1. Basic Information

1.1 CRIS Number: PHARE 2003/005-551.02.02
1.2 Title: Strengthening banking supervision and further institutional development of the National Bank of Romania (NBR)
1.3 Twinning component: RO03/IB/FI-01
   - title: “Legislative harmonisation and enhancement of NBR's administrative capacity”.
   - duration: 24 months.
   - budget: EURO 1,465,000
   - Sector: Banking
1.4 Location: Romania

2. Objectives

2.1 Overall objectives:

Enhancing stability and confidence in the banking sector by bringing NBR’s core functions and activities in line with the best international practice

2.2 Project purpose:

Increasing NBR’s institutional and administrative capacity in those areas relevant for the implementation of the *acquis communautaire*:

**Supervision area:**

Strengthening the banking supervision.

**Statistics area:**

Implementing the EU standards in financial accounts statistics.

**Legal area:**

Improving NBR's personnel expertise.

**Regulatory area:**

Further legislative harmonisation in the banking field.

**Internal Audit area:**

Harmonisation of NBR Internal Audit activity with the European central banks practices in view of future integration of the NBR into ESCB.

**Accounting area:**

Creating an integrated accounting system in compliance with the national accounting system and the International Accounting Standards.

**Market Operations area:**

Increasing NBR's efficiency in relation to data processing and risk monitoring.

2.3 Accession Partnership (AP) and National Program for the Accession of Romania to the EU (NPAR) priorities:

The project purposes are justified by the priorities set forth in the AP and the NPAR. The priorities mentioned in the AP include strengthening the macroeconomic stability, through the implementation of structural reforms in all areas of the economy, including the financial sector. One of the accession criteria included in the AP is the ability to assume the obligations of membership. Under this criterion, reinforcing the supervision of financial services is specifically mentioned as a priority. NPAR emphasises the necessity of bringing Romanian banking regulations in line with the EU *acquis* in the fields of free movement of services (Position Paper and Supplementary Information...
Paper were submitted to the European Commission) and free movement of capital (Position Paper and Complementary Position Papers were submitted to the European Commissions). According to the NPAR, NBR’s priorities are the following: transposition of EU directives into national regulations; adaptation of the existing rules to extend NBR’s jurisdiction over the credit cooperatives organizations; continuation of the banking sector reform by improving its efficiency and results; reducing capital costs and widening lending channels to the real sector; strengthening central bank’s institutional capacity in order to meet the European System of Central Banks required standards.

In this respect, the NBR has in view to implement the above-mentioned programme in order to develop an active and sound banking system, to facilitate the harmonisation of the banking regulations with the *acquis communautaire* in the field and to increase efficiency of banking activities.

2.4 Contribution to National Development Plan:

Not applicable

2.5 Cross Border Impact:

Not applicable

3. Description

3.1 Background and justification:

The projects proposed in the Supervision, Regulatory, Internal Audit and Accounting areas are continuations of previous projects financed through Phare assistance, namely Phare 1998 project “Institutional Development Programme and Strengthening Banking Supervision” and Phare 2001 project “Institutional Building – NBR”. The projects proposed in the Statistics, Legal and Market Operations areas are new and represent a step forward in Romania’s preparation for accession.

As regards *supervision*, the NBR’s activity is steadily improving. New instruments and mechanisms are being introduced. For example, the Supervision Department personnel are working on the Supervisor’s Guide. Progress was made as regards:

(i) Improving the template of the examination report. Specifically, the former report on compliance with the existing regulations is being replaced by a risk-based analysis of banks’ activities.

(ii) A decisional matrix has been elaborated in order to stipulate penalties and to specify the circumstances under which they need to be applied.

(iii) The National Bank of Romania, the National Commission of Securities and the Insurance Supervision Commission concluded an Agreement on the exchange of information in the supervision area. Also, the National Bank of Romania, as a supervision authority, concluded an Agreement of Understanding with other supervision authorities from Germany, Greece, Italy, Cyprus, Turkey and Moldova, while other similar agreements with France, Austria, Holland and Portugal are in process of negotiation. In addition, the legal framework of the Agreement of Understanding concluded with the majority of the member states national banks allows for the exchange of personnel between the two supervisory authorities. (“The NBR and the banking supervisors agree on organising periodical meetings, upon necessity, in order to discuss the problems that might appear and to establish the possible ways of improving the banking supervision of credit institutions on the basis of the existing regulations. The NBR and the banking supervisors also intend to promote the mutual cooperation by organising exchanges of personnel over defined periods of practice”).

As a member of the Banking Supervisors of Central and Eastern Europe Group, the NBR established a permanent exchange of information with other authorities, members of this group. The Phare 2003 project proposal is part of the institutional building efforts undertaken by the National Bank of Romania on its road towards integration in the European Union and alignment to the EU central banks’ best practices.

Strengthening the banking *supervision* aims at upgrading supervision of credit institutions – based on risk analysis – and creating an environment that fosters competitiveness and soundness of the credit institutions.
For this purpose, the NBR has created a separate forecasting unit within the Supervision Department. However, the related IT system proved to be inefficient, causing errors.

EU accession also requires adoption of the corresponding EU *acquis* in the Statistics area. Elaboration of macro-economic statistics in accordance with Eurostat requirements entails setting-up the financial accounts, an integrated part of the national accounts. The NBR elaborates financial accounts for all institutional sectors on the basis of the cooperation with the National Institute of Statistics and with the Ministry of Public Finance. The implementation of the new national and regional accounts ESA 95 entails the achievement of several new goals by the NBR, such as: reclassification and detailing of institutional sectors and of financial operations comparing to ESA 79; application of the new regulations as concerns the sequence of accounts (on the following structure: stock, flow, other modifications, consolidated and unconsolidated data); building up quarterly financial accounts and submitting them to the European Central Bank and Eurostat according to the provisions of the new Regulation of the EU Council on quarterly financial accounts (starting 2004). During 2003, the European Parliament will adopt the Regulation on the quarterly accounts of the public sector, which states as compulsory the compilation and the transmission to Eurostat and European Central Bank of quarterly financial accounts according to ESA 95 methodology.

The first goal of the Statistics project is to eliminate information redundancy. For the time being, financial accounts statistics are the responsibility of the Studies and Publications Department. As a second goal, NBR has in view to transfer the responsibilities for the statistical issues, including the financial accounts statistics, to the Statistics Department. Both departments will work in close cooperation for elaborating the financial account statistics. The project proposal arose from the need to implement the new methodology issued by Eurostat (European System of Accounts – ESA 95, which is more comprehensive and more analytic than the previous ESA 79). According to Eurostat methodology, NBR has to provide forecasts and quarterly reports (instead of annual reports), including both stock and flow indicators.

Taking into account the program of legislative harmonisation “The legislative program for supporting the EU accession process”, adopted by the Government of Romania, which is a part of “The Priority Action Plan for EU Accession” (November 2002 – December 2003), considering the importance of the EU banking *acquis* adoption, and envisaging the application of the “close-out netting” principle of legal harmonisation of pre-accession countries, the Legal Department is proposing to train its staff on specific areas at the headquarters of the EU Member States central banks and at the headquarters of the acceding countries central banks.

The purpose of the proposed study visits at the above-mentioned central banks is to learn about the effective enforcement of the EU provisions in the banking field, the best way to settle disputes and the impact the enforcement of these provisions may have on the judicial system.

With reference to the Regulatory area, one of NBR’s main objectives has been and still is further transposition of the *acquis communautaire* into its own regulations; this objective is incorporated in Romania’s medium-term economic strategy.

As regards Chapter 3, Free movement of services, in order to achieve compliance with the provisions of the Directive 2000/12/EC relating to taking up and pursuit of the business of credit institutions, the following measures will be taken in 2003:

- issue NBR norms on minimum share capital and own funds of an electronic money institution;
- amending the NBR norms on banks’ own funds currently in place, further after the change of the legislation, and the introduction of provisions on the own funds of credit institutions, other than banks and credit co-operative organisations;
- issue NBR norms concerning consolidated supervision of own funds, of solvency and of large exposures of credit institutions;
- amending NBR norms on banks’ solvency, for the introduction of provisions regarding recognition of bilateral netting agreements, following the amendment of the Banking Act and of the legislation on banks’ bankruptcy;
- issuing NBR norms on consolidated supervision, following adequate amending of legislation;
- issuing NBR prudential norms for savings houses in the dwelling field.

As regards the legislative harmonisation, the Complementary Position Paper III on Chapter 4 – Free movement of capital stipulates that:

- the full transposition of Directive 97/5/EC on cross-border credit transfers will be achieved by the end of 2003. A special law granting NBR competence in settling disputes related to cross-border credit transfers will be issued; the law will be applied starting 2004;
- the full transposition of Directive 98/26/EC on settlement finality in payment and securities settlement systems will be achieved in the first half of 2003.

Up to the end of 2004, the NBR plans to fully transpose the *acquis communautaire* in the national regulations corresponding to negotiation Chapters 3 and 4 according to the strategy being included in the Position Papers drawn up for the above-mentioned chapters.

NBR's objectives for the period beyond 2004 concern the implementation of the New Basle Capital Agreement provisions in the national regulations in the field and of any new directives issued by the European Commission beginning 2003.

The project for the **Internal Audit** department envisages the adoption of the corresponding EU rules in the area, and the elaboration of the Internal Audit manual, as well as the personnel training in auditing procedures and techniques. The need for training in this field was highlighted also by the IMF Treasury Department in its recommendations presented in the “Romania Safeguards Assessment” report, Chapter IV, The Internal Audit Mechanism, point 26 “Proposed remedies” and Annex II “Summary of all Safeguards Assessment Recommendations”: “The NBR should submit a two-year training schedule for its internal audit department staff which would include courses on risk-based auditing techniques” (see Annex 5). The project proposal is included in the strategy of the Internal Audit function, started in the Twinning Covenant between the NBR and Banque de France. Strengthening risk management and internal control is one of the NBR's priorities generated by the preparation for EU accession.

With respect to the **Accounting** area, the objective consists in finalising an integrated IT system that: (i) manages and processes the synthetic and analytic accounting information within the NBR, and (ii) manages the database used by NBR’s headquarters and branches. Computerization of the Accounting function is a fundamental component of the NBR IT strategy for the next years and aims to improve the institutional and administrative capacity of the NBR – a major prerequisite for achieving the basic tasks of the NBR: price stability, supervision of the banking system, providing reliable data to the NBR’s management and conducting internal and external audit. The main objective of the integrated computerization of the NBR accounting function is to create a modern IT instrument, able to consolidate the operational and managerial capacity of the NBR by providing access to:

- an information source that needs to be integrated, flexible, conceived on the basis of a deep understanding of the existing needs for information, and organized as a system of data models, structures and dimensions;
- essential management information, available in time for prognosis, planning, control, analysis, and the formulation of monetary and exchange rate policies;
- high quality management information provided by a system set up and developed through cooperation between the central management, users and developers.

As regards the **Market Operations** area, the NBR considers the implementation of the Straight Through Processing (STP) concept, which consists of a complex IT system and an organization remodelling, meant to minimize operational risk and other categories of risk, to increase the effectiveness of international reserves management, to enhance cross-control capacities and to insure the optimisation of the whole activity in this area (maximization of revenues, efficiency of human resources management).

Thorough documentation and several consultations with World Bank and Bank for International Settlements experts, led to the conclusion that the optimum solution is to acquire an integrated system for data processing. The use of such a system for data processing is recognized worldwide as a requisite for effective practice. Additionally, all EU members and accession countries’ central banks either have or are acquiring such a system. The project has a high degree of complexity. It is a unitary system and strictly follows a sequence of operations. At the same time, this project is part of the institutional reform process, started by the NBR in 1999. These features are supported by the following:

a) Generally, a continuous data processing system (STP) responds to the necessities of computerization for the treasury activity of a bank. This activity is a complex one (it includes many categories of operations, closely related to each other), but it cannot be split into separate sections.

In the NBR, four departments cover the treasury activity: Market Operations Department, where transactions take place and risk measurement and management are achieved (front and middle office); Banking Operations Department (back office), where the settlement of the Market Operations Department operations is accomplished; Secretariat Department, where the communication of payment instructions is achieved by the SWIFT system, and Accounting Department, where the turnover of the treasury operations is completed by the registration.
b) The emergence of an integrated system for treasury operations processing stems from the necessity to avoid the risks related to manually inputting data (there are at least 4 data entry points: middle office, back office, SWIFT and Accounting Department), as well as to improve activity effectiveness (saving time and human resources).
This motivation is supported, in case of Romania, by another important aspect: over the last 3 years, the official international reserves, which are managed by the NBR (as the most important part of the treasury activity), expanded almost 5 times (from EUR 1.4 billion to about EUR 7 billion), and the financial instruments used in managing these reserves became more and more diversified. Running this type of operations and the management of the risks associated with sophisticated instruments are very difficult in the absence of an integrated system.

c. The continuous data processing system (STP), proposed for financing under Phare 2003 program, is part of the institutional reform of the NBR that began in 1999 and was designed to optimise the central bank’s activity.

In the first stage of this process, the four departments involved in the STP were reorganized and resized, and their tasks were redefined in order to better respond to operational tasks that a central bank must fulfill. In the subsequent stages, each department adjusted its activity and adopted regulations similar to EU and European Central Bank regulations and implicitly with the EU provisions.

The purchase of the STP system is a necessary stage in completing the institutional reform, designed to improve the performance and the four departments’ activity. It is worth mentioning that the implementation of a modern continuous data processing system facilitates the achievement of the monetary policy goals established by the NBR in preparation for the accession to the European Union. At the same time, the STP system will become the basis of cooperation, at an operational level, with the European Central Bank, before the accession and beyond.

3.2 Linked activities:

**Supervision and Regulation area:** The Supervision Department and the Regulation and Licensing Department received support through Phare 1998. The twinning covenant between the NBR and the Banque de France focused on the introduction of financial instruments and derivatives, consolidation and prudential supervision. Additional assistance was granted through Phare 2001 programme both in the area of supervision and regulation. Presently, the NBR is the beneficiary of an one-year US Treasury project granting assistance in the area of banking supervision, focusing on money laundering and tracking funds for financing terrorism and corruption.
Under this programme, the Supervision Department will purchase an IT application for the computerization of its activities as concerns the Uniform Banking Rating and Early Warning System. On the Regulation side, the assistance focuses on legislative harmonisation for Chapter 3 - Free movement of services and Chapter 4 - Free movement of capital (Directive 97/5/EC). The specific tasks under Phare 2001 project are to provide assistance to the NBR (Licensing and Regulation Department) in implementing the EU directives in the above-mentioned fields. The implementation of this project through a contract concluded with Banque de France is currently in progress.
Recently, a need for assistance has risen in the area of regulation for the implementation of Directive 93/6/EC on capital adequacy. Due to the fact that this assistance has to take place in the period end 2003 - beginning 2004, Phare 2001 and Phare 2003 exercises could not cover the required missions for this assistance. Therefore, Banque de France will support the National Bank of Romania on a bilateral basis for the implementation of this Directive.

There is no overlap between Phare 2003 and Phare 2001 projects in these areas because Phare 2003 is only addressing some areas not covered by the previous programmes (i.e. further development of the Uniform Banking Rating and Early Warning System, training for inspectors and several elements of IT infrastructure and further harmonisation of legislation).

**Statistics area:** the NBR benefited from bilateral technical assistance for the balance of payments from other central banks. The NBR staff took part in the Eurostat activities. In addition, in May 2003 the NBR is expecting to receive one month technical assistance from the IMF in the area of Balance of Payments and Money and Banking Statistics.
One of the components of the previous twinning covenant between the NBR and Banque de France was focused on the implementation of the new balance of payments system, in line with the IMF, Eurostat and ECB criteria, as well as on the design of a new reporting system for direct investment.

As a follow-up, Phare 2001 program provides assistance for the NBR in the area of statistics, for the full implementation of the Balance of Payments System in the banking sector, during 2003-2004. The implementation of this project through a contract concluded with De Nederlandsche Bank is currently underway.

There is no overlap between Phare 2003 and Phare 2001 in this field. Phare 2001 project focused on BOP, which is only one component of the whole statistics reflecting the external position of Romania; while Phare 2003 aims at setting up the financial accounts as part of the national accounts.

**Legal area:** this domain did not benefit from Phare support so far.

**Internal Audit area:** The previous assistance under Phare 1998 programme (twinning covenant with the Banque de France) aimed at developing the activity of Internal Audit in the National Bank of Romania, in order to expand the scope of the department activity in line with the ECB methodology. A request for bilateral assistance in the area of Internal Audit was addressed to Deutsche Bundesbank early 2003.

**Accounting area:** The Accounting Department was granted Phare assistance under Phare 1998 and Phare 2001 programmes for achieving a performing and fully integrated accounting system. As a consequence, the current architecture of the integrated accounting system within the NBR’s IT strategy is organised as follows:

b. Modules to be developed: Payments and Revenues accounting; Payroll accounting; Stocks management operations (to be purchased under Phare 2001 programme)
c. Modules to be developed within other NBR departments: running on LAN and/or WAN networks: Cash management; integrated system for automatic processing of market operations.

Phare 2003 for the Accounting area will focus on the modules not yet developed (item c, above), as well as on an improvement of internal/external reporting, the information exchange between the Headquarter and the territorial units of NBR, and training on the use of databases.

**Market operations area:** this area did not benefit from Phare assistance until now.

Although the Market Operations department requested assistance under Phare 2001 programming exercise, the funds allocated were insufficient for a proper implementation of the project. In fact, the limited budget would have constrained the department to choose a modular approach of the project. After consultations with various experts from different financial institutions, this approach proved to have some inconveniences, such as: the impossibility to interface the acquired modules, potential outdating of these modules, substantial upgrading costs. Consequently, the optimal solution appeared to be the acquisition and implementation of an integrated system for data processing (Straight Through Processing). This is why the department agreed on the transfer of funds to other NBR sub-projects under Phare 2001 programme.

Starting end 2002, a one-year technical assistance agreement was concluded with the World Bank in the area of international reserves management. Excerpts from the Aide Memoire of the World Bank Treasury including recommendations for the setting up of the Straight Through Processing system were submitted to the EC Delegation at the request of the EC representatives on April 11, 2003.

The Twinning arrangement will cover the following areas: Supervision, Statistics, Legal, Regulatory, and Internal Audit.

Technical assistance will support the Accounting area.

Investment will cover the following areas: Supervision, Accounting and Market Operations.
3.3 Results:

i. Twinning component

Supervision area:
Uniform Banking Rating and Early Warning System aligned with similar systems in the European central banks; staff properly trained to reach EU professional standards.

Statistics area:
Financial accounts built and set-up; European standards in the financial accounts statistics implemented; financial accounts integrated in the national accounts statistics; financial accounts data reported to Eurostat and the ECB according to their requirements; staff trained on ESA 95 topics.

Legal area:
Staff properly trained in order to fulfil EU operational requirements in fields such as money laundering, classification of secret information, banking authorisation and supervision, banking bankruptcy.

Regulatory area:
EU acquis transposed into the Romanian banking legislation.

Internal Audit:
Audit manual elaborated; staff properly trained in order to reach EU professional standards.

ii. Technical Assistance

Accounting area:
A performing and fully integrated accounting system that (i) covers the main NBR’s operational and decisional processes, (ii) assists decision-making, and (iii) supplies information in real time.

iii. Investment

Market operation area:
Front and middle office activities computerised.

Accounting area:
Servers, installing tools, PC’s, UPS, etc. (for details see Annex 4 “Needs assessment and cost estimates for the investment component of the NBR projects”)

Supervision area:
Laptops purchased (for details see Annex 4 “Needs assessment and cost estimates for the investment component of the NBR projects”)

3.4 Activities:

i. Twinning component

Supervision area:

(i) Uniform Banking and Early Warning System developed in accordance with central bank’s new requirements in the area;
(ii) staff training in on-site and off-site supervision with the aim to introduce new methods and procedures for assessing the prudential and financial situation of banks, in line with international standards;

Statistics area:
Financial accounts statistics:
(i) compilation, processing and analysis of financial accounts by stocks and flows, on a quarterly and annual basis, indicating the foreign exchange position and the variation in volume; identification of primary data sources; classification of financial assets and liabilities; classification of institutional sectors; institutional arrangements for compiling financial accounts; application of Eurostat recommendations on: the consistency between non-financial and financial accounts, the consistency between flows and balances, the use of Balance of Payments data for compiling financial accounts, evaluation of financial instruments, data consolidation, conversion of unquoted shares into quoted shares on the basis of ESA 95, application of the “accrual” principle in the interest rates calculation.
(ii) staff training.
(iii) development of the related IT software.

Legal area:
training for the NBR’s staff involved in the legal area (5-6 study visits for the Legal Department personnel) with focus on specific fields:
- legal framework and techniques for preventing and fighting money laundering;
- legal framework and techniques for fighting the financing of terrorism;
- legal framework and methods to implement the legal provisions in the classification of secret information;
- legal framework and practice in the domains of banking authorisation and supervision, banking bankruptcy and secrecy.

Regulatory area:
Twinning support for NBR’s Regulation and Licensing Department for issuing legislation in the banking field.

Internal Audit:
i. elaboration of the Audit manual including, inter alia: audit types, instruments and techniques, audit planning, monitoring of the recommendations, Code of Ethics etc;
ii. organising and developing the risk identification and assessment activities in the central bank; the assessment method of personnel structure within an entity; the audit of the internal control system; the audit of the security system; evaluation of the activity of the Internal Audit department; the implementation of IT applications meant to facilitate the audit activity.

All the activities to be carried out through the TWINNING procedure will be implemented by both Romanian and MS experts.

Profile of the PAA, as a leading expert

The PAA will be posted on site during the first 15 months of the 24 months twinning project.

The following skills are required:
- Advanced knowledge and understanding of banking sector issues in the CEE countries;
- Knowledge of the EU directives and standards/“acquis communautaire” in the banking and financial area and its implementation in the EU Member States, knowledge of accounting principles and practice in respect of balance sheet analysis as well as regulation matters (including legal advice);
- Experience in managing and co-ordinating the different modules;
- Good communication skills;
- Ability in know-how transfer;
- Good command of both spoken and written English.

Short-term expertise is required in the following areas:
- Supervision
- Statistics
- Legal
• Regulation
• Internal Audit

The total budget of the twinning is EUR 1,465,000.

ii. Technical Assistance

Accounting area:
  i. creating an integrated accounting system that contains all accounting modules (including the direct connection between the accounting modules and the GL and the best circulation of information and documents flows between NBR's headquarters and its branches);
  ii. training the system users.

iii. Investment

  Market operations area:
  Creating an integrated Straight Through Processing system for facilitating data processing and risk monitoring.

  Accounting area:
  See Annex 4 for details.

  Supervision area:
  laptops purchased (for details, see Annex 4)

3.5 Lessons learned:

As the Interim Evaluation Report (EMS consortium) stipulates, the twinning covenant contributed to the overall objective of strengthening the institutional capacity of the NBR to perform its functions and roles as a central bank and supervisory authority, in line with the acquis requirements and best international practices. The twinning covenant has proven to be a useful tool for achieving the integration priorities of the National Bank of Romania, creating a sound basis for further assistance. The expertise provided by Member States short-term experts has been considered as very valuable for the core activities of the NBR. However, a greater flexibility of this instrument would have been necessary. Also, the Terms of Reference items should have been designed in more detail in order to avoid the difficulties encountered by more complex projects (such as “MIS and computerization of accounting” project).

4. Institutional Framework

According to the Law 101/1998 (the Statute of the NBR) the National Bank of Romania is the central bank of the country. Its main objective is to ensure the stability of the national currency, for the overall purpose of price stability. The NBR elaborates, implements and is responsible for the monetary, foreign exchange, credit and payments policies, as well as for bank licensing and prudential supervision. As for the investment component of the project, the equipment and relevant software purchased will be transferred into the ownership of the National Bank of Romania.
5. Detailed Budget

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Needs assessment and cost estimates for the investment component- see Annex 4

NOTE:
Twinning component covers the following areas = Supervision, Statistics, Legal, Regulation, Internal Audit
Technical Assistance covers = Accounting area
Investment covers = Market operations project, Accounting, Supervision

6. Implementation Arrangements

6.1 Implementing Agency

- For all the projects, the implementing agency will be the Central Finance and Contracts Unit (CFCU), responsible for tendering, contracting, managing, accounting, payments and financial reporting.
- Contact person, PAO: Mrs. Jeana Buzduga, general director, CFCU, 36-38 Mendeleev Street, 4th floor, room no. 157, sector 1, Bucharest, phone no. 401/313.66.28, 313.66.30, fax no. 401/315.36.36.

Implementing Authority
National Bank of Romania, responsible for the technical project implementation. Contact person: Mr. Cezar Botel, Director, European Integration and International Relations Department, cezar.botel@bnro.ro; phone no. 4021.314.50.69; Gabriela Mihailovici, Head of Division, European Integration Division, gabriela.mihailovici@bnro.ro; Aida Racolta, economist/PIU, European Integration Division aida.racolta@bnro.ro, phone no. 4021.307.00.40, address: Str. Lipscani 25, sector 3, Bucuresti;

6.2 Twinning:
The Project Leader (PL) will be appointed by the NBR at a later stage, through a Governor’s Order. The contact details of the PL will be provided in due time.

The Romanian partner will provide:

- Adequate human resources to implement the twinning project together with the twinning partner;
- All the necessary facilities for the smooth implementation of the twinning (office, computer, printer, telephone, access to internet etc.);
- Funds to cover any travel costs of the Romanian authorities in the context of training, seminars or study visits, if any.
The twinning components will strictly follow the twinning manual as specified in the paragraph 3.4. Activities.

6.3 Non-standard aspects:

Technical assistance contracts will strictly follow the provisions under PRAG (see paragraph 3.4. Activities).

6.4 Contracts:

Twinning covenant (one contract) 1,465,000 Euro
Technical assistance contracts (one contract) 400,000 Euro
Supply contracts (three contracts) EURO 2,135,000 Euro

7. Implementation Schedule

7.1 Start of tendering/call for proposals:

TOR’s: June 2004
Project Specifications: December 2003

7.2 Start of project activity:

Twinning: September 2004
Technical assistance: January 2005
Supply contracts: July 2004

7.3 Project Completion:

Twinning: August 2006
Technical assistance: December 2006
Supply contracts: December 2005

8. Equal Opportunity

The share of men and women in total number of personnel involved in the design and implementation of the project will be balanced, with no discrimination of tasks and salaries between men and women.

9. Environment

Not applicable.

10. Rates of return

Not applicable for NBR project proposals.

11. Investment criteria

11.1 Catalytic effect:

Catalytic effect: The projects proposed by NBR represent priorities in the pre-accession process of Romania to the EU. The expertise provided by the EU central banks represents a valuable asset for achieving the harmonisation of the banking regulations with the European acquis and for reaching a higher efficiency in the banking industry. All investment made within this programme will accelerate NBR’s advancement towards fully meeting EU central banks standards.

11.2 Co-financing:

This project is co-financed (joint co-financing) by the NBR from its own resources.

11.3 Additionally:
Phare funds do not displace but add to the NBR investment efforts increasing its institutional and administrative capacity for implementing the acquis.

11.4 Project Readiness and Size:

All necessary technical studies (Terms of Reference, Technical Specifications) will be completed during 2003 – early 2004.

11.5 Sustainability:

The investment will be sustainable in the long run due to its compliance with the EU acquis. The NBR commits itself to bear the future maintenance and operating costs, after the termination of the contract.

11.6 Compliance with state aid provisions

Not applicable

11.7 Contribution to National Development Plan

Not applicable

12. Conditionality and sequencing

Adoption of the acquis in banking legislation according to Phare 2001 programme. Acquisitions under Phare 2001 programme completed.

Delivery of expected result under the classical technical assistance Phare 2001 project “Computerisation of NBR accounting function” before the start of activities (connection between the three modules purchased and the General Ledger).

The NBR development strategy requested by the Commission is expected to be completed within NBR by mid June. Following approval by the NBR Board, the NBR development strategy is expected to be submitted to the European Commission by 30 June 2003, at the latest.

Annexes to the Project Fiche:

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule
4. Needs assessment and cost estimates for the investment components of the NBR projects (requested by the representatives of the European Commission throughout April 4, 2003 meeting at the NBR)
### LOGFRAME PLANNING MATRIX FOR Project NBR

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhancing stability and confidence in the banking sector by bringing NBR’s core functions and activities in line with the best international practice</td>
<td>NBR’s role as central bank performed properly</td>
<td>Mature and strong banking sector</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supervision area</strong>: Strengthening the banking supervision.</td>
<td><strong>Supervision area</strong>: NBR norms and regulation</td>
<td>NBR quarterly bulletins</td>
<td>Central bank and commercial banks need to have resources and willingness to implement NBR norms and regulations</td>
</tr>
<tr>
<td><strong>Statistics area</strong>: Implementing the EU standards in financial account statistics.</td>
<td><strong>Statistics area</strong>: degree of compliance with ESA 95</td>
<td>NBR Annual report</td>
<td></td>
</tr>
<tr>
<td><strong>Legal area</strong>: Improving NBR’s Legal Department personnel expertise – in specific fields (stated in the fiche).</td>
<td><strong>Legal area</strong>: highly qualified NBR staff.</td>
<td>Commission regular report</td>
<td></td>
</tr>
<tr>
<td><strong>Regulatory area</strong>: Further legislative harmonisation in the banking field.</td>
<td><strong>Regulatory area</strong>: transposed norms and regulations</td>
<td>Published NBR accounts</td>
<td></td>
</tr>
<tr>
<td><strong>Internal audit</strong>: Harmonisation of the NBR Internal Audit activity with the European central banks practices in view of future integration of the NBR into ESCB</td>
<td><strong>Internal audit</strong>: Audit manual in accordance with other EU central banks Audit manuals</td>
<td>Statistical data</td>
<td></td>
</tr>
<tr>
<td><strong>Accounting area</strong>: Creating an integrated accounting system in compliance with the national accounting system and the International Accounting Standards.</td>
<td><strong>Accounting area</strong>: compliance of the national accounting system with the European Accounting system</td>
<td>High quality norms and regulations</td>
<td></td>
</tr>
<tr>
<td><strong>Market operations</strong>: Increasing NBR’s efficiency in relation to data processing and risk management</td>
<td></td>
<td>Audit manual</td>
<td></td>
</tr>
</tbody>
</table>

### Program name and number:
Strengthening banking supervision and further institutional development of the National Bank of Romania (NBR)

- **Contracting period expires:** 30 November 2005
- **Disbursement period expires:** 30 November 2006
- **Euro Total budget:** 4.712.200
- **Phare budget:** 4.000.000
<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| • **Supervision area**: An effective methodology established for estimating bank ratings and up/downgrading, predicting the collapse or the survival of the banks facing critical situations, as well as estimating potential bank loses and predicting systemic crisis; an effective framework for identification, monitoring and control of the risks (designed and agreed).<br>• **Statistics area**: A reporting system able to select, collect and process data and provide the required information to both the management of NBR and the internal and external beneficiaries (developed); building and setting-up of financial accounts<br>• **Legal area**: upgrading of the professional performances of NBR staff<br>• **Regulatory area**: Transposition of the EU acquis into the Romanian banking legislation (Chapter 3 and 4 Position Papers).<br>• **Internal Audit**: Audit manual elaborated; staff trained.<br>• **Accounting area**: A performing and fully integrated accounting system that (i) covers the main NBR’s operational and decisional processes, (ii) assists decision-making, and (iii) supplies information in real time.<br>• **Market operations**: Front and middle office activities computerized | • **Supervision area**: EU practice adopted and implemented<br>• **Statistics area**: EU statistical standards in place/a simplified reporting process of the commercial banks; Eurostat recommendations ESA 95 in place<br>• **Legal area**: increased efficiency of NBR staff<br>• **Regulatory area**: relevant EU acquis adopted.<br>• **Internal Audit**: EU practice adopted; strengthen internal control mechanism.<br>• Relevant departments equipped and well-functioning (Supervision, Accounting and Market Operations)<br>• **Market operations**: avoidance of | • PAA and short-term experts reports<br>• International organizations, ECB and Eurostat reports<br>• NBR statistical reports<br>• monitoring by Delegation<br>• monitoring and evaluation reports | • **Supervision area**: commercial banks cooperation; cooperation with the IT Department;<br>• **All areas**: provision of resources by the NBR<br>• **IT area**: NBR departments cooperation in adapting to the new system or frequent amendments of NBR reporting norms.
human errors in the data input process; daily calculation of the market value of the portfolio; calculation of the “value at risk” and “duration”.

<table>
<thead>
<tr>
<th>Activities on projects/sub-projects</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supervision area</strong>: Uniform Banking and Early Warning System developed in accordance with central banks new requirements in the area; training the staff in supervision; lap-tops investment for inspectors.</td>
<td></td>
<td>NBR co-financing the investment component for supervision, central bank statistics, IT, accounting components;</td>
</tr>
<tr>
<td><strong>Statistics area</strong>: compilation, processing and analysis of financial accounts by stocks and flows, on a quarterly and annual basis showing the foreign exchange position and the variation in volume; staff training in the area of financial accounts statistics; soft developed.</td>
<td></td>
<td>Recruiting, training and proper use of adequate staff</td>
</tr>
<tr>
<td><strong>Legal area</strong>: training the NBR staff in the Legal area</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Regulatory area</strong>: Twinning support for NBR’s Regulation and Licensing Department for issuing legislation in the banking field</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Internal Audit</strong>: elaboration of the Audit manual, including: audit types, instruments and techniques, audit planning, monitoring of the recommendations; organizing and developing the risk identification and assessment activities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Accounting area</strong>: Creating an integrated accounting system that contains all accounting modules (including the direct connection between the accounting modules and the GL and the best circulation of information and documents flows between NBR’s headquarters and its branches); training the system users.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Market operations</strong>: creating an integrated Straight Through Processing system for facilitating data processing and risk monitoring</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Annex 2: Detailed implementation chart for project “Strengthening banking supervision and further institutional development of the National Bank of Romania (NBR)”

<table>
<thead>
<tr>
<th>ACTIVITIES</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Str. bk. sup.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial accounts statistics</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training for legal advisers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislative harmonisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D  =  Design</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C  =  Contracting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I  =  Implementation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **D**: Design
- **C**: Contracting
- **I**: Implementation
Annex 3: Cumulative contracting and disbursement schedule for project “Strengthening banking supervision and further institutional development of the National Bank of Romania (NBR)”

ANNEX 3: CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE (Mli. EURO 4,000)

<table>
<thead>
<tr>
<th></th>
<th>31/03/04</th>
<th>30/06/04</th>
<th>30/09/04</th>
<th>31/12/04</th>
<th>31/03/05</th>
<th>30/06/05</th>
<th>30/09/05</th>
<th>31/12/05</th>
<th>31/03/06</th>
<th>30/06/06</th>
<th>30/09/06</th>
<th>31/12/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONTRACTED</td>
<td>-</td>
<td>1,800</td>
<td>3,265</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>DISBURSEMENT</td>
<td>-</td>
<td>-</td>
<td>1,800</td>
<td>2,315</td>
<td>2,545</td>
<td>2,775</td>
<td>3,005</td>
<td>3,235</td>
<td>3,465</td>
<td>3,695</td>
<td>3,950</td>
<td>4,000</td>
</tr>
</tbody>
</table>

NB:  
1. All contracting should normally be completed within 6-12 months and **must** be completed within 24 months of signature of the FM.  
2. All disbursements **must** be completed within 36 months of signature of the FM.
Annex 4

Needs assessment and cost estimates for the
investment components of the NBR projects

The following areas incorporated in the Phare 2003 fiche have an investment component, either in software or hardware:

1. Supervision

The request for the investment in **40 laptops** lays on the following grounds:
- improvement of the supervising activity and accordingly increasing the need for the acquisition of modern infrastructure;
- extending the area covered by the on-site inspectors' responsibilities by the inclusion of the analysis of a significantly increased amount of operations processed by banks;
- the necessity to ensure the software compatibility for a cutting-off in the time of data processing;
- ensuring data confidentiality during inspections;
- extension of the supervisory area to credit cooperatives, mostly located in countryside regions poorly endowed with IT infrastructure, whilst data must be processed and the inspection reports elaborated off-hand;
- the need for using specific supervising software on the laptops, especially in the field of derivatives and market risk;
- the involvement of the inspectors of NBR branches in inspections throughout the country.

The precise number of 40 laptops derives from the subsequent figures: the Romanian banking system consist of 39 banks (headquarters) with 1,240 branches and 565 credit cooperatives. The inspections are organized on a yearly basis over periods of 4 weeks per inspection, which means 6 inspections in progress simultaneously, a number of 7 to 8 inspectors participating in an inspection while the total number of on-site inspectors is 65 at the NBR headquarter and 296 in the NBR branches.

The price of a laptop is estimated at 2,000 euro.
2. Accounting

PRODUCTS TO BE PURCHASED UNDER PHARE 2003
ACCOUNTING INVESTMENT COMPONENT

<table>
<thead>
<tr>
<th>Description</th>
<th>Pieces</th>
<th>EUR*/ piece</th>
<th>Total price (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.8 Server with 2 processors for production</td>
<td>2</td>
<td>20 000</td>
<td>40 000</td>
</tr>
<tr>
<td>11.9 Server with 2 processors for developing and testing</td>
<td>2</td>
<td>20 000</td>
<td>40 000</td>
</tr>
<tr>
<td>Installing tools per server</td>
<td>2</td>
<td>5 000</td>
<td>10 000</td>
</tr>
<tr>
<td>PC</td>
<td>40</td>
<td>1 200</td>
<td>48 000</td>
</tr>
<tr>
<td>UPS</td>
<td>10</td>
<td>700</td>
<td>7 000</td>
</tr>
<tr>
<td>Database licence per processor</td>
<td>2</td>
<td>40 000</td>
<td>80 000</td>
</tr>
<tr>
<td>Technical support for database licence</td>
<td>1</td>
<td>17 600</td>
<td>17 600</td>
</tr>
<tr>
<td>Application server licence per processor</td>
<td>4</td>
<td>20 000</td>
<td>80 000</td>
</tr>
<tr>
<td>Technical support for server licence</td>
<td>1</td>
<td>17 600</td>
<td>17 600</td>
</tr>
<tr>
<td><strong>TOTAL less VAT:</strong></td>
<td></td>
<td></td>
<td><strong>340 200</strong></td>
</tr>
</tbody>
</table>

* the prices do not include VAT (value added tax) of 19%.

Phare financing sources 255 000 EUR
NBR's co-financing (min. 25%) 85 200 EUR

**TOTAL (less VAT) 340 200 EUR**

As for the link between the Market Operations and the Accounting Component, the necessary hardware and software are covered by other Phare financing programmes. The above budget refers only to the needs of NBR Accounting Department for this project, excluding the aforementioned link.

3. Market operations

The introduction of a Straight Through Processing System (hereafter called STPS) by the National Bank of Romania aims at building an unique and integrated platform to serve the implementation of monetary policy decisions. The system will cover fully or partially four (4) of the main activities of the central bank: the conduct of monetary policy operations (including specific market risk analysis); the conduct of international reserves management operations (including specific market risk analysis); back-office and settlement activities resulted from the aforementioned operations; the accounting records generated by the same operations.

The need for an STPS arose mainly from the increased efforts generated by the growing international reserves, the foreseen modernization and deepening of the domestic inter-bank market (including more sophisticated and numerous monetary policy instruments) as well as the introduction of International Accounting Standards (IAS). Nonetheless, the optimisation impact over the staffing and organization scheme of the central bank is also considered, together with the reinforcement of the crossed managerial control over the four central bank activities previously mentioned.

The STPS impact over the accounting activities will consist in the acquisition of a so-called “Investment Sub-ledger” software module, which, according to IAS principles will be able to provide, in real time, an accurate image of the international reserves size, based on the “mark-to-market” valuation principle. Details about specific requirements for this module are to be found in chapter 7 “Accounting” of the draft technical specifications, sent on April 11, 2003, for your information. In this Chapter 7 are also included the design and implementation of the interface with the General Ledger.
The reason for which the NBR requires a financial support of MEUR 1.8 for this project is that a software product of such complexity ranges on the market to around MEUR 3.0, according to the information provided us by the World Bank experts, during our co-operation under the current Technical Assistance Agreement. It should be mentioned, also, that the Board of the National Bank of Romania is committed to the completion and full implementation of this project and is seeking solutions to allocate MEUR 1.0 in this respect. It is worth mentioning that there is a number of potential suppliers of STPS in Europe, according to the information we received from the Bank for International Settlements (AFA Musketeer, Andersen Altamira, Fernbach BADAS, FNX Sierra, Frsutum Opics, Infinity, Inssinc Futrak NT, Login Acumen, OMR Trading Assistant, OpenLink Enterprise, Summit, SunGard Panaorama/Devon, Trema Finance Kit).

We also underline that the financial support is required for software acquisition and customization only, the hardware costs being considered as the sole responsibility of the central bank and it is not included in the MEUR 1.0 co-financing indicated above.

We assure you that our cost estimation was done in good faith and, obviously, the price to be paid will be determined by the competitive bidding organized in accordance with Phare procedures.