

STANDARD SUMMARY PROJECT FICHE

Project number: RO9805.02

Title: Internal Market Related Institutions (National Bank of Romania and Savings Bank)

Sub-programme: Further integration of Romania into the Internal Market

Objectives:

1. To improve the institutional and administrative capacity of NBR and enable it to carry out its tasks of ensuring stability of the national currency and performing the supervisory function over the banking sector. The ultimate aim is to get the NBR implement the *acquis communautaire* and align its functions and activities to best international practice.
2. To restructure Casa de Economii si Consemnatiuni (CEC), in the framework of its transformation into a modern universal bank according to the European Union and international banking standards and practices.

Description:

1. In line with the priorities set forth in the NPAA and building on the recommendations of the Operational Audit under way, the assistance required for the National Bank of Romania is composed of sub-projects addressing the following areas:
 - implementation of the Operational Audit recommendations particularly in areas like: organisational structure and operational management, internal control, human resources. The project will also assist NBR in addressing the issue of capital movements liberalisation in view of accession to EU and assessing the implications of EURO introduction as of 1 January 1999 on both NBR and banks operations and drawing up an action plan to adjust to this change at lowest possible cost.
 - establishing an integrated Management Information System and full computerisation of the accounting function thus contributing to further enhancing of the operational management capacity of NBR. This component is co-financed by NBR.
 - improvement of the supervisory function of NBR addressing: the alignment of the prudential regulations to EC Directives and best international practice, the development of the accounting rules, regulations and practice for the banking sector, the creation of an Early Warning System and the training of supervision staff.
2. CEC is a state-owned financial institution which had two main functions: collection of savings from households and funding the cash-flow requirements from the state. After liberalisation of the banking market, CEC's market share eroded significantly. Simultaneously, the Government started a more transparent systems of treasury instruments accessible to the whole banking sector. In 1997, the Government decided to transform CEC into a bank operating at market conditions, under the full supervision of NBR. This project aimed at assisting CEC in the transformation process.

In December 1997, CEC decided to re-orient its strategic objectives and organisation. The main objectives of the plan are: profit and performance orientation, client and market orientation, increase the quality of business, profitability/ automation /computerising the processes, maintain and strengthen financial soundness of the bank. To achieve these objectives, the management of the CEC has set for 1998 three immediate priorities for which financial support of Phare is requested:

- a *financial audit* of CEC is required by the new banking law which entered into force in April 1998, and which provides for the compulsory auditing of banks by an independent auditing

firm. The audit is a pre-requisite for aligning CEC accounts to the European Union and world banking and accounting standards. It will also play an important role for the development of banking operations of CEC, including improving its ratings and creditworthiness and offering an accurate image of its financial soundness and performance. The financial audit will comprise the analysis of the balance sheet and financial statements as at 31.12.1998, and its presentation in a format complying to International Accounting Standards (IAS 29 and IAS 30), based on which the auditor will assess and will express an opinion on the financial condition and performance of CEC.

- an *operational audit* of the present accounting system and the internal organisation, including the internal control system and the internal auditing function will be implemented. The auditor shall also give his opinion on the adequacy and reliability of the present accounting system and on the adequacy of the CEC's internal organisation, controls and operating procedures. Based on the diagnosis analysis of the financial and organisational situation of CEC, the Operational Audit shall review CEC's existing reorientation strategy and shall design a comprehensive restructuring/institutional development plan describing and prioritising the tasks that need to be carried out in the short and medium term so that the bank may better fulfil its longer term objectives.
- a *restructuring plan* will be implemented according to the recommendations of the auditors. It will encompass among other: the definition of corporate and operational strategies, the design and implementation of a new organisational chart and job descriptions, the improvement of controlling ratios and instruments, of a revised Management Information System, the transformation of branches as customer-oriented profit/cost centres, the improvement of the range of products,

Institutional framework:

In 1997 and 1998, the Romania initiated several measures for the strengthening of the banking sector, and the approximation of the banking legislative and institutional framework to the acquis communautaire:

- improvement of the legal framework: law on the statutes of the National Bank, banking activity law (April 1998), bank privatisation law (1997), the bank bankruptcy law (April 1998) to strengthen the authority of the National Bank and simplify the banking legal winding up procedures;
- liberalisation of the forex market;
- increase of the minimal capital requirement for the setting-up of a bank to 50 billion lei;
- setting up of the banking settlement and clearing house
- setting up of the Deposits Guarantee Fund;
- restructuring of the Agricultural Bank and Romanian Bank for Foreign Trade;
- launching of bank privatisation for three state owned banks: the Romanian Bank for Development, the Agricultural Bank and Banc Post;

The National Bank of Romania's fundamental objective is to ensure stability of the national currency in order to contribute to price stability. In doing so the NBR is responsible for monetary, foreign exchange, credit, payment policies and bank licensing and prudential supervision.

Under Law 66/1996, CEC is organised as a state-owned bank, under the Ministry of Finance as sole shareholder. According to the revised banking law, the CEC will comply to all provisions of the banking law as well as to regulations of the NBR CEC is subject to NBR prudential supervision. It will also evolve as a bank specialised in household and small business finance.

Budget:

ECU	Investment	IB	Total Phare	Recipient	Total
1. National Bank					
1.1. Institutional development	0	600,000	600,000	0	600,000
1.2. MIS and computerisation of accounting	1,150,000	0	1,150,000	3,150,000	4,300,000
1.3. Supervision	0	250,000	250,000	0	250,000
2. CEC	0	0	0	0	0
2.1. Financial Audit	500,000	0	500,000	0	500,000
2.2. Operational Audit	500,000	0	500,000	0	500,000
2.3. Restructuring Plan	1,000,000	0	1,000,000	0	1,000,000
Total	3,150,000	850,000	4,000,000	3,150,000	7,150,000

Implementation arrangements:

The CFCU will be the Implementing Agency and will, thus, manage and contract the funds received in respect of the programme in accordance with the Phare “Manual for Decentralised Implementation System” (DIS) and Phare “Manual for Contracting and Procurement Rules” (CPR). The Implementing Authority will be respectively the National Bank of Romania (sub-project 1), and the CEC, under the supervision of the Ministry of Finance (sub-project 2).

The implementation of the NBR project will combine twinning arrangements and specialised technical assistance with a view to providing optimal results. The Institutional and administrative capacity development will be implemented under the direct supervision of the Governor together with the Vice-Governor of the NBR responsible for organisation matters, to ensure efficient implementation and maximum impact. Strengthening of the supervision capacity will be implemented under the authority of the General Director for Licensing, Regulation and Supervision, while MIS and computerisation of accounting will be implemented under the direct authority of the General Director for Informatics, Statistics and Accounting.

Implementation schedule:

Start of contracting	Start of project activity	Completion
October 1998	January 1999	December 2000

Equal opportunity

Equal participation in the project of women and men will be ensured. Women's participation will be measured through, for instance, recording gender breakdown of trainees and consultants employed.

Conditionality and sequencing:

Recommendations of the Operational Audit of the National Bank delivered by August 1998: Commitment by NBR to implement the recommendations, and to co-finance the procurement under sub-project 1.2.

Full commitment of the Ministry of Finance and of CEC to restructuring. Adoption of revised statutes of the CEC according to its new constituent law, allowing for the operation of the CEC according to market rules.