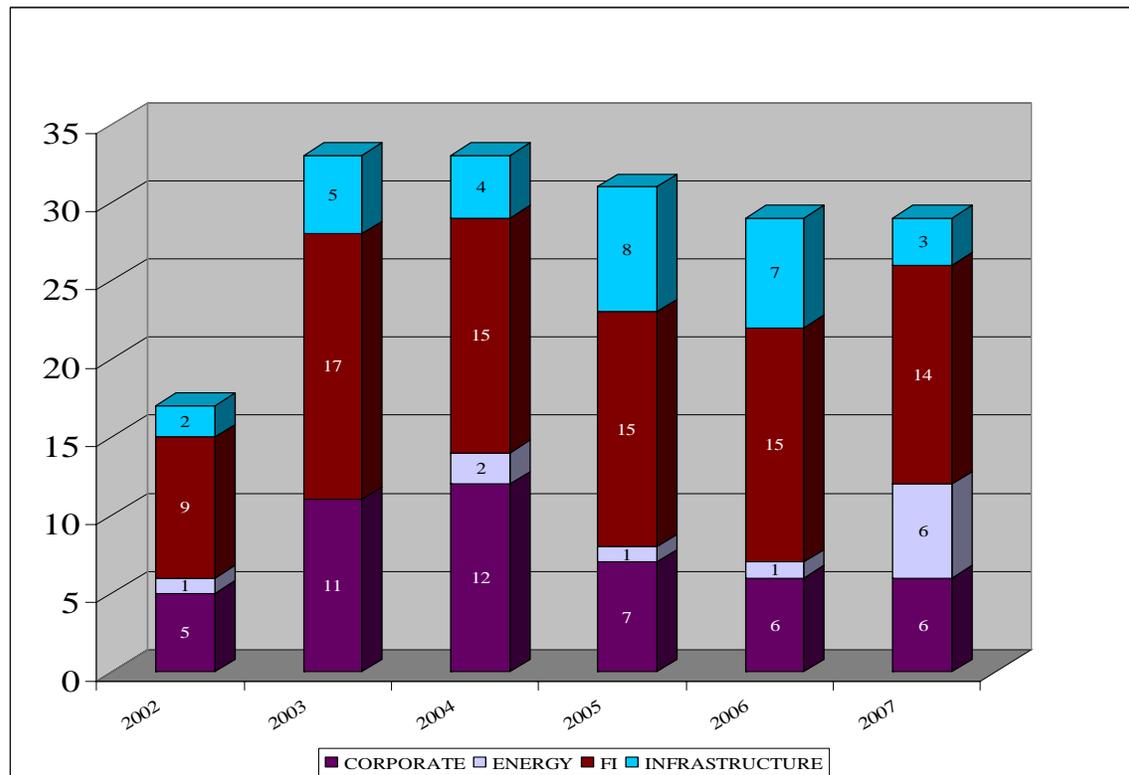
*Note: Some projects include both loans and equity. Figures are net of full repayments and cancellations.*

Charts 2 and 3 illustrate the Bank's annual business volumes and the number of projects (including regional projects) signed each year from 2002 to 2007. See Annex 1 for a more detailed breakdown of this data.

**Chart 2: Annual Business Volume in EUR million per year**



**Chart 3: Annual Number of Projects Signed**



It is clear from Charts 2 and 3 that although the number of projects signed in Romania has remained more or less constant over the last few years, there has been a fall in the annual business volumes from a peak of EUR 500 million in 2005. The fall in business volume is largely because the Bank is no longer involved in sovereign lending and less involved in privatisations, which has particularly affected the FI and transport sectors. However, investments in the energy sector are increasing and the corporate sector, especially agribusiness, did well last year (in terms of business volume). The overall trend in Romania is for smaller and more complicated projects and such opportunities tend to be in the corporate sector, in the area of financing the energy sector (on a non-sovereign basis), with smaller clients in the municipality sector and by developing specialised products for financial institutions.

### **1.3. Implementation of the Previous Country Strategy**

The last country strategy, approved by the Board in December 2005, outlined the following strategic priorities and transition goals for the Bank in Romania:

- Continue to support infrastructure and energy development particularly through the transfer to private ownership and commercialisation of energy utilities. Support the government's efforts to utilise PPP financial structures in infrastructure. Prioritise infrastructure development designed to address regional integration. Support the creation of a Regional Energy Market in South East Europe.

- Support the private sector together with foreign and local investors with a special focus on equity and long-term local currency funding. Further support the improvement of the investment climate through ongoing policy dialogue.
- Contribute to the broadening and deepening of financial intermediation through strengthening financial intermediaries and facilitating the availability of a wide range of financial products.

Overall the Bank has managed to achieve most of the operational objectives:

- In the infrastructure and energy sectors, the Bank has been instrumental in supporting the privatisations of the electricity and gas distribution companies. The EBRD has also financed the Timisoara District Heating project, the first transaction in Romania which included carbon financing, and took a stake in Transgaz, when it was listed in order to assist with the timely monetisation of its future carbon credits. It was also involved in the improvement of urban transport through the extension of loans to municipal-owned companies, in Brasov and Sibiu, on the basis of a public service contract.
- Regarding private sector development, the Bank has provided support for several foreign investors, including Gaz de France and E.ON, through equity co-investments in gas and electricity distribution companies. It has also financed major green-field and brown-field investments, including Egger and Tenaris, and provided equity to selected industries (via regional equity funds) and loans to support Micro, Small and Medium Enterprises.
- In the financial sector, the Bank has contributed to the deepening of financial intermediation in a number of ways. It implemented the first factoring transaction (Compania de Factoring) and its first rural facility in Romania (CEC-Romanian Savings Bank), continued to support the micro and SME sector, including rural facilities (Procredit, Micro Credit Facility, dedicated credit lines) and built up a large mortgage portfolio. It has also syndicated a loan to BRD and it played a major role in the restructuring and privatisation of BCR, thus increasing competition in the banking sector.

#### **1.4. Transition Impact of the Bank's Portfolio and Lessons Learned**

The Bank has played a major role in promoting and supporting Romania's transition to a functioning market economy. It has invested in a considerable number of projects to support private sector development and FDI, including in the sectors of energy and energy efficiency, infrastructure, banking, telecommunications, as well as projects in property and tourism, agriculture and general industry. Through these investments, and the direct participation in the executive boards of certain companies, the Bank has been able to contribute to improved corporate governance practices, to raising general business standards and has assisted these businesses in dealing with EU post-accession challenges.

The Bank will build on this experience to strengthen further co-operation with the Romanian authorities and the local business community. It will also maintain the

transition momentum by considering more innovative and riskier investments, including more equity related products.

#### **1.4.1 The Enterprise Sector**

**Agribusiness** – The Bank’s operations have covered projects in various sectors, including soft drinks, dairy, retail, confectionary, malt beer and glass packaging. The Bank has contributed to developing the market and enhancing competition, both of which benefit consumers.

The warehouse receipt system is now legally possible, but only one project has been implemented so far.

**General Industry** – Since 2000, the Bank carried out a number of important investments. The project with Sidex contributed to its privatisation and successful restructuring, whilst the investment in Wienerberger contributed to the successful construction of several factories producing building materials.

**Property & Tourism** – To date, the Bank has financed the first hotel privatisation, an industrial park, a regional retail development programme and several office developments thus increasing competition in the sector and transferring skills and know-how. The participation of the Bank in real estate equity funds or through equity at the level of the holdings enabled indirect financing for various residential, office and retail projects and ensured that proper corporate governance was implemented and complex developments were carefully developed and monitored.

**Telecommunications** – The Bank contributed to the privatisation of RomTelecom through loans, technical advice and training. In addition, the Bank provided loans to Mobifon, a mobile phone operator, and Astral Telecom, a cable operator, to enhance competition. Last year, the Bank signed its first project in the postal sector and provided a long term syndicated loan for the modernisation of Posta Romana’s (Romanian Post) operations, in support of and as part of its restructuring programme.

**TAM/BAS** - TAM has been operating in Romania since 1993 and has provided 95 projects, using over EUR 3.8 million of funds from the EU Phare Programme and various bilateral donors, including Italy, Japan, Luxembourg, United Kingdom, Belgium, France and Canada.

BAS has been operating in Romania since July 2006 supported by Austria’s contribution of EUR 22 million and has undertaken 44 consultancy projects with MSMEs from a range of sectors, thus contributing to the development of a thriving local consultancy market in Romania and assisting many MSMEs to meet the required EU standards and to become more competitive.

Based on the analysis undertaken to develop the TAM/BAS Strategic Plan 2008-2010, Romania is ranked 8th out of 28 transition countries in terms of doing business and has a business sophistication score of 3.9 out of 7. Romania has made progress in developing

business support services, guided in part by the EU accession processes. However, regional disparities are significant.

A more detailed review will be undertaken for the TAM/BAS country strategy for Romania, which will determine appropriate levels of future operational engagement in the country.

Overall, the transition impact within the *Enterprise* Sector is rated as *Moderate to Significant*.

#### **1.4.2 Infrastructure and Energy**

**Power** – Under its early loans to the state-owned companies, Termoelectrica and Transelectrica, the Bank covenanted improved payment discipline, tariff reform, and structural reform including unbundling. In addition, the Bank assisted with legal and regulatory requirements. As a result, an electricity grid code was implemented and the Energy Law was approved in 2003. In 2007, the Bank supported the Romanian Energy Strategy with comments, as part of the public consultation process, and through policy dialogue.

**Natural Resources** – A significant Bank operation in this sector was the Bank's engagement with the state-owned oil and gas company, Petrom. Petrom became a vertically integrated company, with enhanced corporate governance standards, and was subsequently privatised in 2004, to the Austrian oil and gas company, OMV. In December 2007, the Bank concluded its first equity investment in a local corporate and took a small stake in Transgaz, at the time of its listing, in order to assist with the timely implementation of the monetisation of its carbon credits.

**Energy Efficiency** – The District Heating Concession Financing Programme (DHCFP) was not able to achieve its objective, which was to develop rehabilitation projects through municipal concessions. Attempts failed due to low investor interest, which was caused by regulatory risk, heat supply risk, and the Government's policy on subsidies.

**MEI** – The Municipal Environmental Loan Facility (MELF) has played a major role in developing a framework for non-sovereign financing for local infrastructure. Through these loans, the Bank helped to pioneer non-sovereign lending, which has evolved into non-recourse loans to municipally owned companies in both water and other municipal sectors. Through these operations, the Bank has focused attention on the importance of cost recovery tariffs and operating efficiency, which has contributed to regulatory reform. For non recourse loans, the Bank has championed public service contracts with service payments linked to performance requirements. In addition, the Bank has provided support to the private sector active in this sector by financing the Apa Nova Water Concession project in Bucharest. The Bank has built on its experience in the water sector to introduce non-sovereign finance for projects in district heating, urban transport, and solid waste management.

**Transport** – The Bank has supported the development and rehabilitation of roads, railways and ports. Transition achievements in the road sector include the commercialisation of the National Company for Motorways and National Roads (NCMNR), including the divestiture of supplier functions, and increasing the funding available to sustain the road network. In the railway sector, the Bank supported (over several years) the restructuring of the railway sector into a number of independent joint-stock companies. In the port sector, the Bank provided its first non-sovereign financing in the Romanian transport sector, which also supported an increase in the commercialisation of the sector.

Overall, the transition impact within the *Infrastructure* Sector is rated as *Moderate to Significant*.

### **1.4.3. The Financial Sector**

**Banking** – the Bank played a significant role in encouraging private ownership when it took a minority stake in Banca Comerciala Romana (BCR) which enabled it to support a major operational restructuring. BCR was finally privatised when Erste Bank (from Austria) acquired almost 70 per cent of the company. In addition, the Bank invested alongside local shareholders in Banca Transilvania. The Bank's presence has made a big impact on the development of Banca Transilvania, which is now the largest local bank in the market. Furthermore, the Bank's first subordinated loan to Banca Transilvania led to the diversification of financial products in compliance with European capital adequacy regulations. The Bank also arranged the largest syndicated loan for BRD, the first such large transaction in Romania.

In Romania, the Bank built up its largest mortgage portfolio (out of all its countries of operation), which reached a level of EUR 176 million at the end September 2007. The quality of the mortgage loan portfolio in Romania is very good with the level of arrears below 1.2 per cent. The Bank was one of the most active participants in the technical assistance of USD 1 million granted by USAID for drafting the mortgage law and the securitisation law for Romania. All EBRD's mortgages in Romania have to have a prudent Loan to Value Ratio of not more than 80 per cent making it very unlikely that a "sub-prime" mortgage crisis (of the type which arose in the USA in 2007) could happen under the Bank's mortgage lines in Romania. Also, the Bank has applied the List of the Minimum Standards for Mortgage Activities in Romanian since 2004 and has offered substantial training to our Romanian clients' banks through four seminars, organised by the Joint Vienna Institute on mortgage topics. Despite the rapid growth, recent studies of the Romanian mortgage market suggest that there is still sound potential for further growth given the long period of inactivity on this market during the 1990s.

**Non Banking Financial Institutions (NBFI)** – The Bank's project with the mortgage company Domenia Credit A.D. has facilitated the development of a secondary market for mortgages. In the first quarter of 2007, the Bank concluded its first factoring transaction through a project signed with Compania de Factoring in Romania. In December 2006, a new Romania Micro Credit Facility framework was launched in order to increase lending

to small micro enterprises through both commercial banks and non-bank microfinance institutions

***SME & MSME*** – Credit lines to eight participating banks and six leasing companies were supplied under the EU/EBRD SME Facility, supplemented by TC for institution building. In addition, the Bank set up a dedicated microfinance bank, Procredit Bank Romania, and successfully transferred the relevant skills to the local officers. In the first half of 2007, the first rural facility in Romania was extended to the Romanian Savings Bank (CEC) to support the development of rural areas (up to 50,000 inhabitants) via loans to local farmers and SMEs. This was followed by the second rural facility to Banca Transilvania. At the end of 2007, a new relationship with the Israeli bank, Leumi Bank Romania, was established through an SME Facility. In addition, the Romania Micro Credit Facility concluded two financing agreements in 2007, one of which was a loan agreement signed with a regional non-bank microfinance company, Express Finance, which services very small entrepreneurs, primarily in Western Romania.

***Private equity funds*** – Private equity funds were successfully encouraged by the Bank to invest in the region from the late 1990s, including donor-supported funds (i.e. Romanian Post Privatisation Fund, Bulgarian Post Privatisation Fund) or other equity funds where the Bank played a significant catalyst role (i.e. the Black Sea Fund). However, in the past, the level of private equity investments in Romania has been below that of other new EU member states mainly due to delays in foreign investment and the lack of deal opportunities caused by the country's slow economic reform prior to 2000. However the country is now viewed as holding some of the region's greatest potential for private equity and has attracted substantial interest from private equity funds. Many regional funds maintain an office in Bucharest (including Mideuropa Partners, Advent, Southeast Europe Fund, GED etc.). At the end of 2006, private equity investments in Romania represented 0.1 percent of GDP, ahead of Russia, Croatia and Ukraine, but below Czech Republic (0.4 percent), Hungary (0.6 percent), Poland, Estonia, Kazakhstan and Bulgaria.

Overall, the transition impact within the *Financial Sector* is rated as *Moderate*.

#### **1.4.4. Lessons Learned from previous Bank activities**

During the last three years, a number of evaluation exercises were conducted by the Evaluation Department, including the Victoria Office Building, the equity investment in Banca Transilvania, the Procredit Bank, Astral Telecom and the Thermal Energy Conservation Project (TECP).

In the *Financial Sector*, the evaluation of the Post-Privatisation Funds (PPF) rated the performance of the Romanian framework *Good* and highlighted a number of key lessons learned: Firstly, given the transaction costs of equity investments are high, it is important to ensure smaller investments are financially viable. Secondly, a significant proportion of potential private equity deals do not come to fruition because incumbent shareholders/managers are not ready to enter into the close partnership - entailing the sharing of information, decision-making and rewards - on which the concept is based

(PE06-336d). Thus a careful analysis of the potential shareholders'/ managers' commitment is recommended beforehand.

In the *Enterprise Sector*, the evaluation of Astral Telecom concluded a *Highly Successful* performance for the borrower and has improved its business conduct to keep abreast with international standards. One of the lessons generated was that project delivery time is a critical element for fast-moving highly competitive businesses. Project preparation, documentation and disbursements can be a time consuming exercise especially when dealing with several international financial institutions. The success of the Project was mainly due to the short project delivery time achieved in cooperation with the borrower and the other lenders (PE05-297).

#### **1.4.5. Mobilisation of Co-Financing**

In addition to its own cumulative commitments of over EUR 3.5 billion, the Bank has mobilised a further EUR 6.5 billion of co-investment between 1992 and December 2007. Thus the total value of projects in which the Bank participated in Romania is over EUR 10 billion.

The Bank is keen to continue to leverage co-financing not just from the commercial banks, but also from the EU Structural and Cohesion Funds, especially for infrastructure projects in sectors such as energy and transport (at both the national and municipal level).

From 2000 to July 2007, the Bank has been actively co-operating with multi and bilateral donors both for Technical Co-operation projects (EUR 17.4 million aggregate commitments) and Official Co-Financing initiatives (EUR 889 million contributions). An overview of the Technical Co-operation Programmes is presented in Annex 8.

#### **1.4.6. Portfolio Ratio and Quality**

Based on the current portfolio of EUR 1.8 billion the private/public portfolio ratio has slightly increased from 62:38 since the last strategy of December 2005 to 63:37 at the end of 2006 and further to 64:36 at the end of December 2007. The Bank's objective is to further increase the private sector share over the next strategy period, at least in the number of projects financed.

Based on the net cumulative business volume of EUR 3.5 billion, the private/public portfolio ratio improved since the last strategy from 67/33 at the end of 2005 to 69/31 at the end of 2006 and further to 70/30 at the end of December 2007.

The overall performance and quality of the portfolio is very good with impaired assets being less than 1 per cent.

## **2. OPERATIONAL ENVIRONMENT**

### **2.1. The General Reform Environment**

#### **2.1.1. Political Developments**

The last parliamentary and presidential elections took place at the end of 2004. The centre-right coalition government, led by Prime Minister Calin Popescu Tariceanu, has lost since then two initial coalition partners and currently comprises Tariceanu's governing National Liberal Party (PNL) and, as a junior partner, the ethnic Hungarian UDMR. The minority government narrowly survived, on 3 October 2007, a no-confidence vote initiated by the opposition Social Democratic Party (PSD).

The relationship between the two former coalition partners, President Traian Basescu and Prime Minister Tariceanu, has been tense for a long time. It further deteriorated when the Prime Minister initiated the reshuffling of the government in April 2007, relegating the President's Democratic Party (PD) to opposition. The governing PNL and the opposition PSD subsequently joined forces to adopt in the Parliament, on 19 April 2007, the motion for the suspension of President Basescu on charges of alleged violations of the Constitution. The Parliament's decision to impeach the President had, in accordance with the country's Constitution, to be either confirmed or rejected at the popular referendum. 74 per cent of the participants voted at the referendum, held on 19 May 2007, against the impeachment of President Basescu, who remains by far the most popular politician in the country. The President was formally reinstated on 23 May 2007.

The next parliamentary elections are due at the end of 2008. Before that, an important test of the strength of various political forces will be local elections, expected in mid 2008.

#### **2.1.2. EU Accession**

Romania's top foreign policy priority is further integration into the EU. Much of Romania's progress with economic and structural reforms was geared towards EU approximation. Romania signed the EU Accession Treaty in April 2005 and joined the EU on 1 January 2007.

When Romania entered the EU, special provisions were made to facilitate and support its smooth transition. In line with the arrangements made during the previous round of enlargement, provisions were made in the Accession Treaty for safeguards and transitional arrangements (for example, restrictions on free movement of workers). Romania's accession was also accompanied by a set of specific measures put in place to prevent or remedy shortcomings in the areas of food safety, agricultural funds, the judicial reform and the fight against corruption. For the latter two areas, a Cooperation and Verification Mechanism was established. The first report under the Cooperation and

Verification Mechanism was issued by the European Commission (EC) on 27 June 2007. The next detailed report is expected in mid 2008 (see 2.1.5. Integrity Issues). Romania continues its constructive participation in regional cooperation and various regional initiatives.

### **2.1.3. Socio-Economic Environment**

At the latest census, held in March 2002, Romania's population was 21,680,974, a decline of 4.9 per cent since 1992. The decline is continuing at a rate of 4-5,000 inhabitants per month as a result of a combination of declining birth rates, increasing mortality rates and emigration. As of 31 December 2006, the population was 21.57 million inhabitants.

Romania ranks 60-th in the world in terms of human development (Human Development Report Country Fact Sheet 2006, UNDP). Overall poverty has declined significantly in the last years. There are various disparities within the country, including regional (north-east and south lagging behind the capital Bucharest and centre), urban/rural, and particularly with respect to the most vulnerable ethnic minority-Roma (which accounts for 2.5 per cent of the total population). There have been continued and focused efforts towards eliminating the social inequalities of the Roma population through reducing the level of poverty and increasing their labour market participation as well as introducing measures for improving health, housing and education in the future.

After years of economic and social transition, Romania is continuing its work to develop a sustainable social protection system, but considerable investment is still needed in a number of areas. In particular, extra spending on healthcare is seen as the top priority by respondents to the EBRD/World Bank "Life in Transition Survey" (LiTS), carried out in 2006. Some impressive reforms designed to improve pensions have been undertaken in the last few years and several more are needed to be done.

Further efforts need to continue in view of improving social dialogue. Although significant progress has been made in the preparations for the European Social Fund, the administrative capacity needs to be further increased.

### **2.1.4. Labour issues**

The latest progress reports issued by the EC acknowledged progress in this area. At the same time, it was noted that some outstanding issues remain. There is a need for a comprehensive reform of the education system, which until very recently was underfinanced and which will be crucial to address bottlenecks in the labour market. Further integration into the EU and large-scale outward migration have increased demands on the country's human capital, particularly the demand for skilled manpower and a more competitive labour force. Sustained efforts are needed in the area of labour law and to consolidate equal treatment at work of men and women and of ethnic minorities. While women are well represented among the working population in general and among specialists, they are, however, still under-represented among managers and senior civil servants, as well as among parliamentarians.

The Romanian Constitution prohibits forced or compulsory labour, including child labour.

With ILO support, the Romanian authorities began in the last years to implement a comprehensive programme to eliminate child labour. The programme included measures to prevent child labour in both urban and rural areas and build the capacity of government and NGOs to address child labour cases. New legislation on children's rights and adoption entered into force in January 2005 and aligned Romania with the UN Convention for the Rights of the Child and the European Convention on Human Rights. The authorities have continued since then to implement the new legislation.

#### **2.1.5. Integrity issues**

As noted above, Romania's accession to the EU was accompanied by a number of benchmarks to monitor the country's progress in the fight against corruption. In its first report of 27 June 2007 under the Cooperation and Verification Mechanism, the EC acknowledged that, although there has been insufficient time since the accession to demonstrate convincing results, the Romanian authorities have intensified the fight against corruption. At the same time, the progress achieved in the judicial treatment of high-level corruption was assessed as "still insufficient". The Romanian authorities have been urged to develop a coherent country-wide anti-corruption strategy and monitor its implementation while also strengthening capacity of judiciary at all levels.

The Life in Transition Survey (LiTS), mentioned above, has revealed that corruption continues to be identified as a serious problem by the citizens. The Corruption Perceptions Index (CPI) compiled by Transparency International in 2007 ranked Romania as 69 out of 163 countries, which places it as eleventh among the Bank's countries of operation, and tenth among the 'new' EU members.

#### **2.1.6. Legal reform**

The most significant event in recent years to affect Romanian law is of course Romania's accession to the EU on 1 January 2007 and the ongoing adoption of EU law. A wide range of laws have been passed before and after this date to harmonise Romanian law with EU law and to adopt EU legislation. Significant reforms have also been undertaken to facilitate the development of a secondary mortgage market. While these reforms have been widely welcomed, in practice, the market proved slow in taking advantage of these opportunities of development. The other significant legislative development in recent years has been the adoption of new legislation governing the award of concessions (Government Emergency Ordinances 34/2006 and 54/2006). These have again aligned Romanian law with EU legislation and created a clearer and more practical framework for the implementation of concessions. Major new insolvency legislation was also introduced in 2006 which further improved an already well regarded legal regime. Practical improvements to the regulation of insolvency practitioners complemented the legislation.

Law firms continue to note uncertainties surrounding the development and implementation of a comprehensive system for dealing with the sensitive and complicated issue of property restitution cases.

### **2.1.7. Environment**

Romania is essentially meeting the commitments and requirements arising from the accession negotiations. The country is implementing the *Acquis Communautaire* in the areas of horizontal legislation; air quality, waste management, water quality, nature protection, industrial risk management, chemicals and genetically modified organisms, noise and nuclear safety and radiation protection.

The Directives which have been adopted in the period 2002-2004 have been fully transposed into Romanian legislation. As with other EU member states, Romania had a deadline to issue permits for IPPC installations by 30 October 2007.

The Ministry of Environment and Sustainable Development completed the National Implementation Plans for the environmental “*acquis*” and assessed the associated investments needed to comply by 2018. The planned allocation of EU and other funds for Environment and Occupational Health & Safety is reflected in the Sectoral Operational Programme Environment (SOP ENV), approved by the European Commission in July 2007 and in the SOP Increase of Economic Competitiveness. The SOP ENV is closely linked to the national objectives laid down in the National Development Plan 2007-2013 (NDP) and National Strategic Reference Framework (NSRF) developed in line with the European Union’s objectives, principles and practices.

Romania continues to face severe environmental challenges concerning air, water and soil pollution, which require large investments and the participation of both public and private sector. Air pollution from power stations and other industrial plants, especially heavy metals, motor vehicles, and domestic heating need to be further addressed. Further improvements are needed in the fields of waste management, access to the sewage treatment plants, drinking water quality; underground water pollution; enforcing integrated pollution prevention and control.

The EBRD supports the country’s EU environmental “*acquis*” objectives and is addressing key environmental concerns and improving specific environmental management areas through its projects. The Bank will continue to cooperate with and work to complement other institutions, such as EU ISPA and EIB to support Romania enhance its environmental “*acquis*” and improvements.

A background section on environmental issues in Romania and examples of recent projects is found in Annex 4.

## **2.2. Progress in Transition and the Economy's Response**

### **2.2.1. Macroeconomic conditions for Bank operations**

Economic growth remained strong in the run-up to and after EU accession, with growth rates of 7.9 per cent in 2006, but the economy slowed down post-accession to 6 per cent in 2007. The main driver of this growth has been domestic demand, with strong wage and credit growth helping to fuel consumption while the negative contribution of net exports to GDP growth widened in 2007. Investment also grew strongly in 2007 at an even faster rate than final consumption, and the annual growth rate disparity between these two components rose to 15.6 percentage points, from 10 percentage points in 2006. However the macroeconomic situation deteriorated towards the end of 2007, with higher than targeted inflation rate and a concentration of spending at the end of the year. The current account deficit also widened significantly in 2007 relative to the previous year.

Therefore the authorities are now facing three, interlinked macroeconomic challenges over the coming period: reducing inflation, keeping the fiscal deficit to GDP below 3 percent, and addressing the large current account deficit. Despite very strong domestic demand, inflation was held in check during the immediate post-accession period. In the first half of 2007, the disinflation process proceeded smoothly, allowing the central bank to cut interest rates by 175 basis points. However, since July 2007 CPI inflation rose significantly peaking at 6.84 per cent in October before falling slightly to 6.57 per cent by December 2007. The main factor behind the resurgence in inflation has been higher food prices, a problem faced by other countries in the region because of the summer drought, but it was also influenced by rising labour costs and energy prices, and speculative downward pressures on the currency since June 2007. Between June 2007 and January 2008 the RON depreciated by over 15 per cent (based on end-month values). In January 2008 inflation rose further to 7.26 per cent (partly due to an unfavourable base effect) and rising inflationary expectations have led to widespread doubts that the target for end-year inflation in 2008 of 3.8 per cent (plus or minus one percentage point) can be achieved.

Over the past two years, fiscal policy has been more relaxed than it should have been in the context of a large current account deficit. Given the relatively low ratio of government revenue to GDP, and given the potentially huge expenditure demands in coming years for physical infrastructure, some restraint was needed in current expenditures such as the state sector wage bill. However, the government ran a deficit of 2.2 per cent of GDP in 2006 (ESA-95 accounting), mainly through a substantial spending increase in the last two months of the year. The deficit for 2007 is estimated at 2.5 per cent of GDP and the budget for 2008 originally envisaged an increased deficit to 2.9 per cent of GDP, according to the Convergence Programme, but the target was brought down to 2.4 per cent following a budget rectification in March 2008. There is a danger that this target will be missed as election-related pressures on the government to increase spending build up in 2008.

The combination of very fast growth of domestic credit and a pro-cyclical fiscal policy, has resulted in a dramatic widening of the current account deficit to EUR 16.9 billion or almost 14 per cent of GDP in 2007 from EUR 10.2 billion or 10.4 per cent of GDP in

2006, and EUR 5.1 billion or 8.4 per cent of GDP in 2004. A number of factors make this development a source of concern. First, imports are growing almost twice as fast as exports. Second, fiscal policy is expected to be even more expansionary in 2008 (as noted above). And third, real domestic credit continues to grow at very fast pace, with non-government credit up by 45 per cent in real terms in 2007. The authorities have phased out the administrative measures it had put in place in the past to curb credit expansion. Between October 2007 and March 2008, the National Bank of Romania (NBR) raised its key policy rate by 250 basis points to 9.5 per cent, citing concerns about worsening inflation prospects and strong credit growth; at the same time the NBR pursued a firm management of money market liquidity via open market operations. Moreover, in February 2008, the NBR Board has decided to adopt additional prudential measures, including higher provisioning for foreign currency-denominated loans extended to unhedged borrowers, as well as broadening their scope to non-bank financial institutions.

Foreign direct investment (FDI) coverage of the current account deficit has been high and this has been seen as a mitigating factor to the concerns expressed above. However, future FDI flows are hard to predict. Privatisation revenues have fallen significantly and are likely to more or less disappear in the coming years, leaving the country reliant on Greenfield investment. Total FDI net inflows in 2007 were €7.1 billion, covering about 42 per cent of the current account deficit, compared to the 89 per cent coverage in 2006 (the latter being influenced by the sale of a 36.8 per cent stake in BCR to Erste bank for €2.2 billion).

In the light of these increased risks prudent macro-economic policies are necessary in order to avoid the vulnerabilities typical for any economy going through significant structural changes. Increased investment, stimulated by EU accession enterprise restructuring, can help to maintain strong economic growth and, over the longer term, attract home some of the Romanian migrants currently living abroad, thereby increasing labour supply. Accelerating infrastructure development (in particular transport infrastructure) is particularly important in this regard.

### **2.2.2. Transition success and post-accession challenges**

Romania has made enormous progress over the transition period towards the standards of advanced market economies. In many respects, these standards have been achieved; for example, the degree of liberalisation in price setting, trade and foreign exchange is fully comparable to other EU countries. However, the transition in Romania is not yet complete, and the country continues to face some post-accession transition challenges. Mostly, these challenges are associated with strengthening and sustaining market forces, for example through the promotion of better standards of corporate governance, the enforcement of competition rules, the further expansion of financial intermediation (especially in the non-banking sector) and the commercialisation of infrastructure services. These objectives are difficult to achieve, but they will be necessary to ensure continued catching-up on the rest of the EU and long-term prosperity.

These points can be illustrated by comparing Romania's "transition scores" with those of the other EU members among the Bank's countries of operations. Each country is rated annually by the EBRD's Office of the Chief Economist on a range of transition

indicators, on a scale of 1 to 4.3, where 1 indicates little or no progress in market-oriented reform and 4.3 means a standard comparable to a hypothetical advanced market economy. The results are published in November each year in the Bank's *Transition Report*. Table 2 shows that standards in Romania are broadly in line with other EU countries in the region, although there are areas where the country falls below the average. In particular, there are still significant challenges ahead in completing privatisation, improving corporate governance, promoting competition and developing non-bank financial institutions.

Although Romania has made significant progress in commercialising, decentralising and regulating its infrastructure sector, in compliance with EU requirements (see Table 2) a considerable amount of investment is still required to rehabilitate and upgrade its infrastructure (including in the roads, railway and electric power sectors),

**Table 2: EBRD Transition Indicators for EU Member Countries, 2007**

	Bulgaria	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovak Rep	Slovenia
<b>Large scale privatisation</b>	4.0	4.0	4.0	4.0	3.7	4.0	3.3	<b>3.7</b>	4.0	3.0
<b>Small scale privatisation</b>	4.0	4.3	4.3	4.3	4.3	4.3	4.3	<b>3.7</b>	4.3	4.3
<b>Enterprise restructuring</b>	2.7	3.3	3.7	3.7	3.0	3.0	3.7	<b>2.7</b>	3.7	3.0
<b>Price liberalisation</b>	4.3	4.3	4.3	4.3	4.3	4.3	4.3	<b>4.3</b>	4.3	4.0
<b>Trade &amp; Forex system</b>	4.3	4.3	4.3	4.3	4.3	4.3	4.3	<b>4.3</b>	4.3	4.3
<b>Competition Policy</b>	2.7	3.0	3.7	3.3	3.0	3.3	3.0	<b>2.7</b>	3.3	2.7
<b>Banking reform &amp; interest rate liberalisation</b>	3.7	4.0	4.0	4.0	4.0	3.7	3.7	<b>3.3</b>	3.7	3.3
<b>Securities markets &amp; non-bank financial institutions</b>	2.7	3.7	3.7	4.0	3.0	3.3	3.7	<b>2.7</b>	3.0	2.7
<b>Telecommunications</b>	3.3	4.3	4.0	4.0	3.0	3.7	4.0	<b>3.3</b>	3.7	3.0
<b>Railways</b>	3.3	3.0	4.0	3.7	3.7	2.3	4.0	<b>4.0</b>	3.0	3.0
<b>Electric power</b>	3.7	3.3	3.3	4.0	3.3	3.3	3.3	<b>3.7</b>	4.0	3.0
<b>Roads</b>	2.7	3.0	2.3	3.7	2.3	2.3	3.0	<b>3.0</b>	2.3	3.0
<b>Water and waste water</b>	3.0	4.0	4.0	4.0	3.3	3.3	3.3	<b>3.3</b>	3.3	3.3

Source: Transition Report 2007, EBRD.

On a sectoral basis, some of the reform challenges remaining to be addressed can be summarised as follows:

**Agribusiness:** The agricultural sector's contribution to GDP continues to shrink from 22 per cent of GDP in 1990 to 7.8 per cent of GDP in 2006 and 6.7 per cent in 2007 (Q1-Q3). The contribution to employment is however still high at 30.6 per cent of total in 2006 and 30 percent in 2007 (Q1-Q3) decreasing from 35 per cent in 1996, suggesting a major decrease in the sector's productivity. Underinvestment and the low pace of restructuring are mainly responsible for this. Therefore, the local Agribusiness sector (prime agricultural and farm production, food processing and related logistics and retail) needs to become more efficient and increase its competitiveness by addressing and improving certain characteristics and special needs. The sector takes up a higher

proportion of the GDP and workforce than in the majority of the other EU member countries (e.g. primary processing in Romania takes just over 10 per cent of GDP vs. well under 5 per cent for Western European countries; and over 30 per cent of workforce vs. well under 5 per cent, respectively). Nevertheless the large availability of EU funds and Romania's generally favourable climate bode well in terms of future prospects for the sector. In particular, Romania's low use of fertilisers means the land has good potential for organic farming provided that the use of EU CAP funds gradually improves to stimulate the modernisation of the sector.

**Energy:** The electricity sector is now one of the most liberalised in the Bank's region. However, in practice in order to realise the benefits of liberalisation in greater energy efficiency and security, more areas of the sector need to be opened to competition, thus stimulating investment. Currently, the state controls virtually all generation and the asset base, particularly in coal-fired and hydro generation, requires significant investment, especially to improve efficiency and meet the EU environmental requirements. This can be resolved by diversifying the ownership of electricity generation and supply as well as by ensuring open and transparent access to the market by international traders. Completing investment plans for assets that are to remain in state ownership (such as certain of the power stations) will also help to make these assets more efficient and thus able to compete. Privatisation of the electricity distribution companies is underway, with four of the eight companies in private hands (and a fifth privatisation of a distribution company about to be closed). However, it is currently unclear what will happen to the other three distribution companies. The recent Government approved energy strategy includes plans to privatise generation but the timing and approach is unclear. The state-owned electricity company, Transelectrica, has been partially privatised through a listing on the Bucharest Stock Exchange, as has the gas transmission company, Transgaz. However, proposals to sell a 51 per cent stake of the natural gas producer Romgaz to a strategic investor are on hold. From 1 July 2007, the energy and natural gas markets have been fully liberalised, but domestic gas prices need to be brought in line with the increasing international prices.

**Energy efficiency:** The potential to improve energy efficiency in Romania is large, given the fact that its energy intensity (relation between primary energy consumption and GDP) is twice the EU average (after adjusting GDP for purchasing power parity). The Bank can also build on its expertise in mobilising carbon credits to support projects in this area, including district heating.

According to the findings of a recent Market Demand Study commissioned by EBRD, the market size for investments in small-and medium-sized sustainable energy projects in Romania, over a three-year horizon, is above EUR 2 billion with the housing sector and renewables having the highest potential. Table 3 details the market potential for energy efficiency.

**Table 3: Market Potential for Energy Efficiency**

Energy Efficiency Sectors				Renewable Energy		
Energy Efficiency Sector	Market Size	GHG Emissions Reduction		Market Size	GHG Emissions Reduction	

	€m	'000 Ton CO <sub>2</sub> equiv	€m	'000 Ton CO <sub>2</sub> equiv
Industry	144	422	900	600
District Heating	163	478		
Residential	583	1,710		
Transport	225	660		
Tertiary	39	115		

Source: EBRD Market Demand Study, December 2006

**Natural resources:** Substantial progress continues to be made on the restructuring of former state-owned oil company Petrom, now 51 per cent owned by OMV of Austria and where the Bank continues to play a meaningful role through its minority stake. Tariff reform is also progressing, though remaining challenges in enforcement of payments discipline at the gas distribution level and market level pricing persist. The independence of the regulator in this sector needs to be strengthened. Recent partial privatisation through initial public offering of state-owned company Transgaz has been a step forward, but there is increasing resistance to further privatisation and liberalisation in the oil and gas sector (as a result of the recent disputes on gas prices and supplies in the region).

**Transport:** About half of the road network is in poor condition due to inadequate maintenance. There are very few motorways or equivalent standard roads along the main trade corridors. This makes road transport unnecessarily expensive. The Government has started to implement an ambitious programme to provide a modern motorway network. However, the institutional capacity to utilise the available structural funds for this programme is limiting its implementation, which may act as a constraint on economic growth. Moreover, attempts to speed up the development of a new road network through greater involvement of the private sector have not been successful due to the Government's lack of experience in structuring and tendering PPPs. In addition, earlier improvements in commercialising the management of the road network have more recently been hampered by lack of recurrent funding and losses of key staff following political changes. The challenge will be to address the underlying weaknesses in terms of experience and resources in order to speed up development of the network and ensure the existing network is operated and managed efficiently.

As in the rest of Europe, rail infrastructure remains largely within the public sector and is being progressively upgraded. A significant, and increasing, share of rail freight is now carried by the private sector and a number of secondary lines have also been handed over in their entirety to the private sector, supported in some cases by public service payments. The immediate challenge is to build on these achievements to improve services and reduce the overall financial demands on Government.

The combination of strong economic growth and EU integration has led to a rapid increase in recent years in the demand for adequate and modern airport capacities. In the next years the challenge will be to focus on airport development projects in order to cope with growing demand. Commercialisation of airports and airports services will allow offering efficient services.

With regard to ports, the increased volumes of freight transiting the Romanian ports have highlighted the limited and obsolete handling and logistical capacities of the port

infrastructure and terminal operators. Port infrastructure, both public and private, has to improve in order to handle safely, effectively and efficiently the challenging projected trends in this sector.

**Municipal and Environmental Infrastructure:** In the municipal sector, regulatory reform is progressing across the various sub-sectors (water, waste-water, urban transport, solid waste, district heating). Investment needs in this sector remain high. It is estimated that 68 per cent of the population has access to water supply, 52 per cent has access to sewerage, 70 per cent has access to solid waste management and that just over half of wastewater is treated, although these percentages are much higher in the more densely populated urban areas. The environmental upgrades required to meet EU standards are estimated at EUR 30 billion during 2004-2018, a large proportion of which are to be borne by the municipalities and municipally-owned utilities.. The availability of co-financing on a non-guaranteed basis remains uncertain as project preparation, utilisation capacity and co-financing ability are generally weak at the municipal level. These issues are particularly apparent in smaller municipalities, which to date have not had the benefit of either IFI or local bank financing and lack experience in this area. The regionalisation of utilities, in the water and solid waste sectors, will play an important role in improving service delivery and long term sustainability in smaller municipalities.

**Financial sector:** Despite the major advances in the financial sector in recent years, intermediation of savings remains relatively low and bank lending still only accounts for 37.9 per cent of GDP. The level of intermediation in rural areas appears to be especially low; according to the EBRD/World Bank Life in Transition Survey, less than 10 per cent of households in rural areas have a bank account (40 per cent in urban areas have one), compared to more than 50 per cent of rural households in Hungary and Poland and more than 70 per cent in the Czech and Slovak Republics. Privatisation in the banking sector is nearing completion. However, the privatisation of CEC (Savings Bank) has been postponed after the government rejected the sole bid submitted by National Bank of Greece, on the basis that the offered price was too low.

Reform of the pension system is progressing along a three pillar model. The second pillar of the pension system was introduced in 2007 and the collection period was completed in January 2008. The Romanian Commission for Supervision of the Private Pension System awarded licences to 18 companies to operate as private pension funds that invest mandatory pension contributions from employees younger than 35.

**Telecommunications:** The Bank has been highly active in this sector, and contributed significantly to the increase of competition in the country's telecoms. The partial privatisation of RomTelecom was successfully assisted through loans, technical advice and training, although the privatisation of the remaining stake has stalled. The Bank has also provided loans to Mobifon, a mobile phone operator, and Astral Telecom, a cable operator, for enhancing competition. In June 2007, the Bank provided a long term, syndicated loan for the modernisation of Posta Romana's (Romanian Post) operations, in support of and as part of its current restructuring program. This restructuring process has begun and is being further developed with specialised advisors. In addition, in 2007, the Bank began a dialogue with the Government relating to the restructuring and privatisation options for Radiocom.

### **2.3. Access to Capital**

Romania is now enjoying increasing access to capital markets and continues to receive strong support from the European Union. The level of external debt was EUR 28.6 billion or 29.3 per cent of GDP as of end-2006 and while this total has grown to EUR 35.5 billion as of end-November 2007, it is still low by regional standards. Several factors have contributed to a rise in external indebtedness, including the full liberalisation of capital accounts, the increased necessity to co-finance the large infrastructure and environment investments required by EU integration, and improved country risk ratings which allowed new borrowing at more favourable terms. However Romania is not immune from the current global market turmoil and borrowing rates in early 2008 have increased. Standard and Poor's downgraded its outlook for Romania from stable to negative in November 2007 and Fitch Ratings followed suit in January 2008.

The EC Structural and Cohesion Funds for Romania available for 2007-2013 amount to EUR 19.668 billion, out of which EUR 12.661 billion will be channelled through the Structural Funds under the Convergence Objective, EUR 6.552 billion for the Cohesion Fund, and EUR 0.445 billion will be allocated for the European Territorial Cooperation. During the same period Romania will have access to EUR 8 billion from the European Agricultural Fund for Rural Development for the rural areas of the country.

At the company level, the credit available to the enterprise sector is mostly debt finance (nearly all bank loans, but also corporate bonds in selected cases). Private equity providers are able to find investment opportunities and to successfully exit from them. However, their track record is short and therefore it is difficult for them to raise private funds. Availability of equity for local medium sized companies is virtually non-existent. The Bucharest Stock Exchange (BSE) has been rapidly developing and in July 2007 reached a market capitalisation of EUR 29.6 billion with another EUR 8.1 billion capitalisation of the OTC market. Since then, the levels of capitalisation have fallen (as of early January 2008) to EUR 24 billion and EUR 6.7 billion respectively. Yet the number of bonds traded and the IPOs executed in the last two years is small, and the BSE is still not a major source of private industrial or public investment finance.

## **3. STRATEGIC ORIENTATIONS**

### **3.1. Bank's Priorities for the Strategy Period**

Romania began its transition process with one of the most difficult starting points of any transition country, and the progress that has been made since then has been remarkable in many ways, culminating in the country's successful accession to the European Union in January 2007. Nevertheless, as outlined above, Romania faces a number of post-accession challenges associated with the most difficult "third phase" of its transition. The Bank is well placed to assist Romania in meeting these challenges effectively. It has identified and will focus on the following key priorities over the forthcoming strategy period.

- The Private Enterprise Sector – the Bank will provide support to the private sector (including small to medium sized companies and leading domestic corporates) with a special focus on business competitiveness and expansion throughout Romania and cross-border, especially to other countries in the region. The Bank will pay particular attention to the development of businesses in less advanced regions of Romania in order to promote regional integration and employment opportunities. The single EU market and competition from Asia are challenges to the Romanian private sector which the Bank will help address through finance and expertise. Investment requirements will be addressed in a range of areas including services, manufacturing, technology and skills training. Besides loans, the Bank will diversify its range of financing products to include more high-risk instruments (such as equity, quasi equity and structured debt) to support the restructuring, consolidation and expansion of local companies on the Romanian and regional market as well as to attract further FDI. The Bank will enhance its efforts to lend in local currency to those borrowers which generate local currency revenue streams. Local currency loans are critical to mitigate potential foreign exchange exposure which may arise for borrowers whose revenues are denominated in RON but which do not have matching RON liabilities. Funding requirements will be considered in close collaboration with local banks and private equity funds. In addition, financial tools, such as dedicated credit lines utilising EU post accession funds, will be tailored to support local businesses.
- The Energy Sector – The Bank will continue to invest with both the public and private sectors in energy generation, transmission and distribution, while supporting policy dialogue to promote appropriate regulatory and institutional reform. In addition there is a particular need to invest in the upgrade and rehabilitation of electricity assets, especially power stations. Renewable energy and energy efficiency projects will be promoted as part of the Bank's Sustainable Energy Initiative. In particular, the Bank will help address Romania's high energy intensity challenge (which is negatively affecting the economy's competitiveness) by promoting energy efficiency projects, for both industries and households.
- Infrastructure – The Bank plans to assist Romania improve its national infrastructure, (especially in the area of the transport), to ensure enhanced regional cooperation, improved trade and the utilisation of Single Market benefits. In addition, the Bank will

continue its activities in the municipal sector throughout the country especially in view of the opportunities arising from the EU post-accession structural and cohesion funds. The Bank will continue to pursue lending on a commercial basis directly to regional water and waste water companies to upgrade and expand their assets and to municipalities for urban transport and roads, energy efficiency and solid waste transactions.

## **3.2. Post-Accession Sectoral Challenges and Bank Objectives**

### **3.2.1. Enterprise Sector**

#### ***3.2.1.1. Private Romanian and Foreign Corporates***

The Enterprise sector will be the core of the Bank's activities in Romania. This sector presents new opportunities and challenges relating to local enterprises' ability to compete in the single EU market. The Bank will focus on investment in local manufacturing enterprises and will actively support the restructuring of local companies in order to improve their competitiveness and allow them to meet EU standards and to face Single Market pressures, including in the areas of energy efficiency and environmental compliance. More equity and quasi equity instruments will be provided in addition to loans.

For example, the Bank plans to establish a mechanism to provide equity (of EUR 5 million or less) to address the undercapitalisation of medium sized companies, a market niche that is typically not covered by the existing private equity funds. This will be particularly relevant for local companies in the regions outside Bucharest and will be used to increase their competitiveness in the EU market (especially in manufacturing, construction, agribusiness, IT, wholesale and retail) including the creation of new jobs and their expansion into other regions of Romania and possibly cross-border.

The TAM / BAS Programme will also continue to support the MSME sector primarily in the underdeveloped rural regions and will assist these companies in enhancing their competitiveness and market performance so that they can compete in the EU markets.

The Bank also plans to carry on supporting foreign investors and/or local companies with a foreign sponsor and promoting Greenfield projects initiated by either local or foreign sponsors.

The Bank will continue its support for privatisations and/or commercialisations by providing pre-privatisation convertible loans and/or by taking equity stakes when shares are sold to the private sector.

The Bank will also provide equity and mezzanine debt to general industry clients of any size, sometimes in combination with syndicated senior debt, typically but not exclusively in the following cases:

- Companies that have reached the limits of growth using their own resources and senior debt and need equity and/or mezzanine debt to continue to grow;
- Companies that have the potential for an IPO in the next 3 to 5 years but need additional capital and improved corporate governance in order to progress; and
- Companies that can benefit from having the Bank as a shareholder, in order to share risk and to support their expansion into new markets with which they are not familiar.

### ***3.2.1.2 Agribusiness***

Romanian arable land (39 per cent of 237,500 sq km) is amongst the richest and potentially most productive in the EU. The Agribusiness sector has seen improved growth over the last few years, given the increase in incomes and thus higher levels of consumption. This has led to the development of some leading local enterprises and stimulated selective foreign investments in the agribusiness sector, especially in processing (in order to raise standards to EU levels) and in the retail sector, particularly in the larger urban centres. However, as detailed in Chapter 2, there is still considerable scope for efficiency gains.

The Bank aims to assist Romania in fully utilising the EU support programmes for the development of the agribusiness sector by focusing on the following:

- Promotion of industry development and competition through equity investments and debt financing – the Bank will promote consolidation and competition in the sector (especially in the regions) and particularly focus on food processing, logistics and retail, all of which have strong backward linkages and stimulate demand for local products. The Bank is also exploring the potential for further projects within the warehouse receipts programme and investigating ways to provide financing for primary agricultural production purposes.
- Cooperation with local financial institutions – the Bank is exploring possibilities to set up facilities with local commercial banks, such as CEC and BRD and/or other potential partners on identifying specific opportunities, on a co-financing and risk sharing basis, to finance the acquisition and leasing of agricultural equipment. This could take the form of providing financing for the leasing or the acquisition of agricultural equipment, possibly with special incentives (such as administration and performance fees, subject to available funds). It also plans to provide incentives for banks to develop their own networks in rural areas by co-operating with the EU SME facilities.
- Cooperation and policy dialogue with the Government and the EU – the Bank is exploring possibilities to establish a joint task force with the Ministry of Agriculture to help address the sector’s developmental needs and to explore methods of cooperation with the Romanian Rural Guarantee Fund (which is supported by the Ministry of Agriculture and several commercial banks to provide guarantees for loans to rural areas).

### ***3.2.1.3. Property and Tourism***

The Bank's focus in the real estate sector in Romania will be to:

- continue to offer selective support to projects that promote better logistic/warehouse, retail and residential developments primarily through mezzanine and equity instruments;
- support institutional quality real estate in regional cities;
- support the development of secondary markets by encouraging the growth of established property companies and by creating sector specific funds; and
- support selectively the development of hotels in the regions and tourism facilities in response to the requirements of the country.

Additionally, through recent equity investments in property development companies and regional real estate funds, the Bank will invest indirectly in a diversified portfolio of property projects in Romania during the next two to three years.

### ***3.2.1.4 Telecommunications***

The Bank plans to reduce further the State's ownership in the telecoms operators, provide financing to private operators and support the independent communications regulator to promote competition.

New discussions were initiated in 2007 and are continuing in order to explore with the Government all options for the required restructuring and eventual privatisation of Radiocom.

The Bank will explore the possibility of assisting private operators licensed by local municipalities to build and operate a common underground telecoms infrastructure in order to remove the excessive aerial cabling infrastructure and increase competition.

Additional support from the Bank may be required within the context of the Romanian national regulator, ANRCTI, which has recently been subject to changes leading to limiting its independence. The EU has expressed concern in relation to these changes and negotiations are continuing with the Romanian Government.

The requirement for technically skilled workers with education and training in the areas of science, technology and engineering and mathematics (STEM) is critical to the telecommunications sector. The Bank's attention will be focused on investment and cooperation with entrepreneurial and mid-sized IT and technology service firms to assist with advance STEM training, development of foreign partnerships for wider market access, and regional consolidation plays.

## **3.2.2. Energy**

### **3.2.2.1. Power**

The Bank will focus on supporting Romania's priorities in relation to a requirement for further investment in the electricity sector.

To date, the Bank has invested EUR 188 million in 7 energy related projects (for a total value of EUR 1,024 million). Through debt and equity investments, the Bank has supported the private sector in both the Romanian electricity and gas distribution sectors. The Romanian energy sector is now one of the most liberalised in the Bank's region of operation. Nevertheless, certain areas of the sector, including power generation, have not been fully subjected to best practices or opened to competition. As a consequence, investment has been slow to come to the generation sector, and the sector continues to suffer from an inefficient and antiquated asset base. In particular, Romania has several deteriorating coal-fired generation plants which require significant investment.

The substantial investment requirements can only partially be met by EU accession funding, and therefore a significant amount will have to be met either through commercial loans to public entities on a non-sovereign basis, or through loans and/or equity to privatised entities. The Bank will assist in this challenge, and is currently looking at specific projects together with commercial banks, targeting the rehabilitation and upgrade of existing state owned thermal and hydro generation facilities and with private investors to complete new, efficient green field generation plants. The Bank is also willing to support the continued privatisation of the sector by providing pre-privatisation convertible loans for priority investment needs or by taking equity stakes in and loans to privatised companies.

The Bank's approach is also to support Romania's further activity within the Energy Community of Southeast Europe, which will present opportunities for Romania to play a major trading role in the region and will help solidify the liberalisation of the sector. The Bank has already financed the Romania-Hungary high-voltage transmission line and will continue to finance other high-voltage interconnections within Romania and to neighbouring countries, to reduce bottlenecks, increase economies of scale, and support the creation of a regional energy market, thus improving energy efficiency.

Complementing the investment needs in transmission, the Bank is also exploring opportunities to assist the power trading exchange to enhance its role, domestically and possibly regionally. This should stimulate competition from independent electricity suppliers in the electricity retail and wholesale markets.

### **3.2.2.2 Energy Efficiency**

The Bank will make it a priority to invest in improvements in the area of energy efficiency (details of which are set out below). In order to implement these activities the Bank will work closely with the Government of Romania and other relevant institutions such as the EU. For further details on the co-operation envisaged with the Government, see Annex 5.

In the industrial sector, the Bank will encourage its relevant clients to assess energy efficiency opportunities as part of any project with the Bank.

Building on the successful results of Energy Efficiency and Renewable Energy Credit Lines in neighbouring countries, in January 2008 the Bank launched a EUR 80 million EU-EBRD Energy Efficiency Financing Facility via several banks in Romania. Complemented by grant support from the European Commission, the Facility will provide an integrated package of loans, grants and technical assistance for industrial companies implementing eligible energy efficiency measures.

The Bank is also interested in supporting and developing financing schemes for the residential sector and to identify ways to overcome barriers for lending to housing associations for thermal rehabilitation projects. However, although the Condominium Law requires households in multi-apartment buildings to organise into Housing Associations and enables them to take investment decisions based on the majority of votes, the mix of income groups living in the same building makes the decision process difficult, given low-income families are unable to afford these investments. To tackle the affordability issue, a well designed subsidy system targeted at low-income households would be required in order that these investment programmes can go ahead.

The Bank will seek to facilitate the monetisation by its clients of their carbon emissions reductions through the purchase of carbon credits under the framework of the Multilateral Carbon Credit Fund.

In the framework of the Sustainable Energy Initiative and using both established and innovative project structures alongside targeted technical assistance, the Bank will work to maximise the energy and carbon savings components of projects in the municipal infrastructure and power and energy sectors.

#### ***3.2.2.3. Renewable Energy***

The Bank is focused on renewable energy and is keen to support projects in this area with tailored technical assistance and by providing equity and/or debt financing. There are investors ready to develop such projects, but their success depends on refining and extending the terms of Romania's green certificate programme, beyond 2012, an important part of the Bank's current policy dialogue. Furthermore the Bank is providing technical assistance to Transelectrica in order to finance consultancy services to advise Transelectrica on optimising and managing the connection of wind farms to the national grid. Details of the Bank's plans to co-operate with the Government of Romania in sustainable energy production are set out in Annex 5.

#### ***3.2.2.4. Natural Resources***

The Bank is ready to further support the Romanian oil, gas and mining sectors by assisting: the expansion of the gas storage facilities (by both local and foreign

companies); the nascent independent oil and gas sector; the growing oil and gas services sector; and the construction, rehabilitation and/or upgrade of the various proposed oil and gas pipelines (including the Nabucco gas pipeline, from Turkey to Austria, and the oil pipeline from Constanta to Trieste – Peop, through Serbia). The latter is particularly important in the context of a more integrated regional energy market. In addition, the Bank will support any further privatisation of the sector in accordance with best industry practices, building on the success of the Transgaz listing and in accordance with the Government's requirements.

### **3.2.3 Infrastructure**

#### **3.2.3.1. Transport**

The Bank's priority will be to support private sector capital in key transport infrastructure projects that will enhance economic development and promote regional links.

The lack of experience in structuring and tendering PPP road concessions and operation and maintenance contracts in Romania has led to a number of unsuccessful attempts to attract private sector investment in road infrastructure. The Bank is keen to assist the Government in addressing these problems by attempting to mobilise funding (in cooperation with EIB and EU) to assist the Government to identify and develop suitable projects, in particular roads on Trans-European Transport Networks (TEN-T) priority axes and access links to this network, and to bring adequately prepared and structured PPP projects to market.

The restructuring of the Romanian rail sector is also important. The Bank will focus its assistance in areas where private sector investment may be viable, such as rail freight. At the same time, selected investments in the rail sector with public counterparts (such as the renewal of passenger rolling stock) will continue as part of the sector reform.

The Bank is prepared to pursue opportunities to support the further commercialisation and the possible privatisation of Romania's airports and related infrastructure, for example, by providing pre-privatisation finance and/or assistance with the preparation of any airport concession, depending upon the approach taken by the government. The Bank will also provide assistance if any aircraft maintenance facilities are privatised.

The Bank will seek opportunities to replicate the non-sovereign financing structure adopted for Constanta port, with public counterparts in the port sector as part of the reform dialogue. In addition, it will seek opportunities to provide financing to private terminal operators.

The Bank is also prepared to pursue opportunities to support the development of inter-modal transport within Romania and the rest of the region.

### ***3.2.3.2. Municipal and Environmental Infrastructure***

The Bank will actively support the Government's efforts to improve the utilisation of EU Cohesion and Structural Funds by co-financing projects in sectors such as water and waste-water, waste management, urban and regional transport (including roads), as well as district heating. In addition to the traditional areas of financing, the Bank will also seek to work with local authorities in developing PPPs and Design Build Finance Operate schemes for major municipal infrastructure investments. It will also explore new sectors including public housing, municipal revenue bonds and municipal parking concessions and work with local capital markets to develop financing instruments in this sector.

Supporting companies that are in the process of converting into regionalised water and wastewater utilities will be a key focus for the Bank in the water sector. Regionalisation plays an important role in improving service delivery and long term sustainability, particularly in smaller towns which to date have not benefited from new investment, thereby deepening the Bank's transition impact. Given that the newly regionalised water and waste water operators do not have an operating track record, Bank finance remains highly additional in this sector.

In addition, the Bank believes it can play a role to support smaller municipalities and other clients who are seeking co-financing for EU infrastructure projects on a non-recourse basis. It is willing to work with the Government to structure an investment vehicle or framework to meet country legal requirements and policy needs. The proposed vehicle would be designed to, ensure that co-financing is available for creditworthy projects with a specific emphasis on implementation support to ensure the efficient utilisation of EU grant funds.

The Bank's focus in urban transport will be primarily to lend to urban transport companies which are seeking to renew rolling stock, although there may be some instances where it elects to finance local authorities where the municipal company would benefit first from a restructuring and commercialisation process, which can help it compete with the private sector in the future. The Bank believes it can play a role in financing specific and timely investments in urban transport systems, as a way of providing for investment needs in the short-term while the relevant city follows the process of eligibility and disbursement of EU Cohesion and Structural funds. Moreover, the Bank can use its expertise on public service contracts to assist urban transport companies and local authorities in meeting the new EU Regulation 1370/2007 for public service contracts, which comes into effect in December 2009 for all EU member states. In doing so, the Bank will work to support the commercialisation of urban transport companies, focusing on the use of public service contracts to improve service delivery and provide value for money by establishing the appropriate compensation levels (versus old-style annually negotiated subsidies) by means of a well-designed, multi-year Public Service Contract (PSC) relationship between a given city as "client" and public transport operator as "service provider". These new-generation EU-compliant PSCs will include a full range of operational performance indicators to be met by public transport operators. The Bank will be also active in providing finance for the regional road sector, following

its experience in the Brasov County Roads project, by structuring projects on the basis of “multi-year” performance-based maintenance contracts.

The Bank will also be active in district heating, a sector where it remains highly additional in light of limited investment and limited reforms. In focusing on this sector, the Bank will take a lead role in JASPERS to support project development. It will also seek to build on existing experience to utilise carbon finance to improve the creditworthiness of these projects and will focus on financing energy efficiency investments. The Bank will give priority to those companies which can be financed without the need for sovereign or municipal financial guarantees.

#### **3.2.4. Financial Sector and SMEs**

The Romanian banking sector has developed rapidly, with the support of foreign investors operating in a very competitive environment. However, because of the speed of this development and the very fast growth of domestic credit, and given the current global market turmoil, it is important that the stability of the system is closely monitored.

Special attention will be paid by the Bank to provide financial support to and to assist with the development of the banks, both foreign owned and local banks. A particular effort will be made to promote facilities in denominated in local currency.

A priority for the Bank is to use the banking sector as the intermediary to tackle challenges in the agriculture sector. This sector is under considerable pressure to consolidate and modernise. The Bank can foster the modernisation of the agricultural sector by exploring possibilities, in conjunction with local banks, for providing leasing facilities for agricultural equipment, dedicated credit lines to rural areas and for piloting more sophisticated agri-lending products (see Section 3.2.1.2).

The Bank is working with local partner banks to introduce, for the first time, banking products to support the energy savings sector in Romania. This facility will be implemented through at least 4-6 local banks in order to enhance the competition in this sector. In parallel, and as part of its commitment to ensuring that the smallest and most remote enterprises are served by the sector, the Bank will continue to provide financing for MSMEs in the form of debt, equity or guarantees to the commercial banks, leasing companies and non-bank microfinance institutions, including through the financing of new providers of microfinance in rural areas, as well as exploring other possibilities of additional financial products which would assist MSMEs. The Bank will try to attract private sector co-financing to leverage its own funding. The Bank may also explore securitisation opportunities subject to market conditions and investor appetite.

The Bank will support the development of the non-banking financial sector, including insurance, non-bank microfinance institutions, leasing, consumer finance, specialised mortgage companies and factoring as well as the development of private sector pensions in the form of debt, equity, quasi equity as well as structured products, such as mortgage bonds.

The private equity market is continuing to grow in Romania, with most private equity activities being supported by regional funds, which are either focused on the new EU member states or on South East Europe. The Bank will continue to support various emerging fund managers in the region by investing directly in their funds, but will also be looking at co-investment opportunities.

### **3.2.5. Capital Market Development**

The Bank is pursuing a two-pronged strategy in the RON market. Firstly it is committed to issuing a bond denominated in RON once local market infrastructure has been developed, and is therefore actively working with local regulatory bodies to achieve this. In particular, the Bank is currently working with regulators to resolve a number of issues affecting the local capital market, such as enabling the “*repoability*” of listed bonds, improving the secondary-market liquidity of securities, working to reduce fees payable to local market participants in accordance with international standards, and engaging with the local clearing system to facilitate the efficient settlement of securities. Progress has been made in, for example, facilitating a link between the international and domestic settlement systems, and regulators have drafted new regulations in respect of some other issues which are awaiting the necessary approvals. Simultaneously, the Bank is working with the local banks and with ACI Romania (the Financial Market Association) and the National Bank of Romania to reform and improve the ROBOR money-market index. Certain reforms, including narrowing bid/offer spreads and quoting rates on the basis of firm commitments, have been agreed in principle and the National Bank is in the process of formalising the relevant agreements with the Romanian banking community.

### **3.2.6 Policy Dialogue**

Through active policy dialogue with the relevant authorities, the Bank will endeavour to contribute to government action in the following areas:

- Improving competition within the energy sector and promoting appropriate regulatory and institutional reform in line with the EU Directives and the Government’s recently approved energy strategy.
- Assisting Government in identifying and prioritising appropriate actions in relation to energy efficiency and energy renewables.
- Improving the administrative capacity in structuring PPPs in the transport and municipality sectors and the effective absorption of EU funds.
- Developing a vehicle to ensure available funding and implementation support for smaller cities and utilities seeking co-financing for EU structural and cohesion funds.
- Continuing to work with regulatory bodies to achieve developments in local capital market infrastructure which will enable the issuance of a bond denominated in RON, in addition to building on its efforts to reform the local money-market index.
- Exploring possibilities to establish a joint task force with the Ministry of Agriculture to help address the sector’s development needs.
- Exploring possibilities with the Ministry of Transport to help address the transport sector development needs in respect of ensuring an efficient and effective logistics

network and corridor for both domestic and international markets, focused on the furthering of inter-modal transport and logistical capabilities.

## 4. OTHER IFIs AND MULTILATERAL DONORS

The bank has closely co-operated with IFIs in Romania for many years. Regular consultations and meetings have been held between donors, either on general issues or on particular projects, in order to avoid the duplication of efforts and to increase the complementary nature of each organisation's activities. As a result there is co-ordination between the EBRD, the EU Delegation, the EIB, the IMF, and the World Bank and common objectives to assist with the development of Romania's infrastructure, the improvement of the environment and the on-going public sector restructurings and enhancement of the public administration capacities.

Donors have contributed more than Euro 20 million over the last seven years to support Romanian projects (See Annex 8). This support has been essential in project implementation and institutional building. Going forward co-operation with donors shall continue to support policy dialogue and transition impact in specific areas or sectors.

The Bank will continue to co-operate with the other IFIs, the European Union and bilateral institutions in order to enhance the successful implementation of its strategy and to optimise the respective impact of each institution.

### 4.1. European Union (EU)

Romania became a member of the EU on 1 January 2007 and, following on from pre-accession assistance, it continues to have access to the post-accession funding.

The EC **pre-accession** aid to Romania increased significantly during 2004-2006 to over EUR 2.8 billion for this three year period. The assistance was mainly provided through the following programmes:

**PHARE** (*Poland Hungary Aid for Reconstruction of the Economy*): 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*" (two-thirds) and economic and social cohesion (one third). The PHARE allocation to Romania amounts to EUR 279 million for the budget years 2002 and 2003, EUR 435 million for 2004, EUR 427 million for 2005 and EUR 468.5 million for 2006. PHARE's total allocations to Romania during the period 1990-2006 amounted to about EUR 3.0 billion, with contracts worth about EUR 2.2 billion.

**ISPA** (*Instrument for Structural Policies for Pre-Accession*): The ISPA programme supported major environmental and transport infrastructure projects. Over the past six years, Romania, the second largest recipient, has signed 61 ISPA Financing Memoranda (40 Environment, 20 Transport and 1 Institution Building) worth about EUR 2.8 billion. The implementation of the ISPA projects started in mid 2000. A total of 50 contracts (103 for Environment, 42 for Transport and 5 for Institution Building) amounting to over EUR 1 billion have been concluded to date. The contracting rate versus the total amount committed is currently 38.7 per cent. From 2007 onwards, the ISPA support has

automatically been converted into Cohesion Funds and the amount will continue to increase substantially (3-4 times bigger than the ISPA package at the time of accession). The Romanian authorities will need to set up and strengthen the appropriate coordination and administrative structures to be in a position to absorb these funds.

**SAPARD** (*Special Action Programme for Agriculture and Rural Development*): The SAPARD programme supports agricultural and rural development measures. Projects include the improvement of processing and marketing of agricultural and fishery products, the development and improvement of rural infrastructure, technical assistance, investments in agricultural holdings, and the diversification of rural areas. The programme started in 2000 and Romania's annual allocation from SAPARD is between EUR 150-160 million.

**JASPERS** (*Joint Assistance for Preparing Projects in European Regions*): This initiative, launched by the European Commission, EIB and the EBRD will be complementary to the project preparation work carried out by national and local authorities.

## **Post-Accession Funding**

### **Cohesion Policy**

For the period 2007-2013, the Cohesion Policy of the EU has three objectives: Convergence (assistance to less economic developed regions), Regional Competitiveness and Employment (Lisbon Agenda) and European Territorial Cooperation (balanced development EU territory via cooperation between all European regions). As a consequence, the cohesion policy will have three instruments: European Regional Development Fund, Cohesion Fund and European Social Fund. Romania, as a beneficiary of structural funds, is eligible for the three instruments and for two of the objectives – Convergence and European Territorial Cooperation.

### **Structural and Cohesion Funds Allocation**

The Structural and Cohesion Funds for Romania amount to EUR 19.668 billion, out of which EUR 12.661 billion will be allocated via the Structural Funds under the Convergence Objective and EUR 6.552 billion via the Cohesion Fund and EUR 0.445 billion for European Territorial Cooperation.

Romania has prepared a series of strategic and operational documents to establish the development priorities of Romania and the allocation of EU funds over the next seven year period.

The National Development Plan (NPD) includes strategic objectives and identifies the financing sources from a perspective of several years. It is the basis of the National Strategic Reference Framework (NSRF) that identifies the link between national, regional and community priorities envisaged by the EC and specifies the annual allocation for each objective, for each instrument and for each Operational Programme (OP). The OP are documents describing each strategic objective of the NSRF, giving details about

national public and private financing and EU co/financing. It gives practical details about eligible projects and expenses, potential beneficiaries, authorities' role etc.

Cooperation between the European Commission and Romania will continue and build upon the extensive experience gained from the pre-accession and accession period, notably in the areas of SME financing (EU/EBRD SME Facility) and environmental infrastructure (ISPA funded projects and EU/EBRD Municipal Finance Facility). In addition, within the framework of the Romania Micro Credit Facility and the Accession Compliance Facility, the Bank will continue working with the European Union and the Romanian Government to support the increase of available finance to micro and small enterprises. Furthermore, cooperation in the energy sector has recently been initiated under the EU/EBRD Energy Efficiency Facility.

## **4.2. European Investment Bank (EIB)**

In the years leading up to accession to the EU, the EIB's lending in Romania covered various sectors including transport, municipal projects, energy and SMEs. Total EIB lending to Romania in the pre-accession period amounted to EUR 5 billion.

In October 2006, the EIB signed a Memorandum of Understanding with Romania, setting out a framework for lending of around EUR 1 billion a year from 2007 to 2013. The focus will be on improving the country's basic infrastructure in the transport, energy and environmental sectors (in combination with EU grants and other sources of funds): providing technical support and expertise for selected EU Cohesion and Structural Fund projects (defined in the Jaspers National Action Plan) and assisting in the implementation of the country's PPP Programme.

In 2007, the EIB signed new loans of EUR 175 million including an environmental project co-financing, a new credit line with a commercial bank to finance small-scale investments by businesses and local authorities and two corporate loans for investments in tyre production and retailing expansion. The EIB was also active in the capital markets making a first time (7 year) bond issue in local currency and it formally opened a representative office in Bucharest during the year.

Looking forward, the EIB expects to support a wide range of projects, which are in the European interest (e.g. energy including renewables and energy efficiency, environment, transport, regional, etc.) by both public (including municipalities) and private entities and also to expand its indirect financing and support to SMEs through the local banking market. The EIB's subsidiary, the European Investment Fund, has recently signed an agreement with the government to invest EUR 100 million in financial instruments supporting the Romanian SME sector within the EU JEREMIE initiative.

## **4.3. International Monetary Fund (IMF)**

The IMF has assisted the transition in Romania by substantial technical assistance in over 40 missions since 1990. The assistance was focused on a number of areas including: tax reform and administration, modernisation of the central bank and of the banking system, creating of

a market-oriented legal structure, training, and improvement of statistic data collection and reporting.

Since the expiration of the two-year precautionary Stand-By Arrangement in July 2006, Romania has been on a 12-month consultation cycle with the IMF. The consultations for 2007 and 2006 were concluded by the IMF's Executive Board in May 2007 and April 2006, respectively.

#### **4.4. World Bank Group**

Since 1991 total World Bank assistance, including IBRD, IFC and MIGA operations, exceeded US\$ 6 billion and was aimed at helping Romania's transformation to a market economy.

Between 1991 and 2007 (financial year end 30 June), the IBRD approved 53 IBRD financed operations with commitments of US\$ 5.4 billion and 14 grants totalling US\$ 35.8 million. Two additional IBRD operations have been approved since June 2007. The current IBRD portfolio totals about US\$ 1.8 billion and is represented by 21 operations.

IBRD's assistance was geared around development objectives that can be grouped in three broad categories: (i) the promotion of sustainable private sector led growth; (ii) the poverty reduction and human development; and (iii) the improvement in governance and institution building.

The IFC has committed US\$ 853 million, plus US\$ 279 million in syndicated loans, to finance some 44 projects across a variety of sectors. From 2003 to 2007, in line with the macroeconomic upturn, IFC has invested more than US\$ 665 million of its own funds. As of end June 2007, IFC total investments portfolio in Romania stands at US\$ 491 million (11% in equity and 89% in debt), of which 68 per cent is in the financial sector, 17 per cent in oil and gas, 11 per cent in infrastructure and 4 per cent in general manufacturing and other sectors. This represents the 14<sup>th</sup> largest committed portfolio across IFC and the 2<sup>nd</sup> largest in the Southern Europe and Central Asia after Turkey. The co-operation between the EBRD and IFC is reflected in joint projects such as Distrigaz Sud, BCR and Banc Post.

MIGA's outstanding guarantee portfolio in Romania consists of eight contracts in the financial sector and four contracts in the services sector. As of end March 2006, MIGA's gross exposure in Romania is about US\$ 262 million predominantly in the financial sector.

For 2008-2009, the World Bank engagement will be anchored on the EU integration process, the strategic framework that would guide future lending and knowledge services focusing on facilitating economic integration and social cohesion with the EU and global public goods. Several areas have been identified as key priorities: energy and infrastructure, environment, health and education, and agriculture and rural development. Another critical element is the development of operational synergies with other development partners, in particular with the European Commission, the European Investment Bank, and the EBRD.

## ANNEX 1 – PROJECT SIGNINGS AND PIPELINE

**Table 1: Annual Business Volume (in EUR million)**

	2002	2003	2004	2005	2006	2007
Agribusiness	1	56	50	21	0	120
General Industry	97	17	86	63	10	0
Property and Tourism	2	5	33	15	35	27
Telecoms	105	6	0	0	6	33
<b>CORPORATE</b>	<b>205</b>	<b>83</b>	<b>169</b>	<b>99</b>	<b>51</b>	<b>180</b>
Natural Resources	0	0	55	0	0	6
Power and Energy	95	0	18	31	0	51
<b>ENERGY</b>	<b>95</b>	<b>0</b>	<b>73</b>	<b>31</b>	<b>0</b>	<b>57</b>
Bank Equity	0	89	16	13	13	6
Bank Lending	67	103	81	80	92	21
Equity Funds	3	4	12	27	40	39
Non Banking FI	3	26	15	10	15	8
Small Business Finance	2	9	0	3	3	6
<b>FI</b>	<b>76</b>	<b>230</b>	<b>125</b>	<b>133</b>	<b>163</b>	<b>80</b>
Municipal/Environ.	70	48	18	70	51	21
Transport	0	24	16	167	0	0
<b>INFRASTRUCTURE</b>	<b>70</b>	<b>72</b>	<b>34</b>	<b>237</b>	<b>51</b>	<b>21</b>
<b>TOTAL ABV</b>	<b>446</b>	<b>385</b>	<b>401</b>	<b>500</b>	<b>265</b>	<b>336</b>

**Table 2: Number of Projects**

	2002			2003			2004			2005			2006			2007		
	Direct	Reg	Total	Direct	Reg	Total	Direct	Reg	Total									
Agribusiness	0	1	1	1	2	3	3	0	3	3	0	3	0	0	0	2	0	2
General Industry	2	0	2	4	0	4	4	1	5	2	0	2	1	0	1	0	0	0
Property and Tourism	0	1	1	1	2	3	2	2	4	0	2	2	0	4	4	1	1	2
Telecoms	1	0	1	1	0	1	0	0	0	0	0	0	0	1	1	1	1	2
<b>CORPORATE</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>7</b>	<b>4</b>	<b>11</b>	<b>9</b>	<b>3</b>	<b>12</b>	<b>5</b>	<b>2</b>	<b>7</b>	<b>1</b>	<b>5</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>6</b>
Natural Resources	1	0	1	0	0	0	1	0	1	0	0	0	1	0	1	1	1	2
Power and Energy	0	0	0	0	0	0	1	0	1	1	0	1	0	0	0	2	2	4
<b>ENERGY</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>6</b>
Bank Equity	0	0	0	2	0	2	1	1	2	3	0	3	2	0	2	1	0	1
Bank Lending	5	0	5	5	0	5	6	0	6	3	0	3	3	0	3	3	0	3
Equity Funds	1	1	2	2	1	3	3	2	5	1	5	6	0	5	5	0	6	6
Non Banking FI	1	0	1	4	0	4	2	0	2	2	0	2	2	0	2	1	0	1
Small Business Finance	1	0	1	3	0	3	0	0	0	1	0	1	2	1	3	3	0	3
<b>FI</b>	<b>8</b>	<b>1</b>	<b>9</b>	<b>16</b>	<b>1</b>	<b>17</b>	<b>12</b>	<b>3</b>	<b>15</b>	<b>10</b>	<b>5</b>	<b>15</b>	<b>9</b>	<b>6</b>	<b>15</b>	<b>8</b>	<b>6</b>	<b>14</b>
Municipal/Environ.	2	0	2	4	0	4	3	0	3	6	0	6	7	0	7	3	0	3
Transport	0	0	0	1	0	1	1	0	1	2	0	2	0	0	0	0	0	0
<b>INFRASTRUCTURE</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>5</b>	<b>0</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>4</b>	<b>8</b>	<b>0</b>	<b>8</b>	<b>7</b>	<b>0</b>	<b>7</b>	<b>3</b>	<b>0</b>	<b>3</b>
<b>TOTAL</b>	<b>14</b>	<b>3</b>	<b>17</b>	<b>28</b>	<b>5</b>	<b>33</b>	<b>27</b>	<b>6</b>	<b>33</b>	<b>24</b>	<b>7</b>	<b>31</b>	<b>18</b>	<b>11</b>	<b>29</b>	<b>18</b>	<b>11</b>	<b>29</b>

**Table 3: Portfolio Breakdown 2002 - 2007**

Indicators	2002			2003			2004			2005			2006			2007		
	No pr	Amount	%	No pr	Amount	%	No pr	Amount	%	No pr	Amount	%	No pr	Amount	%	No pr	Amount	%
<b>TOTAL</b>	<b>65</b>	<b>1432</b>	<b>100</b>	<b>88</b>	<b>1538</b>	<b>100</b>	<b>101</b>	<b>1561</b>	<b>100</b>	<b>110</b>	<b>1,881</b>	<b>100</b>	<b>115</b>	<b>1837</b>	<b>100</b>	<b>111</b>	<b>1,824</b>	<b>100</b>
of which: state sector	17	876	61	22	1041	68	27	1076	69	34	707	37	76	1163	63	44	658	35
private sector	48	556	39	66	497	32	73	475	31	76	1,174	63	39	674	37	67	1,166	65
- of which: loans	43	1228	86	61	1200	78	78	1197	77	88	1,454	79	94	1450	79	91	1,364	75
equity	25	199	14	30	293	19	23	361	23	24	426	21	21	386	21	20	459	25
guarantees	0	5	0	1	45	3	0	4	0	0	1	0	0	1	0	0	1	0
of which										0								
Agribusiness	5	44		6	91		7	84		10	87		9	76		8	185	
General Industry	5	192		8	185		11	210		11	273		10	268		6	162	
Property and Tourism	3	55		3	53		4	80		3	85		3	115		3	115	
Telecoms	3	212		4	163		4	99		2	27		1	13		1	39	
<b>CORPORATE</b>	<b>16</b>	<b>503</b>	<b>35</b>	<b>21</b>	<b>492</b>	<b>32</b>	<b>26</b>	<b>473</b>	<b>30</b>	<b>26</b>	<b>472</b>	<b>25</b>	<b>23</b>	<b>472</b>	<b>26</b>	<b>18</b>	<b>501</b>	<b>27</b>
Natural Resources	1	95		1	79		1	55		1	55		1	55		2	61	
Power and Energy	3	120		3	82		4	86		5	111		5	97		7	134	
<b>ENERGY</b>	<b>4</b>	<b>215</b>	<b>15</b>	<b>4</b>	<b>161</b>	<b>10</b>	<b>5</b>	<b>141</b>	<b>9</b>	<b>6</b>	<b>166</b>	<b>9</b>	<b>6</b>	<b>152</b>	<b>8</b>	<b>9</b>	<b>195</b>	<b>11</b>
Bank Equity	5	47		7	134		6	149		7	159		6	61		7	68	
Bank Lending	9	123		14	196		20	251		22	287		21	319		18	259	
Equity Funds	14	47		13	45		9	40		5	53		5	86		2	118	
Non Banking FI	1	7		5	29		7	44		8	48		9	49		10	48	
Small Business Finance	1	2		4	11		4	11		5	13		7	14		8	15	
<b>FI</b>	<b>30</b>	<b>226</b>	<b>16</b>	<b>43</b>	<b>415</b>	<b>27</b>	<b>46</b>	<b>495</b>	<b>32</b>	<b>47</b>	<b>560</b>	<b>30</b>	<b>48</b>	<b>529</b>	<b>29</b>	<b>45</b>	<b>508</b>	<b>29</b>
Municipal/Environ.	10	242		14	256		17	251		23	319		30	348		31	315	
Transport	5	247		6	215		7	202		8	362		8	336		8	305	
<b>INFRASTRUCTURE</b>	<b>15</b>	<b>489</b>	<b>34</b>	<b>20</b>	<b>471</b>	<b>31</b>	<b>24</b>	<b>453</b>	<b>29</b>	<b>31</b>	<b>681</b>	<b>36</b>	<b>38</b>	<b>684</b>	<b>37</b>	<b>39</b>	<b>620</b>	<b>33</b>

**Table 4: 2008 Pipeline**

Sector	Number of Projects	Volume (EUR million)
Municipal & Environmental Infrastructure	6	71.2
Agribusiness	1	15
General Industry	3	62
Small Business Finance	4	3.8
Bank Lending and Equity	5	81.8
Power and Energy	1	100
Transport	1	30
Property and Tourism	2	27
Non Bank Financial Institutions	1	10
<b>TOTAL PIPELINE</b>	<b>24</b>	<b>400.8</b>

## **ANNEX 2 - POLITICAL ASSESSMENT IN THE CONTEXT OF ARTICLE 1 OF THE AGREEMENT ESTABLISHING THE BANK**

Romania is committed to, and applying, the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement establishing the Bank.

The last parliamentary and presidential elections took place at the end of 2004. Since then, the centre-right coalition government, led by Prime Minister Calin Popescu Tariceanu, has lost two initial coalition partners and currently comprises Tariceanu's governing National Liberal Party (PNL) and, as a junior partner, the ethnic Hungarian UDMR. The minority government narrowly survived, on 3 October 2007, a no-confidence vote initiated by the opposition centre-left Social Democratic Party (PSD).

The relationship between the two former coalition partners, Prime Minister Tariceanu and President Traian Basescu, has been impaired for a long time. It further deteriorated after the reshuffling of the government in April 2007, which relegated the President's Democratic Party (PD) to opposition. The governing PNL and the opposition PSD subsequently joined forces to impeach President Basescu on charges of alleged violations of the Constitution. The Parliament's decision to impeach the President was, however, overruled by a popular referendum. President Basescu, who continues to enjoy significant popular support, was formally reinstated on 23 May 2007.

The relations between the two branches of executive power have never been easy in Romania, mainly due to the ambiguities in the country's Constitution regarding the division of responsibilities between them. The tension in the relations between the current President and Prime Minister is unlikely to cease until the next parliamentary elections. These are due at the end of 2008 (and should be preceded by local elections in the first half of 2008), but whether the regular timetable holds remains to be seen. The outcome of the elections to the European Parliament, held on 25 November 2007, confirmed the conclusions of all recent polls: the level of popular support to the "President's party" (his PD has recently merged with PLD into a new centre-right Democratic Liberal Party – PDL) is currently significantly stronger than both to the governing PNL and to the opposition PSD, which dominates the Parliament.

The state leadership has repeatedly asserted that it is keen to prevent any adverse impact of the above-mentioned political difficulties on the economy. The situation in the country remains stable, thanks, *inter alia*, to the strength of existing market mechanisms and the ever deepening entrenchment in the EU.

### **External affairs**

Romania's top foreign policy priority is further integration into EU and Euro-Atlantic institutions. Much of Romania's progress with economic and structural reforms was geared towards EU approximation. Romania signed the EU Accession Treaty in April 2005 and joined the EU on 1 January 2007.

When Romania entered the EU, special provisions were made to facilitate and support its smooth transition. In line with the arrangements made during the previous round of enlargement,

provisions were made in the Accession Treaty for safeguards and transitional arrangements (for example, restrictions on free movement of workers). Romania's accession was also accompanied by a set of specific measures put in place to prevent or remedy shortcomings in the areas of food safety, agricultural funds, judicial reform and the fight against corruption. The first report on Romania's progress following Accession, issued by the European Commission (EC) under the Cooperation and Verification Mechanism on 27 June 2007, identified concrete issues that require further work. At the same time, the EC acknowledged that there has been insufficient time since the accession in January 2007 to demonstrate convincing results. It furthermore acknowledged progress achieved in many areas and concluded that it was not warranted to invoke the safeguard provisions envisioned by the Accession Treaty. The next detailed report under the Cooperation and Verification Mechanism is expected in mid 2008.

Romania continues constructive participation in regional cooperation and various regional initiatives.

### **Rule of law**

Prior to accession, the EC identified a number of areas of concern in the area of judiciary and the rule of law. The first report after the accession, issued by the EC on 27 June 2007, noted that the Romanian authorities are committed to judicial reform and have demonstrated goodwill and determination in many areas, particularly in preparing necessary legislation, action plans and programmes. Further effort will be necessary in order to ensure efficient separation of executive, legislative and judicial power that is respected by all, and to strengthen the judiciary at all levels. The EC also urged the Romanian authorities to foster an open dialogue with citizens by enhancing the transparency of the ongoing reforms.

### **Integrity Issues**

The EC identified the fight against corruption as a particular area of concern and set a number of benchmarks to monitor the country's progress in this respect. The first report, issued by the EC after accession, noted that the Romanian authorities have stepped up efforts in the fight against corruption, both at the central and particularly at the local level. At the same time, the progress achieved in the judicial treatment of high-level corruption was assessed by the EC as 'still insufficient'. The Romanian authorities have been urged to establish a coherent country-wide anti-corruption strategy and monitor its implementation and to strengthen the capacity of judiciary at all levels.

Corruption is perceived as one of the major problems by the citizens, as demonstrated, in particular, by the recent Life in Transition Survey (LiTS) conducted by EBRD in collaboration with the World Bank. The Corruption Perceptions Index (CPI) compiled by the Transparency International in 2007 ranked Romania as 69 out of 163 countries, which places it as 11<sup>th</sup> among the Bank's countries of operation, and at the same time as 10<sup>th</sup> among the 'new' EU members.

### **Civil Society and human rights**

The Constitution provides for freedom of assembly and association, and the government respects these rights in practice. The government does not place restrictions on the work of non-

governmental organisations (NGOs). Romanian civil society is diverse and able to influence public policy.

Religious freedom is generally respected, although “non-traditional” religious organisations sometimes encounter difficulties in registering.

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

Romania's media are currently largely independent and not subject to political pressure. Despite significant progress in that area, concerns about corruption in the media and non-transparent ownership persist.

### **Human trafficking**

According to regular reports on human trafficking issued by US State Department, Romania still remains a source and transit country for men and women trafficked for the purposes of forced labour and commercial sexual exploitation. Romania prohibits trafficking for the purposes of both sexual and labour exploitation through Law, which prescribes sufficiently stringent penalties. The above-mentioned reports ‘upgraded’ the country’s position back in 2002. Nevertheless, according to the latest such report, the authorities still do not fully comply with the standards for the elimination of trafficking.

In recent years, Romania has demonstrated visible improvement in the sentencing of traffickers and in witness protection. The authorities have undertaken a number of measures in the area of prevention of human trafficking in order to bring the country to full compliance with international standards in this area.

## ANNEX 3 - LEGAL TRANSITION

The EBRD has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, company law and corporate governance, concessions, insolvency, secured transactions and telecommunications. The existing tools assess both the quality of the laws “on the books” (also referred to as “extensiveness”) and the actual implementation of such laws (also referred to as “effectiveness”). All available results of these assessments can be found at [www.ebrd.com/law](http://www.ebrd.com/law). This annex presents a summary of the results for Romania, accompanied by critical comments of the Bank’s legal experts who have conducted the assessments.

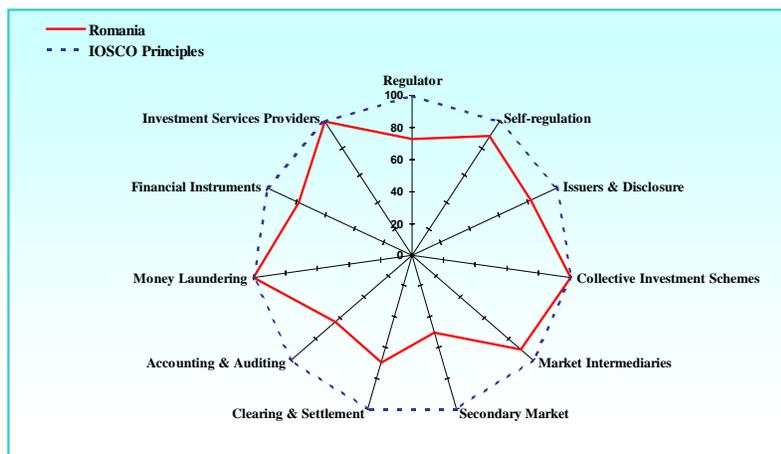
### Capital Markets

The main legislation concerning securities markets in Romania is Law no. 297/2004 (the “Capital Market Law”), last amended in April 2006. The Capital Market Law unifies prior regulation contained in different acts into a single piece of legislation and transposes the relevant *Acquis Communautaire* in the field of securities market legislation.

The National Securities Commission of Romania (*Comisia Națională a Valorilor Mobiliare* or “CNVM”) is the securities market regulator. The CNVM was established in 1994 as an independent regulator, accountable to Parliament, with the authority to impose fines and issue legally binding regulations. CNVM’s revenues are derived from fees/tariffs on various capital markets operations and are not dependent upon the state budget. CNVM performs supervision of the stock exchange and financial intermediaries, provides oversight of takeovers and has the authority to enforce insider trading provisions and disclosure requirements.

The Bucharest Stock Exchange (BSE), founded in 1995, is Romania’s stock exchange. On 8 December 2005, the BSE merged with Rasdaq, the second Romanian exchange founded in 1996 to provide a trading platform for the companies that went through the mass privatisation program and modelled on the American stock market exchange NASDAQ. RASDAQ is now the name of one of the markets operated by Bucharest Stock Exchange. The market capitalisation at the end of 2006 reached 28.2 billion USD with 100 companies listed.

### Quality of securities market legislation – Romania (2005)



*Note:* The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in IOSCO’s *Objectives and Principles for Securities Regulations*. The fuller the ‘web’, the closer the relevant securities market legislation of the country approximates these principles.

*Source:* EBRD Securities Market Legislation Assessment 2005

According to the EBRD Securities Markets Legislation Assessment conducted in 2005, Romania was found to be in “medium compliance” with the Objectives and Principles of Securities Regulation published by the International Organisation of Securities Commissions (IOSCO) – see the chart above, showing some shortcomings especially in the legislation on secondary market and on clearing and settlement. EBRD is currently updating the assessment and conducting a Legal Indicator Survey for testing the effectiveness of securities market legislation (i.e. how the law works in practice). Preliminary results of both initiatives seem to show an improvement of the quality of legislation along with a fair level of effectiveness.

### **Company Law and Corporate Governance**

The principal laws dealing with corporate governance are Law no. 31/1990 (the “Companies Law”), last amended in December 2006, and the Capital Market Law – see the capital market section above. The latest amendments to the Companies Law introduced a number of legal principles coming from the *Acquis Communautaire* and focused mainly on joint stock companies. In June 2000, a voluntary Corporate Governance Code was adopted by the University of Bucharest, the Business Associations and the Bucharest Stock Exchange for voluntary application by listed companies.

In 2004 the EBRD Corporate Governance Sector Assessment found that corporate governance legislation in Romania was in “low compliance” with international standards as set out in the OECD Principles of Corporate Governance. It is understood that, since 2004, a number of amendments to the legislation have been enacted and it is expected that the update of the EBRD Assessment currently being undertaken will reflect these changes.

In order understand how corporate governance legislation works in practice, in 2005 the EBRD designed two case studies dealing with related-party transactions in a listed and unlisted company. The case studies revealed that minority shareholders have limited action in order to obtain disclosure and only a request to the court for the appointment of an independent auditor can possibly provide effective results. The framework for obtaining redress offers several avenues but the procedure can be lengthy. Actions are generally clearly provided for by the legislation and enforceability of judgements is improving but can be a problematic issue. When turning the analysis to the institutional framework, the survey revealed that the competence and experience of courts, prosecutors and market regulator need to be improved. Judicial proceedings are slow, providing the defendant with numerous possibilities for obstruction. Case law collections are difficult to find and corruption and partiality of judgements are still reported as problems.

### **Concessions**

Until recently Romania had perhaps one of the most complicated and inconsistent concession legislations in the new EU member states. In 2006 however, the Government adopted an Emergency Ordinance 34/2006 regarding the awarding of public procurements contracts, contracts for the concession of public works and contracts for the concession of public services

(Act 34/2006). Enactment of Act 31/2006 repealed former concession-related acts, including the public procurement law, the concessions law and the public private partnership (PPP) law.

Reflecting relevant EU Directives, Act 34/2006 refers to a concession contract for public works or services through a public procurement contract where the consideration for works or services exercised by the concessionaire consists either solely of the right to exploit the construction or services, or in that right, together with payment by the concession grantor.

Any legal entity, including a public one, or an individual, or a consortium may become a concessionaire. A concession may be granted by a public body or a public institution on a central, regional or local level. According to Act 34/2006 the following competitive procedures may be used to award concession: an open auction; a restricted auction; competitive dialogue with a final offer; negotiated procedure; invitation to bid; or solutions tender. Where the estimated value of works or services or works is less than €5,000 direct contracting is provided for. In addition to Act 34/2006 covering concessions on public works and services, Governmental Emergency Ordinance 54/2006 (Act 54/2006) governs concession of public assets. One deficiency or peculiarity of Act 54/2006 that may affect the potential “bankability” of financing projects is that unless the concessionaire is a publicly owned company, transfer of concession is restricted. The maximum term for concessions is 49 years.

As a follow on to Act 34/2006, Governmental Regulation 925 was adopted, also in 2006 (the “Regulations”). The Regulations contain implementation rules for Act 34/2006 regarding the requirements for qualification, selection, participation and award, the publication of the announcements of intention, participation and award as well as the application of the award procedures, the framework agreement, the assessment of bids, etc.

The Regulations contain various templates, largely specify rules for the procedures, rules for the application of the framework agreement and rules for setting up the bid and performance bonds.

Romania has had a fairly solid history of awarding concessions although its concession legislation has not, until recently, been considered ideal. The new legislation has brought improvements on the legislative side, but it has yet to be tested in practice before its strengths and weaknesses can be detected.

## **Insolvency**

Bankruptcy and insolvency are governed primarily by the Law on the Insolvency Procedure (“Insolvency law”) which came into force on 21 July 2006. The law replaced the earlier Law Regarding the Procedure of Judicial Reorganisation and Bankruptcy (“the previous law”) which had been rated as one of the leading laws in the EBRD’s countries of operations. The Insolvency Law came into effect after the completion of the EBRD’s 2006 Insolvency Sector Assessment and, thus, that law has not yet been analysed by the EBRD; however, it should be noted that the previous law was rated as having “high compliance” with international standards. The new law, which is a significant improvement on its predecessor in a number of areas, was designed to bring the country into compliance with the European Commission directives.

One major improvement is the process of opening an insolvency procedure which took up to six months under the previous law. Under the Insolvency Law, the applicant knows immediately whether a bankruptcy procedure or a general procedure (which can lead to a bankruptcy or a restructuring) will be initiated or whether the application will be dismissed.

The Insolvency Law has several provisions designed to improve the rights of creditors. Creditors now have far more say over the selection of insolvency administrators. While the court continues to have the authority to appoint the temporary administrator, creditors, through the Creditors' Assembly, have the right to nominate administrators and to replace court appointed administrators. As well, petitioning creditors have the right to suggest a specific administrator to the court for appointment to the case. The Creditors' Assembly is also given full access to the reports of the administrator or liquidator and it has the right to challenge decisions and actions taken by the administrator or liquidator, including decisions relating to the approval of claims and the distribution of assets.

The Insolvency Law also improves the situation for debtors by allowing them to remain in possession of the company's assets and in control of management. Debtors are also allowed to prepare reorganisation plans, a change which should help to facilitate reorganisations, although the lack of provisions relating to debtor in possession financing is a significant problem.

The country has also significantly improved the way in which it regulates insolvency administrators. The National Association of Practitioners in Insolvency, a self-regulating organisation, was established and given authority to oversee the insolvency practice. The Association sets licensing exams, conducts training and disciplinary investigations. Membership in the organisation is mandatory for all practitioners. The Association has also been given responsibility for running a fund, paid for by the government, which pays the fees of insolvency administrators when the assets of the debtor estate are insufficient. Romania remains one of the few countries to have such a fund.

The Insolvency law is a positive move for the country. It is a forward looking law which meets many of the requirements expected of a modern insolvency law. The task will now be for the law to be implemented in a fair, transparent and efficient manner.

## **Secured Transactions**

Taking security on movable assets is governed by the law entitled 'Legal Treatment of Security Interests in Personal Property' (Title VI of Law No. 99/1999, hereafter "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.

The Law on Security Interests allows for the creation of possessory and non-possessory charges, subject to registration in an electronic registry (the Archive). The Law is generally very modern

and market oriented, providing a number of features required for economic efficiency of the credit market (such as the possibility to describe generally the charged assets and to cover the whole of the enterprise). There is also an indication that practitioners are growing comfortable with these. The Archive is centrally managed by the Ministry of Justice and various organisations (e.g. Chamber of Notaries, Chamber of Commerce) serve as licensed registrars.

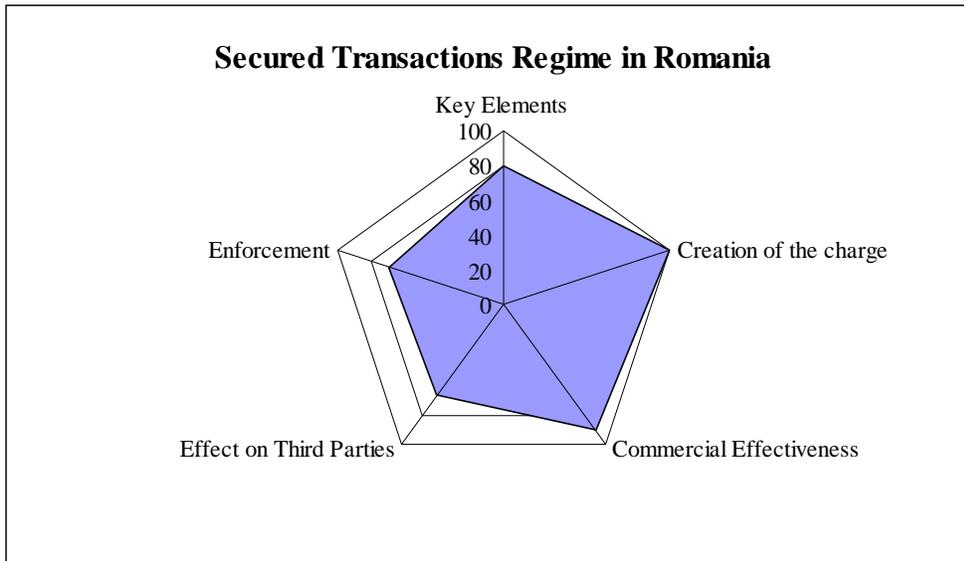
The Law on Security Interests also offers out-of-court, creditor driven, modes of enforcement. However, enforcement can be hampered by the deficient institutional framework and debtor obstruction. Furthermore, the position of the secured creditor in bankruptcy is not clear and certain claims such as tax claims may supersede those of a registered chargeholder. Overall, Romania has nevertheless established one of the most advanced regimes for secured transactions over movables in the EBRD region.

Taking security over immovable property (mortgage) is governed by the Civil Code and the 1999 Mortgage Lending Law (subsequently amended) which regulates loans granted for financing of real estate acquisitions. Here again, Romania has achieved a well-functioning legal regime, which serves quite well the needs of the economy. A mortgage agreement needs to be notarised before being registered in the Land Register. The Land Register is kept by the National Agency for Cadastre and Land Registration and there are 177 offices across the country. The database is paper-based and not centralised, though efforts are underway to fully computerise the register.

In case of the borrower's default, the mortgage can be enforced only with involvement of a court by a public auction carried out by an executor or an authorised banks' enforcement officer. The creditor must obtain a court enforcement stamp on the mortgage agreement and the authorisation to realise the property. Enforcement is reported to take 6-9 months and the sale proceeds obtained are often below the property's market price. Difficulties may arise when enforcement is contested by the debtor however this is not reported to be a frequent problem.

A secondary mortgage market has also been developed: three new laws (Mortgage Banks Law no. 33/2006, Mortgage Bond Law no. 32/2006, and Securitisation Law no. 31/2006) and amendments to the Mortgage Lending Law no. 190/1999 were adopted in March 2006. Stakeholders were unanimously supportive of the new legislative package and noted its importance in the continued development of the Romanian mortgage market. However, to date, no mortgage securities have yet been issued and this will still require some time and effort.

## Analysis of the secured transactions legal regime in Romania, 2005



**Note:** Scoring on a scale from 1 to 100, where 100 represents the most advanced legal and practical regime.

**Source:** EBRD Regional Survey of Secured Transactions, 2005

## Telecommunications

The communications sector in Romania is currently regulated by the National Regulatory Authority for Communications and Information Technology (ANRCTI) and governed by a legislative framework comprising Emergency Government Ordinance No. 79/2002, Government Ordinance No. 591/2002, together with Law 239/2005, as amended and supplemented. This primary framework is also supplemented by numerous regulations governing, *inter alia*, access and interconnection, data protection, numbering, and significant market power designation and obligations. Much of the current European Union (EU) regulatory framework was transposed to domestic legislation prior to Romania's 2007 accession to the EU. The Ministry of Communications and Information Technology (MCIT) maintains responsibility for sector policy.

ANRCTI was established as an independent sector authority in 2002 and has responsibility for day-to-day market supervision, ensuring compliance and practical implementation of the legal and regulatory framework. ANRCTI is also responsible for the management of numbering resources and for the issuing of licences.

The market was formally fully liberalised at the beginning of 2003 with the abolition of exclusive rights of RomTelecom (the incumbent former monopolist operator). Although, since then, a large number of alternative operators have been granted licences to provide services RomTelecom still dominates the fixed-line market. Because of the lack of investment during the communist era fixed-line "*teledensity*" has not risen above 20% (less than half EU average) and has result in a number of rural areas still have no fixed-line service. This lack of fixed-line infrastructure has led in turn to a high level of fixed-to-mobile substitution within the country.

Earlier European Commission criticism of Romania's communications sector framework prompted the authorities to take steps to formally harmonise with the current framework

significantly before the country's recent accession to the Union. With the rules of the current EU framework largely in place, the focus is now upon completing that process and ensuring the practical implementation of the framework is advanced with robust intervention, where necessary, by ANRCTI. Given the need for private investment in the fixed network, ANRCTI should ensure all unnecessary barriers to entry are eliminated and all regulatory measures to necessary support meaningful competition are fully deployed.

## ANNEX 4 -ENVIRONMENTAL ISSUES

### Harmonisation with EU Environmental Law

The primary focus of Romania's environmental authorities is the transposition of the EU's environmental law (the 'Acquis Communautaire') into national legislation. The *Acquis Communautaire* comprises over 200 legal acts covering different areas such as water and air pollution, waste and chemical management, nature protection, industrial pollution management and noise protection. The Commission Report of October 2005 notes the high degree of alignment with the "acquis" achieved by Romania and it also stressed the need to continue efforts for implementation and enforcement.

Regarding **horizontal legislation**, this has been adopted on procedures relating to environmental impact assessment and strategic environmental assessment, including communication procedures for public consultation and guidelines for implementation. International agreements have been ratified, such as the Aarhus Convention and the Espoo Convention on Environmental Impact Assessment in a Transboundary Context; Romania also prepared a draft law for the adoption of the amendments to Aarhus Convention related to the genetically modified organisms as well as that for the ratification of Kiev Protocol (on strategic environmental assessment) to the Espoo Convention. Training was provided in this field with the assistance of PHARE programme.

In the field of **waste management**, legislation is in place on the use of sewage sludge in agriculture, norms regarding landfill of waste, packaging and packaging waste, shipments of waste, end of life vehicles and waste electrical and electronic equipment. The closure or reconstruction of existing landfills and the establishment of new sites were developed according to the regional waste management plans. Legislation has been drafted for implementation of the 2006 EC Regulation on shipments of waste. The Ministry of Environment and Sustainable Development was designated as the competent authority for shipments of waste, but it is still necessary to strengthen administrative capacity at regional and municipal level and to ensure cooperation between authorities. Regional waste management plans have also been adopted.

In the area of **water quality** the "acquis" on urban waste water and on discharges of dangerous substances into surface waters has been transposed, although some further measures are necessary. The water law was amended in order to align with the Water Framework Directive and legislation on drinking water. Legislation was adopted on an integrated monitoring system for nitrate pollution and on the approval of programmes for monitoring pollutants from agricultural sources. Regulations were also adopted on the monitoring of water quality with regard to certain dangerous substances, and on hygiene norms for bottled water. Romania has taken steps to declare its entire territory a sensitive area for the purposes of urban waste water treatment. Action plans for agglomerations have been prepared, together with an assessment of the current waste water infrastructure. A methodology was developed for the designation of vulnerable zones that drain into waters affected by nitrate pollution.

The legislation on **industrial pollution control and risk management** is in place, including the issuing of integrated permits. The deadline for issuing permits for installations falling under

Integrated Pollution Prevention and Control (IPPC) was 30 October 2007. A pollutant emissions register has been completed. The Convention on the Transboundary Effects of Industrial Accidents was also ratified in March 2003. Transposition was fully completed, including with regard to incineration of waste, large combustion plants and volatile compounds due to the use of organic solvents.

With regards to **nuclear safety and radiation protection**, further progress was made with the publication of new norms, but work still remains to be done in particular with regard to the supervision of shipments of radioactive waste. An inventory of practices involving the risk of ionising radiation was drawn up. A database on licence applications and licences issued for shipments of radioactive materials was set up.

In the field of **noise**, an assessment of environmental noise was carried out and relevant urban agglomerations, highways, railways and airports were identified.

With regard to **nature protection**, legislation is in place and progress continues on the preparation of the Natura 2000 network. Sites of Community interest and Special Protection Areas have been identified with the assistance of, among others, non-governmental organisations. More efforts are required in relation to awareness raising and encouraging the participation of stakeholders in implementation. Administrative capacity needs to be enhanced. Romania has made also progress in the field of **chemicals** and **genetically modified organisms**. Legislation was adopted on ozone-depleting substances and on approving the updated national programme for phasing them out. Rules relating to biocides have been completed.

In the **air quality sector**, legislation is in place, particularly in relation to sulphur content of liquid fuels, designation of inspection bodies, volatile organic compound emissions, emissions from non-road mobile machinery and conditions for placing gasoline and diesel fuels on the market. Zones for air quality assessment and management were defined. A preliminary assessment of air was carried out and an air quality monitoring network for agglomerations designed. Procedures for drawing up and implementing air quality management plans and programmes were published and a national strategy and action plan for atmosphere protection approved. However, action plans and monitoring systems still have to be prepared and implemented.

## **Ozone Protection and Climate Change**

Romania is a party to the Convention for Protection of the Ozone Layer and the amendments. The Ministry of Environment and Water Management (MWEPM) has established an Ozone Secretariat and set goals of reducing its ozone-depleting substances to zero between 2005 and 2015.

With regards to climate change, Romania ratified the Framework Convention on Climate Change and the Kyoto Protocol. In 2006 the Directive establishing a scheme for greenhouse gas emission trading was transposed into the national legislation together with the Directive concerning flexible mechanisms established by Kyoto Protocol. Based on the EU-ETS transposed legislation, subsequent procedures for permitting, monitoring & reporting and accreditation of verifiers were also developed.

Further work was undertaken by the Romanian environmental authority for the inventory and permitting of installations covered by the EU-ETS Directive and for the completion of the proposal for the National Allocation Plan for the last year of the first allocation period (2007) as well as for the entire second allocation period (2008-2012) which has been submitted for EC approval

## **Protected Areas and Biodiversity**

Romania is a country with a very high biodiversity level, both at ecosystems level and species level. Eco-regions include aquatic and terrestrial ecosystem types characteristic for the coastal and littoral area of the Black Sea, steppe, forestry - steppe, hill, mountain, lakes, rivers and their meadows, wetland, grassland, marsh and rock areas, including the specific Danube Delta ecosystem. Romania has a unique natural heritage, offered by Carpathian Mountains (65% of the Carpathian eco-region) as well as by one of the most important wetlands in Europe, the Danube Delta. Romania has more than one third of the large carnivore species' population in Europe and about 300,000 ha of virgin forests.

As part of the accession process, Romania will have to implement the Natura 2000 network, in accordance with the EU requirements. This network will contribute to the conservation of species and habitats of Community interest, part of which are already protected through the existing national protected area system.

In Romania, there are 13 National Parks, 13 Natural Parks, as well as the "Danube Delta" Biosphere Reserve. The total surface covered by Natural Parks, National Parks and Biosphere Reserves is 1,687,512 ha (121,780 ha maritime surface), which represents 7% of the total terrestrial country surface. Besides the National Parks, Natural Parks and Biosphere Reserves, there are 935 scientific reserves, nature monuments and nature reserves with a total surface approximated at 180,000 ha. Therefore, the total terrestrial surface of the natural protected areas represents around 8 per cent of the total terrestrial country surface at the end of 2005. By the end of 2013, this figure should reach 15 per cent.

Out of the national network of protected areas, one of the most significant is the Danube Delta, which has a triple international statute: Biosphere Reserve, Ramsar Site and Site of the World Natural and

Cultural Heritage. Due to the conservation status of the ecosystems and wild species present, the Council of Europe has awarded the European Diploma to the Danube Delta.

All protected areas, including the future Natura 2000 sites will face significant challenges in conservation management and maintaining the favourable conservation status if no proper measures are planned and implemented to encourage private landowners to incorporate biodiversity conservation into land use practices. It is important to emphasize that the existing protected area network, that will incorporate a significant part of the Natura 2000 network, is lacking the infrastructure needed for efficient management. With the aim to improve the management of the protected areas system that will become a complex network of protected areas of national importance and Natura 2000 sites, the legal framework for a National Agency for Protected Natural Areas and Biodiversity Conservation (NAPNABC) was established during 2007. Whilst the deadline for the establishment of the Agency was not met, there is ongoing progress to establish the Agency.

### **Environmental and Occupational Health and Safety Education**

Romania has taken a number of initiatives in environmental education. Schools and universities in Romania include environment related courses in the study programmes. Most public and private sector companies have adopted environmental management systems which include environmental training of staff.

### **Public Consultation and Environmental Organisations**

Romania ratified the UNECE Convention on Access to Information, Public Participation and Access to Justice in Environmental Matters (Aarhus Convention) in 2000, and the UNECE Convention on Environmental Impact Assessment (EIA) in a Transboundary Context (Espoo Convention) in 2001. Legislation is being implemented to meet the requirements under these Conventions.

Several PHARE technical assistance projects developed guides on public consultation and training. A civil society organisation (StrawberryNet) reports that there are 168 registered environmental groups active in Romania.

### **Capacity-building projects**

With the support of PHARE programme, almost full transposition of the EU legislation was achieved in horizontal legislation, chemical substances, waste management, industrial pollution control, air quality and protection against noise. PHARE projects have contributed substantially to administrative capacity strengthening at central, regional and local level by organizing training sessions or seminars of information on different environmental issues, endowing with equipment for environmental quality monitoring, computers, software, etc.

Through PHARE 2005-2006, grant schemes will be launched in other environmental sectors (air, IPPC, water, nature protection) where the private sector will be taken into consideration as beneficiaries.

For the environmental protection sector, investments financed through PHARE programme, amount to Euro 276 million, with special focus on investments for European environmental legislation implementation. PHARE programme is currently contributing approximately Euro 19 million for preparation of projects intended for Structural and Cohesion Funds financing. For the period 2007-2013, Romania expects to receive approximately EURO 4.5 billion from Structural and Cohesion Funds for environmental investments.

During 2000-2005 42 projects were approved for ISPA financing; 29 for water quality, 7 for integrated waste management and 6 for Technical Assistances. The total value of the projects reaches approx. Euro 1.45 billion, out of which Euro 1.04 billion represent ISPA grants, the co-financing being covered from IFI loans (mainly EIB and EBRD loans, but also loans from a German bank, KfW), bilateral agreements (Danish Ministry of Environment), state and local budgets. Following Romania's accession, ISPA support has also been requested for a pipeline of 40 major projects in the water and waste fields, currently under preparation.

The *Global Environmental Facility (GEF)* provides financial support for environmental protection at global level by creating a special fund and allocating it to global projects, for purpose biodiversity conservation, climate change, persistent organic pollutants, desertification control, international water and ozone layer protection. To date, Romania has implemented 20 GEF projects, 8 country projects and 12 regional projects, the majority referring to Black Sea and Danube water protection.

In order to support the development of projects under the National Environmental Action Plan (NEAP), an Environmental Fund has been established. The Environmental Fund aims to stimulate a limited number of public interest environmental investments, giving priority to those included in the NEAP. Fund resources are broadly channelled towards clean technology projects/equipment purchases and waste management projects (including hazardous waste).

### **Recent Environmental Initiatives on EBRD Projects**

To help address the legacy of environmental damage and encourage environmental quality improvements, the Bank incorporates environmental action plans into most projects.

*Oradea Water and Wastewater Extension:* In 2007 the Bank agreed to help finance the construction of 108 km of new water supply pipework; 140 km of new sewers; 99 km of new rainwater collectors; and a secondary stage pumping system to ensure sufficient pressure to supply water in the network extension in Oradea. The proposed project will address key infrastructure needs in Oradea and will reduce pollution in the Crisul Repede River at the boundary between Hungary and Romania. In Oradea, there are 85.5 km of streets where approximately 26,000 residents are neither connected to the water nor sewerage system. In these areas, wastewater is either discharged into road ditches, resulting in the contamination of ground water, or directly into the river. There is no environmental action plan for this project however the Bank will require the company to comply with the internationally recognised good management practices applicable for pipeline rehabilitation and/or construction as well as to comply with ILO Convention regarding employment. The Company will also be required to upgrade their public grievance procedure to be used during the rehabilitation/construction of the pipelines.

*Timisoara District Heating:* In 2006 the EBRD agreed to loan \$15 million to Colterm, the Timisoara city-owned district heating company. The finance will be used to replace old gas-fired boilers, which only produce heat, with combined gas and steam boilers that generate heat and electricity. The new boilers will produce heat more efficiently, reduce air pollution for residents and cut carbon dioxide emissions. This is the first project in Romania to directly link the financing of a project with carbon credits. The new boilers are expected to cut CO2 emissions by over 120,000 tonnes a year, leading to a reduction in carbon dioxide emissions of around 800,000 tonnes between 2008 and 2012. This is expected to generate around \$4 million in carbon credits. The EBRD will purchase the resulting credits on behalf of the Netherlands.

*Constanta By-Pass:* In 2006 the Bank financed a project to support the construction of a north-south by-pass to the town of Constanta, linking with the Bucharest-Constanta Motorway, the rehabilitation of ten strategic bridges (crossing the Danube or the Danube – Black Sea Channel) in the Constanta county and repairs and rehabilitation works to 98 flood-damaged locations (road sections and bridges) on the national roads network. The Bypass is likely to have a significant positive effect on the traffic problems on the town, in particular the rerouting of heavy port traffic away from Constanta town centre and the provision of a free-flowing route for heavy tourist traffic from Bucharest and the North of Romania to the popular sea side resorts south of Constanta.

*Municipal Environmental Loan Facility:* The Facility was set up in 2000 and was designed to provide co-financing to EU-ISPA funded investments in the water, waste-water and solid waste management sectors, in municipalities across Romania. The project addresses investments in water supply, waste-water and solid waste management facilities to comply with EU-accession requirements on environmental standards. To date 9 projects under the facility have been financed including water, waste-water and municipal solid waste management facilities in Constanta, Iasi, Arad, Brasov, Oradea, Targu Mures, Sibiu, Timisoara and Bacau.

*Financial Intermediaries:* EBRD continues its work with financial intermediaries in Romania who are required to implement the Bank's environmental risk management procedures to ensure that FI clients are, at a minimum, complying with national standards for environment, health, safety and labour. Since the 2003 EBRD Strategy for Romania, EBRD has undertaken a number of training seminars in Romania with local banks to assist them in understanding the nature of the Bank's environmental procedures and how to implement the procedures correctly. These seminars have been aimed both directly at credit staff and also at in-house training units who then provide training to credit staff on a more regular basis. Trained financial institutions include Procredit Bank, Bank Post, Alpha Bank, Alpha Leasing, Bank Romanesca, BT Leasing, OTP Romania (former Robank) and Banca Comerciala Romana. In October 2007 the Bank, in its capacity as chair of the UNEP-Financial Institutions Central and Eastern Europe Taskforce, will participate in the UNEP-FI Workshop on sustainable banking to be held in Bucharest.

# **ANNEX 5 - SUSTAINABLE ENERGY COOPERATION PLAN FOR ROMANIA**

## **I OBJECTIVE**

The EBRD is pursuing a range of sustainable energy activities in Romania. As part of this process the Bank is in active dialogue with the Government of Romania (the “Government”) in order to identify and prioritise appropriate actions and to clarify those areas where co-operation and support from the Government will be required. This Annex sets out the main areas of activity and co-operation in relation to the key priorities identified in the main Strategy Document.

## **II CONTEXT**

Despite the significant progress made in the recent years, Romania is still lagging behind other EU countries in terms of energy intensity, which is 1.44 times higher than the average EU-25 countries<sup>1</sup>

Improving energy efficiency and energy security, promoting renewable energy resources and lowering the carbon intensity of the economy are recognised by the Government as top national priorities, as shown in the following strategic documents:

- Energy Efficiency Law
- National Energy Efficiency Action Plan 2007-2010
- National Strategy for Energy Efficiency 2003-2015
- National Strategy for the Valorisation of Renewable Energy Sources
- District Heating 2006-2009 Programme
- National Thermal Rehabilitation Programme
- National Strategy and Action Plan on Climate Change 2005-2007

The Government has set the following targets:

- Decreasing the final energy consumption by 1.5% per annum (4.5% of 5-year average of previous final energy consumption) by 2010;
- Increasing the share of renewable energy sources within the total primary resources consumption to 11% and in the gross electricity consumption to 33% by 2010;
- Reducing the greenhouse gases emissions by 8% (compared with 1989 level of emissions) between 2008 and 2012.

In view of the above strategic documents and proposed targets, the Government will use a wide range of existing and new policy and financial instruments to encourage all market players from industrial, public, residential and tertiary sectors to prioritize and accelerate investments in

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<sup>1</sup> International Energy Agency Statistics. Data are adjusted for PPP.

sustainable energy projects. Such instruments will range from regulatory and legislative measures, subsidies, fiscal incentives, grant co-financing and special dedicated funds to awareness raising campaigns and voluntary cooperation agreements.

Through its Sustainable Energy Initiative ('SEI') the EBRD aims to support its 29 countries of operations, including Romania, in meeting their objectives of improving energy efficiency and energy security covering industrial energy efficiency; sustainable energy financing facilities through financial intermediaries; municipal infrastructure; cleaner energy supply; renewable energy; and carbon finance, by using the full range of Bank's instruments including:

- Investments in the form of direct loans, direct equity, equity funds and credit lines to financial intermediaries;
- Syndications from private financial markets and mobilisation of funds from other IFIs;
- Project preparation support in the form of technical cooperation activity and grant co-financing;
- Institutional capacity building and policy dialogue;
- The EBRD-EIB Multilateral Carbon Credit Fund.

The Romanian Government has indicated its interest in an Energy Efficiency Partnership with EBRD in the framework of its First National Energy Efficiency Action Plan.

### **III AREAS FOR COOPERATION**

For each sector, three sets of actions are envisaged:

- Parallel Actions by the Government and the EBRD that do not require formal cooperation structures but reinforce each other.
- Active Cooperation and Partnerships where formal cooperation structures will be defined, setting out the role of the Government and the EBRD.
- Technical Assistance from the EBRD, to support an enabling environment for sustainable energy investments in Romania.

#### **1. INDUSTRIAL ENERGY EFFICIENCY**

##### ***Parallel Actions***

The EBRD understands that the Government will continue to stimulate energy efficiency improvements in the industrial sector by promoting Long Term Agreements with energy intensive industries, providing technical assistance and co-financing for energy audits and grant co-financing with EU Structural Funds under the Sectoral Operational Programme 'Increasing Economic Competitiveness'.

The EBRD may provide financing for projects selected for co-financing from EU Structural Funds. Such co-financing would be provided in accordance with the rules and conditions required by appropriate legislation.

The EBRD will continue to encourage all its clients to assess energy efficiency opportunities as part of any project with the Bank and technical cooperation resources will be made available for energy audits and energy management training. The Bank will also seek to facilitate the monetisation by its clients of their carbon emissions reductions arising from such projects through the Multilateral Carbon Credit Fund.

The Bank will also launch this year a new €80m EU-EBRD Energy Efficiency Financing Facility with grant support from the European Commission (under a PHARE 2006 regional scheme). Under this scheme, EBRD will lend to local banks for on-lending to energy efficiency projects. The grant component will be used to:

- a) help end-borrowers prepare bankable proposals; and
- b) pay performance-based incentive fees to end-borrowers and participating banks.

The Government acknowledges that the EU-EBRD Energy Efficiency Financing Facility will enhance energy efficiency in Romania and will support the launch and implementation of this initiative, commencing in 2007.

### ***Active Cooperation and Partnerships***

The EBRD's Sustainable Energy Financing Facility (SEFF) model – first launched in Bulgaria and now being deployed in Georgia, Slovakia and Ukraine – provides an integrated 'one-stop-shop' package of small-scale loans (in the form of an EBRD credit line dispersed through local banks) and generous loan support facilities (in the form of technical assistance and incentive payments) to overcome any barriers that may reduce participation in sustainable energy projects.

The EBRD will explore options for financing new SEFFs in consultation with the Government. Such options may include funding from EU Structural and Cohesion Funds and/or Romanian public budget funds and/or a Romanian Green Investment Scheme (to finance climate friendly projects) or programmatic Joint Implementation projects (through which a developed country can receive ERUs or emissions reductions units when it helps to finance projects that reduce net greenhouse gas emissions in another country which is typically in transition). The design of new SEFFs will incorporate lessons from the EU-EBRD Energy Efficiency Financing Facility that is expected to generate the first Romanian projects before the end of 2007, as well as from the similar facilities being implemented in Bulgaria, Georgia, Slovakia and Ukraine.

The EBRD is ready to work with the Government to assist in developing a Green Investment Scheme or programmatic Joint Implementation since, through the Multilateral Carbon Credit Fund, it could rapidly identify potential buyers, provide advisory support on structuring the transaction and make funds available under a credit line model to enable Green Investment Scheme proceeds to be used by the country to promote sustainable energy projects.

### ***Creating an Enabling Environment***

The EBRD, in cooperation with JASPERS – a joint policy initiative of the European Investment Bank, European Commission (Regional Policy Directorate-General) and the EBRD, to assist beneficiary countries in the preparation of major infrastructure projects that will be assisted by the EU Structural and Cohesion Funds over the next budgetary planning period 2007-2013 – will, in line with existing procedures under the JASPERS initiative, continue to provide advisory support to the Ministry of Economy and Finance (and alongside the EIB and EC), with a view to ensure effective use of EU Structural and Cohesion Funds to promote energy efficiency in industry in a manner which maximises the leveraging of public funds with commercial money and supports the transition to a sustainable, low-carbon economy.

## **2. RESIDENTIAL ENERGY EFFICIENCY**

### ***Parallel Actions***

The EBRD understands that Government will continue to support residential energy efficiency through its National Thermal Rehabilitation Programme for the Multi-storied Apartment Blocks by providing free energy audits and grant co-financing.

The EBRD is interested in supporting and developing financing schemes for the residential sector and will continue its dialogue with the Government and local financial institutions in order to identify ways to overcome barriers for lending to housing associations' thermal rehabilitation projects and improving the effectiveness of the National Thermal Rehabilitation Programme.

### ***Active Cooperation and Partnerships***

The Government and the EBRD will explore options for a residential SEFF programme where commercial financing will be complemented by grant funding sourced from the state budget and/or carbon finance (see above).

### ***Creating an Enabling Environment***

The EBRD will provide advisory support to the Government of Romania on a possible further development of the National Thermal Rehabilitation Programme, with a view to ensure that it becomes a long-term sustainable instrument for financing energy efficiency in the residential sector, in cooperation with commercial funds.

## **3. MUNICIPAL ENERGY EFFICIENCY**

### ***Parallel Actions***

The EBRD understands that the Government will accelerate energy efficiency improvements in the municipal sector by promoting policy and financial instruments to support investments in district heating, public lighting systems, water and waste water treatment plants and urban transport. It is understood that grant support may be provided and co-financing from EU Structural Funds will be made available under the 'Environment' Sectoral Operational Programme.

The EBRD will continue to finance projects in the municipal infrastructure and will seek to maximise the energy and carbon savings components of these projects. The Bank could also make Technical Cooperation resources available for feasibility studies and project preparation, capacity building and institutional strengthening and for sustainable urban transport project preparation.

### ***Active Cooperation and Partnerships***

The EBRD will be ready to consider projects identified by the Romanian Energy Conservation Agency which are to be partially financed from the central budget and which may present interest to EBRD in terms of potential co-financing.

The EBRD will analyse options for discussion with the Government for a programme of energy efficiency improvements in public buildings where financing is provided to municipalities and/or to Energy Services Companies for thermal rehabilitation projects.

### ***Creating an Enabling Environment***

The EBRD understands that the Government will promote legislative and regulatory measures for the development of Energy Services Companies (ESCOs) on the Romanian market. The EBRD may consider providing related advisory support to the Government.

The EBRD, in cooperation with JASPERS, will continue to provide advisory support to the Ministry of Environment and Sustainable Development, with a view to ensure effective use of the EU Structural and Cohesion Fund in promotion of energy efficiency in district heating systems and improvement of the air quality according to the EU standards, in ways that maximise the leveraging of public funds with commercial money and supports the transition to a sustainable, low-carbon economy.

## **4. RENEWABLE ENERGY**

### ***Parallel Actions***

The EBRD understands that the Government will promote renewable energy investments through long-term legislation that supports the large-scale integration of renewable energy in power generation systems and ensures that targets and objectives agreed with the European Commission will be met. In addition, the Government of Romania will provide incentives and financial support for small-scale and innovative renewable energy projects through the Environment Fund Administration as well as grant co-financing from EU Structural Funds via the Sectoral Operational Programme ‘Increase of Economic Competitiveness’.

The EBRD may provide financing for projects selected for co-financing from EU Structural Funds. Such co-financing would be provided in accordance with the rules and conditions required by appropriate legislation.

The EBRD will seek to support the development of renewable energy projects in Romania with tailored technical assistance for project preparation support (project scoping and environmental impact appraisal) and by providing equity or debt financing.

### ***Active Cooperation and Partnerships***

The Government and the EBRD will investigate options to design a SEFF programme, in combination with the Romanian Green Investment Scheme that would support small-scale renewable energy investment with commercial financing, complemented by grant funding.

### ***Creating an Enabling Environment***

The EBRD understands that the Government will promote investments in renewable energy through long-term enabling legislative and regulatory framework that provides a stable and predictable investment environment. The EBRD may provide advisory support to the Government in connection with the design of such legislation.

## **5. POWER AND CONVENTIONAL ENERGY**

### ***Parallel Actions***

The Bank supports Romania's further integration into the Energy Community of Southeast Europe, which will present opportunities for Romania to play a major trading role in the region and will help solidify the liberalisation of the sector. The Bank already started this with the financing of the Romania-Hungary line and will continue to finance other high-voltage interconnections internally and to neighbouring countries, to reduce bottlenecks, increase economies of scale, and support the creation of a regional energy market, thus improving energy efficiency. The energy efficiency impact comes from reducing losses in the lines themselves, as well as increased efficiency in existing generation facilities, and reduced need for new generation facilities, provided by access to alternative areas of demand for generation facilities not operating at full capacity.

Complementing the investment needs in transmission, the Bank is also exploring opportunities to assist the power trading exchange to enhance its role, domestically and possibly regionally. This should lead to an increased activity from independent electricity suppliers (including traders without locally based generation assets), through which the Bank will also seek to stimulate competition in retail and wholesale markets.

### ***Active Cooperation and Partnerships***

The Bank is supporting the power generation sector, currently suffering from an antiquated, inefficient and highly polluting asset base. Significant investments are therefore required in order to comply with EU environmental regulations as well as extend the useful lives of existing power plants and improve efficiency. These investments are now highly urgent due to rising demand for electricity and the long construction periods for such complex projects. Currently, the Bank is interested in financing the Rehabilitation and Modernisation of Units 3 and 6 at Turceni Power Plant and Hidroelectrica's major rehabilitation and investment program.

As these projects are usually large scale, strategic investments, the Government contribution resides in creating an appropriate investment environment through institutional measures, appropriate legislation and support in negotiation and conclusion of both financing and commercial agreements, in accordance EU legislation.

### ***Creating an Enabling Environment***

The energy sector of Romania is one of the most liberalised in the region and the EBRD is willing to support further initiatives in this respect by encouraging a sustained policy dialogue and a continued effort for further liberalisation and privatisation throughout the sector. In this respect, the Bank has reviewed the newly approved Energy Strategy 2007-2020 and supports the Regulator's efforts for the Green Certificates legislation to be further developed and extended beyond 2012 to ensure the framework for greenfield investments in renewables.

## **6. NATURAL RESOURCES**

### ***Active Cooperation and Partnerships***

The EBRD understands that the Government will support energy efficiency investments in the gas production, transmission and distribution sector and may present projects that are expected to have carbon credit and emissions reduction potential which may interest the Bank in terms of potential co-financing. The Bank will review the proposed projects, and may make available resources from its own programmes to further evaluate the carbon credit and emissions reduction potential and will seek to mobilize grant resources to finance in-depth studies of such projects.

The Government and the EBRD will continue to explore the emissions reduction and carbon credit potential of the proposed improvements of the national gas transmission system of Transgaz S.A., including mobilisation of additional grants from EBRD for project preparation. In December 2007, the EBRD participated in the capital increase at the IPO of Transgaz S.A., on market terms and conditions which will assist Transgaz with this objective.

### ***Creating an Enabling Environment***

The EBRD understands that the Government will promote energy efficiency investments in the gas production, transmission and distribution sector, through long-term enabling legislative and regulatory framework that will provide a stable and predictable investment environment and the

EBRD may provide advisory support to the Government in connection with the design of such legislation.

## Attachment 1

The following table set out potential areas of cooperation described in this Cooperation Plan, alongside priorities listed in the Romanian Energy Efficiency Action Plan.

Measures envisaged by the Romanian Energy Efficiency Action Plan submitted to the European Commission	Potential Areas of Cooperation		
	Between Government of Romania and EBRD		
	Parallel Actions	Active Cooperation	Support for an enabling environment

### INDUSTRIAL SECTOR

Long-term Voluntary Agreements

Energy management programmes	Energy Audits	New SEFF (credit line):	
Financing mechanisms for energy efficiency projects (financial instruments, subsidies, funds)	Carbon Credits	Structural and Cohesion Funds	Technical Assistance (including through JASPERS).
		National funds	
	EU-EBRD	Romanian Green Investment Scheme	
Co-financing energy efficiency projects with Structural Funds	SEFF (credit line)		

### RESIDENTIAL SECTOR

Thermal Rehabilitation Programmes for Multi-family Blocks of Flats		New SEFF (credit line)	Technical Assistance
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### MUNICIPAL SECTOR

Promoting high efficiency  
CHP

	Direct Financing	New SEFF (credit line)	Policy dialogue and advisory technical Assistance
Energy Efficient Public Lighting	Carbon Credits	National Funds	

Promoting ESCOs

## RENEWABLES

	Direct Financing	New SEFF (credit line)	
Promoting renewable energy sources to generate heat and electricity	Carbon Credits	Romanian Green Investment Scheme	Technical Assistance

## POWER AND ENERGY and NATURAL RESOURCES

Transmission  
interconnections

Trading

	Direct financing		
Generation privatisation and rehabilitation and Greenfield		Concession tendering; PPAs	Policy dialogue and advisory technical assistance
	Carbon Credits		
Support green certificates			

Further tariff reform

Gas production,  
transmission and distribution



## ANNEX 6 – SELECTED ECONOMIC INDICATORS

(Note that estimates for 2007 are preliminary and subject to further revision)

<b>Romania</b>	2001	2002	2003	2004	2005	2006	2007 <i>Provisional data</i>
<b>Output and expenditure</b> <span style="float: right;"><i>(Percentage change in real terms)</i></span>							
GDP <sup>12</sup>	5.7	5.1	5.2	8.5	4.2	7.9	6
Private consumption	6.8	4.8	8.3	12.8	9.4	11.4	9.9
Public consumption	-0.2	6.0	8.5	-9.3	11.8	-9.9	7.6
Gross fixed capital formation	10.1	8.2	8.6	11.1	12.7	19.3	25.3
Exports of goods and services	12.1	17.5	8.4	13.9	8.1	10.6	5.5
Imports of goods and services	18.4	12.0	16.0	22.1	16.6	23.0	22.3
Industrial gross output, unadjusted series	8.3	4.3	3.1	5.3	2.0	7.2	5.4
Agricultural gross output	22.7	-3.5	7.5	18.1	-13.1	2.4	na
<b>Employment</b> <span style="float: right;"><i>(Percentage change)</i></span>							
Labour force <sup>2</sup>	-1.2	-9.6	-1.6	0.4	-1.1	1.9	-0.5
Employment <sup>2</sup>	-0.6	-11.6	-0.1	-0.7	-0.1	1.8	0.3
<i>(In per cent of labour force)</i>							
Unemployment (end-year) <sup>3</sup>	8.8	8.4	7.7	6.3	5.9	5.2	4.1
<b>Prices and wages</b> <span style="float: right;"><i>(Percentage change)</i></span>							
Consumer prices (annual average)	34.5	22.5	15.3	11.9	9.0	6.6	4.8
Consumer prices (end-year)	30.3	17.8	14.1	9.3	8.6	4.9	6.6
Producer prices (annual average)	40.3	24.5	19.6	18.6	12.4	12.0	8.7
Producer prices (end-year)	32.6	20.1	20.0	16.3	10.4	12.7	10.1
Gross average monthly earnings in economy (annual average)	48.9	27.3	23.6	22.6	17.0	18.9	22.6
<b>Government sector</b> <span style="float: right;"><i>(In per cent of GDP)</i></span>							
General government balance <sup>4</sup>	-3.5	-2.0	-1.5	-1.5	-1.4	-2.2	-2.5
General government expenditure	33.3	32.3	31.7	31.6	31.3	32.7	na
General government debt <sup>4</sup>	26.0	25.0	21.5	18.8	15.8	12.4	11.9
<b>Monetary sector</b> <span style="float: right;"><i>(Percentage change)</i></span>							
Broad money (M3, end-year) <sup>5</sup>	46.2	38.1	23.3	37.1	36.5	28.1	33.5
Domestic credit (end-year)	26.9	39.8	50.4	21.2	43.7	52.0	64.5
<i>(In per cent of GDP)</i>							
Broad money (M3, end-year) <sup>5</sup>	23.2	24.7	23.3	25.6	30.0	32.2	37.9
<b>Interest and exchange rates</b> <span style="float: right;"><i>(In per cent per annum, end-year)</i></span>							
NBR policy rate	na	na	21.25	17.0	7.5	8.75	8.0
1-week ROBOR	39.28	20.03	21.44	17.84	6.99	7.42	7.81
Deposit rate (average)	26.2	18.4	10.8	11.3	6.2	6.5	6.7
Lending rate (average)	45.7	36.7	26.2	25.8	19.2	14.8	13.3
<i>(Lei per Euro)</i>							
Exchange rate (end-year)	2.7881	3.4919	4.1117	3.9663	3.6771	3.3817	3.6102
Exchange rate (annual average)	2.6027	3.1255	3.7556	4.0532	3.6234	3.5245	3.3373
<b>External sector</b> <span style="float: right;"><i>(In millions of Euro)</i></span>							
Current account	-2,488	-1,623	-3,060	-5,099	-6,888	-10,156	-16,872
Trade balance	-3,323	-2,752	-3,955	-5,323	-7,806	-11,759	-17,586
Merchandise exports	12,722	14,675	15,614	18,935	22,255	25,850	29,380
Merchandise imports	16,045	17,427	19,569	24,258	30,061	37,609	46,966
Foreign direct investment, net	1,312	1,194	1,910	5,127	5,237	8,723	7,069
Gross reserves, excluding gold (end-year)	4,445.2	5,876.8	6,373.6	10,848.2	16,798.7	21,310.1	25,307.3
External debt stock	14,787.7	16,199.7	17,835.2	21,503.7	30,913.7	41,234.3	57,656.6
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	2.9	3.6	3.5	4.8	5.8	5.9	5.6
<i>(In per cent of exports of goods and services)</i>							
MLT Debt service <sup>6</sup>	21.0	21.7	17.9	18.4	20.1	20.7	20.4
<b>Memorandum items</b> <span style="float: right;"><i>(Denominations as indicated)</i></span>							

Population (end-year, million)	22.4	21.7	21.7	21.7	21.6	21.6	na
GDP (in billions of lei) <sup>7</sup>	116.8	151.5	197.6	246.5	288.2	344.5	390.8
GDP per capita (in Euro)	2,002.9	2,233.4	2,424.2	2,802.2	3,682.0	4,525.6	5421.3
Share of industry in GDP (in per cent) <sup>2</sup>	27.7	28.1	25.0	24.7	24.6	24.3	25.0
Share of agriculture in GDP (in per cent) <sup>2</sup>	13.3	11.4	11.6	12.6	8.4	7.8	6.7
Current account/GDP (in per cent)	-5.5	-3.3	-5.8	-8.4	-8.7	-10.4	-13.9
External debt - reserves (in EUR million)	10,342.4	10,322.9	11,461.6	10,655.5	14,115.0	19,924.2	32,349.3
External debt/GDP (in per cent)	33.0	33.4	33.9	35.4	38.9	42.2	48.9
External debt/exports of goods and services (in per cent)	98.6	94.5	97.5	98.5	117.3	131.2	156.2

<sup>1</sup> From 2001 growth rates are calculated by the National Statistical Institute using a new methodology that complies with European standards of national accounting.

<sup>4</sup> Calculated according to Eurostat methodology (ESA95); target for 2007 (EDP Notification, September 2007).

<sup>5</sup> M2 until 2004.

<sup>2</sup> Q1-Q3 data for 2007.

<sup>6</sup> Debt service payments on private and public external debt.

<sup>3</sup> Officially registered unemployed.

<sup>7</sup> The Romanian lei was redenominated in July 2005. All data have been converted to new lei (RON).

## ANNEX 7 - SIGNED BANK OPERATIONS

### ANNEX 7A – EBRD OPERATIONS TO DATE

(as of 31 December 2007, €million)

Op Name	Year	Sector Team	Total Project Value	EBRD Finance	Debt	Equity	Operation Stage	Regional/Direct
Agribusiness Development Project	1992	Bank Lending	47.6	47.6	47.6	0.0	Completed	Direct
Petroleum Pilot Modernisation Project, Romania	1992	Natural Resources	25.0	18.6	18.6	0.0	Completed	Direct
Eurovision - Romanian Television	1992	Telecoms Informatics & Media	0.7	0.7	0.7	0.0	Completed	Direct
Rom Telecom	1992	Telecoms Informatics & Media	549.2	142.0	142.0	0.0	Completed	Direct
TOTAL 1992			622.5	208.8	208.8	0.0		
Coca-Cola Bihor & Iasi	1993	Agribusiness	17.0	3.4	3.4	0.0	Completed	Direct
Alpha Bank Romania (portage equity)	1993	Bank Equity	14.0	1.4	1.4	0.0	Completed	Direct
Tiriac Bank (equity)	1993	Bank Equity	7.0	7.0	0.0	7.0	Completed	Direct
Virolite	1993	General Industry	20.1	5.1	4.6	0.5	Completed	Direct
Virolite - Write Off	1993	General Industry	6.1	6.1	2.9	3.2	Completed	Direct
Capital SA	1993	Non Bank Financial Institutions	4.4	1.7	0.0	1.7	Completed	Direct
Emcom-Siemens	1993	Telecoms Informatics & Media	26.8	7.4	7.4	0.0	Completed	Direct
European Roads Rehabilitation Project, Romania	1993	Transport	348.8	54.4	54.4	0.0	Completed	Direct
TOTAL 1993			1,689.1	504.1	491.6	12.4		
Bucharest Wholesale Market	1994	Agribusiness	26.6	17.0	17.0	0.0	Repaying	Direct
Banca Agricola IT Loan	1994	Bank Equity	17.2	4.6	4.6	0.0	Completed	Direct
Bank Coop	1994	Bank Lending	3.6	3.6	3.6	0.0	Completed	Direct
Romanian Development Bank Project	1994	Bank Lending	5.2	5.2	5.2	0.0	Completed	Direct
Romanian Development Bank Project (credit line)	1994	Bank Lending	30.8	30.8	30.8	0.0	Completed	Direct
Euromerchant Balkan Fund	1994	Equity Funds	3.6	3.6	0.0	3.6	Completed	Regional fund investment
Athenee Palace, Bucharest	1994	Property and Tourism	36.1	9.7	9.7	0.0	Repaying	Direct
TOTAL 1994			123.2	74.5	70.9	3.6		
Leventis Extension	1995	Agribusiness	15.3	2.9	2.9	0.0	Completed	Direct
Banca Agricola Credit Line Extension	1995	Bank Lending	10.2	10.2	10.2	0.0	Completed	Direct
MBA Loan Project (guarantee)	1995	Bank Lending	0.4	0.1	0.1	0.0	Repaying	Regional fund investment
Tiriac Bank, Stand by Loan	1995	Bank Lending	13.6	13.6	13.6	0.0	Completed	Direct
Municipal Utilities Development Programme	1995	Municipal & Env Inf	48.0	19.0	19.0	0.0	Repaying	Direct
Power Sector Op. Efficiency Improvement - Termoelectrica	1995	Power and Energy	30.7	30.7	30.7	0.0	Repaying	Direct
Power Sector Op. Efficiency Improvement - Transelectrica	1995	Power and Energy	67.5	26.8	26.8	0.0	Repaying	Direct
Power Sector Operational Efficiency Improvement Project	1995	Power and Energy	120.3	57.2	57.2	0.0	Completed	Direct

TOTAL 1995			306.0	160.5	160.5	0.0		
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Rompak S.R.L.	1996	Agribusiness	20.7	5.1	5.1	0.0	Completed	Direct
United Romanian Breweries SRL	1996	Agribusiness	41.2	7.2	7.2	0.0	Completed	Direct
Energy Conservation and SME credit line	1996	Bank Lending	8.6	5.9	5.9	0.0	Completed	Direct
Danube Fund	1996	Equity Funds	13.4	3.4	0.0	3.4	Repaying	Direct
MF Romania PPF (DO NOT CANCEL)	1996	Equity Funds	21.7	21.7	0.0	21.7	Repaying	Direct
Prompt SA	1996	General Industry	9.9	3.1	0.0	3.1	Completed	Direct
Regional Water and Environment Programme	1996	Municipal & Env Inf	35.6	10.9	10.9	0.0	Repaying	Direct
Bucharest-Pitesti Motorway Upgrading and Tolling Project	1996	Transport	70.3	36.1	36.1	0.0	Repaying	Direct
NAR Restructuring and Road Rehabilitation Project	1996	Transport	422.0	58.4	58.4	0.0	Repaying	Direct
Railway Rehabilitation	1996	Transport	356.9	46.6	46.6	0.0	Repaying	Direct
TOTAL1996			1,000.4	198.4	170.2	28.2		
Alpha Bank Romania Equity Investment	1997	Bank Equity	12.6	1.8	0.0	1.8	Completed	Direct
Advent Central & Eastern Europe II - Regional Fund	1997	Equity Funds	8.8	3.5	0.0	3.5	Disbursing	Regional fund investment
PPF - Romanian - Continental S.A.	1997	Equity Funds	3.6	2.5	0.0	2.5	Completed	Direct
PPF - Romanian - ISAF	1997	Equity Funds	20.4	0.9	0.0	0.9	Completed	Direct
PPF - Romanian - Regisico	1997	Equity Funds	0.0	0.0	0.0	0.0	Completed	Direct
Arctic Partial Write off (OPID 3283)	1997	General Industry	1.8	1.8	0.0	1.8	Completed	Direct
Arctic Privatisation and Modernisation	1997	General Industry	33.5	11.3	7.9	3.3	Completed	Direct
Violite S.A. Extension	1997	General Industry	1.4	1.4	1.4	0.0	Completed	Direct
Municipal Utilities Development Programme - Phase II	1997	Municipal & Env Inf	135.6	51.0	51.0	0.0	Repaying	Direct
Thermal Energy Conservation Project (TECP)	1997	Municipal & Env Inf	69.1	39.3	39.3	0.0	Disbursing	Direct
Baring Communications Equity	1997	Telecoms Informatics & Media	5.4	1.2	0.0	1.2	Repaying	Regional fund investment
Mobifon - Romania GSM	1997	Telecoms Informatics & Media	270.7	70.3	70.3	0.0	Completed	Direct
TOTAL 1997			562.9	184.9	169.8	15.1		
EPH Grain Handling Project	1998	Agribusiness	17.7	6.6	6.6	0.0	Completed	Direct
Parmalat MPF - Romania	1998	Agribusiness	12.1	2.1	0.0	2.1	Completed	Direct
Danone MPF - Danone SRL	1998	Agribusiness	23.9	7.2	0.0	7.2	Completed	Direct
Bank Post Convertible Loan	1998	Bank Equity	23.7	16.9	16.9	0.0	Completed	Direct
Ion Tiriac Bank Capital Increase	1998	Bank Equity	2.8	2.8	0.0	2.8	Completed	Direct
MBA Loan Project II (guarantee)	1998	Bank Lending	0.1	0.0	0.0	0.0	Signed	Regional fund investment
Black Sea Fund	1998	Equity Funds	17.0	7.0	0.0	7.0	Disbursing	Regional fund investment
Innova/98 LP	1998	Equity Funds	8.4	2.0	0.0	2.0	Repaying	Regional fund investment
PPF - Romanian - ADESGO, S.A.	1998	Equity Funds	6.2	1.2	0.0	1.2	Completed	Direct
PPF - Romanian - IRIDE	1998	Equity Funds	8.9	1.5	0.0	1.5	Completed	Direct
PPF - Romanian - Isaf/Prestar SRL	1998	Equity Funds	3.6	2.1	0.0	2.1	Completed	Direct
IMGB/FECNE	1998	General Industry	30.3	5.2	0.0	5.2	Completed	Direct
MPF Lafarge: Romcim	1998	General Industry	186.9	69.9	0.0	69.9	Disbursing	Direct
Italian-Romanian Industrial Development Enterprise	1998	Property and Tourism	69.7	25.4	23.2	2.2	Repaying	Direct
RomTelecom Transition Project	1998	Telecoms Informatics & Media	446.9	68.0	68.0	0.0	Completed	Direct
TOTAL 1998			858.3	217.9	114.6	103.3		
Romanian Development Bank - Privatisation (equity)	1999	Bank Equity	156.4	20.5	0.0	20.5	Disbursing	Direct
EU/EBRD Phase II - Banca	1999	Bank Lending	4.6	4.6	4.6	0.0	Completed	Direct

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AIG New Europe Fund	1999	Equity Funds	34.5	6.9	0.0	6.9	Repaying	Regional fund investment
PPF - Romanian - PC-NET	1999	Equity Funds	1.2	0.7	0.0	0.7	Completed	Direct
PPF - Romanian - Remayer	1999	Equity Funds	7.1	2.2	0.0	2.2	Completed	Direct
PPF - Romanian - Sicomed	1999	Equity Funds	14.5	3.8	0.0	3.8	Completed	Direct
Sical	1999	General Industry	47.5	6.0	6.0	0.0	Completed	Direct
Dalkia ESCO - Romania	1999	Municipal & Env Inf	17.6	1.9	0.0	1.9	Completed	Direct
Central & Eastern Europe Power Fund	1999	Power and Energy	1.4	0.4	0.0	0.4	Repaying	Regional fund investment
Energy Efficiency and Emissions Reduction Fund	1999	Power and Energy	10.7	3.0	0.0	3.0	Disbursing	Regional fund investment
Regional/Private Equity Fund Facility - Trigranit	1999	Property and Tourism	6.4	1.4	0.0	1.4	Completed	Regional fund investment
MobiFon Romania GSM - Phase II	1999	Telecoms Informatics & Media	102.1	5.2	5.2	0.0	Completed	Direct
TOTAL 1999			404.0	56.6	15.8	40.8		
PPF - Romanian - ARCTIC	2000	Equity Funds	1.1	1.1	0.0	1.1	Completed	Direct
PPF - Romanian - Advantage Software Factory	2000	Equity Funds	0.9	0.5	0.0	0.5	Completed	Direct
PPF - Romanian - IRIDE	2000	Equity Funds	0.6	0.6	0.0	0.6	Completed	Direct
PPF - Romanian - PCNET Net Backbone	2000	Equity Funds	1.7	1.7	0.0	1.7	Completed	Direct
PPF - Romanian - REGEV & INSTAL	2000	Equity Funds	1.8	1.4	0.0	1.4	Completed	Direct
PPF - Romanian - REGEV & INSTAL Loan	2000	Equity Funds	1.8	1.4	0.0	1.4	Completed	Direct
Fibrex	2000	General Industry	55.0	10.0	10.0	0.0	Completed	Direct
MELF Constanta	2000	Municipal & Env Inf	102.6	20.0	20.0	0.0	Repaying	Direct
TBIH Financial Services Group N.V. (debt & equity)	2000	Non Bank Financial Institutions	4.2	2.6	0.3	2.3	Completed	Regional fund investment
Romania National Power Grid Company (NPGC)	2000	Power and Energy	139.5	35.0	35.0	0.0	Repaying	Direct
Victoria Office Building	2000	Property and Tourism	18.5	4.4	4.4	0.0	Completed	Direct
TOTAL 2000			327.8	78.6	69.6	9.0		
Banca Transilvania (equity)	2001	Bank Equity	6.8	6.8	0.0	6.8	Disbursing	Direct
EU/EBRD Phase II - Alpha Bank Romania	2001	Bank Lending	10.0	10.0	10.0	0.0	Completed	Direct
EU/EBRD Phase II - Banca Comerciala Romana	2001	Bank Lending	20.0	20.0	20.0	0.0	Completed	Direct
EU/EBRD Phase I - Euroventures Danube BV	2001	Equity Funds	0.1	0.0	0.0	0.0	Completed	Regional fund investment
Innova/3	2001	Equity Funds	37.7	4.5	0.0	4.5	Repaying	Regional fund investment
Michelin Romania	2001	General Industry	64.4	20.3	20.3	0.0	Completed	Direct
Sidex	2001	General Industry	108.7	68.0	68.0	0.0	Completed	Direct
MELF Arad	2001	Municipal & Env Inf	10.3	4.5	4.5	0.0	Repaying	Direct
MELF Iasi	2001	Municipal & Env Inf	55.0	13.2	13.2	0.0	Repaying	Direct
Regional Europolis Portfolio	2001	Property and Tourism	75.0	26.3	10.9	15.3	Repaying	Regional fund investment
Romania: Road Sector Restructuring and Pitesti By-Pass	2001	Transport	114.1	60.0	60.0	0.0	Repaying	Direct
TOTAL 2001			502.3	233.5	206.9	26.6		
EFES - EBI	2002	Agribusiness	2.5	0.8	0.8	0.0	Completed	Regional fund investment
EU/EBRD Phase I - Ext. - Bank Post Romania	2002	Bank Lending	10.0	3.9	3.9	0.0	Completed	Direct
EU/EBRD Phase II - Banca Transilvaniei II	2002	Bank Lending	4.3	4.3	4.3	0.0	Repaying	Direct
EU/EBRD Phase II - Banca Comerciala Romana II	2002	Bank Lending	20.0	20.0	20.0	0.0	Repaying	Direct
EU/EBRD Phase II ext. - Raiffeisen Bank Romania	2002	Bank Lending	15.0	6.9	6.9	0.0	Completed	Direct

EU/EBRD Phase II ext. - Volksbank Romania	2002	Bank Lending	10.0	10.0	10.0	0.0	Repaying	Direct
Black Sea Fund - Capital Increase	2002	Equity Funds	8.2	2.5	0.0	2.5	Disbursing	Regional fund investment
Mittal Steel Galati	2002	General Industry	68.0	28.5	28.5	0.0	Repaying	Direct
APA NOVA Water Treatment Plant Project	2002	Municipal & Env Inf	137.2	37.5	37.5	0.0	Repaying	Direct
MELF Brasov	2002	Municipal & Env Inf	58.7	14.5	14.5	0.0	Repaying	Direct
SNP Petrom Pre Privatisation Loan	2002	Natural Resources	76.2	49.6	49.6	0.0	Completed	Direct
Interamerican Romania (equity)	2002	Non Bank Financial Institutions	2.3	2.3	2.3	0.0	Disbursing	Direct
Heitman Central Europe Property Partners Fund II	2002	Property and Tourism	6.4	2.1	0.0	2.1	Repaying	Regional fund investment
US/EBRD SME - ProCredit Bank Romania	2002	Small Business Finance	29.0	2.3	0.0	2.3	Disbursing	Direct
MobiFon Corporate Loan Facility	2002	Telecoms Informatics & Media	205.4	55.9	55.9	0.0	Completed	Direct
TOTAL 2002			653.2	241.1	234.2	6.9		
Billa	2003	Agribusiness	62.9	7.9	7.9	0.0	Completed	Regional fund investment
Banca Comerciala Romana Pre-Privatisation	2003	Bank Equity	173.2	97.8	0.0	97.8	Completed	Direct
Mr Ioan Tiriac	2003	Bank Equity	12.2	3.7	3.2	0.5	Completed	Direct
Banc Post Mortgage Loan	2003	Bank Lending	16.8	16.8	16.8	0.0	Completed	Direct
Banca Comerciala Romana Mortgage Loan	2003	Bank Lending	28.6	38.2	38.2	0.0	Completed	Direct
Banca Comerciala Romana Mortgage Loan (redominated)	2003	Bank Lending	42.0	18.6	18.6	0.0	Disbursing	Direct
Banca Transilvania - Credit Line for SMEs	2003	Bank Lending	5.0	5.0	5.0	0.0	Repaying	Direct
Banca Transilvania Mortgage Loan	2003	Bank Lending	10.0	10.0	10.0	0.0	Repaying	Direct
EU/EBRD Extension 4 - Alpha Bank Romania II	2003	Bank Lending	10.0	10.0	10.0	0.0	Completed	Direct
EU/EBRD Phase I - Global Romania and Bulgaria Growth Fund	2003	Equity Funds	10.4	3.3	0.0	3.3	Repaying	Regional fund investment
Regional/Private Equity Fund Facility/ Terapia SA	2003	General Industry	32.6	4.4	0.0	4.4	Completed	Direct
Romanian Industrial Energy Efficiency Fund	2003	General Industry	7.1	3.1	3.1	0.0	Repaying	Direct
Wienerberger - First Brick Factory	2003	General Industry	18.0	2.0	2.0	0.0	Completed	Direct
Bucharest Multi-Sector Project (Municipality)	2003	Municipal & Env Inf	27.5	16.3	16.3	0.0	Disbursing	Direct
Bucharest Multi-Sector Project (Radet)	2003	Municipal & Env Inf	33.1	17.8	17.8	0.0	Disbursing	Direct
MELF Targu Mures	2003	Municipal & Env Inf	27.9	7.0	7.0	0.0	Disbursing	Direct
MELF Timisoara	2003	Municipal & Env Inf	6.4	3.6	3.6	0.0	Completed	Direct
Domenia Credit S.A. (mortgage company - debt & equity)	2003	Non Bank Financial Institutions	21.3	11.2	10.0	1.2	Completed	Direct
EU/EBRD Extension 3 - RZB Leasing Romania	2003	Non Bank Financial Institutions	5.0	1.7	1.7	0.0	Repaying	Direct
EU/EBRD Extension 4 - BRD Sogelease	2003	Non Bank Financial Institutions	10.0	10.0	10.0	0.0	Repaying	Direct
EU/EBRD Extension 4 - Banca Transilvania Leasing	2003	Non Bank Financial Institutions	5.0	5.0	5.0	0.0	Repaying	Direct
ORCO APARTHOTELS	2003	Property and Tourism	17.3	1.5	0.0	1.5	Completed	Regional fund investment
TUI advance payments	2003	Property and Tourism	0.8	0.8	0.8	0.0	Completed	Regional fund investment
US/EBRD SME - Banca Romaneasca	2003	Small Business Finance	3.4	2.7	2.7	0.0	Completed	Direct
US/EBRD SME - ProCredit Bank Romania	2003	Small Business Finance	3.2	0.7	0.0	0.7	Disbursing	Direct
US/EBRD SME - ProCredit Bank Romania	2003	Small Business Finance	7.4	4.9	4.9	0.0	Repaying	Direct
Astral Telecom	2003	Telecoms Informatics & Media	28.9	4.8	4.8	0.0	Completed	Direct
CFR City Stations Enhancement Project	2003	Transport	27.9	24.0	24.0	0.0	Repaying	Direct
TOTAL 2003			653.9	332.6	223.3	109.3		



Cora – Romania	2004	Agribusiness	50.0	40.0	40.0	0.0	Repaying	Direct
Eurex Alimentare S.R.L.	2004	Agribusiness	14.8	6.0	6.0	0.0	Repaying	Direct
Soufflet Malt Romania SRL	2004	Agribusiness	11.5	6.5	6.5	0.0	Completed	Direct
Banca Transilvania - Capital Increase	2004	Bank Equity	1.3	1.3	0.0	1.3	Disbursing	Direct
Banc Post Mortgage Loan II	2004	Bank Lending	20.0	20.0	20.0	0.0	Completed	Direct
Banca Transilvania - Syndicated Loan	2004	Bank Lending	22.5	7.5	7.5	0.0	Repaying	Direct
EBRD/EIF SME guarantee facility - Raiffeisen Bank Romania	2004	Bank Lending	6.0	1.8	1.8	0.0	Completed	Direct
EU/EBRD MFF (Credit Line) - BCR SA	2004	Bank Lending	22.0	20.0	20.0	0.0	Disbursing	Direct
Uni Credit Tiriuc Romania	2004	Bank Lending	10.0	10.0	10.0	0.0	Repaying	Direct
Advent Central & Eastern Europe Successor Fund	2004	Equity Funds	49.6	7.5	0.0	7.5	Repaying	Regional fund investment
Polish Enterprise Fund V	2004	Equity Funds	4.7	4.7	0.0	4.7	Repaying	Regional fund investment
Carmeuse Eastern Europe	2004	General Industry	34.3	7.9	0.0	7.9	Disbursing	Regional fund investment
S.C. MDF Sebes Frati S.A.	2004	General Industry	185.0	36.3	36.3	0.0	Completed	Direct
S.C. Sepal S.A.	2004	General Industry	65.0	33.7	33.7	0.0	Completed	Direct
Wienerberger Romania II	2004	General Industry	7.6	4.6	4.6	0.0	Repaying	Direct
MELF Bacau	2004	Municipal & Env Inf	52.5	7.0	7.0	0.0	Disbursing	Direct
MELF Oradea	2004	Municipal & Env Inf	19.4	2.7	2.7	0.0	Completed	Direct
SNP Petrom Equity Privatisation	2004	Natural Resources	55.4	55.4	0.0	55.4	Disbursing	Direct
EU/EBRD Extension 3 - Alpha Leasing	2004	Non Bank Financial Institutions	5.0	5.0	5.0	0.0	Repaying	Direct
EU/EBRD Extension 5 - BCR Leasing	2004	Non Bank Financial Institutions	10.0	10.0	10.0	0.0	Repaying	Direct
National Power Transmission Co. "Transelectrica" SA	2004	Power and Energy	33.3	18.2	18.2	0.0	Repaying	Direct
Europolis II	2004	Property and Tourism	30.0	7.5	5.5	2.0	Disbursing	Regional fund investment
Towers- Phased Project, Bucharest	2004	Property and Tourism	33.9	11.9	11.9	0.0	Completed	Direct
TriGranit III	2004	Property and Tourism	4.5	0.1	0.0	0.1	Completed	Regional fund investment
Constantza Port Development	2004	Transport	23.9	16.0	16.0	0.0	Disbursing	Direct
TOTAL 2004			772.1	341.4	262.6	78.8		
Stirom	2005	Agribusiness	17.2	10.0	10.0	0.0	Disbursing	Direct
Tnuva - Romania Dairies SRL	2005	Agribusiness	50.0	9.6	0.0	9.6	Disbursing	Direct
Tnuva Romania Milk SRL	2005	Agribusiness	5.0	1.0	0.0	1.0	Disbursing	Direct
Banca Romaneasca - Equity Investment	2005	Bank Equity	12.3	12.3	12.3	0.0	Disbursing	Direct
Banca Transilvania - Second capital increase	2005	Bank Equity	2.2	2.2	0.0	2.2	Disbursing	Direct
Banca Comerciala Romana Mortgage Loan II	2005	Bank Lending	50.0	50.0	50.0	0.0	Disbursing	Direct
EU/EBRD Extension 6 - CEC Romania	2005	Bank Lending	10.0	10.0	10.0	0.0	Repaying	Direct
EU/EBRD MFF (Credit Line) - Alpha Bank Romania	2005	Bank Lending	17.3	15.3	15.3	0.0	Disbursing	Direct
Argus Capital Partners II	2005	Equity Funds	3.0	3.0	0.0	3.0	Repaying	Regional fund investment
Emerging Europe Convergence Fund II	2005	Equity Funds	6.0	6.0	0.0	6.0	Repaying	Regional fund investment
SG AM Eastern Europe L.P.	2005	Equity Funds	1.1	0.6	0.0	0.6	Repaying	Regional fund investment
SigmaBleyzer Southeast European Fund IV CV	2005	Equity Funds	7.5	7.5	0.0	7.5	Disbursing	Regional fund investment
Southeast Europe Equity Fund II	2005	Equity Funds	7.0	7.0	0.0	7.0	Repaying	Regional fund investment
Egger	2005	General Industry	127.0	61.0	61.0	0.0	Disbursing	Direct
Arad Urban Transport Project	2005	Municipal & Env Inf	30.8	15.0	15.0	0.0	Disbursing	Direct
Brasov Urban Transport Project - City Loan	2005	Municipal & Env Inf	18.0	10.0	10.0	0.0	Disbursing	Direct
Brasov Urban Transport Project - Company Loan	2005	Municipal & Env Inf	18.0	10.0	10.0	0.0	Repaying	Direct

Iasi District Heating Project	2005	Municipal & Env Inf	31.5	13.0	13.0	0.0	Disbursing	Direct
MELF Sibiu	2005	Municipal & Env Inf	37.6	5.0	5.0	0.0	Disbursing	Direct
Regional Operating Company (ROC) Apa Some (SAMTID)	2005	Municipal & Env Inf	39.0	7.2	7.2	0.0	Disbursing	Direct
Sibiu Urban Transport Pre-accession Project	2005	Municipal & Env Inf	9.2	15.0	15.0	0.0	Disbursing	Direct
EU/EBRD Extension 6 - BCR Leasing II	2005	Non Bank Financial Institutions	5.0	5.0	5.0	0.0	Disbursing	Direct
Distrigaz Sud	2005	Power and Energy	304.3	31.0	0.0	31.0	Disbursing	Direct
Global Property Fund	2005	Property and Tourism	75.0	17.3	0.0	17.3	Repaying	Regional fund investment
ProCredit Bank Romania	2005	Small Business Finance	12.4	3.1	3.1	0.0	Repaying	Direct
TIW Inc.	2005	Telecoms Informatics & Media	18.0	18.0	0.0	18.0	Completed	Regional fund investment
CFR Rail Traction Project	2005	Transport	26.7	22.5	22.5	0.0	Disbursing	Direct
Constanta By-Pass Project	2005	Transport	212.6	145.4	145.4	0.0	Disbursing	Direct
TOTAL 2005			1,153.6	513.0	409.8	103.2		
Banca Transilvania - Third capital increase	2006	Bank Equity	5.2	5.2	0.0	5.2	Disbursing	Direct
BRD - Syndicated Loan	2006	Bank Lending	200.0	70.0	70.0	0.0	Disbursing	Direct
Banca Transilvania - Subordinated Loan	2006	Bank Lending	72.0	12.0	12.0	0.0	Disbursing	Direct
EU/EBRD Extension 6 - OTP Romania (RoBank)	2006	Bank Lending	10.0	10.0	10.0	0.0	Disbursing	Direct
7L Capital Partners	2006	Equity Funds	22.1	9.0	0.0	9.0	Disbursing	Regional fund investment
AIG New Europe Fund II	2006	Equity Funds	5.0	5.0	0.0	5.0	Disbursing	Regional fund investment
Alpha CEE II, L.P.	2006	Equity Funds	10.0	10.0	0.0	10.0	Repaying	Regional fund investment
Balkan Accession Fund, C.V.	2006	Equity Funds	31.5	6.7	0.0	6.7	Disbursing	Regional fund investment
GED Eastern Fund II	2006	Equity Funds	35.0	10.0	0.0	10.0	Disbursing	Regional fund investment
Tenaris Steel Plant	2006	General Industry	10.0	10.0	10.0	0.0	Disbursing	Direct
Arges County Regional Solid Waste Project	2006	Municipal & Env Inf	24.1	6.1	6.1	0.0	Signed	Direct
Bacau Solid Waste Management Project	2006	Municipal & Env Inf	20.0	5.0	5.0	0.0	Signed	Direct
Brasov County Road Project	2006	Municipal & Env Inf	15.0	10.0	10.0	0.0	Disbursing	Direct
Bucharest WWTP - Glina	2006	Municipal & Env Inf	108.3	10.0	10.0	0.0	Disbursing	Direct
SIBIU PUBLIC TRANSPORT PROJECT (City Loan)	2006	Municipal & Env Inf	13.0	5.0	5.0	0.0	Disbursing	Direct
SIBIU PUBLIC TRANSPORT PROJECT (Company Loan)	2006	Municipal & Env Inf	5.0	5.0	5.0	0.0	Repaying	Direct
Timisoara District Heating	2006	Municipal & Env Inf	15.0	10.0	10.0	0.0	Signed	Direct
EU/EBRD Extension 6 - Volksbank Leasing Romania	2006	Non Bank Financial Institutions	10.0	10.0	10.0	0.0	Disbursing	Direct
EU/EBRD extension 6 - BT Leasing II	2006	Non Bank Financial Institutions	5.0	5.0	5.0	0.0	Disbursing	Direct
BSR Europe Co-Investment Facility	2006	Property and Tourism	14.0	4.9	0.0	4.9	Signed	Regional fund investment
Bluehouse equity fund	2006	Property and Tourism	106.8	17.5	0.0	17.5	Repaying	Regional fund investment
Europolis 3	2006	Property and Tourism	60.0	21.0	12.6	8.4	Disbursing	Regional fund investment
European Fund for Southeast Europe (EFSE)	2006	Small Business Finance	2.0	2.0	0.0	2.0	Repaying	Regional fund investment
ProCredit Bank Romania	2006	Small Business Finance	0.7	0.7	0.0	0.7	Disbursing	Direct
Romania Micro Credit FW - Opportunity Microcredit Romania	2006	Small Business Finance	2.0	1.7	1.7	0.0	Disbursing	Direct
Capital Media	2006	Telecoms Informatics & Media	12.0	6.0	6.0	0.0	Repaying	Regional fund investment
TOTAL 2006			813.6	267.8	188.4	79.4		
Kaufland Romania	2007	Agribusiness	306.0	100.0	100.0	0.0	Disbursing	Direct
Soufflet Malt Romania	2007	Agribusiness	58.7	20.0	20.0	0.0	Disbursing	Direct

Banca Transilvania - Fourth Capital Increase	2007	Bank Equity	6.4	6.4	0.0	6.4	Disbursing	Direct
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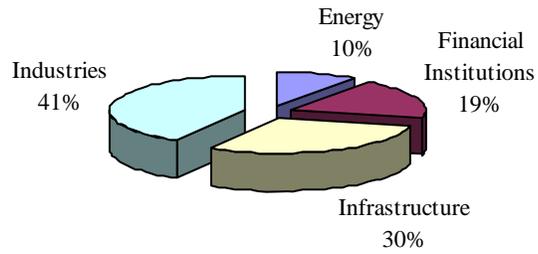
Raiffeisen International	2007	Bank Equity	30.0	15.0	0.0	15.0	Repaying	Regional fund investment
EU/EBRD Ext. 7 - Banca Transilvania (Rural Facility)	2007	Bank Lending	5.0	3.0	3.0	0.0	Signed	Direct
EU/EBRD Extension 7 - CEC (Rural)	2007	Bank Lending	10.0	10.0	10.0	0.0	Disbursing	Direct
EU/EBRD extension 7 - Bank Leumi Romania	2007	Bank Lending	5.0	3.0	3.0	0.0	Signed	Direct
Regional TFP: Compania de Factoring IFN SA	2007	Bank Lending	4.6	4.6	4.6	0.0	Disbursing	Direct
Accession Mezzanine Capital II	2007	Equity Funds	40.0	8.0	0.0	8.0	Disbursing	Regional fund investment
Global Finance SEE Fund	2007	Equity Funds	19.2	19.2	0.0	19.2	Disbursing	Regional fund investment
NEVEQ - New Europe Venture Equity Fund	2007	Equity Funds	1.0	1.0	0.0	1.0	Disbursing	Regional fund investment
Royalton Partners II	2007	Equity Funds	7.5	7.5	0.0	7.5	Disbursing	Regional fund investment
Syntax Mezzanine Fund	2007	Equity Funds	2.6	2.5	0.0	2.5	Disbursing	Regional fund investment
Iasi Public Transport Infrastructure	2007	Municipal & Env Inf	20.0	10.0	10.0	0.0	Signed	Direct
Oradea Water and Wastewater	2007	Municipal & Env Inf	22.7	6.0	6.0	0.0	Disbursing	Direct
Oradea Water and Wastewater Extension	2007	Municipal & Env Inf	48.8	4.0	4.0	0.0	Signed	Direct
Timisoara Aquatim Refinance	2007	Municipal & Env Inf	50.6	6.5	6.5	0.0	Disbursing	Direct
LUKoil Environmental Loan	2007	Natural Resources	10.2	5.1	5.1	0.0	Disbursing	Regional fund investment
Transgaz Carbon Credit Transaction	2007	Natural Resources	0.4	0.8	0.0	0.8	Disbursing	Direct
RZB Leasing Romania - SME Credit Line	2007	Non Bank Financial Institutions	7.5	7.5	7.5	0.0	Signed	Direct
E.ON Energie Romania	2007	Power and Energy	11.0	11.0	0.0	11.0	Disbursing	Direct
E.ON Gaz Romania Holding	2007	Power and Energy	33.0	33.0	0.0	33.0	Signed	Direct
EnerCap renewable energy financing vehicle	2007	Power and Energy	2.5	1.3	0.0	1.3	Disbursing	Regional fund investment
South Eastern Europe - Joint Power Venture	2007	Power and Energy	54.0	5.4	0.0	5.4	Signed	Regional fund investment
GTC - Regional Retail Centres	2007	Property and Tourism	47.8	16.3	16.3	0.0	Signed	Direct
Romania Micro Credit FW - Banca Transilvania	2007	Small Business Finance	7.5	4.0	4.0	0.0	Disbursing	Direct
Romania Micro Credit FW - Express Finance	2007	Small Business Finance	1.5	0.8	0.8	0.0	Disbursing	Direct
Capital Media - Extension Facility	2007	Telecoms Informatics & Media	6.0	3.0	3.0	0.0	Signed	Regional fund investment
Posta Romana	2007	Telecoms Informatics & Media	60.0	30.0	30.0	0.0	Disbursing	Direct
TOTAL 2007			879.5	344.9	233.8	111.1		
			<b>10,077.3</b>	<b>3,540.9</b>	<b>2,813.3</b>	<b>727.6</b>		

## ANNEX 7B - NET CUMULATIVE BUSINESS VOLUME SUMMARY

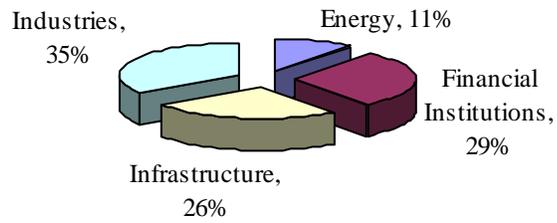
(as of 31 December 2007, €million)

Sector Team (SIC)	Total Project Value	EBRD Finance	Debt	Equity	Private	State	Portfolio Ratio*	% Share of Commitments
<b>Corporate</b>								
Agribusiness	753	253	233	20	236	17	93%	7%
General Industry	1,120	400	300	99	400	0	100%	11%
Property and Tourism	602	168	95	73	168	0	100%	5%
Telecoms Informatics & Media	1,732	412	393	19	382	31	93%	12%
<b>Sub-total Corporate</b>	<b>4,208</b>	<b>1,233</b>	<b>1,022</b>	<b>211</b>	<b>1,186</b>	<b>48</b>	<b>96%</b>	<b>35%</b>
<b>Energy</b>								
Natural Resources	167	129	73	56	110	19	85%	4%
Power and Energy	808	253	168	85	85	168	34%	7%
<b>Sub-total Energy</b>	<b>975</b>	<b>382</b>	<b>241</b>	<b>141</b>	<b>195</b>	<b>187</b>	<b>51%</b>	<b>11%</b>
<b>Financial Institutions</b>								
Bank Equity	477	202	35	167	202	0	100%	6%
Bank Lending	797	546	546	0	540	5	99%	15%
Equity Funds	490	195	0	195	195	0	100%	6%
Non Bank Financial Institutions	95	77	72	5	77	0	100%	2%
Small Business Finance	69	23	17	6	23	0	100%	1%
<b>Sub-total Financial Institutions</b>	<b>1,928</b>	<b>1,043</b>	<b>670</b>	<b>373</b>	<b>1,038</b>	<b>5</b>	<b>99%</b>	<b>29%</b>
<b>Infrastructure</b>								
Municipal & Env Inf	1,363	419	417	2	49	370	12%	12%
Transport	1,603	463	463	0	0	463	0%	13%
<b>Sub-total Infrastructure</b>	<b>2,966</b>	<b>882</b>	<b>880</b>	<b>2</b>	<b>49</b>	<b>833</b>	<b>6%</b>	<b>25%</b>
<b>ROMANIA TOTAL</b>	<b>10,077</b>	<b>3,541</b>	<b>2,813</b>	<b>728</b>	<b>2,468</b>	<b>1,073</b>	<b>70%</b>	<b>100%</b>

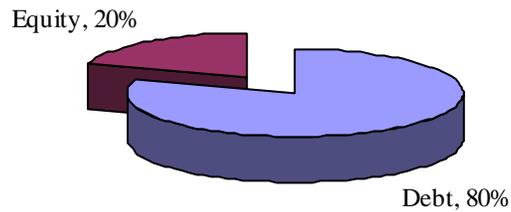
**Net Cumulative Business Volume  
Total Project Value  
(as of 31 December 2007)**



**Net Cumulative Business Volume  
EBRD Finance  
(as of 31 December 2007)**



**Net Cumulative Business Volume  
Debt / Equity  
(as of 31 December 2007)**



## ANNEX 8 - EBRD TECHNICAL CO-OPERATION PROGRAMMES

### Romania – 2000/2007

#### Overview of the EBRD TC Fund and Official Co-financing

- Aggregate TC Funds Commitment and Official co-financing signed projects
- Future scenario

#### Aggregate TC Funds Commitment and Official co-financing signed projects

- Over the reporting period, the Bank has been actively cooperating with multi and bilateral donors in the framework of both TC projects (for which the aggregate commitments reached the value of €20.4 million) and Official co-financing initiatives (€ 885 million is the total amount of contribution as per attached tables).
- TC Fund: Seven Donors (EC, USA, the Netherlands, Austria, Switzerland, Italy and Spain) account for more than 90% of the total aggregate commitments and the EC is the largest donor with more than €6.5 million. The three sectors that have most benefited from TC funding are the financial institutions sector (comprising SME and microfinance as well as banking) which received €8.2 million, the municipal and environmental infrastructure sector which received €6.5 million and the infrastructure sector (including transport) which received €2.3 million. In 2006, the EBRD, the Romanian government and the EC established the €8 million “Romania Micro Credit Facility” to provide loans to local banks and non-bank micro finance institutions to on-lend to micro and small enterprises (MSEs), including the financing of start-ups.
- Official Co-financing: by far, the EC (€451.2 million) has been the largest official co-financer covering more than 50% of the overall contribution. Other relevant official co-financiers have been the IFC (€136.5 million) and the EIB (€98.4 million). DEG, FMO, the NIB, and SECO also provided important contributions. The large part of official co-financing (€470 million) has been provided in the form of Grants, mainly in the frame of the EU-ISPA Programme. The IFI and parallel loans amounted to €371 million. The balance (€48 million) was provided in the form of equity participations and from ECAs. The co-financing has been used to implement 34 projects in five sectors: MEI (17 projects), Finance and business (12 projects) and others (five projects).

**TC Funds and Donors**  
**Aggregate Commitments (2000-2007): €20.3 million**

<b>Sector</b>	<b>€Committed</b>	<b>€Disbursed</b>
Energy	1,613,566	1,424,436
Financial Institutions	8,185,700	6,034,473
Infrastructure	2,266,390	1,751,907
Municipal and Environment Infrastructure	6,455,682	3,506,548
Other	413,220	149,173
Private Enterprise	1,454,918	540,536
Country Total	20,389,475	13,407,074

<b>Donor</b>	<b>€Committed</b>	<b>€Disbursed</b>
Austria	1,883,115	742,933
Belgium	23,201	23,201
Canada	73,627	73,627
Denmark	49,760	26,584
EU	6,451,049	4,299,822
France	32,590	32,590
Germany	630,827	334,535
Ireland	45,369	45,369
Italy	1,048,522	654,236
Luxembourg	353,961	315,715
Netherlands	3,104,759	2,177,710
Spain	1,651,012	261,671
Sweden	20,936	20,936
Switzerland	1,755,781	1,133,179
United Kingdom	105,592	105,592
United States	3,109,685	3,109,685
Balkan Region Special Fund	49,690	49,690
Country Total	20,389,475	13,407,074

**Official Co-financing Signed projects**  
**Signing years: (2000-09/2007)**  
**€885.6 million**

<b>Official co-financiers</b>	<b>EUR Committed €million)</b>
Black Sea Trade and Development Bank	7,036,802
DEG - German Investment and Development Company	48,161,125
EDC	24,628,809
EFSE European Fund for Southeast Europe	15,000,000
European Commission	451,244,772
European Investment Bank	98,490,613
Financial Intermediary Investment Special Fund	2,310,000
FMO (The Netherlands Development Finance Company)	38,040,248
Government of Romania	2,900,000
International Finance Corporation	136,504,574
Kreditanstalt für Wiederaufbau (KfW)	6,500,000
Ministry of Foreign Affairs	2,500,000
Nordic Investment Bank	24,628,809
Romania Micro Credit Facility Special Fund	5,942,346
Senter International	2,200,000
Swiss Federal Office for Foreign and Economic Affairs	13,632,235
US/EBRD SME Special Fund	1,507,361
World Bank	4,369,000
<b>Grand Total</b>	<b>885,596,693</b>

**Future scenario: 2008-2010**

- Further to the EU accession, Romania will remain among the priority countries for a reduced number of donors.
- As in the past, the EC is expected to remain the largest contributor to the Country and, consequently, also to the EBRD initiatives in Romania in the frame of the 2007-2013 structural and Cohesion Funds. The overall 2007-2013 Structural and Cohesion Funds allocation for Romania is €19.668 billion.
- Regarding the EC funding that could be made available to implement MEI projects previously co-funded under the EU – ISPA Programme, on July 12<sup>th</sup> 2007, the European Commission approved the European Regional Development Fund (ERDF) and Cohesion Fund (CF) Operational programme entitled "Operational Programme Environment". The total budget of the programme is around EUR 5,6 billion and the Community assistance amounts to EUR 4,5 billion (approximately 23 % of the total EU money invested in Romania under Cohesion policy 2007-2013).