Board Meeting of June 3, 1997
Statement by Andrei Bugrov

Romania - Country Assistance Strategy

We congratulate the staff on this timely and comprehensive program of Bank’s assistance to Romania at this turning point in the country’s market reforms. The pace of reform so far has been slow and did not give much chance for the revival of the economy. Now the wisdom of popular dissatisfaction gives the new Government an option to proceed with a set of painful but necessary reforms. The Bank should support the Government in this endeavor and offer its assistance in both the design and financing of the new program.

The analysis of the economic situation in many countries of the region -- excluding perhaps the most advanced reformers -- reveals many similarities among them, such as fragile macroeconomic stability, widespread transitional poverty -- particularly among the rural population and those traditionally employed in the heavy industry, inadequate corporate governance and post-privatization restructuring, loss-making SOEs, incomplete legal and institutional foundations of the market economy and a weak banking sector. CAS must address these acute problems. The case of Romania shows that positive growth rates of the economy -- at least according to the official data -- do not automatically solve all the problems in the absence of supporting reforms. We agree with the analysis given in the document and support both the Bank’s broad strategy and the more focused tasks of the program.

The experience of the region gives a variety of approaches to commercialization and privatization of the SOEs. Regardless of the specific national conditions, there are measures which are crucial for the success of reform, measures which include full commercialization and consistent hardening of the budget constraint of enterprises on different stages of privatization, establishing clear property rights and strengthening corporate governance, and separation of the banking sector from its dependence on the state or the enterprise sector (“pocket banking”). In this respect we welcome the particular objectives of the PSD (including FESAL), especially the deepening of privatization and the restoration of financial discipline. We believe this is the core of the market economy and therefore the success in this respect would assure the success in other spheres, including supply effects. We would suggest a clearer focus on the free entry and development of small and medium enterprises, in particular in the context of industrial restructuring.

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We welcome the attention given to human resource development and anti-poverty measures in the CAS and in the lending program. In the country with such well-educated population an efficient way of utilizing this advantage should be found, and perhaps this should become a topic of a further study. Our chair expressed a concern a few years ago regarding the recommendation to abandon big industries, downsize manufacturing, etc. offered without much analysis of the desired sectoral composition of the economy necessary for future growth. Now is the time for the Bank to help countries with a vision of their development. Rationalizing the role of the state means not only redirecting its activities to fundamentals or meeting the requirements for the EU accession but also to some extent the evaluation of the countries’ future potential using the existing physical and human capital. Eventually a strong private sector will take over the process of resource allocation but at the critical early stages of transformation certain analytical effort may be important to assure the appropriate investment climate and opportunities for investors, for example in the infrastructure industries.

We support the high case scenario approach for the Bank and the suggested size and composition of financing. We did not find much in this CAS on the implementation capacity except the assessment that it is modest. We would like to hear from the staff how they are helping the reformers to build local capacity (para 65). Long-term sustainability of the increasingly sophisticated reforms may be dependent on the ability of the Government and its institutions to analyze the on-going processes and to be responsive to the new problems and challenges. We also support the impressive set of projects designed to assist the Government in the immediate future and the whole program of the Bank’s assistance.