

Project Name Romania-Agriculture Sector Adjustment Loan (ASAL) (@)

Region Europe and Central Asia Region

Sector Agriculture

Project ID ROPA8795

Borrower Government of Romania

Implementing Agency Government, represented by the Ministry of
Agriculture and Food; contact State
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The Agriculture Sector

The agriculture sector contributes about 20% (24% including agroindustry) to Romania's GDP and provides about 30% of employment. Agricultural exports are 12% of total. About 88% of the arable land is privately held.

Problems

The overriding constraint is an institutional infrastructure carried over from the system of central planning which is incompatible with a market economy. Agricultural input supply, marketing and processing are dominated by inefficient, state-owned entities, which are accorded preferential treatment by the government and discourage private new entrants into the market. Government policies are hindering the transition to a market economy. Agricultural exports are not entirely free, and subsidies on inputs and outputs are distorting production patterns on the farms and burdening the state budget. Preferential credit lines and interest rate subsidies for agriculture jeopardize monetary policy targets and aggravate the problem of farmers' uneven access to credit. While the land reform has resulted in a large number of small, fragmented farms, land markets that would facilitate land consolidation are at a very early stage of development. Private farmer service organizations, such as cooperatives do not yet exist.

Prospects

Romania has a rich agricultural resource base. With appropriate government policies and an efficient, private marketing system, agricultural productivity could be expected to follow a long-term up-trend, enabling the country to provide ample domestic food supplies, become competitive in export markets and generate rising incomes for farmers. Primary production and industries serving

agriculture are likely to absorb a significant share of the labour force in the foreseeable future.

Operation Objectives

The objectives of the proposed operation would be to promote policy adjustments in support of the transition to a market economy and a more sustainable and efficient use of resources; to privatize a major share of the productive resources in agriculture; and to free up markets and enable the private sector to invest, produce and trade in line with Romania's comparative advantage.

Operation Content

The components of the proposed operation are :

1. Efficient use of resources through increased competition created by divestiture and privatization of state-owned agricultural enterprises. The main focus will be on privatizing the grain and seed trade, agricultural mechanization services and the main cereal, oilseeds, and livestock product processing facilities. Privatization of state farms will be pursued on a pilot basis.

Market liberalization and institutional development, to free up markets and so encourage private investment and trade to flourish. The incentive structure will be adjusted through the removal of subsidies and price controls and liberalization of external trade. The system providing rural credit will be improved. The leasing of land and formation of genuine farm service cooperatives will be promoted through revisions in the legislative framework.

Technical Assistance

To be determined

Financial Plan

The ASAL will provide balance of payments support in 1997-1998. The World Bank contribution is likely to be set at US\$200 million.

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Note: This is information on an evolving project. Certain components may not necessarily be included in the final project.

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