Board Meeting of Tuesday, June 3, 1997  
Statement by Mr. Godfrey Gaoseb

Romania: Country Assistance Strategy

We find the staff assessment of the Romanian economy in general and its performance in the previous Bank Group Country Assistance Strategy (CAS) in particular, quite candid. Prior to the recent change in administration, the government which has been in power since 1992 adopted a hesitant approach to economic reform. However, the new leadership which contested elections on the reform platform has set the stage for improved performance in the privatization of state-owned enterprises, liberalizing the economy and accelerating the country's integration into the European Union.

We also find the proposed Bank Country Assistance Strategy for Romania broadly in line with the government's policy objectives and we, therefore, have no difficulty in supporting it. Having made these general remarks, I would like to add a few brief comments on the CAS and Romania's development program.

First, we recognize the daunting task facing the Romanian authorities over the next several years, and agree that the most immediate action in addressing their problems is that of stabilizing the macro-economy while simultaneously advancing structural reforms to curtail the role of the state and allow the private sector to develop. Given the very favorable endowment of natural resources and a well-educated labor force, the government should be better placed to prepare an enabling environment for growth if it allows more private sector participation in proactive activities. It is in this regard that we commend the government's objective to strengthen and rationalize the role of the state in its development agenda.

Second, both economic and social conditions in Romania deteriorated significantly during the first years of transition, with poverty increasing quite sharply across most segments of society. The high incidence of poverty, particularly amongst the elderly and women in rural areas, as highlighted in Box I, makes reform all the more difficult. It is, however, a little comforting to note that the authorities have openly acknowledged poverty as a problem for the country and are developing a national poverty alleviation strategy. However, experience elsewhere points to the fact that while reform is quite necessary to provide the conditions for poverty alleviation, the short- to medium-term effects are usually disproportionately borne by
the more vulnerable groups in society -- woman, elderly and children. We would therefore urge that serious attempts be made at this early stage to provide adequate safety nets for the vulnerable groups, particularly rural women and the elderly in Romania. We also strongly support the long-term goals of addressing the nation's human capital development through better tailored investments in the education and health sectors.

Third, we are glad to note that major elements of this CAS have been prepared through intensive dialogue with the Romanian authorities and Romania's other development partners. The consensus for reform and the anti-poverty commitment which stood out as a result of this dialogue should give credibility to the CAS and helps in the smooth implementation of the government's reform agenda.

Fourth, we strongly endorse the allocation of the Bank's administrative resources to promoting structural reform and private sector development, fighting poverty and developing human capital, and strengthening and rationalizing the role of the state. We particularly welcome the strong administrative support given by the CAS to the issue of poverty alleviation. More importantly, we endorse the flexibility on the deployment of resources and the trigger mechanisms set for both the high case and low case lending scenarios.

Fifth, Romania's development needs as it seeks accession to the European Union are not only huge, but also complex. It is therefore clear that no single institution, be it bilateral or multilateral, can single-handedly champion Romania's course in meeting such needs. It is in this respect that we welcome the partnership approach outlined in paragraph 42 of the CAS document. In particular, we strongly endorse the various instruments identified for Bank Group assistance to Romania.

In closing, we would like to commend staff for the detailed and frank document and to endorse the projects accompanying this CAS. We believe that the Bank, the Fund and the international community should also be commended for their continued support to Romania. We wish the Romanian authorities successful implementation of their reform program and the projects that are accompanying this CAS.