DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR ROMANIA

As Approved by the Board of Directors at its meeting on 30 September 2015

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EXECUTIVE SUMMARY

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

Since the adoption of the previous Strategy, Romania has made further progress in all areas of democratic reform, facilitated by the deepening of its integration into the European Union (EU), which the country joined in 2007. At the same time, certain challenges remain in the area of the rule of law. According to the European Commission (EC), existing weaknesses relate mainly to deficiencies in the application of the law. The Cooperation and Verification Mechanism, which was established by the EC in 2007 in order to assist Romania in overcoming shortcomings in the areas of judicial reform and the fight against corruption, initially envisaged for three years, is still in place eight years later.

After growing 3.4 per cent in 2013, Romania's growth moderated to 2.8 per cent in 2014, mainly due to the lower contribution of net exports and still weak investment. Growth is expected to edge up to 3.0 per cent in 2015 and 3.2 per cent in 2016. Recent and prospective interest rate cuts, enabled by inflation falling on the back of energy and food prices, will continue to boost domestic demand. Growing industrial confidence and a fall in inventories could lead to increased investment after two years of declines. The credit supply may also be boosted by a recent reduction in non-performing loans (NPLs), which decreased to 12.8 per cent of total loans in June 2015 (from a peak of 22.3 per cent in the first quarter of 2014) as a result of the National Bank of Romania's efforts to clean bank balance sheets. Government expenditure is also expected to rise in an effort to absorb a greater share of EU funds. Overall, these developments should boost domestic demand. Somewhat stronger growth in the Eurozone, albeit still moderate, also may push up Romania's exports in the near term. Accordingly, Romania's medium-term prospects remain favourable. Annual long-term growth rates of 4-5 per cent are feasible provided the pace of structural reforms is accelerated and additional investment attracted.

Structural reforms have continued but further challenges remain. Access to finance remains limited, particularly for SMEs, and the overall level of corporate investment in Romania remains low. Key factors limiting competitiveness and discouraging stronger investment include bureaucratic obstacles to doing business, the significant role of inefficient state-owned companies and the bottlenecks caused by Romania's poor national infrastructure. Substantial restructuring, commercialisation and privatisation remains necessary across numerous sectors. While there has been increased private sector participation in a number of energy companies (notably Romgaz, Electrica and Nuclearelectrica), there has been limited progress within the transport sector. The Government drafted a Transport Master Plan which envisages a prioritisation of projects in the framework of foreseeable financing resources, but this yet remains to be implemented. In the railways sector, the failure of the privatisation of the state owned freight company, CFR Marfa, in October 2013 was a setback for the industry, even if CFR Marfa managed to achieve operational sustainability.

Romania still faces material transition gaps in most sectors of the economy. While the adoption of the EU *acquis* would point to narrowing transition gaps, implementation and the resulting state of infrastructure, energy and the real sector show significant challenges and remains well below EU standards. Access to finance remains limited because capital markets are underdeveloped and the banking system, although liquid and adequately capitalised, is unprepared to take more credit risk, particularly in lending to SMEs and MSMEs. The needs are particularly strong for companies located outside the more advanced and prosperous regions (i.e. Bucharest and the large municipalities such as Timisoara and Cluj-Napoca). Lack of investment inflows into the less developed regions, which is partially explained by the poor quality of infrastructure, exacerbates regional disparities and inclusion problems.

To help Romania address these challenges, the Bank will pursue the following strategic orientations in the new Strategy period:

- **Broadening access to finance by inducing lending and developing capital markets.** Transition gaps in the financial sector remain tangible and negatively impact prospects for competitive growth. Financing for MSMEs is limited, and there is a lack of non-collateralised and non-bank finance available. Credit growth has also effectively stalled, as residual NPLs and ongoing deleveraging by most of the main banks have constrained Romania's banking sector, while other sources of finance (such as capital market products both for corporates and banks) are generally underdeveloped and appetite for equity is limited.

- **Reducing regional disparities and boosting inclusion through commercialised infrastructure.** Although Romania has instituted a number of reforms in the infrastructure sector, the state's capacity to design, implement and finance major infrastructure projects is limited, while private sector involvement in the sector has been minimal. As a result, the quality of infrastructure remains poor, particularly in the less-developed regions, presenting a major constraint to economic development and social and economic inclusion and contributing to an accelerating depopulation.

- **Enhancing private sector competitiveness through targeted investment.** Romania scores poorly in many cross-country surveys of competitiveness and the business environment, while the dramatic fall in foreign direct investment inflows in recent years has curtailed the transfer supply of modern skills and processes. New investment in high-potential sectors and energy and resource efficient technologies is badly needed to enhance capacity, provide important demonstration effects to other businesses and achieve sustainable economic growth.

1 OVERVIEW OF THE BANK'S ACTIVITIES

1.1 The Bank's current portfolio

Private sector portfolio ratio: 66%, as of August 2015

Sector Group	Sector Team	Portfolio number of operations	Portfolio (€m)	% Portfolio	Operating Assets	% Operating Assets
Energy	Natural Resources	2	60	3%	60	4%
	Power and Energy	11	421	21%	420	25%
		13	**481**	**24%**	**480**	**29%**
Financial Institutions	Depository Credit (banks)	29	243	12%	221	13%
	Insurance, Pension, Mutual Funds	0	0	0%	0	0%
	Leasing Finance	4	35	2%	25	1%
	Non-depository Credit (non-bank)	5	8	0%	8	0%
		38	**286**	**14%**	**254**	**15%**
Industry, Commerce & Agribusiness	Agribusiness	13	208	10%	167	10%
	Equity Funds	34	158	8%	101	6%
	ICT	6	69	3%	61	4%
	Manufacturing & Services	9	111	5%	110	7%
	Property and Tourism	5	54	3%	51	3%
		67	**600**	**29%**	**489**	**29%**
Infrastructure	Municipal & Env Inf	51	517	25%	290	17%
	Transport	5	164	8%	162	10%
		56	**681**	**33%**	**452**	**27%**
Summary		**174**	**2,047**	**100%**	**1,675**	**100%**

Source: EBRD Business Performance Navigator

1.2 Implementation of the previous strategic directions

Over the previous country strategy period, the Bank's main priorities in Romania have been to: (1) support and develop the financial sector, including local capital markets; (2) enhance commercialization, competition and private sector involvement in infrastructure; (3) develop sustainable energy policies and investments; and (4) support a shift to a more production and export oriented economy.

Over this period, the Bank signed 75 new transactions, totalling over €1.5 billion, spread relatively evenly across all sectors (Energy – 27%, FI – 16%, ICA – 32% and Infrastructure – 25%). Notably the Bank has:

- Provided critical support for the banking and non-banking financial sectors, thus contributing to market stability. The Bank has focused in particular on access to finance for MSMEs, investing €77 million between 2012 and 2014 via dedicated credit lines. The Bank has also deployed credit lines in support of energy efficiency and sustainable energy, investing €28 million across more than 140 projects over approximately the same period. The Bank also provided a diverse array of new financial products, including local currency bonds, subordinated convertible bonds, TFP and cross currency swaps. In conjunction with other IFIs, policy dialogue with the National Bank of Romania (NBR) resulted in a series of measures to reduce non-performing loans (NPLs) on bank balance sheets, with the ratio of NPLs dropping from 22.3 per cent in the first quarter of 2014 to 12.8 per cent as of June 2015.

- Through the Vienna Initiative and more than a dozen TC projects, helped actively develop Romania's capital markets, including ground breaking work cementing Romania as a priority country under the Bank's Local Currency and Capital Markets (LC2) Initiative and ongoing efforts to reclassify the country as an emerging market. In particular, the Bank has supported local and international institutional investors in mobilising funds for the Romanian market; supported a broad range of reforms to unblock procedural bottlenecks, ensure greater liquidity and improve investor access; worked with the NBR and market participants to clear remaining barriers to the issuance of covered bonds; assisted the Financial Services Authority and pension fund industry in evaluating present investment limits under which Pillar II funds operate; and, through a five percent stake in the Bucharest Stock Exchange, leveraged further reform of market infrastructure, including the introduction of a corporate governance code for all listed entities.
- Supported commercial structures for both urban transport and water and wastewater projects, backed by public service contracts and, where appropriate, leveraging EU funds. The Bank also assisted in restructuring and commercialising the state-owned rail infrastructure company, helping it secure on time and full payment from the state-owned passenger railway company utilising its services, as well as the restructuring and privatisation, via IPOs, of two key state-owned companies where it helped implement corporate governance action plans that have improved transparency and increased share value.
- Supported Romania's transition to a low carbon economy by encouraging energy production from renewable and environmentally sound sources and technical assistance to corporates employing energy-saving technologies consistent with the Bank's Sustainable Energy Initiative (SEI). Renewable capacity installed during the last five years is close to 5,000 MW, from a previous level of virtually zero and achieved energy savings through SEI projects are estimated at 700,000 toe per annum.
- Bolstered select SMEs and corporates actively involved in producing exports, import substitutes and other value added products by providing both debt and equity, launching the Local Enterprise Facility (LEF), investing in private equity funds, and facilitating access to business advice and industry expertise through its Small Business Support (SBS) activities. Between 2012 and 2014, SBS-assisted SMEs created approximately 1,600 new jobs in Romania, with over 70 per cent increasing their turnover and 57 per cent increasing productivity.
- Broadened its policy dialogue with the authorities to address more difficult and complex issues, including independent and professional management for state-owned companies, railway sector financing, road sector concessions, the revisions in Romania's renewable energy support scheme, and the development of an Energy Efficiency/ESCO law. Such open, cooperative exchanges have helped support an enabling business environment.
- Engaged in extensive policy dialogue with the authorities with respect to the management of the state-owned national railways company, CFR Infrastructura. As a result of the Bank's efforts, CFR Infrastructura significantly improved its operational performance, including by acquiring electricity from the free market at better prices, ensuring timely and full payments from the state-owned railway passenger company and appointing a suitable and independent CEO.

Notwithstanding these considerable successes, significant transition challenges remain. While the Bank has been active in the corporate sector, the overall level of corporate investment in Romania remains low. Key factors limiting competitiveness and discouraging stronger investment include bureaucratic obstacles to doing business, the significant role of inefficient state-owned companies and the bottlenecks caused by Romania's poor national infrastructure. Substantial restructuring, commercialisation and privatisation remains necessary across numerous sectors, while the relatively weak, although improving, business environment has contributed to a significant drop in FDI levels, from €9.5 billion in 2008 to €2.7 billion in 2013 and €2.4 billion in 2014. In 2014 FDI outflows (estimated at €2.7 billion) exceeded FDI inflows for the first time, demonstrating that cheap financing alone is insufficient to stimulate growth.

In municipal infrastructure, while the Bank has successfully supported investments in Romania's larger municipalities and regional water companies, its ability to develop more projects with private sector involvement has been limited by the Government's lack of institutional experience and capacity to prepare and implement projects at both the local and national levels. This is true for key areas of municipal infrastructure like water and wastewater, urban transport, district heating, and energy efficiency in public and residential buildings. Despite recent efforts and a coordinated approach from the IFIs active in Romania, there has been little progress in involving the private sector in large national road infrastructure projects via a concession or PPP. Similarly, while there has been increased private sector participation in a number of energy companies (notably Romgaz, Electrica and Nuclearelectrica), there has been limited progress in privatisation within the transport sector.

Finally, despite improvements over the previous strategy period, access to finance still remains limited, particularly for SMEs. A large share of NPLs still consumes banks' management time and discourages new lending in the economy, notwithstanding the NBR's efforts to clean bank balance sheets. The banking sector, which was loss making in the first nine months of 2014, saw steady withdrawals of parent funding in foreign-owned banks throughout the year, increasing the need for banks to rely on local sources of funding. Non-bank finance still remains largely underdeveloped, with almost 95 per cent of finance placed through banks (including leasing).

1.3 Key lessons

As the Bank's experience over the prior strategy period has demonstrated, constraints on traditional bank lending will put a premium on further developing alternative sources of finance. While lending may pick up as NPLs are moved off-balance sheet and banks increase NPL sales to private specialists, the process is likely to be slow. This presents a fundamental opportunity to accelerate the Bank's ongoing local capital markets work, which, through investment, technical advice and support for reforms, has sought to develop an efficient and realistic source of long-term capital for Romania's real economy and the corporate sector in particular. Although local capital markets benefited from the listing of state-owned companies such as Romgaz and Electrica, which helped increase liquidity and capitalisation, the Bucharest Stock Exchange still lags behind its regional peers, and has not seen any listing of a private company in recent years. Furthermore, approximately 20 per cent of last year's trading value was generated by only one issuer.

In this environment, the Bank will need to concentrate on adding further depth to debt and equity markets. The private sector, particularly locally owned companies, remains highly leveraged, meaning any further growth would require fresh equity. (Alternative solutions might be debt restructuring and/or swaps.) As noted, the Bank recently became a shareholder in the Bucharest Stock Exchange, an important demonstration effect for investors. As a prerequisite for successful IPOs, the Bank could also contribute equity and help improve the corporate governance of companies, making them more attractive for investors.

As noted, a lack of institutional capacity and limited private sector participation has hindered Romania's ability to implement large infrastructure projects. The country's needs are particularly acute in the transport sector, which serve as a major drag on competitiveness. According to the World Economic Forum's Global Competitiveness Index, Romania ranks 121st out of 144 countries in road quality. Since the last large infrastructure project financed by the EBRD (2005), Romania has struggled to increase its very small network of highways. Despite the availability of EU funds, as of the beginning of 2015 Romania had absorbed only roughly one-half of the EU funds available to it for infrastructure for the 2007-2013 exercise, the lowest among all EU countries. After a slow start, EU funds absorption for cohesion policy has increased, to nearly 55% for the 2007-2013 programming period. Nonetheless, additional efforts are needed to improve absorption and generate growth in the country.

Although the new, 2014-2020 EU financial planning exercise kicked off in 2014, the Large Infrastructure Operational Program, which outlines the large infrastructure projects eligible for European structural funds, is not expected to be approved until the second half of 2015. The Bank, in coordination with the EU and other IFIs, will continue to assist the Government in designing and implementing worthy projects, and more fully utilising EU funds under the existing MoU on EU funds absorption, thereby enhancing the authorities' capacity to prepare, implement and monitor large infrastructure projects. Nonetheless, even assuming a full absorption, the EU funds available for 2014-2020 would be insufficient to cover all of Romania's infrastructure needs. The Bank's assistance in leveraging private sector engagement via PPPs, which would improve operational efficiency and financial sustainability, as well as enhance the capacities of the beneficiaries to design and implement projects, will thus be essential.

Finally, redressing Romania's pronounced competitiveness deficit will also require significant investment attraction and improvements to the business environment. Romania ranked 48th out of 189 countries in the World Bank's *Doing Business 2015* report and 69th out of 175 countries in Transparency International's 2014 Corruption Perceptions Index. Foreign direct investment in Romania also decreased significantly after the crisis. A large percentage of FDI consists of retained profits, as in 2013 green field investments measured a mere €112 million and investments in mergers and acquisitions contributed a further €152 million. While Bucharest generates one-third of Romania's GDP because of its capital status, other regions in the South and particularly the East suffer from a chronic lack of investment, low labour participation rates and GDP per capita ratios that are as low as one-third of the EU average. This has contributed to an accelerated depopulation in these regions, which may have contributed through emigration to Romania's overall population decrease from 23 million (1990) to 20 million (2011), although a part of the decrease accounts for negative natural population growth. Development of adequate road infrastructure can help rectify regional imbalance and is a key prerequisite to attracting new investment. As an example, there is no highway crossing the Carpathian Mountains, which would link the Southern and Eastern parts of Romania to the West. This is why most of the manufacturing facilities are concentrated in the Western part of the country, where they can implement a just in time delivery system to clients in Western Europe.

2 OPERATIONAL ENVIRONMENT

2.1 Political context

In the past, fragile coalition governments lacking either wider popular support or sufficient technical majorities in the parliament hampered Romania's reform course. The political environment improved after 2012, when the centre-left Social Democratic Party (PSD) – the most popular in the country at the time – formed a temporary government pending new general elections. PSD performed well in the 2012 local elections and won a landslide victory in the December 2012 general elections. A record majority of seats in the parliament combined with a strong presence in local offices provided stability and a conducive environment for pursuing more consistent policies.

The current coalition government led by PSD, with its leader Victor Ponta as Prime Minister, was established in 2012, and its mandate runs until 2016. It was reshuffled twice during 2014, in both cases in the aftermath of departure by junior coalition partners. The most recently reshuffled government does not dominate the parliament in the same way as it did after PSD's victory in the 2012 general elections, although it still has the necessary majority to pass legislation.

In the November 2014 presidential elections, Ponta lost in the second round to the candidate of the centre-right opposition, Klaus Iohannis. Iohannis took office on 21 December 2014. The newly elected President has a reputation as a strong advocate against corruption and for increasing the accountability of state institutions. Given the fact that the President in Romania has considerable competencies in the area of the rule of law, Iohannis' election may be conducive to further improvements on that track. It remains to be seen, however, how difficult co-habitation between the president and prime minister will be, given the uneven record of co-habitation in the past.

Remaining deficiencies in the judiciary and corruption remain among the key weaknesses. In its latest report under the Cooperation and Verification Mechanism (CVM), issued in January 2015, the European Commission concluded that Romania had made progress in many areas of judicial reform and the fight against corruption, particularly in non-partisan investigation and prosecutions in high-level corruption cases. Romania in particular has undertaken in the last few years conclusive trials for a number of senior political figures. Importantly, the latest CVM also noted "signs of sustainability" in the reforms. At the same time, as in prior reports, the EC noted that public procurement procedures, especially at the local level, remain exposed to corruption and conflicts of interest. The CVM, initially envisaged to run for three years after Romania joined the European Union in 2007, is still in place eight years later. (A more detailed assessment is provided in Annex 1.)

2.2 Macroeconomic context

Romania continues to be exposed to developments in the Eurozone, with growth moderating in the past year. After growing 3.4 per cent in 2013, growth moderated to 2.8 per cent year-on-year in 2014, on the back of strong private consumption, boosted by a rise in the minimum wage in mid-2014. Year-on-year growth remained strong in the first and second quarters of 2015, at 4 and 3.3 per cent, driven, as in the previous year, by private consumption. The decline in overall economic growth in 2014 was mainly due to the lower contribution of net exports and subdued investment. Nevertheless, industrial confidence showed some signs of recovery towards the end of 2014, which may help boost investment in

2015. Meanwhile, inflation declined to 1.9 per cent in August 2015, below the NBR's target range of 1.5-3.5 per cent. The decline in inflation was driven by a fall in food and energy prices, as well as improved inflation expectations.

External vulnerabilities eased and fiscal performance remains strong. Romania's current account almost fully rebalanced in 2014, with the deficit falling to 0.4 per cent of GDP. There has also been considerable fiscal adjustment since the 2008 crisis, which brought the budget deficit down to an estimated 1.9 per cent of GDP in 2014. However, spending reductions have been achieved partly through significant cuts to public investments, which could adversely affect long-term growth. After consultation with stakeholders, the Government adopted the Fiscal Code and Fiscal Procedure Code. General government debt, which is below 40 per cent of GDP, is low by regional standards. Since October 2013, Romania has been on a Balance of Payment Assistance Program by the EU, which is a joint effort of the IMF and EU, as were the previous two programs. Alongside this, Romania has also been on a 24 month Stand-By Arrangement (SBA) with the IMF, with access to a precautionary amount of €1.98 billion. Both programs expired in September 2015, without reviews being concluded for either of them. The 2015 budget targets a deficit of 1.8 per cent of GDP (1.45 per cent in ESA terms), which was in line with program targets.

Meanwhile, the financial sector has been impacted by cross-border deleveraging pressures, the high level of non-performing loans (NPLs), and a decline in profits. Romania was not as strongly affected by deleveraging pressures as some of its EU peers, thanks to a reasonable regulatory environment, although considerable outflows have been recorded since end-2011, with only minimal reversal since. As noted, NPLs declined to 12.8 per cent of total loans as of June 2015, as banks wrote off NPLs (upon NBR recommendation) in accordance with their own accounting policies consistent with IFRS, while still retaining legal claims against borrowers. However, financing for small and medium-sized enterprises (SMEs) remains limited outside of the main urban areas and capital markets are underdeveloped.

Growth is expected to edge up to 3.0 per cent in 2015 and 3.2 per cent in 2016. Recent and prospective interest rate cuts, enabled by inflation falling on the back of energy and food prices, will continue to boost domestic demand in 2015 and 2016. Growing industrial confidence and a fall in inventories may lead to increased investment after two years of declines. The credit supply may also be boosted by the recent reduction in NPLs. Government expenditure is expected to absorb more EU funds, as the absorption rate for cohesion policy and rural development remain the lowest in the EU. Overall, these developments should enable domestic demand to edge up. Somewhat stronger growth in the Eurozone, albeit still moderate, also may push up Romania's exports in the near term. Accordingly, Romania's medium-term prospects remain favourable, reflecting its diversified economy and strong catch-up potential in a country where GDP per capita (adjusted for purchasing power standards) is just 55 per cent of the EU average. Annual long-term growth rates of 4-5 per cent are feasible provided the pace of structural reforms is accelerated and additional investment attracted.

Euro adoption is envisaged for 2019, and the authorities have signalled their intention to enter the new Banking Union, but some vulnerability still remains. Romania meets the formal Maastricht criteria for entry into the Exchange Rate Mechanism (ERM II). Further real convergence is likely needed before adoption of the euro can take place. Progress in eliminating domestic arrears accumulated in late 2009 has remained slow. Moreover, despite recent success in reducing NPLs, failure to further address the issue, including through corporate restructurings, may still weaken commercial banks' capital and exacerbate financial vulnerabilities.

2.3 Structural reform context

Structural reforms have continued but further challenges still remain. The flagship sale in November 2013 of a minority 15 percent stake in the natural gas producer Romgaz for 1.7 billion lei (€390 million) and the launch of an IPO for 51 per cent of the electricity distribution and supply company Electrica in June 2014 for 1.9 billion lei (€444 million), with EBRD's involvement, were successful. However, in February 2014 an IPO for the hydro-power generator Hidroelectrica was delayed after the company re-entered insolvency and another attempt to sell the major chemical company Oltchim failed after no bid was received for the core assets by the December 2014 deadline.

Some price liberalisation has been achieved in important parts of the energy sector, although challenges remain. There is now a functioning competitive electricity market for non-residential consumers as a result of price liberalisation in 2013, in line with the energy price liberalisation road map, which continues gradually for householders according to the agreed calendar. Gas price liberalisation was finalised for non-household consumers (except thermal energy producers, in relation to natural gas used to produce heat in cogeneration plants and heating plants for household consumption) at the beginning of 2015. However, the price of gas for household consumers is still regulated by the Romanian Energy Regulatory Authority (ANRE) and is to be concluded by mid-2021. According to the provisions of Law 123/2012, and its amendments, in order to ensure non-discrimination between the same class of consumers, by the end of the regulation period household consumers and thermal energy producers (as described above) will be treated the same in terms of ensuring the quantity and selling price of natural gas consumed, whether they chose to be eligible or regulated.

Transport sector reforms are lagging. While private sector participation in road sector projects is officially encouraged, and some PPP contracts have been awarded, the country has failed to structure a concession in line with good industry practice. The overall planning process for road projects appears to be overly complex and at times inconsistently driven by (frequently changing) national authorities and EU led bodies. There are also significant capacity problems related to project preparation, design and implementation. The Government has drafted a Transport Master Plan which envisages a prioritisation of projects in the framework of foreseeable financing resources, but this yet remains to be implemented. In the railways sector, the failure of the privatisation of state-owned freight company, CFR Marfa, in October 2013 was a setback for the industry, even if CFR Marfa managed to achieve operational sustainability. The authorities intend to restructure CFR Marfa before privatisation, in order to increase its attractiveness. The company reported better results last year, following management improvement and significant staff cuts. Restructuring of the state-owned rail infrastructure and passenger companies is also needed.

2.4 Access to finance

Private sources of capital

Previously the Romanian economy largely relied on the banking sector for its financing needs and as a consequence capital market development lagged. For example, as of end-2013, corporate bonds, including financial institutions, accounted for only 0.55 per cent of GDP, which compares poorly with other middle income European markets such as Poland (5% of GDP) and Croatia (16% of GDP) as well as other emerging markets such as Thailand (17% of GDP) and Malaysia (43% of GDP). Romania is still classified as a frontier market by the major indices groups such as MSCI and FTSE, which restricts the amount of equity investment flowing to the country from international investors. Additionally funding from parent companies of international banking groups has become more constrained as a result of home country regulation which has limited the amount of private debt capital available to the broader economy.

However, capital market reform has now become a priority for the Government and the private sector. Capital market participants, including the regulator, the Bucharest Stock Exchange and the major bank and pension groups have all developed co-ordinated multi-pronged strategies to develop Romania’s capital markets by streamlining structural and procedural impediments to the clearing settlement and depository environment, facilitating corporate and bank covered bond issuances, encouraging part privatizations through equity market IPOs and encouraging the development of the institutional investor base. The capital markets reform agenda has been strongly supported by investments by the EBRD and reinforced through major policy dialogue. The Bank’s ongoing commitment to the process has been further bolstered by the purchase of a 4.99% stake in the Bucharest Stock Exchange, and directorship representation at the depository, as well as the co-organisation of roadshows at the EBRD in London to raise the profile of the Romanian market with international investors.

Multilateral development banks and EU finance

A number of multilateral development banks and bilateral financial institutions are also active in Romania.

As noted, although Romania has access to significant EU funding, its absorption rate for cohesion policy is the lowest in the EU. Allocated approximately €20 billion in grants upon its 2007 accession, it has been given access to a further €31 billion (Structural Funds and Rural Development Funds) for the period covering 2014 to 2020.

Between 2009 and 2013, the European Investment Bank (EIB) invested €3.7 billion to improve transport and telecommunications infrastructure; support SME projects through loans channelled through local banks; increase energy efficiency of residential buildings by financing refurbishment of multi-family housing in municipalities; and boost urban development through sovereign lending to finance afforestation, improvement of forest management and small-scale rural and agricultural investments. In 2014, the EIB extended credit lines to OTP Bank, Banca Transylvania and CEC Bank for use in SME development. It also finances a multi-year investment programme to rehabilitate multi-story residential buildings in Bucharest and reduce energy losses. An extension to the current programme is being considered.

The European Investment Fund (EIF) has been active in Romania since 2001 and supported more than 6,100 SMEs and 8 private equity funds. EIF manages a €150 million fund in Romania under the JEREMIE initiative, to enhance SMEs’ access to finance. The Fund has around €150 million outstanding commitments in guarantees, securitisation and microfinance, as well as equity investments in SMEs amounting to almost €24 million through portfolio funds.

In 2013, the Council of Europe Development Bank (CEB) approved €75 million in projects and disbursed €40 million in loans. In 2014, the CEB approved extending a €50 million loan to BRD Sogelease, to be used to finance MSME investments to strengthen competitiveness and enhance job creation.

The World Bank Group (WBG) has also been conducting a wide range of projects in Romania. In 2013, the World Bank extended a US$ 92 million loan to the Romanian government to improve tax collection procedures, increase tax compliance and reduce the burden on tax payers. A further US$ 1.4 billion was extended in 2014 in support of the Government's reform agenda and improvements to public resource efficiency. As of April 2015, the World Bank had 17 ongoing reimbursable advisory services agreements worth US $41 million, which have focused on strengthening public administration by increasing capacity for preparing and managing PPP projects, strengthening the regulatory impact assessment framework and improving public investment management. In addition, the Multilateral Investment Guarantee Agency, which halted operations in Romania in 2004, has explored re-engaging in the country, in order to focus on modernizing and improving interconnection networks.

Since 1990, the IFC has invested $2.4 billion in over 81 projects across a variety of sectors in Romania, including agriculture, general manufacturing, infrastructure and health.

2.5 Business environment and legal context

Business environment

As noted, Romania ranked 48th out of 189 countries in the World Bank's *Doing Business 2015* report, with particularly low rankings in construction permits and access to electricity. Although the country performed on par with the average of emerging and developing Europe across most indicators, access to finance, tax rates, inadequate infrastructure, corruption and inefficient government bureaucracy remain the main barriers to doing business. Actions to increase access to finance for SMEs and entrepreneurs, as well as improve infrastructure are thus priorities for enhancing the business environment.

Nevertheless, some positive steps have been recently taken to improve the business environment in Romania. The country improved 76 places in the *Doing Business* rankings in the area of paying taxes, albeit from a very low position of 128th. The Government has also enhanced online local tax systems, allowing banking cards to be used for making payments, a move that has been welcomed by the business community.

Legal context

Romania significantly overhauled its legislation before it joined the EU in 2007. Since then reforms have continued, although at a reduced pace. The new Civil Code that came into force in 2011 has introduced important changes in areas such as security interests, in particular by creating more flexible enforcement procedures for the sale of encumbered assets or even the appropriation of assets by the secured creditor. The company law, which dates back to 1990 but has been amended several times, would benefit from some modifications, for example to make the strategic guidance of companies a clearer function of supervisory boards, or to review the definition of independent directors in line with current best practice. Legislation passed in 2014 has introduced the Small Business Act (SBA) principles into Romanian law. Building on this new approach, the "Governmental Strategy for the Development of the SME Sector – Horizon 2020" has further strengthened the legal environment for small

businesses in the country. The insolvency legislation is on the whole well-balanced and offers a number of useful tools to debtors and creditors. However, further work should be done in strengthening Romania's out-of-court restructuring culture and the promotion of restructuring guidelines and codes of conduct among banks. In the field of public-private partnerships and concessions, an upgrading of the legal framework is expected in the near future, in particular to transpose into national legislation the recently adopted 2014/23 EU Concession Directive.
The efficiency of the judicial system remains a cause of concern for investors. The EC's Cooperation and Verification Mechanism (CVM), which, as noted above, was established upon Romania joining the EU to assist the country in overcoming shortcomings in the areas of judicial reform and the fight against corruption, continues to monitor and report on these problems. The January 2015 CVM report noted continuing progress in many areas of judicial reform and the fight against corruption, particularly in judicial professionalism and independence, illustrated by the important role of the Constitutional Court in providing solutions to issues linked to the balance of powers and respect for fundamental rights. At the same time, as in prior reports, the EC noted remaining weaknesses in the functioning of the judiciary, including in relation to senior appointments and consistency of judicial decisions. The CVM report proposes the adoption of a range of measures, including finalising criminal codes, reviewing the judicial appointment process, and improving knowledge and information management and the implementation of judicial decisions. In addition to the measures suggested by the CVM, Romania needs to pursue other reforms to enhance the quality and efficiency of its courts. Reforms should focus on introducing filters on the seemly open-ended right to appeal, delegating minor procedural matters to court officials other than judges, establishing a specialised commercial tribunal in Bucharest and promoting greater uniformity in judicial decision-making, particularly in relation to business cases.

Further information on legal topics relevant to this country strategy can be found in Annex 4.

2.6 Social context

According to the UNDP Human Development Index (HDI), Romania remains a high human development country, ranking 54th out of 169 countries. Unemployment has been stable at 7 per cent since 2009. However, women's participation in employment has decreased steadily, from a high of 67.3 per cent in 1980 to 52.0 per cent in 2011, just below the EU average of 58.5 per cent. Youth unemployment also has increased to 23.6 per cent.

A gender gap persists in relation to labour practices. According to Eurostat, women earned on average 9.7 per cent less than men in 2014, although this was better than the EU average (16.4 per cent). Non-discrimination laws were improved in 2012, including by adopting clearer definitions of gender discrimination and equal pay for equal value work, but there may be room for improvement in enforcement. Women are still poorly represented in leadership positions with some exceptions. According to the Inter-parliamentarian Union, only 13.5 per cent of parliamentarians are women.

Regional gaps also exist in relation to access to finance, where the availability of finance in remote, rural regions remains limited. According to the World Bank, only 37 per cent of the rural population have a formal account at a financial institution, only 7.8 per cent have a credit card, and the percentage of the rural population taking up loans is less than half that of urban populations.

Substantial regional disparities also exist in relation to services, particularly access to water, which is relatively limited compared to other countries in South Eastern Europe. Likewise, regional gaps exist in relation to education, with only 58.1 per cent of adults aged 25-64 in rural areas in 2010 completing medium or high-levels of studies, compared to 91.1 per cent in urban areas (according to Eurostat), resulting in comparatively fewer years of schooling on average for the local rural population. Overall, the quality of local education in Romania is below the EBRD country average based on the results of PISA scores (the OECD's Programme for International Student Assessment, which measures math, science and reading performance), where Romania lags behind some other EBRD countries.

There is also still much to be done to improve the inclusion of the Roma population, which make up approximately 8.3 per cent of Romania's population according to the Council of Europe. Three out of four live in relative poverty, as defined by the United Nations. As Roma drop-out rates from primary and secondary schools are high, improving access to education has been a key priority of the Government's National Strategy for Roma Integration. National and EU funds available for Roma inclusion represent a good opportunity to build on the progress made in the recent past, and particular attention should be given to strengthening anti-discrimination practices. It is vital that Romania continues to implement policy reforms in support of Roma inclusion, with a special focus on the most disadvantaged regions.

2.7 Energy efficiency and climate change context

With an energy intensity almost three times higher than the EU-28 average (0.67 versus 0.24 CO_2/GDP – IEA statistics 2012 (kg CO_2/2005 US$), Romania remains one of the most energy and carbon-intensive economies in the EU.

A number of gaps and barriers to energy efficiency and renewable energy investments persist. Importantly, energy prices in certain sectors, such as gas and electricity, are not cost reflective (as required by the regulatory framework), creating distortions that can lead to inefficient use of energy by end-users. Energy efficiency improvements across sectors, as well as new investment in low carbon technologies, are thus badly needed to ensure sustainable economic growth.

As an EU Member State, Romania's energy policy should be aligned with the EU energy strategy, and further energy efficiency and CO_2 reductions will require improvements in legislation, regulation and infrastructure. A new energy efficiency law entered into force in August 2014, which transposes the EU Directive on energy efficiency. In addition to defining objectives for energy efficiency improvement and indicative savings targets, the law introduces a series of energy efficiency policy measures in support of ESCO companies, independent energy audits, and financing instruments and tax incentives for energy-efficient technologies, all aimed at reducing the energy consumption of final consumers. The law also provides for the establishment of an Energy Efficiency Department within the Romanian energy regulatory authority (ANRE).

Climate change also poses a range of risks to a number of activities in Romania. As set out in Romania's Sixth National Communication on Climate Change to the UNFCCC (2013), projected rises in mean annual temperatures over the coming decades (from 0.5°C to 1.5°C between 2020 and 2029) are expected to be accompanied by reduced precipitation, and greater precipitation variability overall. This may cause fluctuations in river hydrology and more frequent extreme events such as floods, which could impact mining and agribusiness projects. Power sector operations will need to consider the risks associated with access to cooling water in the light of increasing vulnerability to droughts. Hydropower investments may also have to take into account climate-related changes in river hydrology. Finally, any investments in port facilities will need to take into account climate change impacts on sea level in the Black Sea. Overall, the need to invest in more efficient and better-managed water supply systems is only likely to increase in the coming years in the face of greater water stress caused by climate change.

3 STRATEGIC ORIENTATIONS

3.1 Strategic Directions

Romania has been an EU member country since 2007, but still faces material transition gaps in most sectors of the economy. The global crisis in 2008-09 had a major adverse effect on the Romanian economy, and the recovery has been hesitant. While the adoption of the EU *acquis* would point to narrowing transition gaps, implementation and the resulting state of infrastructure, energy and the real sector show significant challenges and remains well below EU standards. Access to finance remains limited because capital markets are underdeveloped and the banking system, although liquid and adequately capitalised, is unprepared to take more credit risk, particularly in lending to SMEs and MSMEs. The needs are particularly strong for companies located outside the more advanced and prosperous regions (i.e. Bucharest and the large municipalities such as Timisoara and Cluj-Napoca). Lack of investment inflows into the less developed regions, which is partially explained by the poor quality of infrastructure, exacerbates regional disparities and inclusion problems. Overall, the level of competitiveness in the Romanian economy is well below that of a typical EU country. According to the World Economic Forum's Global Competitiveness Index, 2014-2015, Romania ranks 59th out of 144 economies, below all other EU countries except Slovenia, the Slovak Republic and Greece.

To help Romania address these challenges, the Bank will pursue the following strategic orientations in the new Strategy period:

- **Broadening access to finance by inducing lending and developing capital markets.** Transition gaps in the financial sector remain tangible and negatively impact prospects for competitive growth. Financing for MSMEs is limited, and there is a lack of non-collateralised and non-bank finance available. Credit growth has also effectively stalled, as residual NPLs and ongoing deleveraging by most of the main banks have constrained Romania's banking sector, while other sources of finance (such as capital market products both for corporates and banks) are generally underdeveloped and appetite for equity is limited.

- **Reducing regional disparities and boosting inclusion through commercialised infrastructure.** Although Romania has instituted a number of reforms in the infrastructure sector, the state's capacity to design, implement and finance major infrastructure projects is limited, while private sector involvement in the sector has been minimal. As a result, the quality of infrastructure remains poor, particularly in the less-developed regions, presenting a major constraint to economic development and social and economic inclusion and contributing to an accelerating depopulation in less-developed regions.

- **Enhancing private sector competitiveness through targeted investment.** Romania scores poorly in many cross-country surveys of competitiveness and the business environment, while the dramatic fall in foreign direct investment inflows in recent years has curtailed the transfer supply of modern skills and processes. New investment in high-potential sectors and energy and resource efficient technologies is badly needed to enhance capacity, provide important demonstration effects to other businesses and achieve sustainable economic growth.

3.2 Key challenges and Bank activities

Theme 1: Broadening access to finance by inducing lending and developing capital markets

<u>Transition challenges</u>

- As a result of the financial crisis and difficult environment in the financial sector, financing for MSMEs is limited, particularly in rural areas and outside major cities, and for small agricultural enterprises. Lack of eligible collateral has constrained the flow of credit, particularly to MSMEs, of which more than 80% rely on self-financing, through retained earnings or sale of assets and loans from shareholders or capital increases. As a result, MSMEs generate less than 50% of the total value added of the business economy, compared to the EU average of almost 60%. Increasing non-collateralised lending to MSMEs thus remains a challenge. More generally, domestic credit to the private sector as a percentage of GDP is relatively low by regional standards.
- Since the beginning of 2012 the flow of new loans in foreign currency reversed significantly. However, private sector loans in foreign currency still stand at 56 per cent of the total as of February 2015 and continue to expose unhedged borrowers to exchange rate risk (and banks to forex and balance sheet mismatches). Further increasing the share of both local currency deposits and local currency loans remains a key challenge.
- NPLs, especially corporate, remain a material issue for Romanian banks with total loans overdue for 90 or more days comprising nearly 14% of total loans as of December 2014. The authorities, regulator and the Bank need to work with Romanian lenders and their parent companies to encourage off-loading to the market, especially given increased interest from specialised distressed asset investors. Continued resolution of banking sector NPLs will provide individual banks with a clearer view of their balance sheets and enable them to focus on new business.
- Private equity development, including distressed real estate or corporate investment, is generally low in Romania, and venture capital and other forms of small private finance are non- or almost non- existent. The challenge is to develop a local investor base as well as to encourage more inward foreign private investment in order to diversify sources of finance for growing businesses.
- Equity capital markets require further depth to provide more equity finance to Romanian corporates, especially the medium sized ones, through initial or secondary public or private offerings. Initiatives by the Romanian authorities and the Bucharest Stock Exchange to remove barriers to the further development of the country’s capital markets are welcome but will need external support.

- The development of a debt capital market has been slow in Romania compared to its peers, due to the small institutional investor base, banks' general preference for loans rather than bonds, and the lack of suitable large corporate and financial issuers.

Operational Response

- To enhance Romania's competitiveness the Bank will seek to stimulate sustainable, commercial lending to SMEs and MSMEs, as well as mortgages to households that have lacked access to finance, with a particular focus on regional disparities, rural areas and financial inclusion. More specifically, the Bank will seek to:
    - Re-energise bank lending and non-bank financing, particularly to MSMEs, women entrepreneurs and small agricultural and rural enterprises located in the regions, with the help of various financial instruments, including local currency financing, dedicated frameworks and credit lines (including for energy efficiency and agriculture), and other suitable instruments, including possible risk-sharing;
    - Re-start primary hedged mortgage lending under more prudent standards aimed at preventing future NPLs by providing long term maturity funding to partner banks and cross currency swaps to mitigate balance sheet mismatches; and
    - Help clean up NPLs from balance sheets by selectively financing reputable collection companies and directly investing in portfolios across asset classes in cooperation with distressed asset investors.
- The Bank will seek to facilitate capital supply into the Romanian banking sector (in line with AQR recommendations) and the entry of new investors into the country, as well as a higher level of banking consolidation, as such opportunities may arise, to achieve a more resilient and competitive market with a greater outreach.
- The Bank will continue to support development of non-bank financial institutions such as leasing, insurance, pension funds, microcredit and specialised mortgage companies, by providing long-term debt and equity.
- Under the Local Currency and Capital Markets Development (LC2) Initiative, the Bank will pursue opportunities to accelerate the development of Romania's capital markets, including *inter alia*, through subscriptions to bank and corporate bonds (both in local currency and, in cases where there is a clear natural hedge, in euros), structured instruments and asset-backed securitisations, including mortgage covered bonds, particularly in local currency. The Bank will also seek to encourage secondary market activity and deepen Romania's equity capital market by continuing to play an important role in potential IPOs, as well as support the development of the Bucharest Stock Exchange.
- The Bank will also continue to support the provision of private equity through local, regional or venture capital funds.

Policy Dialogue and Technical Assistance

- Policy dialogue will focus on continuing NPL resolution, managing an orderly deleveraging process and promoting financial inclusion (particularly among women and young entrepreneurs). The Bank will work with commercial banks and the NBR to explore: (i) developing risk-sharing products, which could help encourage banks to address the shortfall in lending to MSMEs; and (ii) options to reduce materially the remaining high levels of NPLs that can be supported by TC.

- The Bank will continue its efforts to further develop Romania's capital markets via advisory engagements and technical assistance under the LC2 Initiative. The Bank will offer technical assistance to the Financial Supervisory Authority ("ASF") with a focus on consolidating the institutional infrastructure (BSE, the Central Depository, CCP), increasing the liquidity of the capital markets and developing the debt market and increasing its liquidity.

Results Framework for Theme 1: Broadening access to finance by inducing lending and developing capital markets

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
1.1	Access to finance for MSMEs is limited, particularly in rural areas and outside major cities, and for small agricultural enterprises	**Re-energise lending and deepen financial intermediation, especially in under-served regions or target segments**	• Direct/indirect financing, including local currency products, dedicated frameworks and credit lines (e.g., energy efficiency, agribusiness), with a particular focus on under-served regions or segments (e.g., women) • Financing distressed asset investors and policy dialogue on NPL resolution and the deleveraging process	• Total number/volume of MSME loans extended by client banks, including (as applicable) breakdown for local currency loans, loans in particular regions and loans to agribusiness and women *(Baseline – established at projects approval)* • Evidence of reduction in NPL ratios at client banks, including by off-loading to distressed asset investors *(Baseline – established at projects approval)*
1.2	Non-collateralised lending is limited, and private equity, venture capital and other forms of small private finance low	**Diversify sources of finance, including development of non-banking products, as a viable alternative to the banking sector**	• Long term debt and equity in support of non-bank financial institutions (e.g., leasing, insurance, microcredit, pension funds) • Support for private equity through local, regional or venture capital funds	• Number and volume of total leasing, insurance and microfinance products, and private equity, extended by client financial institutions and PE funds (including qualitative account) *(Baseline – 0)*
1.3	Romania's equity and debt capital markets lack the necessary depth to provide sufficient finance to corporates	**Accelerate capital markets development by improving infrastructure, broadening product range and developing a sustainable investor base**	• Promote and subscribe to an expanded product range (e.g., bank and corporate bonds, structured instruments, asset-backed securitisations), particularly in local currency • Technical assistance to strengthen secondary markets, develop local currency products and establish a local institutional investor base	• Evidence of successful introduction of new capital market instruments/products by the Bank (qualitative account) *(Baseline – N/A)* • Evidence of successful activities supporting development of investor base (e.g., pension funds, asset managers) *(Baseline – N/A)*
	Context indicator: Δ in Capital Markets ATC (Market Structure) score *(Baseline (2014): Medium)*; equity and bond market trading volumes			

Theme 2: Reducing regional disparities and boosting inclusion through commercialised infrastructure

Transition challenges

- Infrastructure suffers from chronic underinvestment, and its quality and provision remain well below EU and OECD standards, particularly outside major metropolitan centres.
- Private sector participation in the road sector has been limited. Although some PPP projects have been awarded, none have been completed. An enhancement of private sector involvement, in line with best international practices, could help integrate and strengthen market forces in less developed parts of the country.
- In the railways sector, increased private sector participation could help strengthen the sustainability of operators, improve competition and improve service delivery.
- Small and medium municipalities have limited access to commercial funding. Despite high investment needs (e.g., road infrastructure, water and wastewater assets, municipal waste facilities, energy efficiency in public and residential buildings), most have low or virtually non-existent borrowing experience and thus cannot finance project preparation and implementation.
- Transition progress in urban transport has been limited in Bucharest and other large cities and even less advanced in secondary and tertiary cities, where operators often rely on municipal grants and other non-commercial funding to maintain service levels. A key challenge is to pursue corporatisation of public transport operators and ensure development at the regional level.
- In the water and wastewater sector, key challenges include further tariff reform to move towards cost recovery, further regionalisation and greater private sector participation. Expansion of services to localities with populations of less than 10,000 will be important to ensure equal access to safe water and sanitation.
- Poor-quality infrastructure is a key factor behind the significant regional inclusion gaps identified in Romania, especially with regard to access to services.

Operational Response

- When considering infrastructure projects, the Bank will aim to enhance Romania's competitiveness by prioritising investments with a strong potential to contribute to geographic and economic integration and greater inclusion.
- The Bank will continue to encourage private sector participation in municipal infrastructure investments and in particular will promote the use of best practice PPP/concession structures across all relevant sectors to boost competition and prospects for successful financial closings. The Bank will support such projects by offering long-term debt or equity to concessionaires, as appropriate.
- The Bank will leverage its support for physical infrastructure modernisation by promoting sector reform, better governance (including water efficiency consistent with the Bank's Sustainable Resource Initiative (SRI)) and private sector participation.
- The Bank will seek to expand its activities in the municipal sector by supporting commercial and cost-recovery tariff structures, including by corporatisation, backed by Public Service Contracts, in all relevant sectors, thus promoting improved management and corporate governance, as well as private sector involvement. The Bank will continue to assist Romania in effectively absorbing EU funds by

developing efficient structures for delivering infrastructure projects in cooperation with other IFIs. The Bank will in particular seek ways to support middle tier municipalities in accessing commercial funding together with dedicated technical assistance and guidance, accelerating, in the process, EU Structural Funds absorption.

- The Bank will continue to support the development of Romania's energy sector and target investments to upgrade its transmission and distribution infrastructure with a twofold purpose: (1) to expand internal networks, in order to better balance supply and demand by making use of the significant renewable capacity recently installed in the country, and (2) to improve cross-border connections with neighbouring countries in order to better position Romania to take advantage of its significant supply capacity and potential future opportunities as the European market integrates.
- The Bank will also explore opportunities via credit lines and/or risk-sharing to finance public buildings and lighting, including through ESCOs. A key element will be the use of financial engineering to effectively blend substantial structural fund grants for improving energy efficiency with private finance and ESCO expertise.

Policy Dialogue and Technical Assistance

- The Bank intends to continue its cooperation with the EU, other IFIs and the government to stimulate a fuller absorption of EU Structural and Cohesion funds under the new Partnership Agreement, particularly in those areas where transition gaps are most significant. Under the existing MoU on EU funds absorption, the Bank may continue to support the Government with the preparation of adequate financing schemes that enable wider access to EU and commercial financing, especially in the funding of municipalities, local utilities and in energy efficiency, including public and residential buildings.
- The Bank will continue its policy dialogue with the central and local authorities on sector reforms promoting the commercialisation of national infrastructure companies and local utility companies, deepening private sector participation and reducing the level of public subsidies in order to create sustainable urban and national infrastructure and services. Specifically, in the district heating sector, the Bank will explore ways to eliminate subsidies and improve revenue collection while in solid waste management the Bank will support further integration of operations and the promotion, under the SRI, of recyclables.
- There remains significant scope for policy dialogue to pursue increased private sector participation in the municipal sector. The Bank will provide technical assistance to the Government in its efforts to identify and discuss adequate options for private sector participation in the water sector and other municipal services.
- The Bank, together with the other IFIs, will continue its policy dialogue with the government to encourage and advise on the preparation and tendering of large concession/PPP projects in the road sector in line with the relevant legislation and international best practice. The Bank will also consider contributing to the enhancement of PPP legislation in Romania, in close coordination with the other IFIs.
- The Bank will continue to support liberalisation of gas and electricity markets and the removal of regulated prices by working with the regulator to design and gradually implement market driven primary and secondary legislation.
- The Bank will also continue its strong dialogue with the government regarding reform of the Romanian railway sector, particularly via the commissioning and

implementation of a Restructuring and Action Plan by the state-owned infrastructure railway company.

Results Framework for Theme 2: Reducing regional disparities and boosting inclusion through commercialised infrastructure

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
2.1	Infrastructure quality is generally poor, and municipal enterprises are operated inefficiently and on a non-commercial basis	**Improve efficiency, quality and governance of infrastructure and municipal services through commercialisation and corporatisation**	• Investments in road/rail sectors supporting national transport planning and municipal services such as water/wastewater and urban transport, prioritising projects with strong potential to contribute to geographic and economic integration and greater inclusion • Leverage investments by promoting sector reform, commercial and cost-recovery tariffs and improved management and corporate governance • Investments to upgrade internal energy transmission and distribution infrastructure and integration into regional networks	• Evidence of improvements in efficiency and infrastructure service delivery, including financial and operational performance of regional municipal operators reported through TIMS/TCRF *(Baseline – established at projects approval)* • Introduction of improved tariff methodology in municipal services in line with cost-recovery principles as a result of the Bank's policy dialogue and technical assistance *(Baseline – N/A)*
2.2	Greater private sector participation is needed to improve operational management and financial sustainability of Romania's transport and municipal infrastructure sectors	**Increase use of private sector-led solutions to enable sustainable funding and efficient management of infrastructure projects and utility operators**	• Encourage private sector participation and promote use of PPP/concession structures across all municipal sectors via finance for concessionaires and policy dialogue • Promote commercialisation of national infrastructure and local utility companies, reduce subsidies and create sustainable infrastructure and services	• Evidence of infrastructure services successfully outsourced to private sector (e.g., concessions, PPPs, management contracts) (qualitative account) *(Baseline – N/A)* • Evidence of successful improvements in PPP environment as a result of the Bank's policy dialogue (including adoption and implementation of revised PPP framework and building of related institutional capacity) *(Baseline – N/A)*
	Context indicator: Δ in MEI and Power ATC scores *(Baseline (2014) – Water & Wastewater: 4- (Small); Urban Transport: 3+ (Small); Roads: 3 (Medium); Railways: 3+ (Small); Power: 3+ (Small))*			

Theme 3: Enhancing private sector competitiveness through targeted investment

Transition challenges

- Romania's competitiveness suffers from deep-rooted problems, such as poor corporate governance in large state-owned companies, a weak and dysfunctional judicial system, and lack of progress in developing a functioning land market. Investment has been deterred by significant bureaucratic hurdles and obstacles to doing business in areas such as construction permits, access to electricity and taxes.
- Foreign investment is still low compared to pre-crisis levels and new investment is needed to stimulate exports, encourage domestic production and facilitate technology and skills transfer that can be replicated elsewhere.
- A significant privatisation agenda still exists. Key sectors where important assets remain to be sold include telecommunications (Romtelecom), railways (freight transport company CFR Marfa), logistics (Posta Romana, Port of Constanta), energy (Hidroelectrica) and banking (CEC). In the energy sector, incomplete privatisation (especially in power generation) has left companies with insufficient capital, high investment needs and an unsustainable operating model. The restructuring of SOEs has been patchy, which will prove a significant comparative disadvantage for Romanian companies as energy markets liberalise. Certain steps have been taken in the right direction by listing Romgaz, Nuclearelectrica and Electrica in 2013-2014, while Hidroelectrica has been earmarked for restructuring in 2015, although the process has been somewhat slow. However corporate governance principles must be improved for these partial privatisations to have a transition impact.
- In the agribusiness sector, the process of restructuring agro-processors, input suppliers, storage and services companies has been slow, and productivity and standards, including energy and resource efficiency, are below levels in other EU countries.
- Many private companies, SMEs, in particular, are marked by weak standards of management practice and lack the skills and expertise to further develop their businesses.
- Romania also remains one of the most energy and carbon-intensive economies in the EU. Investment in low carbon technologies is badly needed to improve the energy efficiency and competitiveness of Romanian businesses and the country's energy markets.

Operational Response

- Via debt or equity, the Bank will seek opportunities to support the local corporate sector, as well as stimulate foreign direct investment with the overall aim of bolstering domestic competitiveness. The Bank will support export-oriented companies and innovative producers of higher value added goods. Particular priority will be given to sectors where there is strong potential for competitive growth and where important transition challenges remain, including agribusiness (such as investments in agricultural and food related industries to help improve productivity, resource efficiency and quality standards) and manufacturing and services (particularly the local retail and services sectors).
- The Bank will support investments in the less developed regions of Romania with a view to promoting inclusion and regional integration, and in energy and resource efficiency to enhance private sector competitiveness and sustainability.

- The Bank will also seek to deepen its engagement in Romania's knowledge economy by financing investments in innovation, research and development and technology including internet broadband to help promote digitalisation (thus also reducing regional disparities) and adoption of modern knowledge-intensive industries.
- The Bank will continue to encourage and support privatisation of SOEs in relevant sectors via strategic sale or partial public listing, as well as champion improvements in corporate governance and efficiency in line with the new corporate governance code of the Bucharest Stock Exchange developed with the support of the Bank. Particular attention will be paid to the application of better corporate governance for SOEs in the energy sector by leveraging Bank finance with corporate governance action plans similar to those currently underway with Romgaz and Electrica.
- In the SME sector, the Bank will promote adoption of good standards of management practices, financial transparency and integrity best practices by MSMEs via SBS, while it will seek to enhance productivity, energy and resource efficiency and sustainability through the Local Enterprise Facility (LEF).
- The Bank will support investments to improve efficiency and competitiveness in selected areas in oil and gas companies. In the power and energy sector it will support the development of open and competitive energy markets with unregulated electricity and gas prices, and a better integration of Romanian gas and electricity markets into regional and pan-European networks.
- The Bank will focus on promoting energy efficiency both on the demand side, working directly with large industrials and indirectly through financial intermediaries for SMEs and larger enterprises, and also on the supply side, through smart metering and grid solutions.
- The Bank will also provide financial support and technical assistance for safety, disposal and/or decommissioning-related projects in the nuclear sector.

Policy dialogue

- In the agribusiness sector, the Bank will assist in developing pre- and post-harvest collateralisation in the form of efficient grain warehouse receipts and crop receipts frameworks. The Bank will also support operational land consolidation of agricultural enterprises in order to ease access of the sector operators to finance.
- In the renewable energy sector the Bank will work together with the regulator, the Government and private investors to find market based solutions to sustain renewable generation. The Bank will also engage with the Government on options for financing low carbon investments, including through innovative risk sharing mechanisms.
- The Bank will continue its involvement with business and investor working groups – including by playing a proactive role in the Foreign Investors Council and its specific task forces and through ongoing dialogue with the Government – in order to promote the stable and predictable business environment and a level playing field for business necessary for Romania to attract the larger volumes of FDI key to its competitive development. Specifically the Bank will support initiatives to address various legal and regulatory gaps, particularly those relating to the grey economy and unfair competition.

Results Framework for Theme 3: Enhancing private sector competitiveness through targeted investment

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
3.1	Weak corporate governance and management practices limit private sector competitiveness, particularly SMEs, and ability to attract FDI	**Strengthen private sector competitiveness through targeted investment, as well as advice on business practices and standards**	• Debt and equity investments in support of local corporates in sectors with strong potential for growth (e.g., agribusiness, manufacturing and services) • Business advice on improving management practices, productivity and resource efficiency, including through the LEF • Policy dialogue, including through the Foreign Investors Council (FIC), to promote stable and predictable business environment and attract FDI	• SBS/TIMS indicators on number of client firms that reported growth, increased productivity and qualitative account of improved corporate governance and business standards *(Baseline – established at projects approval)* • Key achievements of the FIC as well as other EBRD policy dialogue related to improving the business environment (qualitative account) *(Baseline – N/A)*
3.2	Incomplete restructuring and privatisation of inefficient state-owned enterprises	**Strengthen competitiveness of multiple sectors, including telecommunications, railways, energy, logistics and banking, through further privatisation**	• Encourage and support further privatisation of SOEs in relevant sectors (e.g., energy, rail) via strategic sales or partial public listings • Leverage finance with corporate governance improvements for SOEs through policy dialogue	• Evidence of improvements in financial and operational performance due to privatisation/restructuring (number of successful projects and qualitative account) *(Baseline – established at projects approval)* • Evidence of corporate governance improvements (qualitative account) *(Baseline – N/A)*
3.3	Romania remains one of the most energy and carbon intensive economies in the EU	**Improve energy efficiency and competitiveness of Romanian businesses**	• Investments to improve energy efficiency, including in oil and gas companies	• Volume of energy savings achieved through Bank investments based on EBRD methodology in toe/yr
	Context indicator: Romania's energy intensity *(Source: WDI/IEA)*			

3.3 Potential Risks to Country Strategy implementation

The EBRD's ability to deliver on its strategy in Romania will be influenced by a number of factors outside the Bank's control. With the exception of the last one, these risks were navigated by the Bank during the previous country strategy period. Where feasible, the Bank will work to address and mitigate these risks through proactive and sustained engagement with clients, its IFI partners and the Government.

i. *Political changes*

Frequent political changes can affect the preparation, procurement and implementation of much needed investments, particularly in the infrastructure sector, which is a driver of economic growth. For example the Ministry of Transport has had eight ministers over the past three years and has also suffered from various re-organizations which saw its National Company for Highways and National Roads separated and later re-merged with it. Political changes also usually trigger significant changes in the management of state-owned companies, which makes the implementation of reforms difficult to achieve.

ii. *Economic downturn in Western Europe*

The European Union is the biggest investor in Romania. It is also the biggest export market for Romanian goods. As a result, any negative impact on the EU economy would be reflected in the local economy, either as lower levels of foreign direct investment, or a smaller contribution to gross domestic product from exports.

iii. *Low absorption of EU funds*

As noted, Romania currently ranks last in the European Union in terms of its absorption of EU funds for cohesion policy under the 2007-2013 exercise, largely due to a lack of administrative capacity as well as political change. The Bank stands ready to assist in terms of co-financing and also, in the case of local water and transport companies, preparing the documentation needed for accessing EU funds. A higher absorption of EU funds would positively impact the rest of the economy, due to replication effects. The Bank's involvement would have a demonstration effect by involving the private sector in areas where it can improve operations and obtain cost savings. Moreover through its projects the Bank will also be able to help improve market efficiencies, by introducing long-term performance based contracts, compliant with EU standards, for the water and transport operators.

iv. *The crisis in and around Ukraine*

Romania's ties with Russia and Ukraine are limited and are mainly represented by gas purchases from Russia, which made up approximately 7.5 per cent of internal consumption in 2014. Nonetheless, any further geo-political tensions arising from the near-by crisis may trigger a deterioration of market confidence and economic outlook in major trading partners.

3.4 Environmental and Social Implications of Bank Proposed Activities

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

The Occupational Health and Safety (OHS) legal framework in Romania aligns with relevant EU OHS Directives. However enforcement is weak and has resulted in a failure to implement appropriate health and safety control measures. Workplace accidents and fatalities are high in comparison to many EU countries. Accordingly, the Bank will seek to support capacity improvements, particularly in relation to Bank-funded projects.

The Bank will also seek opportunities through its projects to support road safety. The Romanian National Road Safety Strategy has targeted a 20 per cent reduction in fatalities by 2015. Some safety legislation is in place, but there may be other opportunities to build capacity.

The Bank's work to improve access to clean water and wastewater collection are consistent with Romania's priorities on water management. However improved sanitation and waste management remains one of the most pressing environmental challenges due to the country's high reliance on landfills. Substantial progress is still required to transform the existing waste management system into a modern, integrated and technology-focused system. General environmental awareness and public readiness to participate in recycling is still at a low level, although this is expected to increase as a result of national and local environmental campaigns and educational activities.

In 2013 the Romanian Government adopted a National Climate Change Strategy (2013-2020), which establishes post-Kyoto objectives, targets and actions for components, mitigation and adaptation.

The Bank's 2014 Environmental and Social Policy will apply to all new projects carried out in Romania. The development of transport and municipal infrastructure may involve land acquisition or economic displacement of local populations, and the Bank's Performance Requirements will apply in such cases. It will be important to identify any vulnerable populations that may be disproportionately affected by these projects and to ensure that stakeholder engagement includes any such marginalised groups. Health and safety is also an important consideration for all projects especially where contractors are engaged through public procurement, and the Bank will work with clients and sponsors to ensure implementation of good international practice and development of a positive safety culture.

The Bank's strategic priorities, as outlined above, are largely consistent with Romania's National Sustainable Development Strategy (2013-2020-2030). As part of this strategy, the Government has agreed priorities including energy efficiency targets, sustainable transport, food security, and improving potable water and wastewater treatment in urban areas. Given the Bank's proposed emphases on areas such as expansion of municipal transport and water and wastewater facilities, particular attention will be paid to tariff affordability in the context of Romania's economic situation and impact on vulnerable populations.

The Bank's strategy is therefore expected to dovetail with the country's implementation of required legislation and the priority investment areas identified by the Government and the

EU. Specific environmental, health, safety and social risk management capacity building through implementation of the Bank's projects will only reinforce this process.

3.5 EBRD co-operation with MDBs

- The EBRD will continue to work closely and actively co-ordinate its efforts with the IMF, EIB, WB, IFC and EU to enhance the leverage of its investment financing by jointly engaging in policy dialogue with the Romanian authorities to support the liberalisation and development of well operating competitive markets, underpinned by appropriate predictable and transparent legislation and regulation.
- The Bank will continue to co-finance projects with the EIB and/or the IFC, especially to increase private sector participation in infrastructure, and in other important relevant areas of the economy.
- The Bank will also continue to co-operate with the other IFIs to improve the absorption of EU funds, including by supporting the JASPERS programme and by participating alongside the WB and EIB under the MoU signed with the Government to provide advisory assistance on key policy reforms and project preparation (which can facilitate both EU programmes as well as Bank operations).
- The Bank will actively pursue discussions with the EU, EIB, other IFIs and the Government on how to deliver sustainable reforms and will continue to seek to utilise EU resources for projects, particularly in municipal infrastructure and in encouraging MSME and energy efficiency lending initiatives. EBRD co-financing and targeted framework facilities via financial intermediaries could also be developed to complement Romania's EU funds absorption, for example, in priority areas such as energy efficiency for enterprises and buildings.

ANNEX 1 – POLITICAL ASSESSMENT

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 constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, guarantees for fundamental rights and the protection of minorities, and for a meaningful role of civil society, are largely in line with international and European standards, as assessed by the Council of Europe. Elections are conducted in a manner deemed by the OSCE and the Council of Europe to be free and in line with international standards.

In the period since the adoption of the previous Strategy, Romania has made further progress in all areas of democratic reform, facilitated by the deepening of its integration into the European Union (EU), which the country joined in 2007. At the same time, certain challenges remain in the area of the rule of law. According to the European Commission (EC), existing weaknesses relate mainly to deficiencies in the application of the law. The Cooperation and Verification Mechanism, which was established by the EC in 2007 in order to assist Romania in overcoming shortcomings in the areas of judicial reform and the fight against corruption, initially envisaged for three years, is still in place eight years later.

Free Elections and Representative Government

Free, fair and competitive elections

The existing legal framework provides a sound basis for democratic elections, as assessed by the OSCE’s Office for Democratic Institutions and Human Rights (OSCE/ODIHR). The legal framework has benefited from a series of reforms over the years, including the Election Law adopted in 2008.

However, certain aspects of the legislation could benefit from further refinement. According to OSCE/ODIHR’s view, efforts should be made to distribute mandates representing voters abroad based on the number of citizens with a view to ensuring the equality of the vote and the right to equal representation. Over 3 million citizens living abroad are currently represented by 6 MPs out of a total of 588 MPs. The latest presidential elections, which took place in November 2014, revealed significant technical problems faced by voters among the diaspora. The OSCE/ODIHR recommended amending the Election Law so as to allow for observation by representatives of political parties and independent candidates. The Government’s Emergency Ordinance definitions of vote-buying and bribery should be codified in the electoral legislation.[1]

Under the Constitution, the parliament is bicameral with an undetermined number of deputies (in the lower house) and senators (in the upper house) elected for four-year terms. Previous elections in the country were assessed as “free and fair” by observers from the ODIHR, as well as by other competent international observers. Assessing the last general elections,

[1] OSCE/ODIHR, Parliamentary elections 2012, Election Expert Team, Final report, 16 January 2013

which took place 2012, international observers stressed that they were held in a competitive environment, respecting fundamental freedoms, and were managed professionally.

Separation of powers and effective checks and balances

The constitutional and legislative framework for a parliamentary democracy – underpinned by the separation of powers and checks and balances in the political system, an independent legislature and well established procedures of legislative oversight in prescribed domains of decision-making – is in place in Romania and is in line with international and European standards. The scope of powers of the legislature to hold the government to account and to exercise parliamentary oversight is largely in line with international standards. An appropriate system to ensure the accountability of elected officials is in place.

The functioning of the parliament is in line with democratic practices. The government participates in Q&A sessions with members of parliament. They also respond in writing to enquiries from MPs. The parliamentary committees and MPs exercise their right to initiate and amend legislation.

Effective power to govern of elected officials

Romania has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern, which are not constrained by any non-democratic veto powers or other undue influences.

Civil Society, Media and Participation

Scale and independence of civil society

There is a satisfactory legal framework for civil society organisations (CSOs), although a coherent strategy for the development of the civil society sector at the national level does not exist. The National NGO Register includes over 85,000 officially registered non-profit organizations. It is estimated that only around one-third of them are active. Although Romania has one of the lowest CSO membership rates among EU countries, civic and social mobilization has significantly increased in recent years.

CSOs are grouped in several broad coalitions, such as the National Network of NGOs in the Social Field, the NGO Coalition for Structural Funds, the Clean Romania Anti-corruption Coalition, and the Environment Coalition. Notable CSO cooperation initiatives also include “Coalition 52”, a group of more than 400 CSOs, trade unions, and employer associations. The registration procedure is relatively complicated and costly. CSOs are particularly active in the field of social service provision, health and education, minority rights, environment, democracy and human rights.

The right to form trade unions and their freedoms are enshrined in the law and respected in practice.

Independence and pluralism of media operating without censorship

Romania has a pluralistic media environment, which includes a number of nationwide public and private broadcasters and which offers citizens a wide range of political views. Pluralism in the media, which operate freely and without censorship, has increased overall in recent years. At the same time, the difficult financial situation in the media market has increased the susceptibility to political interests.

The public broadcaster, TVR, comprises seven national and five regional channels. In spite of the growing role of the internet, television remains the predominant source of public information.

According to the International Telecommunication Union (ITU), the percentage of the population with internet access grew from 3.61 per cent in 2000 to 49.76 per cent in 2013. Social media is playing an increasingly important role and by the end of 2012, 24.7 per cent of Romanians were active users of the social network Facebook.[2]

Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place. The system of public consultations is largely in place, although its rules are not always enforced, especially at the regional and local level. The formal structures of consultation with civil society which exist at the national level are not used effectively: the College for Consultation with Associations and Foundations, comprising around 30 CSO representatives approved by the Government, has not convened for the past two years.

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is guaranteed by the Constitution and implemented in practice, as highlighted by the existence of a significant and diverse opposition able to campaign freely and oppose government initiatives. 12 political parties and coalitions and 18 national minority organisations participated in the last general elections in Romania.

Rule of Law and Access to Justice

Supremacy of the law

Necessary legislative and institutional safeguards for the supremacy of the law are in place. The Constitution recognises the right of any individual to have recourse to the judicial system to defend his or her rights. Citizens have the right to a free and fair trial, and are free from arbitrary arrest or detention. In the years preceding EU-accession, Romania made progress in aligning its judiciary with European standards and legislation. The work has continued since then.

[2] ITU (2012) http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx; Internet World Stats (2012) http://www.internetworldstats.com/europa.htm#ro

Independence of the judiciary

Independence of the judiciary is guaranteed by the Constitution and key safeguards are in place to ensure its impartiality. According to the EC's comprehensive assessment of the progress achieved since 2007, the judiciary has been able to affirm its independence gradually. At the end of 2014, the Government approved the Strategy for the Development of the Judiciary for the years 2015-2020, which draws heavily on the recommendations of the successive EC reports under the Cooperation and Verification Mechanism (CVM) and defines clear objectives for further reform to make justice more efficient and accountable.

Government and citizens equally subject to the law

There has been progress in access to justice for citizens. Successful investigation, prosecution and trial of an increasing number of high-level corruption cases are important achievements.

Effective policies and institutions to prevent corruption

According to the latest (2014) Transparency International Corruption Perception Index (CPI), Romania occupies the 69th place out of 175 countries, which is among the lowest positions among EU member states.[3]

When Romania joined the EU in 2007, the EC established a Cooperation and Verification Mechanism (CVM) designed to help Romania address shortcomings in the areas of justice reform and anti-corruption. In 2012 the EC produced a comprehensive assessment of the country's performance during the first five years of the CVM, concluding that Romania had achieved significant progress, including establishing the necessary legislative and institutional frameworks. Particular improvements were noted in the prosecution and trial of high-level corruption cases. The National Anti-Corruption Directorate (DNA) has proved an energetic and impartial prosecutor of these cases and has been able to deliver a constantly increasing number of indictments each year, with investigations carried out swiftly and fairly. Some landmark convictions on corruption charges of the top officials had a positive demonstration effect. This is supported by the wider track record of non-partisan investigations (and prosecutions) into high-level corruption in Romania, for which the country has been commended for setting best practices in the EC's 2014 EU-wide Anti-Corruption Report. However, the CVM reports note that the resolve with which the law has been applied to high-level corruption needs to be extended to fighting small-scale corruption. The latest CVM report indicated in particular that public procurement procedures at the local level remain exposed to corruption and conflicts of interest.[4]

According to the Council of Europe's Group of States against Corruption (GRECO), the necessary legal framework to prevent corruption is largely in place, with some room for improvement. In its Evaluation Report on transparency of party funding, adopted in 2012, GRECO noted that all its recommendations have been taken into consideration. The authorities have also addressed most of the recommendations regarding incriminations.

[3] Transparency International, Corruption Perceptions Index (CPI), December 2014
[4] Report on progress in Romania under the CVM, EC, 28.01.2015

Civil and Political Rights

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

Overall civil and political rights continue to be well respected in Romania. The last assessment of Romania's track record in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was adopted in 2013. The top three recommendations for Romania included: rights of the child (28.3 per cent of recommendations); minorities (25.79 per cent); and racial discrimination (13.21 per cent). Romania accepted 83.65 per cent of the recommendations made in course of the review process.[5]

Romania is a signatory to major international human rights instruments. The Constitution guarantees basic freedoms and rights of citizens recognized in international law. Freedom of speech, information, religion and conscience, movement, association and assembly are therefore fully guaranteed. The Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property or social status. Property rights are generally respected and protected.

Political inclusiveness for women, ethnic and other minorities

Romanian laws officially recognise twenty groups as national minorities, which are all represented in the Council of National Minorities (Council), which is a consultative body. Ethnic minorities represented in the Council enjoy guaranteed representation in the parliament and benefit from an alternative threshold for entering the parliament after elections. According to the OSCE, a preferential treatment of minorities represented in the Council contradicts OSCE commitments for fair treatment.[6]

According to the last census conducted in 2011, among minorities the largest groups are ethnic Hungarian (6.5 per cent of the population), and Roma (3.2 per cent according to the census, although it is widely assumed that the actual share of Roma is significantly higher). Roma continue to face various problems and their general living conditions and level of inclusion is below the national average. Efforts have been made in various areas in recent years in order to improve the situation.

The key legislative elements for gender equality in the political domain are in place in Romania. Women are active at the grassroots level and have a few high-profile representatives at the national level. The share of women in the national parliament has slightly increased from 11 per cent in 2010 to 13 per cent in the current parliament elected in 2012. The Romanian Parliament has a Commission for Equal Opportunities and Treatment. At governmental level, a Consultative Inter-Ministerial Commission on Equality of Treatment for Men and Women was established to ensure a permanent exchange of information on the experience and measures in the field of gender equality and the elaboration of recommendations for the authorities. The Commission monitors the application of the provisions of the National Plan of Action for equal opportunities between women and men in sector policies as well as the progress achieved.

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[5] United Nations, Universal Periodic Review (UPR), Romania, 2013 and UPR Info Statistics
[6] OSCE/ODIHR, Parliamentary elections 2012, Election Expert Team, Final report, 16 January 2013

Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice.

A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) carried out a periodic visit to Romania in June 2014 to assess progress made since the previous visit and the extent to which the Committee's recommendations had been implemented. The report has not been made available yet. The previous report was published in 2011, when the CPT examined in detail various issues related to prisons, in particular the situation of juveniles, prisoners serving life terms and prisoners classified as "dangerous". The committee urged the authorities to prevent mistreatment by adopting a "zero-tolerance" approach and to ensure minimum standards for detainees are met.[7]

[7] Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), 24 November 2011

ANNEX 2 – SELECTED ECONOMIC INDICATORS

Romania

	2008	2009	2010	2011	2012	2013	2014
Output and Expenditure			*(Percentage change in real terms, s.a.)*				
GDP	8.6	-7.1	-0.8	1.1	0.6	3.4	2.8
Private consumption	7.1	-10.2	1.0	0.8	1.1	1.2	4.5
Public consumption	6.8	3.4	-4.7	0.8	0.6	-6.3	4.7
Gross fixed capital formation	18.1	-37.8	-5.8	2.9	0.6	-9.2	-3.3
Exports of goods and services	-5.3	-4.8	16.9	12.3	1.7	14.4	8.2
Imports of goods and services	-0.2	-21.4	13.6	10.4	-1.8	4.0	7.7
Industrial gross output	-7.7	1.9	6.7	1.4	0.1	8.1	3.2
Labour market			*(Percentage change)*				
Gross average monthly earnings (annual average)	...	...	...	...	...	...	...
Real LCU wage growth	22.9	7.7	1.8	4.9	4.9	4.9	5.2
			(In per cent of labour force)				
Unemployment rate	5.7	6.9	6.9	7.2	6.8	7.0	6.6
Prices			*(Percentage change)*				
Consumer prices (annual average)	7.8	5.6	6.1	5.8	3.3	4.0	1.1
Consumer prices (end-year)	6.3	4.7	8.0	3.1	4.9	1.6	0.8
Fiscal Indicators			*(In per cent of GDP)*				
General government balance	-4.8	-7.3	-6.4	-4.3	-2.5	-2.5	-1.9
General government revenues	32.2	31.2	32.2	32.6	32.9	31.8	33.1
General government expenditure	32.5	34.6	35.0	32.8	32.3	31.7	32.5
General government debt	13.2	23.2	29.9	34.2	37.3	38.0	39.8
Monetary and Financial Sectors			*(Percentage change)*				
Broad money (M2, end-year)	17.5	9.0	6.9	6.6	2.7	8.8	8.5
Credit to the private sector (end-year)	29.6	1.8	8.8	10.3	3.0	-5.4	-3.1
Non-performing loans ratio	2.7	7.9	11.9	14.3	18.2	21.9	13.9
Interest and exchange rates			*(In per cent per annum, end-year)*				
Local currency deposit rate	12.1	9.6	7.2	6.2	5.3	4.0	2.8
Foreign currency deposit rate	5.4	3.5	3.2	3.3	3.1	2.3	1.6
Lending rate	14.3	12.0	10.3	10.0	9.3	7.0	5.5
Interbank rate (end-month)	15.5	10.7	6.2	6.1	6.1	2.4	1.7
Policy rate (Rediscount rate)	10.3	8.0	6.3	6.0	5.3	4.0	2.8
			(RON per US dollar)				
Exchange rate (end-year)	2.83	2.94	3.21	3.34	3.36	3.26	3.69
Exchange rate (annual average)	2.52	3.05	3.18	3.05	3.47	3.33	3.35
External sector			*(In per cent of GDP)*				
Current account	-11.6	-4.1	-4.4	-4.5	-4.4	-1.1	-0.4
Trade balance	-13.6	-5.8	-6.1	-5.6	-5.6	-2.4	-2.5
Merchandise exports	24.1	24.6	30.1	34.4	34.2	34.9	35.4
Merchandise imports	37.7	30.4	36.2	40.1	39.8	37.3	37.9
Foreign direct investment	5.5	0.3	-0.5	2.4	1.4	4.6	1.3
Gross reserves, excluding gold (end-year)	18.1	24.5	26.4	23.5	24.4	23.7	19.3
External debt stock	41.9	56.4	59.8	59.7	61.0	53.1	50.4
Public external debt	7.7	16.5	22.2	24.4	26.4	24.4	21.9
Private external debt	34.3	39.9	37.7	35.3	34.6	28.7	28.5
			(In months of imports of goods and services)				
Gross reserves, excluding gold (end-year)	5.2	8.9	8.6	7.0	7.2	7.6	6.1
Memorandum items			*(Denominations as indicated)*				
Population (mid-year, millions)	21.5	21.5	21.4	21.4	21.3	21.3	19.9
GDP (in billions of lei, nominal)	524.4	510.5	533.9	565.1	596.7	639.3	660.4
GDP per capita (in USD, nominal)	9,683.7	7,800.7	7,845.3	8,679.7	8,075.3	9,012.1	10,160.0
Share of industry in GDP (in per cent)	38.0	38.5	42.1	42.8	42.3	43.2	43.2
Share of agriculture in GDP (in per cent)	7.4	7.2	6.4	7.5	6.0	6.4	6.4
FDI (in billions of USD)	13.5	4.7	3.0	2.4	3.2	3.6	2.7
External debt - reserves (In US$ billion)	51.1	60.1	63.3	67.9	72.9	70.2	78.4
External debt/exports of goods and services (per cent)	189.3	252.8	230.8	204.8	202.6	171.1	151.7
Broad money (M2, end-year in per cent of GDP)	33.8	37.9	38.7	38.8	37.8	38.3	39.7

ANNEX 3 – ASSESSMENT OF TRANSITION CHALLENGES

Market Str:	Market Inst:	Key challenges:
CORPORATES		
Agribusiness		
Small	Medium	▪ Further improving productivity in primary agriculture, e.g. through better access to financing ▪ Advancing restructuring of agro-processors with a focus on improved efficiency, including overall use of resources in line with best practices and standards
Manufacturing and Services		
Small	Small	▪ Promoting better implementation of corporate governance rules and enforcement of business regulations ▪ Strengthening the enforcement of competition laws ▪ Further streamlining administrative procedures to improve the business environment, in particular by removing constraints to firms' activity (licensing, access to electricity, predictability of regulation and tax policy, long and complicated insolvency policy) ▪ Providing adequate incentives for efficient use of energy as well as for R&D investments conducive to productivity increases
Real estate		
Medium	Small	▪ Increasing the penetration of innovative construction techniques and technologies, including energy efficiency and sustainability ▪ Further streamlining real estate-related bureaucracy, such as shortening the time to obtain a construction permit, and ensuring effective enforcement ▪ Increasing the supply of modern commercial property outside major cities, including higher quality tourism infrastructure
ICT		
Small	Small	▪ Completing the privatisation of the fixed line incumbent Romtelecom ▪ Further developing the telecommunications infrastructure (broadband internet)
ENERGY		
Natural Resources		
Small	Small	▪ Taking steps to privatise selected mineral companies, encouraging private sector participation in the mineral industry and working towards the adoption of EU standards ▪ Facilitating the entry of new participants in the upstream and downstream oil sectors ▪ Liberalising gas prices for household consumers ▪ Improving corporate governance and EHS&S standards of state-owned companies in the extractive industries sector ahead of potential future privatization plans ▪ Implementing a cost-reflective transmission tariff methodology, and developing an entry-exit based capacity booking and capacity allocation system ▪ Ensuring a clear regulatory framework for the licensing and regulation of off shore and unconventional gas sources ▪ Ensuring transparency and accountability on revenues from extractive industries, via EITI/PWYP compliance

Market Str:	Market Inst:	Key challenges:
Sustainable Energy		
Medium	Small	▪ Further developing the EE market (including ESCO-based models) ▪ Strengthening CC policies, institutions and project capacity
Power		
Medium	Medium	▪ Increasing private sector participation in generation and retail energy supply ▪ Increasing cross border energy trading and regional integration ▪ Removing end user price regulation
INFRASTRUCTURE		
Water and wastewater		
Small	Small	▪ Further tariff reviews and increases allowing for full cost recovery across all utilities and operations of the regional companies with timely approvals by local municipalities ▪ Further implementation of the delegated management contracts with clear operational targets, particularly in smaller communities (which is expected to happen through effective integration of the small operators in the regionalisation of the water sector) ▪ Greater private sector participation
Urban Transport		
Small	Small	▪ Opening of the urban bus market in the capital (currently operated by the municipal monopoly operator RATB) ▪ Completion of the corporatisation process ▪ Further strengthening service contracts ▪ Improved inter-modal and sustainable transport planning and regulation in Bucharest and other secondary cities in the country ▪ Integrated e-ticketing in the capital and other secondary cities ▪ Increased involvement of private operators in the sector
Roads		
Small	Medium	▪ Enhanced private sector participation, including development of road concession/PPP projects in line with international best practices ▪ Further improvements in road user charges, possibly including environmental costs and distance based charging ▪ Development of performance based road maintenance contracts
Railways		
Small	Small	▪ Improvements to operational and financial conditions of operators ▪ Establishment of solid contractual relationships between the government and operators ▪ Greater private sector participation
FINANCIAL INSTITUTIONS		
Banking		
Small	Small	▪ Increasing deposits-to-GDP ratio and the share of local currency deposits in total deposits ▪ Decreasing the share of foreign currency loans in total loans ▪ Consolidating the banking sector
Insurance and other financial services		
Small	Small	▪ Increasing insurance penetration ▪ Pursuing reforms to bring insurance legislation and regulation

Market Str:	Market Inst:	Key challenges:
		to IAIS standards ▪ Strengthening capacity of the insurance regulator
Micro, Small and Medium-sized enterprises		
Medium	Small	▪ Facilitating MSME access to finance by increasing domestic credit to the private sector ▪ Stimulating financing for MSMEs in regions and rural areas, including financing for small agricultural enterprises ▪ Expanding the coverage of the registry to include credit information from utility companies
Private equity		
Medium	Small	▪ Developing a local institutional investor base
Capital Markets		
Medium	Small	▪ Improving the legal and regulatory environment for corporate bond issuance and investment ▪ Developing a strategy for establishing an EMIR-compliant CCP ▪ Improving pension fund investment policies with a balance between investment returns and expected risks

ECONOMIC INCLUSION[8] GAP RATINGS

ECONOMIC INCLUSION		
Inclusion gap dimension	**Inclusion gap**	**Key challenges**
Regions		
Access to Services	Large	▪ Increasing access to infrastructure and water services that substantially enhance the economic opportunities of the local population, specifically in relation to improved health, access to employment, training or entrepreneurial activities.
Education	Medium	▪ Improving access to better quality education for populations in Romania's underdeveloped regions. ▪ Working with educational providers and private sector to address the persistent skills mismatch.
Labour Market	Medium	▪ Supporting commercially viable investments which would help foster competitive advantages in less developed areas and promote local employment. ▪ Improving access to local jobs and formal employment opportunities in Romania's underserved areas by promoting training as well as entrepreneurial opportunities for local populations – particularly for young labour market entrants and women. ▪ Supporting enhanced access to finance in remote regions, particularly by small and medium agribusinesses, by improving the land registration system to ease access to collateral.
Institutions	Medium	▪ Supporting institutional change and reform at municipal and regional levels to enhance regional economic performance.
Youth		

[8] The EBRD Economic Inclusion gaps rate the institutions, markets and education systems across all of EBRD's countries of operation in terms of their capacity to extend economic opportunity to individuals regardless of their gender, age or place of birth. These gaps measure *differences* in opportunities – between 15 to 24-year-olds and older workers, and between women and men – rather than opportunity *levels*. Gaps are reported in this Country Strategy where there exists an Inclusion Gap above Small. These gaps are consistent with the EBRD 2014 Inclusion Gap update.

Opportunities for Youth	Large	▪ Supporting the establishment of Sector Skills Councils to enhance progression routes from training into formal employment through improved links between employers and education providers. ▪ Strengthening work based learning programmes (including apprenticeships and traineeships) at vocational and higher education levels, particularly focusing on rural areas.
Quality of Education	Medium	▪ Improving the quality and access to work based and life-long learning, particularly to support fragile youth groups (youth with no schooling, early school leavers and rural youth). ▪ Incentivising improvements in the quality and relevance of vocational education and training in order to minimise persistent skills-mismatches with the private sector and increase opportunities for youth.
Gender		
Labour Practices	Large	▪ Improving client HR policies with regards to increasing female employment, training opportunities and progress routes into managerial opportunities. ▪ Incentivising clients to improve equal opportunities practices, including equal pay and non-discrimination practices.
Employment and firm ownership	Medium	▪ Supporting the establishment of female leadership programmes and improving employment opportunities for women with secondary education or higher. ▪ Improving entrepreneurial and training opportunities for women, particularly in relation to financial literacy, business training and access to employment.
Access to Finance	Medium	▪ Supporting PFIs in developing financial products and services specifically tailored to women-led SMEs and female entrepreneurs, and with a focus on rural areas.
Health Services	Medium	▪ Improving maternal mortality, through improved access to and quality of public health services.

ANNEX 4 – LEGAL TRANSITION

Introduction

This annex offers critical analysis on selected legal topics relevant to the Bank's investment strategy in Romania during the forthcoming period. It is based on the assessment of commercial laws conducted by the EBRD Legal Transition Programme.[9] For ease of reference, the analysis is presented along the main strategic orientations defined in this country strategy, in particular the actions proposed under 'Policy dialogue and TC'.

1. Facilitating and broadening access to finance

Insolvency / Non-performing loans

A new Insolvency Law came into force in 2014, which combined preventative insolvency proceedings and insolvency proceedings under one piece of legislation. Previously the two types of proceedings had been dealt with in separate legislation.

The Insolvency Law enables both the liquidation and reorganisation of legal entities as a going concern on insolvency or imminent insolvency. Notwithstanding the existence of different reorganisation tools under the Insolvency Law, there is not yet a real culture in Romania of out-of-court restructuring involving a number of different creditors. Although a set of "Bucharest Rules" (based on the INSOL Principles for multi-creditor workouts) has been developed, banks and their advisors report that it is not used in practice. NPLs, especially in the corporate sector, remain a material issue for Romanian banks.[10] The current focus of the EBRD-supported Vienna Initiative[11] is on NPL resolution. Consideration is being given to including Romania with a number of other countries with high NPL levels for focused attention by the EBRD and other organisations as part of the Vienna Initiative.

Capital markets legislation

With EU directives transposed into national law, Romania's capital markets laws are relatively sophisticated. The Romanian authorities have been actively focused on further developing the country's capital markets, including by improving legislation. Several important legal acts have either recently become effective or are currently being developed, including the new Civil Code, which became effective in 2011, the 2014 Insolvency Law and the amendments to the Law Regarding Mortgage Bonds currently under consideration.

The legal framework for security issuances has been improved. In particular, the requirement to have a prospectus approved twice (prior to the roadshow and prior to the start of the subscription period) no longer applies. The "waiting period" between the approval of a prospectus for a public offering of debt and the commencement of subscription has been eliminated, so subscription may start the next business day after publication of an offering announcement. However, the results of these reforms have been mixed. Although Romanian capital markets are among the more developed in the EBRD's countries of operations, non-

[9] See www.ebrd.com/law
[10] Total loans overdue for 90 or more days comprised some 22% of total loans at 2013 year-end.
[11] http://vienna-initiative.com/

banking finance still constitutes a small share of the total volume of financing. Specific regulations are in place for a wide variety of financial instruments, but the issuance of and trading in them is often limited.

For example, while legislation on convertible bonds is in place, there have been relatively few issuances in the market. No covered bonds have been issued in Romania, largely due to shortcomings of the applicable Mortgage Bonds Law. The EBRD is currently assisting with a review of the law, with a particular focus on the issuance authorisation procedure through the BNR, the process of mortgage assignment, the possibility of substituting assets within the pool and other problem areas identified by market participants.

2. Building commercialised infrastructure

Concessions/Public-private partnerships

The two key pieces of legislation governing PPPs and concessions in Romania are the (i) PPP Act No. 178/2010 (the "PPP Act") and (ii) Government Emergency Ordinance No. 34/2006 governing concessions of works and services (the "Concessions Act"). In addition, according to national legal tradition, the two acts are complemented with enabling regulations. A few sector specific laws, notably in the utilities sector, are also applicable.

The Concessions Act sets out the general framework applicable, in particular to the awarding of public contracts for the concession of public works and contracts for the concession of public services. It refers specifically to the possibility of arbitration as a dispute resolution mechanism.

The PPP Act governs non-concession PPPs, including the selection procedure for private partners, defines the Contracting Authorities, lists sectors where PPPs are possible, including social infrastructure, and determines subcontracting rules.

While the Concessions Act appears to implement the EU *acquis*, the PPP Act has not been perceived as such and has undergone a number of amendments over the past years as a result of infringement procedures initiated by the EC. Despite quite a few amendments, the PPP Act still offers few indications as far as financial and security issues are concerned. For example, it does not provide for step-in rights in favour of lenders or for Government financial support for PPP projects. The fairly complex system is also somewhat unclear regarding the applicability of particular acts and sector laws. It appears that the PPP Act has not been widely used so far. Increasing awareness and capacity of civil servants might help increase the bankability of the regime.

Romania is expected to upgrade its PPP and Concessions legal framework in the near future. As part of that process, the recently adopted 2014/23 EU Concessions Directive will have to be transposed into national legislation. A revised PPP Law drafted with the help of international experts was submitted to the parliament in 2013, but referred to the Constitutional Court before being subsequently amended. It is currently awaiting approval.

Energy efficiency

The framework for energy efficiency in Romania has been predominantly driven by EU accession. In the context of EU level objectives for reducing primary energy consumption by 20% by 2020, Romania has set a target of 19% reduction between 2007 and 2020. The second National Energy Efficiency Action Plan (NEEAP) incorporates a separate chapter on primary energy saving measures in the energy sector aimed at meeting the planned 2020 target. Despite energy intensity reductions (by 4 percent a year between 1990 and 2010) and an increase in the average efficiency of the power sector (from 23 percent to 39 for the same period), as of 2012 these rates remained below the EU average.

Romanian energy efficiency policy has significant potential for improvement. Little progress has been reported in terms of developing energy efficiency policies and regulations, with the greatest gaps identified in the field of appliances and the transport sector; implementation of a state aid support scheme for high efficiency cogeneration; and financial support for the rehabilitation of centralised district heating systems and residential buildings.

The recently adopted Law on Energy Efficiency transposes the provisions of the 2012 EU Energy Efficiency Directive and refers to efficiency improvement measures for all sectors of the national economy, including introduction of high energy-efficiency technologies, promotion of energy efficient equipment and appliances to end consumers and development of the energy services market. An Energy Efficiency Department within the Energy Regulatory Agency (ANRE) has been established, and will be in charge of drafting policy proposals and delegated legislation on energy efficiency; monitoring the implementation of the NEEAP and related programmes; and overseeing the equipment and appliances market subject to specific energy efficiency regulations.

3. Enhancing the competitiveness of the private sector

Corporate Governance Code

A corporate governance code was adopted by the Bucharest Stock Exchange (BSE) in 2008. In line with EU legislation, companies are required to explain any non-compliance with the recommendations of the code (the so-called “comply or explain” approach).

The EBRD is currently working with the BSE to review and implement the code. The Bank has also assisted with the development of corporate governance action plans for two major state owned companies which were privatised in 2014. The corporate governance action plans have been included in the companies’ prospectuses.

Broadband internet

As an EU member state, Romania must comply with all of the regulatory framework obligations accompanying the EU’s fully liberalised electronic communications market. Unfortunately, its track record for aligning domestic legislation with the EU *acquis* is patchy, and has often been applied by government emergency ordinances instead of regular laws. Nonetheless, the Romanian market has good competition in both fixed and mobile networks, and a relatively large number of players with significant market share. Fixed broadband coverage is about 90% and, while the incumbent operator’s (Romtelecom) share of digital subscriber lines is almost 100%, its retail market share stands at about 30%, below the EU average of 42%. In the fixed market, an alternative operator is the leading operator with a market share of more than 40%. Most providers rely on their own infrastructure. Broadband networks are currently unregulated, with The National Authority for Management and Regulation in Communications (ANCOM) previously finding the relevant markets effectively competitive. However, intervention may be necessary to ensure access to the various emerging next-generation access networks, which may soon be put in place following ANCOM's recent review of the market for wholesale network infrastructure access at a fixed location and the market for wholesale broadband access. Rights of way and facility sharing had been a bottleneck until the recent passage of long overdue legal provisions on communication infrastructure.

In common with most EU peers, among Romania's challenges into the future is keeping pace with the evolving EU framework and ensuring its effective implementation as part of the Digital Agenda for Europe. Of particular importance in this respect are the regulatory enablers surrounding Romania's initiatives on broadband and the creation of an environment that is sufficiently conducive to both attract new investment and accelerate planned investment. The recently published Romanian Digital Agenda Strategy should provide significant impetus in this respect, as will EU support of approximately €84 million. However, the initiative needs to be accompanied by vigorous enforcement of timely access to ducting on viable terms, effective implementation of provisions on rights-of-way and ensuring continued effective regulation of operators with significant market share.

Agricultural financing

Law 101/2014 and Government Decision 169/2015 regulate the storage of seeds, warehouse receipts and the related indemnity fund. Warehouses must be licensed, and are subject to inspection by a commission appointed by the Ministry of Agriculture and Rural Development. The warehouse operator can be held criminally liable if the goods are transferred to someone other than the holder of the warehouse receipts and can be fined if the goods are not stored properly. The Ordinance also mandates that all warehouses be insured against risks such as explosion, fire or floods. However the current system is closed to SME agro-producers and only a few warehouses have obtained licenses. The Ministry of Agriculture recently announced plans to adopt new legislation in order to "allow all farmers to access finance based on warehouse receipts". A feasibility study examining the necessary conditions would be a welcome component of any future work on the system.

ANNEX 5 – EBRD AND THE DONOR COMMUNITY

The Bank will provide technical assistance in Romania in support of selected investment projects and policy dialogue. Technical assistance will most likely be required in support of access to finance for SMEs, municipal infrastructure and sustainable energy, as well as to accelerate the development of Romania's capital markets under the EBRD's Local Currency and Capital Markets Development Initiative. The Bank also intends to continue providing advisory services to local MSMEs under its Small Business Support programmes. To support these goals, the Bank will aim to use donor funds, including from the EU and bilateral donors, as well as its own resources. The EBRD will also engage with Romanian authorities on possible contributions from the Romanian national budget to complement the funds made available by international donors, in particular for strengthening the MSME sector.

The Bank will investigate the opportunities arising from EU Structural and Investment Funds, specifically in the area of financial instruments. In this context, the EBRD also intends to continue cooperating with other IFIs to improve the absorption of EU funds, including by participating alongside the WB and EIB under the MoU signed with the Government to provide advisory assistance on key policy reforms and project preparation.

TC COMMITMENTS BY DONOR THROUGH EBRD, 2011-2014*

Donor	TC Commitments (€)
Austria	3,170,344
Central European Initiative	24,564
Denmark	65,450
EBRD Shareholder Special Fund	2,802,061
EU/EBRD Romania Micro Credit Facility	353,385
EU	5,238,127
Global Environment Facility	992,817
Japan	97,032
Korea	45,000
Luxembourg	105,633
Portugal	199,595
Spain	505,100
Taipei China	210,000
Total	**13,809,108**

TC COMMITMENTS BY SECTOR THROUGH EBRD, 2011-2014*

Sector/Team	TC Commitments (€)
Small Business Initiative **	4,240,810
Sustainable Energy Initiative***	6,142,846
Financial Institutions	247,726
Infrastructure	2,850,285
Legal Transition Programme	327,441
Grand Total	**13,809,108**

* Commitment values reflect the status as of end-November 2014. Do not include advisory assignments funded from EU Structural Funds.

** This sector category encompasses direct assistance to SMEs and indirect assistance through policy dialogue between the EBRD, the authorities and commercial/business associations (e.g. Investment Councils)

*** This sector includes Energy Efficiency and Climate Change (E2C2) TC projects