I commend the authors of the CAS for Romania in support of the new Government's bold reform program, aiming at attaining macro-economic stability and reversing the sharp deterioration of the economy since the revolution of 1989. The two accompanying sectoral adjustment loans for the Agricultural Sector (ASAL) and for Social Protection (SPAL) constitute an integral part of the CAS and the country's economic and social reform program. The two sectoral loans would also contribute to the success of these reforms by availing Bank's financial resources that will help government implement the reform program in the two sectors and economy-wide.

I shall deal with the three items in succession:

I. The CAS for Romania

1. It is a matter of grave concern that since the revolution of 1989, the percentage of the Romanian poor in total population has increased by five-folds. Inflation, which is projected to average more than 100 percent in 1997, is high and hits primarily the poor who can ill afford further increases in prices. The pathetic conditions of the poor in Romania sounds even more alarming as one reads Box 1 on page 5 of the CAS document. I, therefore, urge that the interventions targeted to the poor in both the CAS and the SPAL be further strengthened and closely monitored to ensure the effective delivery of assistance to the poor.

2. I am concerned at the strength of the potential opposition to the reforms. The former ruling party remains in opposition and is the largest single group on the political theater. Furthermore, I note in paragraph 5 of the CAS document that the three coalition parties have discrepancies in outlook and priorities, and over the specifics of the reform policies. I would appreciate additional information from staff on the policies that command a consensus among the three coalition parties, the depth of existing differences among them, and the impact of these differences on the implementation of the reform program.

3. Having said that, I welcome the attention given in the CAS to building a national consensus in support of the reforms, including the public awareness campaign and training
and informing the media about the key reform areas. An important contributing factor is the near consensus that already exists behind an early accession to the European Community (EC), and the need to accelerate reforms with a view to rapidly reaching the standards that are required for EC access.

4. I endorse the priority given in the CAS to supporting Government’s determination to develop the private sector and privatize public enterprises. I particularly welcome the concerted and well coordinated inputs from IBRD, IFC, MIGA and EDI on private sector development issues, as detailed in pages 13 and 14 of the CAS document. However, despite Romania’s large potential for attracting foreign direct investment to take advantage of its rich natural resources and its educated and relatively cheap labor force, only modest foreign investment has been forthcoming. I would appreciate information from staff on the measures that are envisaged by the Bank Group to assist Romania in attracting foreign investors.

II. The Agricultural Sector Adjustment Loan (ASAL)

While supporting the general thrust of this operation, I have a few concerns:

1. The small size of individual farms brought about by the privatization of farmland and restitution to the original owners and their heirs, compounded by the fragmentation of individual holdings into several small plots of land, has resulted in inefficient farming and low productivity. Furthermore, a large percentage of the privatized land is inefficiently farmed on behalf of the private owners by state-owned companies or “integrators”.

What are the measures that are to be taken to deal with these shortcomings, in order to improve agricultural productivity through a more efficient management of privatized and restituted land.

2. The full liberalization of food prices is expected to lead to sharp rises in these prices, above the rate of inflation which is projected to average more than 100 percent in 1997. Considering that about 5 million of the Romanian people live in poverty, would the measures intended to mitigate the rise in food prices be adequate to ensure basic nutrition values for the poor. I am also concerned that the rural poor, particularly women, have very little access to the mitigating measures, including the soup kitchens and the social canteens which serve primarily the poor in urban centers.

3. My third concern is whether Romania has the qualified personnel and institutions to implement, within a relatively short period, the wide-ranging agricultural reforms envisaged under the ASAL, including the privatization of large state farms and inputs distribution and crop marketing companies. I therefore question whether the conditions for second tranche release could be met on target, within one year only.

III. The Social Protection Adjustment Loan (SPAL)

This is a necessary operation as it is intended to mitigate the severe social cost of the bold and painful reforms elaborated in the CAS document. I have a few comments:

1. I welcome the package of the social protection measures that are detailed under the SPAL. However, many of these measures do not access the nearly immobile, very poor and
old-aged Romanians, the majority of whom are women in rural areas. Effective delivery of benefits is therefore required to ensure that this segment of the poor receives its fair share of assistance.

2. The calculation of the targeted cash benefits in substitution of the bread subsidy, should not be governed by the size of the subsidy on bread only, but by the expected increase in the price of food required to sustain basic nutritional values for the poor. Furthermore, as these cash benefits are targeted to the poor, in substitution of an existing subsidy, I do not find a rationale for limiting these benefits to six months only.

3. According to my calculations based on the figures appearing in Table 1, page 10, the incremental resources allocated to the Social Protection Program would hardly compensate for a small fraction of the social cost associated with the expected sharp increase in consumer prices, particularly food prices, and the large redundancies in the public sector. Are there any additional measures that are envisaged to effectively mitigate the social cost of the reform program?