Romanian Food and Agriculture from a European Perspective

In the early 2000s, policy makers in Romania were challenged with preparing the country for accession to the European Union (EU) and adoption of the EU Common Agricultural Policy. This ESW, finalized in 2005, provided timely policy recommendations for Romania’s use of post-accession agricultural and rural development funds, influenced the design of domestic agriculture and rural development policies, and inspired wider sectoral reform. The impact of the ESW and follow-up activities, notably the World Bank’s contribution to revision of the National Rural Development Plan, helped Romania secure the equivalent of $11.5 billion in EU funds for rural development over 2007-13.

1. Challenge

Creating a more efficient and competitive farming sector was one of the most important tasks Romania faced as it prepared for accession to the European Union. Agriculture policy in Romania has traditionally emphasized increasing production rather than enhancing sector competitiveness. Yields in both crop and livestock production were low, and the country’s agricultural labor productivity was far lower than that of neighboring countries. About 80 percent of all farms could be classified as subsistence holdings, and almost half consisted of less than one hectare. Land reforms were still incomplete. The lack of legal tenure continued to limit access to credit and other rural financing options, making it difficult for farmers to comply with counterpart financing requirements of investment grants under the EU Common Agricultural Policy (CAP) and to access capital for operations and investment. There was a need to enhance competitiveness by removing obstacles to the expansion of new and more efficient farming units.

The ESW was initiated as part of a wider policy dialogue with the government of Romania that began in 2003. After the installation of a new government in 2005, the dialogue was reactivated with a greater sense of urgency as Romanian policy makers worked to prepare the country for accession to the EU and adoption of the CAP in 2007. The study sought to identify key structural challenges and recommend measures that would allow Romania to increase market orientation in agriculture, use EU post-accession funds effectively for agriculture and rural development, and facilitate the sector’s ability to produce for the highly competitive EU market.

2. Findings and Dissemination

The ESW identified challenges and recommended measures in three main areas.

With respect to preparations for implementing the CAP, the recommendations included completion of the most important pending transaction tasks, such as creating functioning land markets, and building capacity to implement support policies after EU accession.

In evaluating how best to structure the CAP support schemes, the ESW used a sector model
that examined the farm income and state budget implications of CAP implementation under various scenarios. The study recommended that Romania opt for the support schemes that would rationalize the national budgetary effort and produce the least distortive effect in the sector.

The study emphasized the need for agricultural reforms to increase rural competitiveness through consolidation of small farms and reduction of excess labor in agriculture. Toward this end, Romania was advised to encourage the formation of small farmers’ associations and to provide information, extension, and farm management services to small farmers. Recommendations also called for establishing rural credit systems accessible to efficient farms of all sizes and creating viable sector exit strategies, especially through nonagricultural employment opportunities in rural areas.

Broad dissemination of the findings was achieved through workshops, policy discussions, and consultations with officials of the Ministry of Agriculture and Rural Development (MARD), representatives of the European Commission (EC), the EC delegation to Romania, the EU Advisers to the Romanian government, the French and Dutch embassies, and other stakeholders such as commodity councils and nongovernmental organizations. The key findings of the ESW were mirrored in the Romanian media and in government press releases.

4. Key Results

Following the ESW and subsequent Bank operations, Romania is better positioned to absorb the EU CAP funds and has taken steps to adjust its policy framework to enhance sectoral competitiveness. The study appears to have contributed to positive preliminary results in three areas:

- Influence on the design of domestic agriculture and rural development policies. The study inspired discussions around the national Farmer Program, which facilitates farmers' access to EU funds and encourages them to form associations and thus progress toward more competitive farming. The follow-up dialogue with Romanian officials in the pre-accession period helped shape the country's agricultural strategy and laid the basis for the Bank to support the reforms through the CESAR project, aimed at improving the security of land property rights and the functioning of rural land markets.

- Enhanced farm income support. The ESW analyzed policy options for the post-accession farm income support that Romania can use to complement EU payments. That support, about $0.8 billion annually over 2007-13, can have a major impact on both the national budget and the farm sector. Within the flexibilities permitted by the EU, Romania opted for a streamlined and largely "decoupled" support scheme (i.e., one no longer linked to production) to provide producers with more stable incomes while allowing them to react to future market developments.

- Mobilization of EU support for rural development projects. The Bank took the lead in revising critical
chapters of the Romanian NRDP and coordinated the revision process with government and EC counterparts. The revised NRDP, which won EU approval in February 2008, helped Romania secure $11.5 billion in EU rural development funds. In the first month of NRDP implementation, rural beneficiaries submitted 918 funding applications, totaling $1 billion. More than half of the applications were submitted on the day the NRDP was launched.

5. Lessons Learned

The ESW highlighted the value of analytic and advisory activities in creating awareness of needed reforms and bringing policy programming options to the table. The quality of the dialogue, in terms of substance and staff, was particularly important. It ensured that consultations would continue even after fundamental disagreements emerged (for instance, there was difficulty in reaching an agreement on a Development Policy Loan type of operation following Romania’s implementaton of a controversial domestic credit subsidization scheme).

The Bank’s experience with countries in a similar transition phase of EU accession, as well as continued dialogue with development partners, proved critical in the Bank’s continued engagement in the country. It fostered an atmosphere of mutual trust and helped ensure an effective tripartite initiative between the government of Romania, the World Bank, and the European Commission.

6. Learn More


Key Contact

Holger A. Kray, ECSSD, Task Manager
ESW "Romanian Food and Agriculture from a European Perspective"
hkray@worldbank.org