**PROGRAM INFORMATION DOCUMENT (PID)**

**APPRAISAL STAGE**

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| **Operation Name** | First Fiscal Effectiveness and Growth Development Policy Loan |
| **Region** | EUROPE AND CENTRAL ASIA |
| **Country** | Romania |
| **Sector** | Fiscal Effectiveness (70%); Growth (15%); Public Expenditure (15%) |
| **Operation ID** | P148957 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | MINISTRY OF PUBLIC FINANCE |
|  | Ministry of FinanceRomania |
| **Implementing Agency** |  |
| **Date PID Prepared** | April 8, 2014 |
| **Estimated Date of Appraisal** | April 8, 2014 |
| **Estimated Date of Board Approval** | May 27, 2014 |
| **Corporate Review Decision** | Following the corporate review, the decision was taken to proceed with the Appraisal and Negotiations. |
| **Other Decision** | N/A |

1. **Key development issues and rationale for Bank involvement**

The Key Development objective of the proposed DPL series is to support Romania’s goal of (i) strengthening fiscal management and SOE performance; and (ii) improving the functioning of property, energy, and capital markets.

1. **Proposed Objective(s)**

The proposed DPL series will more specifically aim at:

* **Strengthening debt management** by improving the debt management strategy, the annual borrowing plan, and the electronic platforms for primary and secondary issuances of government securities.
* **Improving the quality of public spending** particularly by supporting improvements in areas, such as; the results-orientation of the budget, the management of investment projects, and the consolidation of means-tested social programs.
* **Improving State-owned Enterprise governance and performance**, by focusing on improving the government’s SOE ownership and policies and by continuing to support the listing of State-owned enterprises in the stock market.
* **Strengthening institutions and safeguards for private property rights**, by improving the institutional and regulatory ability of the National Agency of Cadastre and Land Registration (ANCPI) to roll out its electronic cadaster and a land registration system (called eTerra) across the country (currently covering only about 15 percent of total properties).
* Completing the **liberalization of** **energy (electricity and gas) markets,** to bring Romania into closer compliance with the European Union Third Energy Package.
* **Improving the functioning of capital markets,** by starting the process to improve the governance of the unified non-bank regulatory authority and improving capital market regulations.
1. **Preliminary Description**

**The proposed Fiscal Effectiveness and Growth Development Policy Loan (FEG-DPL) of €750 million (about US$1,035 million equivalent) is the first of two DPLs to Romania**. The FEG-DPL series supports measures to strengthen fiscal management (public debt management and the quality of public spending) and SOE governance and performance, as well as measures to improve the functioning of property, energy, and capital markets that are key to private sector investment. After the 2008 global financial crisis, sound macroeconomic policies helped Romania restore stability and modest growth, but its medium term growth prospects are compromised by constraints on productivity growth that are associated with the ineffectiveness of public interventions and the poor functioning of markets supporting private sector activities. The series, which build upon previous policy lending to Romania, is at the core of the Country Partnership Strategy (CPS) for 2014–18, particularly the pillars on growth and modernization of the public sector.

1. **The government is working to increase the effectiveness of fiscal policy as part of the next stage of fiscal reforms**. Although fiscal adjustment in recent years has been substantial, structural fiscal reforms have advanced slowly, to the detriment of private economic activity, entrepreneurship, and investment. The government is therefore moving to accelerate second-generation fiscal management reforms to improve the efficiency, delivery, and targeting of public programs. Better management of debt and other aspects of public finances would promote continued fiscal adjustment, and more effective social spending would better target the poor.
2. **Though Romania’s private sector has developed substantially in recent years, key markets supporting it are not yet functioning efficiently**. Because the rights to less than 15 percent of total estimated number of properties are registered in the Romanian cadastral electronic records, the functioning of both urban and rural property markets and collateral-based credit markets is severely limited. Also, the stock market capitalization at €17.8 billion (12.5 percent of GDP) and the daily average turnover at €6.9 million, are all far below other European Union (EU) countries. This poses constraints to both corporate finance and credit recovery. In fact, stock market capitalization has *declined* in recent years despite growth of the economy, the activities of private pension funds, and recent issuance of shares by state-owned energy companies. Further, incomplete liberalization of electricity and gas markets constrains energy efficiency, investments, and exports. In response, in 2011 the government re-launched reforms to ensure compliance with the EU third energy package for electricity and gas, and it expects to fully liberalize nonresidential electricity and gas markets by the end of 2015.
3. **Poverty and Social Impacts (PSI) and Environmental Aspects**

**The overall poverty and social impacts of the DPL are expected to be neutral or positive.** Measures supported aim to help strengthen Romania’s growth potential and improve the effectiveness of public spending and, therefore, create the basis for sustained, future poverty reduction and shared prosperity. The DPL measures support better quality of public spending and targeting of social spending (Pillar A) which has been important for shared prosperity. It also aims to improve the functioning of property, energy and capital markets, which should improve the ability of individuals and businesses to mobilize human and physical capital and to mitigate risks (Pillar B). The SOE restructuring reforms will result in loss of some employment, but the overall social impact will be limited because only 19 percent of SOE workers were found to belong to the bottom forty percent of the population and also because of compensating severance payments. As severance payments are generous (fully covering the lost income of the bottom forty percent), the long-term impact depends on whether those who belong to the bottom forty percent will find employment once severance payments are exhausted after 12-14 months. If none of them find a job and cannot receive social benefits, the poverty rate (at US$5 PPP) can be expected to increase by between 0.2 and 0.3 percentage points. This scenario is unlikely however, given the envisaged expansion of safety nets supported by the operation.

**The policies supported by the FEG-DPL series are not likely to have much impact on Romania’s environment, forests, water resources, habitats, or other natural resources.** Credible scenarios for significant direct or indirect negative impacts appear very unlikely. Romania has adequate environmental controls, and its legislation and regulations are closely aligned with EU directives. Romania has adopted the EU guidelines for integrating environmental assessments into project planning and programming and the EU Environmental Liabilities Directive setting out liability for damage to properties and natural resources.

**The overall gender impact of the DPL is expected to be positive.** The majority of reforms will not affect men and women in a differentiated way, but the planned revision of the benefit formula for the MSIP aimed at incentivizing work should be particularly beneficial to poor working women. As for the gender impact of the SOE reforms a detailed examination of the sectors where SOE dominates (transportation and energy sectors) suggest female employment is relatively low: 51 percent of the country’s employees are male compared to 79 percent of SOE employees in the transportation and energy (according to the 2011 Household Budget Survey). As for property registration reforms, the Bank and the European Union will encourage a gender-responsive expansion of property registration to further enhance the gender equality impact of the reforms supported by this DPL.

1. **Tentative financing**

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| --- | --- |
| Source: | ($m.) |
| Borrower | 0 |
| International Bank for Reconstruction and Development | 1,034,800,000 |
| Borrower/Recipient |  |
| IBRDOthers (specify) |  |
|  Total |  |

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