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**ROMANIA**

**COUNTRY STRATEGIC OPPORTUNITIES PAPER**





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### CURRENCY EQUIVALENTS

Currency Unit	=	Romanian Leu (Lei) (ROL)
USD 1.00	=	ROL 32 000
ROL 10 000	=	USD 0.31

### WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

### ABBREVIATIONS AND ACRONYMS

ADP	Apuseni Development Project
APC	Anti-Poverty Commission
EU	European Union
GDP	Gross Domestic Product
KfW	German Credit Institution for Reconstruction
MAFF	Ministry of Agriculture, Food and Forestry
MPF	Ministry of Public Finance
NGO	Non-Governmental Organization
PMU	Project Management Unit
RSDF	Romanian Social Development Fund (World Bank)
SAPARD	Special Accession Programme for Agriculture and Rural Development (EU)
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
WUA	Water User Association

### GOVERNMENT OF ROMANIA

#### Fiscal Year

1 January - 31 December

## MAP OF THE AREA COVERED BY THE APUSENI DEVELOPMENT PROJECT

### ROMANIA



Source: IFAD/OE

*The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof*



**ROMANIA****IFAD PORTFOLIO**

<b>Project Name:</b>	<b>Apuseni Development Project</b>
Initiating Institution:	IFAD
Cooperating Institution:	United Nations Office for Project Services (UNOPS)
Lending Terms:	Intermediate
Executive Board Approval:	10 September 1998
Loan Effectiveness:	5 November 1999
Current Closing Date:	30 June 2004
Loan Acronym:	L-I-485-RO
Denominated Currency:	SDR
Approved Loan Amount:	SDR 12 400 000
Loan Disbursements:	SDR 2 000 000 (16%)







## EXECUTIVE SUMMARY

1. Romania has embarked on a series of social and economic reforms – unique in its history – aimed at transforming the country from a highly centralized administration into a democratic, market-oriented economy. While it was expected that changes in key incentives would rapidly trigger off overall improvements and better living conditions, it is now clear that considerable effort will be required to support the development of the new market links, entrepreneurial skills and institutions that rural people need to succeed in the new economy.
2. At the end of the 1980s, the Romanian economic system was one of the most tightly controlled and centralized of all the former communist countries. Following the fall of the Ceausescu regime in 1989, limited progress in structural reform and stop-and-go macroeconomic policies contributed to low growth, large fiscal deficits, high and variable inflation and several episodes of severe balance-of-payments pressure. By the end of 2000, Romania's gross domestic product (GDP) stood at only 77% of the level recorded 11 years earlier, and the living standards of much of the population were even worse than they had been under communism. As of early 2001, a newly elected government embarked on an ambitious programme of macroeconomic and structural reforms endorsed by the International Monetary Fund and World Bank. These reforms have led to a gradual recovery from 2000, with an impressive 5.3% increase in GDP and forecasts of continued growth of about 3.7% in 2002. Similarly, domestic inflation fell to around 22% in 2002 after several years of triple-digit inflation. Membership of the Economic Union (EU) is one of Romania's main objectives.
3. Romania, which is endowed with an abundance of natural resources, has been traditionally one of the major agricultural economies of Central and Eastern Europe. Agriculture accounts for about 14% of GDP (2000) and employs about 35% of the formal labour force. In contrast to the recently improved macroeconomic climate, the agriculture sector continues to lag behind; Romania is now a net agricultural importer, with an especially large trade deficit in livestock products and prepared foodstuffs.
4. In the second half of the 1990s, the number of people living below the poverty line more than doubled from 20% to 41%, and those living in extreme poverty increased from 8% to 17% over the same period. Despite signs of economic recovery at the national level, the incidence of poverty is still on the increase, especially in rural areas where some 41% of the population live in poverty compared with only 28% in the towns and cities. The most **vulnerable groups** in the rural areas are small landowners; landless poor; rural people in upland and mountainous areas; and rural women.
5. The Government's agricultural development strategy is guided by the need to prepare for EU membership by means of modernization and measures that will enable the agricultural sector to both face increased competition from European imports and gain access to new export markets. If Romania is to join the EU and adhere to the Central European Free Trade Agreement, it will need to have access to larger agricultural markets that influence the growth and productivity of domestic agricultural production. However, EU membership might well increase rural poverty in Romania as a result of greater exposure to competition from lower-cost and better-established producers in Western Europe. In order to avoid this risk and increase the country's competitiveness in agriculture, most government efforts now focus on supporting modern, large-scale commercial operations capable of competing on the free European market. Individual subsistence farmers, on the other hand, are expected to receive relatively little support in view of the inevitable decline of the smallholder sector in favour of commercial production.
6. At the policy and strategy levels, a legislative task force is currently engaged in developing an agricultural cooperative law aimed at establishing democratic, jointly-owned agricultural enterprises, drawing up necessary regulations, and providing fiscal incentives to encourage the formation of



agricultural cooperatives. A water user association (WUA) law was passed in 2002. Both laws will provide an excellent opportunity for IFAD to support the Government's policy for rationalizing the use of agricultural resources.

7. The Anti-Poverty Commission (APC) in the Office of the Prime Minister is currently preparing a National Action Plan for Poverty Eradication and Social Inclusion. As agricultural modernization is likely to have an especially severe impact on the rural poor, the APC has requested IFAD's assistance in drawing up a strategy for reducing rural poverty. This will provide an ideal opportunity for IFAD both to engage in policy dialogue with national decision-makers and other important stakeholders and to ensure that poverty issues are adequately covered in the national agenda.

8. To date, IFAD has financed one project in Romania – the Apuseni Development Project – for a loan amount equivalent to USD 16.5 million. The project has established a revolving credit fund to provide loans to rural communities for a range of farming activities and village-level enterprises. Growth of the loan portfolio was slow for the first two years, but recently there has been good progress in project approach and performance. This experience nevertheless suggests that, in the Romanian context, a credit fund implemented by a majority state-owned bank is not the best way to reach poor rural communities.

9. The development rural institutions that enable the rural poor to benefit from new economic opportunities and provide them with a voice in policy formation is an important challenge. The thrust of any future IFAD operations in Romania will be to create new opportunities for small landowners and other vulnerable groups to participate in the commercial economy through farmer organizations with access to markets. This would involve working in close cooperation with the Government, other donors and non-governmental organizations to improve the overall institutional framework and establish a policy environment that would help to promote pro-poor growth and development. IFAD might pursue this strategy with the Government through several project options, as follows:

10. **Farmer organizations and community support.** A project of this type would work to promote new forms of rural association in support of market development, agricultural consolidation and non-farm rural enterprise. It would also include legal advisory services, training of local service providers and awareness-building among rural beneficiaries on the potential benefits of genuine producer-owned and -operated cooperative structures.

11. **Mountain-area development.** Since market links and new forms of association are especially important in the mountain areas, a project that addresses the challenges faced by mountain-area communities might be designed along the same lines as those described above. On this basis, such a project would help mountain communities to overcome key natural resource and transport constraints through new forms of association and strategic investments that lead to improved economies of scale, better negotiating leverage and increased market access for new and traditional products. Support for activities with a clear environmental benefit, including the regeneration of pastureland, would be an important focus.

12. **Support for WUAs.** A third type of project would involve support for irrigation rehabilitation at the tertiary level. IFAD would finance farm-level application systems and work with new WUAs to build up the institutional capacity and management skills needed to both establish and collect user fees and plan for long-term maintenance. Such an investment would specifically support the much larger World Bank-financed Irrigation Rehabilitation Project (to be designed during the course of 2003).

13. **Opportunities for strategic links with donors.** IFAD assistance alone cannot be expected to have a major impact on the country's rural poverty. Emphasis will also need to be placed on forging effective partnerships with other donors and with national and local initiatives, which will likely call for a programmatic approach based on long-term institution-building. The EU, the European Bank for



Reconstruction and Development, World Bank, the United States Agency for International Development and other bilateral donors have expressed interest in collaborating in future IFAD projects that organize small farmers into viable productive units.

14. The main objective of IFAD's policy dialogue with Romania should be to focus continued attention on opportunities for pro-poor growth and development as well as on the poverty implications of current efforts aimed at EU membership and the consolidation of agriculture. To different degrees, all the above-mentioned project concepts would provide opportunities for dialogue on new forms of agricultural association as a route to the modernization of agriculture and ensure adequate representation for poor rural people.

15. With regard to the Fund's lending programme for Romania, it is proposed to prepare a project involving a loan of USD 18 million during the course of the next three years. Given the rapid pace of change and the institutional constraints facing the country, consideration should be given to use of the flexible lending mechanism. This would help IFAD and the Government to respond to new developments as they arise and provide clear benchmarks for measuring implementation progress.





## ROMANIA

### COUNTRY STRATEGIC OPPORTUNITIES PAPER

#### I. INTRODUCTION

1. Like a number of other countries in Eastern Europe, Romania has embarked on a series of social and economic reforms – unique in its history – aimed at transforming the country from a highly centralized administration into a democratic and market-oriented economy. While advice, recommendations and encouragement to Romania have been abundant, there was no pre-established theory on which to base public policy for such a transition. The difficulty in selecting policy measures stems from the fact that no previous economic reform involved the sweeping institutional changes central to the economic and social transformation of countries in transition. This difficulty, at a time of serious corrosion in production, trade and public services, has led to deteriorating living standards for much of the population. The transition has thus been an extremely painful process, with increased levels of poverty and inequality unlike anything experienced elsewhere in recent times.

2. According to recent data, in the second half of the 1990s the number of people living below the poverty line (60% of average adult equivalent consumption) in Romania more than doubled from 20% to 41%, with the share of those living in extreme poverty (40% of average adult equivalent consumption) increasing from 8% to 17% over the same period.<sup>1</sup> Even with the present signs of economic recovery, the incidence of poverty is still increasing, especially in the rural areas.

3. The present document constitutes IFAD's first Country Strategic Opportunities Paper (COSOP) for Romania. The COSOP was prepared in consultation with the Government in early 2002, and its main elements were discussed with farmer associations during a workshop on farmers' self-help organizations held in Bucharest in late-October 2002.

#### ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

4. With a population of 22.5 million (2001) and a gross domestic product of approximately USD 37 billion, Romania's per capita GDP is estimated at USD 1 640. The country covers a land area of 233 440 km<sup>2</sup> and shares borders with Bulgaria, Hungary and Yugoslavia to the south and west; to the north and east it borders with the Republic of Moldova and Ukraine. The Black Sea coast provides links to Georgia, the Russian Federation, Turkey and other markets.

#### A. Country Economic Background

5. **Macroeconomic considerations.** At the end of the 1980s, Romania's economic system was one of the most highly centralized of all the former communist countries. A number of structural distortions typical of command economies were compounded by Romania's aggressive foreign debt repayment policy during the Ceaucescu era, which sought to reduce dependence on the West. This led to a sharp reduction in imports and a reallocation of resources to inefficient industries, thereby imposing severe strains on the population. The technological lag increased significantly and the economy's inefficiencies became increasingly evident and difficult to bear.

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<sup>1</sup> World Bank, 2001a, and Research Institute for the Quality of Life, 2001.



6. Following the fall of the Ceaucescu regime in 1989, the Government took a gradual approach to economic reform. Limited progress in structural reform contributed to poor growth, large fiscal deficits, high inflation and several episodes of balance-of-payments pressure. By 2000, the country's GDP stood at 77% of the level recorded 11 years earlier, and the living standards of much of the population were even worse than they were under communism.<sup>2</sup>

7. In early 2001, a newly elected government embarked on an ambitious programme of macroeconomic and structural reforms endorsed by the International Monetary Fund and World Bank. The centrepiece of these reforms were strong fiscal measures supported by tight monetary policies, and an exchange rate policy designed to help restore external competitiveness. All this resulted in a gradual recovery as of 2000, with a modest GDP growth of 1.6% and continued reductions in inflation and the current account deficit. In 2001, Romania's GDP grew by an impressive 5.3% and World Bank forecasted a further growth of about 3.7% in 2002. Domestic inflation fell to around 30% in 2001 and was projected at 22% in 2002.

8. With more than 70% of all Romanian exports destined to countries of the European Union (which is also Romania's largest source of foreign direct investment), one of the Government's main political and economic objectives is to join the EU as quickly as possible. To this end, Romania began negotiations at the Helsinki Summit in 1999 but was left out of the first round, which started with ten other countries in 2002. The EU recently set 2007 as the new target for Romania's accession.

## **B. Agricultural Sector and Rural Development**

9. Romania, which is endowed with an abundance of natural resources, was traditionally one of the major agricultural economies of the former Eastern block. Agriculture now contributes some 14% of GDP (2000) and employs about 35% of the formal labour force; over 70% of all rural people are employed in agriculture.<sup>3</sup> Roughly two thirds of the total land area, or 15.8 million ha, is classified as agricultural; of this, 3.2 million ha are irrigable. More than 80% of all agricultural land is arable and rich in cernoziom, which makes it suitable for growing cereals and other temperate-climate crops.

10. Approximately one third of Romania's land area can be classified as mountainous; one third as hills and tablelands; and one third as lowlands and plains. In the plains, most land is used to grow maize, wheat, barley, sunflower and sugar beet. In the hilly areas, there are orchards and vineyards, and vegetables are grown (notably potatoes, cabbage and tomatoes) in the river valleys. The large cereal sector supports a moderate livestock-breeding subsector, which is important in mountain locations. The southern plains and hills in the north-east depend on irrigation for optimal yields and productivity.

11. **Land privatization.** Although land privatization began early during the transition period, most (almost two thirds) of the land transferred went to elderly people; the remainder went to younger, but generally poorer, rural households. Land restitution resulted in ownership of small, fragmented plots averaging only 2 ha and split into several parcels.

12. The newly created small-scale subsistence farm sector accounts for 60% of all agricultural land. The sector owns a similar share of the country's livestock herd and produces a large proportion of the country's agricultural output. Small landowners rarely have access to equipment needed for extensive farming or to credit for purchases of improved seed, fuel and fertilizer. These difficulties are compounded by low prices, lack of market information or extension advice adjusted to their needs, high transport costs, limited negotiating leverage, poor quality standards and other difficulties.

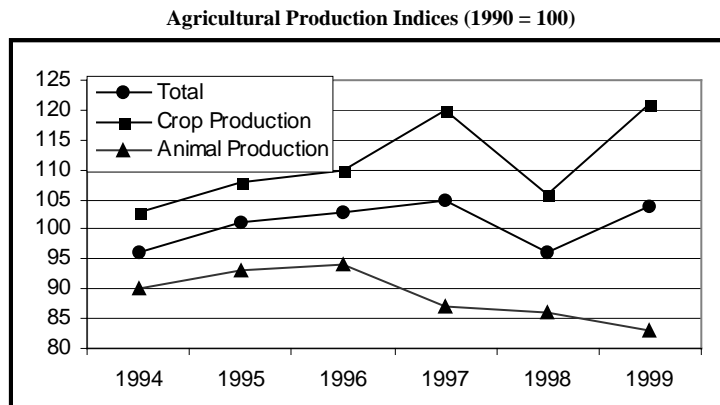
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<sup>2</sup> Research Institute for the Quality of Life, 2001.

<sup>3</sup> World Bank 2000 and 2001b.



13. **Recent performance.** The figure below gives Romania's recent agricultural performance, showing that the crop sector has been characterized by large but variable gains (depending on weather conditions) whereas there has been a steady decline in livestock production. The volume of industrial crops (notably wheat, barley and sugar beet) has declined considerably since transition, whereas subsistence crops (especially maize and potatoes) are now grown in greater quantities. Industrial oilseeds (sunflower and soybeans) are an exception, with recent gains in total production and yields per hectare. Since 1990, livestock numbers have decreased by roughly 50% in the cattle, pig and sheep subsectors owing to the lack of reliable markets and forced sales by small farmers who need cash for subsistence purposes.<sup>4</sup>



Source: Romanian Institute of Statistics, 2001.

14. In part, this poor performance is the result of Romania's stop-and-go approach to agricultural reform in the 1990s. A complex array of price controls and subsidies was maintained until 1997, but there has been little progress in developing a land market or in the privatization of food-processing industries to respond to growing demand. Land consolidation has also been limited; the sector remains dominated by a few large holdings and many small ones. This lack of progress is attributed to failure to issue definitive property titles, restrictions on ownership and the position of land as a household security. Moreover, other institutional structures that might lead to better productivity and competitiveness have not been developed. Investments have still not been made in developing grades and standards specifications, in animal health precautions and in laws on food safety.

15. **Productive assets.** While it was relatively easy to return farmland to its previous owners through restitution, privatization of buildings and machinery posed a different set of problems in that they were largely indivisible and geared to use by large-scale operations. At the same time, small landowners rarely have access to tractors and other equipment needed for intensive farming on the plains. While some 20% of the population has a horse-drawn cart or wagon, less than 2% has access to a tractor and are thus obliged to resort to expensive ploughing services or other arrangements to farm their land.

16. **Agricultural marketing.** Since the collapse of the command economy, the absence of output markets is proving to be an even greater constraint on agricultural development than the lack of crop inputs. Until farmers are able to count on secure and remunerative markets, they will naturally produce mainly for household subsistence. Most smallholder farmers now have to travel long distances, and at considerable expense, to market small quantities of produce. The monopsonistic power of the few existing traders means that farmers have little leverage to negotiate better prices or find a place in urban wholesale markets.

17. Romania was once a major exporter of early-season vegetables and other agricultural commodities; it is now a net importer, with a particularly large deficit in livestock products and

<sup>4</sup> Romanian Institute of Statistics, 2001.



prepared foodstuffs. In the absence of a reputation for exports, information about the quality of Romanian commodities is costly to obtain. The limited infrastructure specialized in export trade leads to higher transport and storage costs, and widens the gap between export and import parity prices. This situation is now beginning to change, however, with commodity brokers investing in new infrastructure and trading systems, such as contract farming, that could benefit small landowners.

18. **Rural associations.** Romanian law provides for three types of rural associations: farmer associations; cooperative associations; and non-governmental organizations (NGOs), which are subject to different rules of registration and taxation. Although this framework allows for many different production and marketing associations, the challenge is for rural people to understand the structure and principles of genuine member-owned associations and to develop effective management, business and marketing plans that provide direct benefits to each member.

### C. Rural Poverty

19. Romania's overall poverty profile shows that poverty is widespread but not extreme, with some deep pockets among households with many children and households headed by farmers, the unemployed and ethnic *Roma* (gypsies). The poverty incidence is especially high in the north-eastern region of the country, where there is large concentration of farmers and agricultural workers. Agricultural workers account for 16% of Romania's poor, with a poverty incidence among them of almost 60%. Households headed by unemployed account for 11%, with a poverty incidence of almost 70%. *Roma* households account for less than 7% of the poor, but their poverty incidence reaches almost 90%. There is a strong correlation between poverty and the number of children in a household.

20. The income-based poverty indicators in the table below show that the incidence and severity of poverty in Romania continue to escalate. This trend is also evident from the country's Human Development Index, which stood at 0.789 in 1985 but had fallen to 0.733 by 1998.<sup>5</sup>

**Income-Based Measures of Poverty and Inequality**

	1996	1997	1998	1999
Poverty rate (%)	19.8	30.8	33.8	41.2
Total number of poor ('000)	4 488	6 945	7 609	9 252
Consumption shortfall as % of poverty line	22.7	25.7	27.0	..
Extreme poverty rate (%)	5.1	9.5	11.7	16.6
Inequality (Gini index, consumption)	0.30	0.28	0.30	..

**Source:** Research Institute for the Quality of Life, 2001.

**Notes:** Poverty estimates are based on thresholds adopted by APC, which defines poverty and extreme poverty as 60% and 40%, respectively, of average household consumption expenditure per equivalent adult (1995).

21. **Rural poverty** is now manifested in low incomes, marginalization and limited opportunities for engagement in remunerative activities rather than lack of access to food. Romania's physical location and plans for EU accession also mean that traditional poverty measures cannot be used to gauge the level of marginalization and deprivation. Although rural people are able to produce much of their own food, problems with small and fragmented plots, limited access to productive assets and markets, low wages and limited wage-labour opportunities mean that most have few opportunities to rise out of poverty. The poor condition of rural health centres, long distances to schools, lack of capital assets and poor sanitation facilities contribute to rural people's poverty.

<sup>5</sup> United Nations Development Programme (UNDP), 2000, and IFAD, 2001.





22. According to 1998 data, poverty in the rural areas is 50% higher than in the towns and cities, with 41% of the rural population living in poverty compared with only 28% in the urban areas. Poverty rates are highest in the north-east, south and south-east regions, with 42.8%, 35.7% and 35.3% of the population living below the poverty line in these areas, respectively.<sup>6</sup>

- (a) **The southern plains and north-east hill country.** Many of the poorest people in Romania live in some of the best-endowed agricultural areas, which are still beset by the legacy of communism. Unlike the mountain areas, in the plains all agricultural production was carried forward by cooperatives and state farms using methods that are not appropriate for today's small landowner, and a large proportion of rural workers were transferred to heavy industry and mining. Crop marketing was handled by the state. With their experience of forced collectivization, the population is now very suspicious of any new form of cooperation.
- (b) **The Carpathian mountains.** Typical farm systems in these areas are based on the production of potatoes, cabbage and other short-season food crops, with a large share of arable farmland given over to hay production for feeding livestock during the long winter. Although some farmers produce small milk surpluses, there is likely to be only one processing firm in the area, which means that farmers are forced to accept the prices offered. The collapse of the wool market led to a significant reduction in sheep herds, from 150 animals per farmer to as few as five today.

23. **Small landowners.** While elderly people were the main beneficiaries of Romania's land restitution programme, they have little capacity to engage in productive agriculture. For this reason, many of them rent out their land to an 'agricultural association' in exchange for an informal (oral) promise to share in the final harvest. However, farmers have little idea of actual yields and often receive no more than two or three bags of wheat for the use of their land. These agricultural associations use modern machinery but rarely operate in the landowners' best interests and typically opt for a low-input, low-return strategy. In other cases, individual landowners may hire machinery and other equipment for cultivation, but the high costs involved leave them with little or no profit. This situation is further aggravated by the fact that most landowners deal with private associations or ploughing services on an individual basis and thus have little leverage to negotiate more attractive terms.

24. **The landless poor.** Following the collapse of the former state industries, many unemployed people migrated from the towns and cities to the rural areas. However, since they did not own land in the past, these people did not benefit from the restitution programme and are now extremely poor with few opportunities for seasonal employment. These are mostly young, able-bodied workers who are relatively more innovative and willing to invest in new types of enterprise than the retired and elderly. A typical survival strategy is to rent land from an elderly owner. However, this type of sharecropping is insufficient to move the landless poor out of poverty and is a sign of low social status.

25. **Rural people in upland and mountainous areas.** Under the communist regime, most people in the mountain areas depended on employment from mining and other state-run industries, the closure of which caused a significant increase in poverty. Rural people in mountain areas are constrained by the limited natural resource base and their physical isolation, which aggravate the problems connected with agricultural marketing and rural development.

26. **Rural women.** Although gender is not normally considered as a main determinant of poverty in Romania, the transition away from central planning has exacted a particularly high price vis-à-vis equality. While women still have some degree of political power and occupy key posts in local administrations, they are now more vulnerable than men and are more likely to fall into poverty. This

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<sup>6</sup> Research Institute for the Quality of Life, 2001.



is especially true in the case of rural women who remain in the villages as opposed to men who go to the towns and cities in search of work. Employers usually prefer to hire men. Therefore, given their limited opportunities to engage in direct agricultural production, single mothers and elderly women often suffer hardships. Younger women living under difficult conditions in the rural areas constitute a high-risk group in terms of human trafficking and prostitution.

#### **D. Constraints on, and Opportunities for, Rural Poverty Reduction**

27. Although the expected benefits of EU membership have helped to justify reforms, these (and indeed the entire accession process) are not necessarily a blueprint for economic transformation and development. Much work is still needed to address the complex dimensions of Romania's development problems. Rural poverty shares this complexity, but its main affliction may be the institutional vacuum created by the collapse of the command economy. While it was expected that changes in key incentives (e.g. land reform) would rapidly trigger off improvements in living conditions, it is now clear that considerable effort will be needed to develop the new market links, entrepreneurial skills and institutions that rural people need to succeed.

28. There is significant potential for farm households to market their goods. For core commodities, in 1994-98 the share of non-marketed output was 42% for wheat, 61% for maize, 38% for hogs, 55% for poultry and 68% for milk. Farmer-headed households in particular consumed 80% of the food they produced. Agriculture has thus become a way of coping with poverty, with most production now based on a subsistence-economy survival strategy. In view of the level of domestic demand that is met by food imports, it would appear that the development of market links and improved production, perhaps through marketing associations, should be given priority consideration.

29. The potential benefits of forming or joining rural associations that successfully promote market development include, inter alia, improved economies of scale and negotiating leverage, and better access to markets, appropriate technology, rural finance and other services. Most landowners, however, are reluctant to enter into any new form of cooperative association, which is still viewed as a first step to once again relinquishing control of their private assets. Because their development has been difficult to separate from the historical and political legacy of communism, genuine producer-owned and -operated cooperatives are only now beginning to emerge in Romania.<sup>7</sup>

30. Unlike other parts of Romania, agriculture was never collectivized in the mountain areas and most farmers still use traditional farming methods. Although mountain farmers sometimes own up to 10 ha of land, much of it is on steep slopes and under dense forest cover and thus unsuitable for cropping. Economic diversification, including investments in agro-tourism, wood processing and other types of non-farm enterprises, as well as the development of improved marketing systems for livestock and other agricultural products, are essential for mountain-area development.

31. During the 1960s and 1970s, the Government developed 104 irrigation schemes covering more than 3 million ha. Since 1989, however, this infrastructure has deteriorated considerably and there is an urgent need for new management structures suited to the existing land tenure system. The October 2001 law on irrigation and WUAs provides for the formation of voluntary WUAs as non-profit-making legal entities that own and operate equipment and facilities for on-farm water distribution. Such WUAs are to be established on the basis of hydraulic units that replace the previous management function of collective farms. State subsidies for irrigation will gradually disappear and WUAs will be obliged to sustain themselves through collecting water charges from their members. This calls for efficient WUAs able to provide cost-effective irrigation services and a financially viable production system based on commercial principles.

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<sup>7</sup> Millns, 1999.



## E. National Strategy for Rural Poverty Reduction

32. If Romania is to join the EU and adhere to the Central European Free Trade Agreement, it will need to have access to larger agricultural markets that exert pressure on the growth and productivity of domestic agricultural production. The Government's strategy for agricultural development is guided by the need to prepare for EU accession through modernization and other measures that both allow the agricultural sector to face increased competition from European imports and help it gain access to new export markets.

33. Romania's membership of EU is likely to exact a particularly high price vis-à-vis increased rural poverty due to greater competition from lower-cost, better-established producers in Western Europe. At the present time, efforts to face this risk are focused on support for large-scale, commercial operations able to compete in the European free market. In order to increase the country's competitiveness in agriculture, the Government recently adopted a policy to develop large-scale production units together with subsidies for farms of more than a certain size. However, individual small farmers will receive relatively little support in view of the inevitable decline of the smallholder sector. Over the next five-to-ten years agricultural employment is expected to fall from some 35% of the workforce to about 10%.

34. While such emphasis is understandable from a growth perspective, opportunities for small producers to participate in the European economy should not be overlooked. Unless specific measures are taken to allow the rural poor to benefit from this process, there is a very real risk of a massive explosion of rural poverty. While the Government is generally aware of this risk, it has not yet developed a comprehensive strategy to minimize the poverty consequences of its policy – except to speak in broad terms of the need for new forms of association between small-scale farmers and of its desire to develop the non-farm rural economy. In this respect, there is a clear role for IFAD to play in developing programmes with the Government to minimize the poverty consequences of the country's broad policy agenda and provide replicable solutions for wider application and donor support.

35. **Poverty eradication.** The APC in the Office of the Prime Minister is currently working to prepare a National Action Plan for Poverty Eradication and Social Inclusion. It is intended that the Plan should include specific outputs for poverty eradication, with clear implementation responsibilities assigned to different government branches. None of the APC's 15 working groups focuses specifically on agriculture and rural development, but since the modernization of agriculture will likely have a particularly adverse impact on the rural poor, APC has requested IFAD assistance in drawing up a strategy for reducing rural poverty.

36. **Agriculture Cooperative Law.** The exposure of both the private sector and the Government to new types of cooperative institutions outside the ex-communist countries has stimulated dialogue within Romania on the merits of and justification for passing a modern cooperative law. Several versions of the law have been prepared but agreement has still to be reached on a final draft. To the extent it would enable smallholders to increase their productivity and market placement, such a law would provide an excellent opportunity for promoting the formation of democratic, member-oriented farmer self-help groups. IFAD recently provided technical advice in drafting the new legislation, in line with United Nations guidelines and recommendations<sup>8</sup>, and encouraged adoption of a consultative and participatory approach to cooperative policy selection.

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<sup>8</sup> See General Assembly resolution A/RES/56/114 of December 2001.



### III. LESSONS FROM IFAD EXPERIENCE

37. To date, IFAD has financed one project in Romania – the Apuseni Development Project (ADP) – with a loan equivalent to USD 16.5 million. The objective of the five-year project is to improve the household incomes and livelihoods of rural communities in the Apuseni mountains of north-western Romania. The project has established a revolving credit fund (RCF) to provide loans for a range of improved farming activities and village-level enterprises, with disbursement through local banks.

38. **Implementation experience.** ADP start-up was slow and protracted. Although the loan became effective in November 1999, a subsidiary financing agreement with a commercial bank was not signed until August 2000. Long delays were also experienced in signing a subsidiary loan agreement between the Ministry of Public Finances (MPF) and the Ministry of Agriculture, Food and Forestry (MAFF), without which collaboration and financial transfers for project purposes would not have been possible. Coordination and communications between participating government agencies has been generally poor, and government budget restrictions have limited the number of staff available to the project full-time. Despite these limitations, however, project performance finally picked up substantially in 2002. Of the 75 loans approved as of mid-2002 (for a total of USD 720 000), half were placed in 2002.

39. Reasons for the above-mentioned problems include: competing agricultural credit subsidy programmes (terminated in March 2001); the challenging innovation of credit delivery through a single, majority state-owned bank; centralized but distant project management; the limited expertise of executing agencies with respect to small-scale rural lending; and logistical and socio-economic constraints in mountain areas. With intensive follow-up by IFAD and the cooperating institution (UNOPS), project performance started to improve in late 2001. Relaxation of collateral requirements, expansion of project activities beyond the original pilot area, launching of an intensive publicity campaign and the potential involvement of smaller, better-qualified private banks are expected to sustain and build on recent progress.

40. **Project approach.** The experience of ADP nevertheless suggests that, in the Romanian context, a credit fund managed by a state bank is not the best way to reach poor communities. The one participating financial institution in the RCF has so far preferred to maintain low interest rates and target either relatively large-scale borrowers or borrowers willing to provide adequately liquid collateral with market value. Small-scale borrowers in remote mountain areas have problems in raising the necessary collateral since their assets, which may include their homes or land, are not worth much on the market. In any event, for many potential borrowers, pledging their homes or land as collateral is an unacceptable risk. To address this constraint, IFAD, UNOPS and MPF have negotiated lower collateral requirements with the participating bank. IFAD has also initiated discussions with the German Credit Institution for Reconstruction and some of its partner banks that are lending to small enterprises under different terms and conditions and have expressed interest in extending their lending operations to the project target group. Additionally, the Economic Development Centre (EDC) (a Soros Foundation-supported microcredit NGO in Romania) has received a grant under IFAD's NGO/Extended Cooperation Programme for the purpose of providing non-financial business development services to ADP's target group.

41. **Technical assistance.** A major constraint under the project has been inadequate technical assistance, both for individual borrowers in preparing loan applications and for financial institutions to reach small-scale borrowers. This problem relates specifically to the Government's request, at the time of ADP loan negotiations, that IFAD funds should be used only to support a line of credit with guaranteed payback from participating banks. Although grant cofinancing was mobilized to cover some costs, the importance of TA should not be underestimated in future. There is more than one way to guarantee a return on the resources the Government invests in rural development and throughout the development of new activities it should be stressed that the cost of excluding technical capacity-building could seriously undermine the returns on other project expenditures.



42. **Policy dialogue.** Experience shows that it has been relatively difficult to use ADP as a platform for engaging the Government and others in dialogue on policies for sustainable poverty reduction. Future interventions should seek to maximize opportunities for dialogue on issues that truly shape the causes and nature of, and possible routes out of, poverty. On this basis, IFAD would do well to refocus its efforts on matters of rural marketing, group associations, farm productivity and rural finance – both to minimize the negative impact of EU accession on the rural poor and to promote opportunities for them to benefit from it.

#### **IV. STRATEGIC FRAMEWORK FOR IFAD**

##### **A. IFAD's Strategic Niche and Proposed Thrusts**

43. Based on the preceding analysis, the proposed thrust of future IFAD operations in Romania should be to create new opportunities for small landowners and other vulnerable groups to participate in the commercial economy. Essential elements of the proposed strategy, therefore, would be a focus on market development and support for new types of rural association. This would include working in close cooperation with the Government, other donors and NGOs to improve the overall institutional framework and ensure a policy environment that is conducive to pro-poor growth and development. As noted, current government policy is to support large-scale commercial agriculture as part of a drive to achieve economic modernization. Many other donor programmes (especially those of the EU) also focus on this objective, and there is a clear and important catalytic role for IFAD to play in helping to ensure that the rural poor also benefit from the process.

44. As a relatively small financing institution, IFAD's resources must be focused carefully if it is to have a maximum impact on rural poverty and demonstrate successful approaches suitable for wider replication. Any future IFAD intervention would do best to focus on specific areas and communities to achieve the best returns on available resources. As Romania is a relatively large country, IFAD assistance alone cannot be expected to have a major impact on overall agricultural-sector performance and on the incidence of rural poverty. Greater emphasis must be placed on forging effective partnerships with other donors and with national and local initiatives. As in other transition countries, this will likely require a programmatic approach based on long-term institution-building.

##### **B. Main Opportunities for Innovations and Project Interventions**

45. Although stabilization remains a key challenge and any recent progress could be easily reversed, the overall macroeconomic situation in Romania has improved significantly since the first IFAD loan was provided to the country. While the Government was previously concerned that IFAD funds money should be used only to finance credit operations that would be reimbursed by participating banks, the improved macroeconomic outlook provides a good opportunity for financing TA and institutional capacity-building to address evident economic inequities. At the same time, any further IFAD intervention would need to include a small rural finance activity focused on developing and replicating successful rural finance technologies (rather than providing credit lines) to address the financing constraints faced by poor rural people.

46. Three main opportunities have been identified for future IFAD lending to Romania, each of which was selected on the basis of the potential offered for the Fund both to play a catalytic role in helping to create new opportunities for the rural poor to benefit from economic modernization and to demonstrate replicable solutions for wider application. The strengths and weaknesses of each project idea are described below, and a more detailed description is given in Appendix III.



47. **Farmer organizations and community support.** A project of this type would work to promote new forms of rural association in support of market development, agricultural consolidation and non-farm rural enterprise. It would also include legal advisory services, training for local service providers, and awareness-building among rural beneficiaries on the various models, and benefits, of genuine producer-owned and -operated cooperative structures. At the field level, the approach would be to work through community facilitation to build up new community-owned commercial enterprises and to assist these groups, or farmer associations, to develop investment proposals aimed at achieving more effective economies of scale and improved negotiating leverage in factor and output markets and build up new types of rural enterprise including small-scale agro-processing units. To ensure that project funds are used to support the Government's strategic objectives of long-term growth and competitiveness, a number of marketing studies and feasibility analyses would be carried out on a demand-driven basis. As an example, a small pickling enterprise piloted by UNDP to support women's income-generating activities has turned into an important community project that provided jobs and outlets to markets for local farmers. This enterprise then became a platform for launching additional local initiatives and is a source of pride and confidence among the community.

48. The main advantage of such a project is that it would enable IFAD to help the country to prepare for EU accession by establishing new types of rural associations. Depending on the nature of each proposal, community investments could be financed on a matching-grant basis from project funds and other sources (such as the World Bank's Romanian Social Development Fund (RSDF) or EU's Special Accession Programme for Agricultural and Rural Development (SAPARD)), or by enabling association members to access formal financial institutions. A major risk, however, is that community members may be reluctant to enter into cooperative arrangements, which may be seen as a first step towards once again relinquishing control over their private assets. In this respect, considerable emphasis would need to be placed on community facilitation to develop appropriate methods and rules of association that benefit each member and build up trust in modern (post-communist) cooperative structures. Although the potential benefits of production and marketing associations are widely recognized by national policy-makers, very little has been done so far to promote this type of organization at the field level.

49. **Mountain-area development.** IFAD may also wish to consider an intervention that addresses the challenges faced by mountain communities. Since market links and new forms of association are particularly important in such areas, such an intervention could be designed on principles similar to those described above. On this basis, the project would help mountain communities to overcome key natural resource and transport constraints through new forms of association and investments that lead to improved economies of scale, better negotiating leverage and increased market access for new and traditional products. Because of the fragile natural resource base of mountain areas, support for activities with a clear environmental benefit, including the regeneration of pastureland, would be an especially important focus of any such intervention.

50. In terms of geographic coverage, a good starting point would be four or five counties in the northern Carpathian mountains in view of their high levels of poverty and the potential it would provide to work with established local institutions (see below). This would also provide a platform for exploring potential synergies with ongoing IFAD operations in the Apuseni region. A major risk, however, is that it would not be possible to engage more fully in dialogue on rural development in some of the higher-potential farm areas, where the negative implications of modernization and EU accession may be more pronounced.

51. **Support for WUAs.** A third type of project would be to support the rehabilitation of irrigation at the tertiary level. In this case, IFAD would finance farm-level application systems and work with new WUAs to build up the institutional capacity and management skills needed to establish and collect user fees and plan for long-term maintenance. Such an investment would support the much larger, World Bank-financed Irrigation Rehabilitation Project (to be designed in 2003). Since the



World Bank project would mainly focus on the rehabilitation of primary and secondary distribution networks, it is proposed that IFAD should target the end-users. The Government has indicated its readiness to restructure the irrigation management system on the basis of WUA ownership.

52. The main advantage of an irrigation rehabilitation intervention is that it would address one of the most fundamental constraints on sector growth and help Romania to realize the full potential of its agricultural resources. In terms of preparing for EU accession, such an investment may also lead to increased competitiveness through lower per unit production costs and more predictable crop yields. The lessons from this experience could easily be applied to subsequent projects focused on other types of rural association. On the other hand, irrigation would be of almost no benefit to the landless poor; and, even for small landowners, other priorities will need to be addressed at the same time, particularly the need for secure and remunerative markets.

### **C. Outreach and Partnership Possibilities with NGOs and the Private Sector**

53. Other important opportunities exist for strategic partnerships with NGOs and with national and local initiatives that would complement the main project concepts, as follows:

54. RSDF has been working with rural groups to develop proposals for community projects funded on a matching-grant basis. This approach offers an important model for IFAD to build up trust in new forms of association needed for a mountain-area or small and medium-scale enterprise support programme to succeed. To the extent these interventions focus on developing community-based investment projects, there could also be an opportunity to work with the RSDF as a cofinancier of income-generating investments and to complement ongoing social development work with more strategic analyses of market opportunities and new models of cooperative association.

55. One way of breaking down the country's legacy of communism is to use a bottom-up approach to community-based development. Examples here include the UNDP-supported rural women in small business project, which has piloted a group facilitation methodology and established two producer-owned agro-processing units; and the World Bank-financed RSDF, which uses participatory methods to help rural groups identify their own development priorities.

56. **Mountain-area NGOs.** The development of mountain areas requires a particular awareness of the characteristics of these locations, including the problems of physical isolation and the fragile natural resource base. To cope with these challenges, several local institutions have emerged in recent years, including Centre for Formation and Innovation for Development in Carpati (a training institute in the Carpathian mountains founded by MAFF); the Dorna Mountain Area Farmers' Association (which manages rural shops and provides small-scale credit to its members); Swiss-Romanian Agriculture Foundation (a private foundation that provides business and agricultural training and credit from a revolving fund); National Association for Development in Rural Mountain Areas (a new NGO which is represented throughout the mountain zones and works to coordinate development policy and lobby for effective solutions); and the Economic Development Centre, which has operated in both mountainous and lowland areas. Each organization would provide a good entry point for IFAD assistance in view of the knowledge-base they have built up from working with poor rural communities and their potential for replicating successful models in other areas.

57. **Private investors.** For either a small enterprise or an irrigation project to succeed, a fundamental objective is to strengthen the links between new rural associations and established private-sector traders. For example, a major objective of soybean processors is to develop a market for stockfeed in which soybean meal is a main component. That being the case, it may be possible to work with soybean traders, stockfeed blenders and meat processors to develop a strategy (e.g. contract farming to provide finance and market security) that benefits both rural associations and private traders. One promising opportunity for attracting private investors is the SAPARD grants programme



although given the stringent eligibility requirements, small farmers and poor rural people are not likely to obtain individual grants. However, it might be possible for the farmers to obtain grants in association with private investors if they organize themselves in such a way that the private investors are assured of reliable production quantity and quality. Indeed, the private sector has expressed interest in making complementary investments in agro-processing, marketing, rural finance and contract farming in the event IFAD is in a position to assist the smallholder sector to organize and improve its production levels.

#### **D. Opportunities for Strategic Links with Other Donors and Institutions**

58. In selecting the next area of IFAD intervention in Romania, consideration should be given to the potential for strategic links and new partnerships with other donors. The section below reviews some of the main opportunities related to the project concepts described above.

59. **EU programmes.** The European Commission has already committed a substantial amount of funds to Romania (more than EUR 2 billion since 1992), part of which were intended for adopting and implementing the *acquis communautaire* (body of existing Community legislation and practice). However, these resources can only be disbursed properly if the entities responsible for programming, operational management and financial control are up to full capacity and functional within a given timeframe. There is a serious risk, therefore, that the resources seemingly available to Romania might be lost. Furthermore, Romania will need to mobilize substantial domestic resources to meet the cost-sharing requirements of pre-accession instruments.

60. There may be good potential for working with the EU to develop cooperatives. Since all subsidies and quotas available under the EU's common agricultural policy are assigned on the basis of farmer-group and cooperative structures, any intervention to develop such institutions would fit well into the EU accession agenda. To this end, it may be possible to discuss cofinancing arrangements with the EU, including ways of leveraging SAPARD funds to support small income-generating projects based on a cooperative framework. In this event, IFAD could help farmer groups to develop appropriate methods of association and bankable proposals for presentation to the SAPARD Agency.

61. **UNDP.** As mentioned earlier, UNDP's Rural Women in Small Business Project and the **World Bank**-financed RSDF have taken a participatory approach to helping rural groups identify their own development priorities. Involvement with these projects is proving to be an invigorating process for community members who were previously apprehensive of group cooperation but are now learning to work together as a matter of self-interest.

62. **World Bank.** Two World Bank projects currently under preparation offer good prospects for forging strategic links with IFAD's future lending programme in Romania. The first is the proposed Irrigation Rehabilitation Project, in which IFAD might seek to work at the tertiary level to develop local systems for managing shared water resources and possible market strategies. The second possibility would be to target a number of areas to be covered by the Bank's Rural Development Programme (RDP), to be designed in 2003, which will build up the management capacity of local government and support the rehabilitation of rural roads and domestic water supply systems. Initially, it was intended that the Rural Development Programme would also support market development and new cooperative structures, but it was decided that this would not be feasible until a successful model had been identified and tested. To the extent IFAD is able to build on the lessons learned from other market development programmes (including the UNDP and RSDF experiences described above), there could be an ideal opportunity to pilot such a model for broader application in a future World Bank project. Beyond this catalytic potential, further synergies could be realized by targeting some of the same areas as the Rural Development Programme to take advantage of its infrastructure and institution development work and share lessons learned from working with small and medium-scale enterprise groups. Another World Bank intervention, the Agricultural Services Support Project (ASSP), seeks to improve agricultural academic programmes and develop technical advisory services.





To the extent that the project is demand-driven, action-research and the development of appropriate technology by ASSP could be influenced by, and provide benefits to, rural associations and institutional development supported by IFAD.

63. **The United States Agency for International Development (USAID)** has developed a draft strategy to support new WUAs under the World Bank's proposed Irrigation Rehabilitation Project. This will provide a good starting point for dialogue on project strategy and opportunities for USAID to provide grant cofinancing in support of an IFAD investment in the area. USAID has also acquired experience with agro-processing associations and other market development programmes. It will be important, therefore, to study the lessons derived from these experiences in order to identify possible synergies with future USAID operations, including potential cofinancing.

64. **Other donors.** A number of other bilateral financiers have expressed interest in rural institutional development in Romania, particularly with respect to the development of cooperatives. In addition to USAID, these include the Governments of Germany, Japan and The Netherlands – all of which have piloted various small-scale activities. The Government of Italy, which views Romania as an important partner, may also be interested in supporting rural microfinance and gender-mainstreaming activities. In view of its complementary support in developing wholesale markets, warehousing and agro-processing, the European Bank for Reconstruction and Development is also a potential partner. IFAD is currently discussing prospects for collaboration with KfW and MPF for onlending to ADP.

65. **Other institutions.** Opportunities exist for partnerships with bilateral technical service institutions such as *InWEnt*, the Germany Agency for Technical Cooperation and the United States Overseas Cooperative Development Council. These and other similar institutions may have a strategic interest in providing technical support and training to agricultural associations in Romania. Romania's EU accession process is also generating interest for twinning programmes among European institutions and NGOs.

### **E. Areas for Policy Dialogue**

66. The main objective of IFAD's policy dialogue with Romania should be to focus continued attention on opportunities for pro-poor growth and development and on the poverty implications of the country's efforts for EU membership and agricultural consolidation. In line with IFAD's overall strategy for policy dialogue in transition countries, the operational approach to achieving this objective would be to lead by example through the projects the Fund supports.

67. IFAD should seek to follow a process that would ensure that individual farms and agricultural organizations in Romania are in a position to adjust to new market needs in the face of EU accession. The challenge is to ensure that the benefits of Romania's transition are shared by the rural poor and that policy reforms and competition provide an opportunity for them to improve their incomes and standards of living. At the same time, attention should be paid to the externalities of an increasingly market-oriented approach, including environmental and social costs. For this purpose, IFAD will need to engage in activities that improve the competitiveness and efficiency of the smallholder sector. Some policies will be beyond IFAD's field of influence, such as the restoration and liberalization of factor and product markets, foreign trade arrangements, the removal of price distortions through stabilization policies, etc. Nevertheless, by promoting rural institutions and partnering with other players, IFAD could create advocacy groups that are in favour of paying more attention during policy formulation to the problem of reducing poverty.

68. This agenda will call for greater care in the selection and development of project activities in order to maximize opportunities for dialogue on issues regarding the nature of rural poverty and ways of overcoming it. To different degrees, the above-mentioned project concepts would provide such opportunities in terms of their potential for dialogue on supporting new forms of cooperative



enterprise as a route to agriculture modernization; strategies to support economic integration and sustainable natural resource use in mountain areas; and different approaches to the formation of WUAs to ensure adequate representation for the rural poor. At the same time, it will be equally important that the areas of investment that IFAD finally agrees upon with the Government should not depend on new, complex legislation or specific policy reversals as this would only hinder progress.

69. In addition to the potential for influencing national development strategies by demonstrating specific anti-poverty approaches, there is a more immediate opportunity to influence rural development policy by working in close partnership with the APC. Engaging in dialogue with this commission would provide IFAD with an ideal opportunity to focus attention on poor rural people's of limited access to productive assets and secure market outlets and on key opportunities to participate in and benefit from economic modernization.

## **F. Action Areas for Improving Portfolio Management and Debt Servicing**

70. As described earlier, the main areas for improving the performance of ADP relate to credit supply, demand and management. Recent initiatives have included a publicity campaign to build up awareness of project activities and efforts to partner with a KfW-sponsored credit project for the promotion of small and medium-scale enterprises. There would also appear to be need to limit the replenishment of the ADP Special Account, which at USD 2.6 million is one of largest in IFAD's entire lending portfolio. Reduction to a more realistic level would help the Government to save on debt servicing against the outstanding balance. Consideration should also be given to broadening the ADP project area and allowing its credit line to be used for future IFAD-supported interventions.

71. With respect to future country initiatives, the Government has suggested that, in order to avoid administrative problems, a dedicated, autonomous project management unit (PMU) should be set up for ADP. This would be a departure from current arrangements whereby IFAD works with government coordination units at the central and local levels that have other responsibilities and are thus unable to focus exclusively on project implementation. Since such a PMU would be a temporary measure, opportunities for long-term institutional development would need to be considered, including emphasis on civil institutions and the integration of a PMU into the existing government structure.

72. Romania is currently meeting its debt-servicing obligations to IFAD and, in view of the recently improved macroeconomic climate and its increased foreign exchange reserves, the country is in a strong position to cover the costs of future lending. A government provision that no more than 10% of the value of loan proceeds should be allocated to technical assistance (which is viewed by the Ministry of Public Finance as a 'soft' investment, without a clear financial payback) is likely to impose considerable constraints on future project activities and implies the need to mobilize grant cofinancing to cover essential technical assistance costs.

## **G. Tentative Lending Framework and Rolling Programme of Work**

73. As a lower-middle-income country, Romania is eligible for IFAD loans on 'intermediate' terms – repayable over 20 years, including a five-year grace period with an interest rate of one half of the reference interest rate per annum. The repayment period and the interest rate (almost 2.7% in 2001 and 2002) compare favourably with those offered by other international donors and provide an excellent opportunity for Romania to finance investments needed for reducing rural poverty.

74. Under the proposed lending programme for Romania, over the course of the next three years, IFAD will prepare one loan of USD 18 million as the potential pace of strategic development does not favour a longer-term projection. Moreover, since IFAD has only one project experience to draw on, it may be more pragmatic to launch a second project before looking further ahead. Given the rapid pace



of change and widespread institutional constraints in the country, consideration should be given to use of the flexible lending mechanism, which would provide clear benchmarks for measuring implementation progress and help IFAD and the Government to respond to changing conditions as they arise.



## APPENDIX I: COUNTRY DATA

### ROMANIA

<b>Land area (km<sup>2</sup> thousand), 2000 1/</b>	230	<b>GNI per capita (USD), 2000 1/</b>	1 670
<b>Total population (million), 2000 1/</b>	22.4	<b>GNP per capita growth (annual %), 2000 1/</b>	-1.9 a/
<b>Population density (people per km<sup>2</sup>), 2000 1/</b>	97	<b>Inflation, consumer prices (annual %), 2000 1/</b>	45.7
<b>Local currency</b>	Leu (ROL)	<b>Exchange rate: USD 1 =</b>	ROL 32 000
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate), 1980-99 2/	0.1	GDP (USD million), 2000 1/	36 692
Crude birth rate (per thousand people), 2000 1/	10 a/	Average annual rate of growth of GDP 2/, 1980-90	0.5
Crude death rate (per thousand people), 2000 1/	12 a/	1990-99	-0.8
Infant mortality rate (per thousand live births), 2000 1/	20 a/		
Life expectancy at birth (years), 2000 1/	69 a/		
		Sectoral distribution of GDP, 2000 1/	
Number of rural poor (million) (approximate) 1/	2.7	% agriculture	15 a/
Poor as % of total rural population 2/	28	% industry	30 a/
Total labour force (million), 2000 1/	10.7	% manufacturing	21 a/
Female labour force as % of total, 2000 1/	45	% services	55 a/
		Consumption, 2000 1/	
<b>Education</b>		General government final consumption expenditure (as % of GDP)	14 a/
School enrolment, primary (% gross), 2000 1/	104 a/	Household final consumption expenditure, etc. (as % of GDP)	71 a/
Adult illiteracy rate (% age 15 and above), 2000 1/	2	Gross domestic savings (as % of GDP)	15 a/
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1997 3/	3 253	Merchandise exports, 2000 1/	10 365
Malnutrition prevalence, height for age (% of children under 5), 2000 1/	n.a.	Merchandise imports, 2000 1/	13 055
Malnutrition prevalence, weight for age (% of children under 5) 2000 1/	n.a.	Balance of merchandise trade	-2 690
<b>Health</b>		Current account balances (USD million)	
Health expenditure, total (as % of GDP), 2000 1/	4.1 a/	before official transfers, 1999 1/	-1 923
Physicians (per thousand people), 1999 1/	1.9	after official transfers, 1999 1/	-1 297
Population using improved water sources (%), 1999 4/	58	Foreign direct investment, net, 1999 1/	1 025
Population with access to essential drugs (%), 1999 4/	85		
Population using adequate sanitation facilities (%), 1999 4/	53		
		<b>Government Finance</b>	
<b>Agriculture and Food</b>		Overall budget deficit (including grants) (as % of GDP), 1999 1/	-3.9 a/
Food imports (% of merchandise imports), 1999 1/	7	Total expenditure (% of GDP), 1999 1/	31.5 a/
Fertilizer consumption (hundreds of grams per ha of arable land) 1998 1/	386	Total external debt (USD million), 1999 1/	9 367
Food production index (1989-91=100), 2000 1/	89.7	Present value of debt (as % of GNI), 1999 1/	26
Cereal yield (kg per ha), 2000 1/	1 844	Total debt service (% of exports of goods and services), 1999 1/	31.3
<b>Land Use</b>		Lending interest rate (%), 2000 1/	n.a.
Arable land as % of land area, 1998 1/	40.5	Deposit interest rate (%), 2000 1/	n.a.
Forest area (km <sup>2</sup> thousand), 2000 2/	64		
Forest area as % of total land area, 2000 2/	28.0		
Irrigated land as % of cropland, 1998 1/	29.3		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database

2/ World Bank, *World Development Indicators*, 2001

3/ UNDP, *Human Development Report*, 2000

4/ UNDP, *Human Development Report*, 2001

## LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions and Risks
<p><b>Goal:</b> To create new and replicable opportunities for the rural poor to benefit from economic modernization and eventual EU accession.</p>	<ul style="list-style-type: none"> <li>• Increased agricultural production and participation in the cash economy on the part of the target group</li> <li>• Adoption of project strategies by other donors</li> </ul>	<ul style="list-style-type: none"> <li>• Agriculture and trade statistics</li> <li>• Baseline and repeater surveys</li> <li>• Programmes approved by other donors that follow IFAD-piloted approach</li> </ul>	<ul style="list-style-type: none"> <li>• Farmers able to realize effective economies of scale and improved market access as a result of project investments.</li> </ul>
<p><b>Purpose:</b></p> <p>A. Farmer organizations and community support: integrate small farmers and other small rural producers into the market economy through promoting new forms of rural associations in support of market development, agricultural consolidation and non-farm rural enterprises that directly benefit household income.</p> <p>B. Mountain area development: promote new forms of rural association and market development appropriate to specific resource constraints on mountain areas that directly benefit household income and help reverse environmental degradation.</p> <p>C. Irrigation rehabilitation: promote increased productivity and appropriate management structures for new WUAs that represent smallholder interests and contribute to new market opportunities and improved household income.</p>	<ul style="list-style-type: none"> <li>• Number of small farmers members of farmers marketing organizations</li> <li>• Increased volume of production marketed by participating farmers</li> <li>• Increased quality of products and prices received</li> <li>• Increased incomes of farmer members</li> <li>• Number of WUAs running and effective</li> </ul>	<ul style="list-style-type: none"> <li>• PMU management information system</li> <li>• Annual ongoing beneficiary evaluations</li> </ul>	<ul style="list-style-type: none"> <li>• Farmers overcome resistance to participating in collaborative efforts</li> <li>• Farmers understand difference between proposed farmer organizations and communist-era cooperatives</li> <li>• Macroeconomic conditions favourable to economic growth and greater purchasing power to generate increased market demand for products</li> <li>• Appropriate legislative framework is developed</li> <li>• Fiscal policies conducive</li> </ul> <p>Irrigation rehabilitation: project would not directly benefit the landless poor.</p>



## LOGICAL FRAMEWORK (continued)

### TABLE 1: SECTORAL ISSUES

Priority Area	Major Issues	Action Needed
<b>Agriculture policy</b>	<ul style="list-style-type: none"> <li>• Government policy focused on rapid modernization and consolidation to prepare for EU accession.</li> <li>• Subsidies and other support to target relatively large farms at expense of small landowners.</li> <li>• Neglect of rural poor in the modernization agenda likely to result in even greater poverty during transition period.</li> <li>• SAPARD and other programmes unlikely to bring direct benefits to the rural poor.</li> </ul>	<ul style="list-style-type: none"> <li>• New associations and other developments (infrastructure, rural investments) that help the rural poor to participate in modernization.</li> <li>• Agricultural consolidation and new forms of association that benefit the rural poor and increase their control over productive assets.</li> <li>• Increased sensitivity in policy discussions on implications for rural poverty and appropriate solutions.</li> <li>• Dialogue on opportunities for rural poor to benefit from planned programmes and other EU interventions.</li> </ul>
<b>Poverty eradication</b>	<ul style="list-style-type: none"> <li>• National Anti-Poverty and Social Inclusion Plan requires more focus on operational modalities.</li> <li>• Ongoing debate on appropriate policies and future of rural poor likely to be overshadowed by urban policy modernization and drive.</li> </ul>	<ul style="list-style-type: none"> <li>• Dialogue with APC on modalities to operationalize the Plan and contribute to poverty reduction within a framework of modernization (increased competitiveness) and consolidation (improved economies of scale).</li> <li>• Close cooperation with APC to leverage IFAD's position and gain voice in other government agencies.</li> </ul>
<b>Market development</b>	<ul style="list-style-type: none"> <li>• Lack of purchasing power and informal urban/rural connections limit market growth.</li> <li>• Knowledge gap between buyers' requirements and potential sources of supply from domestic producers may lead to buyers obtaining produce elsewhere.</li> <li>• Inability of domestic producers to provide the volume of produce required by supermarkets and large wholesalers represents a constraint on market entry.</li> </ul>	<ul style="list-style-type: none"> <li>• Macroeconomic policies to generate faster growth and employment with a view to enhancing incomes.</li> <li>• Facilitate dialogue between producers and buyers to improve mutual understanding of market requirements.</li> <li>• Promote the formation of marketing associations among small farmers to enable them to produce sufficient quantities of goods to be able to enter into contractual arrangements with large buyers.</li> </ul>
<b>Rural Associations</b>	<ul style="list-style-type: none"> <li>• Reluctance of farmers to join associations in view of experience of cooperatives under communist era.</li> <li>• Lack of suitable legal framework for commercially oriented, self-managed organizations.</li> </ul>	<ul style="list-style-type: none"> <li>• Awareness campaign on principles of democratic, self-managed organizations.</li> <li>• Development of appropriate legal framework for member-owned and -managed organizations that can engage in commercial activities.</li> </ul>



## LOGICAL FRAMEWORK (continued)

### TABLE 1: SECTORAL ISSUES

Priority Area	Major Issues	Actions Needed
<b>Rural credit</b>	<ul style="list-style-type: none"> <li>• Limited access to rural credit is major handicap in transforming the agricultural sector and increasing agricultural productivity.</li> <li>• Little interest from commercial banks for lending to agriculture, which is considered too risky even from the newly privatized former Agricultural Bank.</li> <li>• Limited network of rural branches also reduces rural dwellers' access to credit.</li> <li>• Lack of legislation for non-banking financial intermediaries. constrains the development of microfinance intermediaries or the direct operation of credit facilities by farmer organizations.</li> <li>• Limited coverage of microfinance programmes, both geographically and among village households.</li> <li>• Present operational modalities of microfinance schemes tend to attract community members who already have resources rather than the resourceless poor due to present focus on efficiency.</li> <li>• Interest rates on Lei-denominated loans remain too high to make investments viable with prevailing levels of producer prices.</li> </ul>	<ul style="list-style-type: none"> <li>• Enactment of legislation for non-banking financial intermediaries.</li> <li>• Expansion of commercial banks' rural branch networks or development of alternative credit delivery mechanisms for rural borrowers.</li> <li>• Emphasis on increasing the productivity and profitability of agriculture in order to make it more attractive for bank lending.</li> <li>• Broaden the coverage of microfinance schemes to cover poorer members of the community.</li> </ul>
<b>Irrigation rehabilitation</b>	<ul style="list-style-type: none"> <li>• Shortage of on-farm sprinkler irrigation units.</li> <li>• Need to improve the management of WUAs and make them more democratic.</li> <li>• Higher cost of water once subsidies are removed will require farmers to grow higher-value crops to cover irrigation charges.</li> <li>• Land fragmentation hinders rational crop planning and rotation and optimum irrigation efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>• Provide WUAs with access to grant/credit to purchase on-farm irrigation equipment for renting to members.</li> <li>• Restructuring and capacity-building of WUAs to distinguish between governance and management.</li> <li>• Guidance to farmers on potential high-value crops and assisting farmers to establish market links for new crops.</li> <li>• Establishment of farmers' associations would facilitate integrated crop planning and may lead over time to land consolidation.</li> </ul>





## LOGICAL FRAMEWORK (continued)

### TABLE 2: TARGET GROUP

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Project Response
<b>Small landowners</b> Elderly persons account for about 60% of landowners (4 million ha)	Extensive, but mostly not extreme <ul style="list-style-type: none"> <li>• Small, fragmented plots allow subsistence production but make it difficult to produce a marketable surplus because of limited productive assets and risk of poor market access.</li> <li>• Lack of access to credit precludes investment in improved technology to increase agricultural productivity.</li> <li>• Lack of comprehensive knowledge related to farm production reduces incentive to farm and encourages leasing of land to larger operators or agricultural associations for meagre returns.</li> </ul>	<ul style="list-style-type: none"> <li>• Subsistence farming for food security, other small cottage industries whenever possible.</li> <li>• Younger members of family seek temporary employment overseas.</li> </ul>	<ul style="list-style-type: none"> <li>• Secure and remunerative markets to encourage more intensive production.</li> <li>• Increased access to agro-processing.</li> <li>• Increased access to credit for working capital and for investments such as land purchases.</li> <li>• Increased access to extension advice.</li> <li>• Commercially oriented small landowners need means to acquire more land to be able to enhance incomes.</li> <li>• Further development in the land market through completing land certification.</li> </ul>	<ul style="list-style-type: none"> <li>• Promotion of farmers' marketing associations to pool production and negotiate better marketing arrangements.</li> <li>• Assistance to develop market links.</li> <li>• Provision of access to grants and credit for marketing organizations to invest in marketing infrastructure.</li> <li>• Provision of credit to farmers to facilitate adoption of improved technology and farm investments, including land lease/purchases.</li> <li>• Enhanced access to inputs for farmers.</li> <li>• Improved access to technical advice for farmers.</li> </ul>
Landless poor	More severe <ul style="list-style-type: none"> <li>• Mainly younger people who have lost their jobs in urban industries and have returned to the rural areas.</li> <li>• Lack of land ownership to provide income or means to lease/purchase land.</li> <li>• Lack of non-farm income-generating activities in rural areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Sharecropping arrangements to gain access to land for farming but indicative of low social status.</li> <li>• Temporary migration, mainly overseas, in search of employment.</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunity to acquire land through developments in the land market and access to credit.</li> <li>• Development of non-farm activities in the rural areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Provide access to credit.</li> <li>• In Phase II, promote development of non-farm rural enterprises.</li> </ul>



## LOGICAL FRAMEWORK (continued)

### TABLE 2: TARGET GROUP (continued)

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Project Response
Mountain-area communities	Extensive but not severe <ul style="list-style-type: none"> <li>• Loss of jobs in mining and other state-run industries.</li> <li>• Poor natural resource base, which limits agricultural opportunities.</li> <li>• Physical isolation complicates marketing.</li> </ul>	<ul style="list-style-type: none"> <li>• Small-scale commercial agriculture, particularly for dairy products, as milk collection systems have been sustained but income remains low.</li> <li>• Income diversification into agro-tourism.</li> <li>• Younger members of family seek temporary employment overseas.</li> </ul>	<ul style="list-style-type: none"> <li>• More remunerative market outlets.</li> <li>• Access to credit to improve agricultural productivity or to invest in non-farm activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Mountain areas are seen as lower priority as they were not collectivized in the past and therefore face less problems of adjustment.</li> </ul>
Rural women	No significant difference in poverty levels <ul style="list-style-type: none"> <li>• Lack of stable and safe income source due to fewer employment opportunities.</li> <li>• Double burden of farm and family when men migrate in search of employment.</li> <li>• Reduced access to childcare and reproductive health services.</li> <li>• Lack of access to credit and knowledge to increase agricultural productivity.</li> </ul>	<ul style="list-style-type: none"> <li>• Subsistence agriculture.</li> </ul>	<ul style="list-style-type: none"> <li>• Access to markets to encourage increased production.</li> <li>• Access to credit and extension advice to increase productivity.</li> <li>• Development of non-farm income-earning opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure women are active members in farmers' marketing organizations.</li> <li>• Ensure women have equal access to credit and extension services.</li> </ul>



## STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Institution	Strengths	Weaknesses	Opportunities/Threats	Remarks
APC	<ul style="list-style-type: none"> <li>• Reports to the Prime Minister's office.</li> </ul>	<ul style="list-style-type: none"> <li>• No committee focused on agriculture.</li> </ul>		<ul style="list-style-type: none"> <li>• Has invited IFAD to participate in development of National Action Plan for Rural Poverty Eradication and Social Inclusion.</li> </ul>
MAFF	<ul style="list-style-type: none"> <li>• New generation of senior staff seriously committed to market development and to "getting the policies right."</li> </ul>	<ul style="list-style-type: none"> <li>• Limited understanding of modern market economy.</li> <li>• Poor communications between departments; limited administrative capacity.</li> <li>• MAFF at the county level understaffed to be able to provide comprehensive range of services to farmers.</li> </ul>	<ul style="list-style-type: none"> <li>• Change of leadership (ministry reshuffle) could reverse or augment recent progress and commitment to market-led development.</li> </ul>	<ul style="list-style-type: none"> <li>• Strong interest in putting rural development on the national agenda, but tends to be overshadowed by more dynamic and stronger public-relations efforts in other government agencies.</li> </ul>
MAFF Extension Department (ANCA)	<ul style="list-style-type: none"> <li>• Staff have been oriented to principles of market economy and are competent to provide training to farmers in business analysis and business planning.</li> </ul>	<ul style="list-style-type: none"> <li>• Under-staffed and under-resourced (no mobility).</li> <li>• Service provided is reactive and not proactive and more directed towards the better-off farmers who know how to request assistance.</li> <li>• Theoretical knowledge but lacks experience of market economy.</li> </ul>	<ul style="list-style-type: none"> <li>• Possible provider of extension services to members of farmers' organizations (capacity will need to be reviewed further).</li> </ul>	
Commercial banks		<ul style="list-style-type: none"> <li>• Unfamiliar with financial service needs of small farmers.</li> <li>• Low farmer credibility.</li> <li>• Averse to risk.</li> <li>• No experience of microfinance.</li> </ul>	<ul style="list-style-type: none"> <li>• Possible providers of financial services to associations and farmers as administrative bank (requires further review).</li> </ul>	



## STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS (continued)

Institution	Strengths	Weaknesses	Opportunities/Threats	Remarks
EDC (microfinance intermediary)	<ul style="list-style-type: none"> <li>• Committed, competent, enthusiastic, business-oriented staff.</li> <li>• Proven capacity to develop and manage microfinance services.</li> </ul>	<ul style="list-style-type: none"> <li>• With present limited coverage in communities, better-resourced people tend to be the main beneficiaries.</li> </ul>	<ul style="list-style-type: none"> <li>• Possible provider of financial services to members of farmers' organizations.</li> </ul>	Symbolic of newly emerging development-minded NGO sector.
Instrument for Structural Policies for Pre-Accession	<ul style="list-style-type: none"> <li>• Committed, competent, dynamic, business-oriented staff.</li> <li>• Proven model of association for milk collection and assistance to farmers, including credit and technical advice.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of capital to expand collection centres and provision of credit as desired.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential service provider to expand own operation and replicate model in other areas.</li> </ul>	
SAPARD	<ul style="list-style-type: none"> <li>• Grant funds available to support transformation in agricultural sector, particularly in agro-processing and marketing and support for producers' associations.</li> <li>• Activities and geographical areas selected for programme implementation are priority areas for SAPARD investment.</li> </ul>	<ul style="list-style-type: none"> <li>• Present eligibility criteria restricted to organizations registered under particular laws that restricts access.</li> <li>• No pre-finance facilities are available, making it difficult for small organizations to access funds.</li> <li>• Timing of developing protocols for access particularly for producers' organizations.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential source of grant funds for investment in marketing infrastructure by farmers' organizations if procedural hurdles can be overcome.</li> </ul>	



## IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME

1. Romania has experienced a dramatic increase in rural poverty and social exclusion since the collapse of the command system. As a result, the rural poor now face a less certain future than ever before as the process of agricultural modernization and consolidation continues to gain pace in the new free market economy. On the other hand, the extent and severity of poverty in Romania do not compare with many Asian and African countries that also compete for IFAD resources. IFAD must be very clear about what it hopes to achieve in transition countries and exercise special care to select investments that ensure maximum impact. However, that absolute poverty measures are not always comparable with those in other parts of the world does not mean that IFAD can afford to neglect Romania and other transition countries. Indeed, unlike some parts of the world where the extent of rural poverty can be overwhelming, there are especially good opportunities in the Central and Eastern and the Newly-Independent States for discrete investments to both attract donor and private-sector investments and have a major impact.

2. The investment options developed above and further detailed below present opportunities for IFAD to have a positive impact on poverty reduction while meeting its strategic objectives: (i) strengthening the capacity of the rural poor and their organizations; (ii) ensuring equitable access to resources; and (iii) increasing access to financial assets and markets. Rural poverty reduction has not received adequate attention relative to the large amount of aid channelled to Romania. Developing rural institutions that empower the rural poor, enable them to benefit from new economic opportunities and provide them with a voice in policy dialogue is an important challenge.

3. IFAD is well positioned to play a catalytic role in terms of its ability to innovate and test new approaches to rural poverty reduction. In particular, there is a clear opportunity for IFAD to play an important and innovative role through a programme to develop new market links and democratic local institutions, including producer associations, small-scale agro-processing units, and other types of joint enterprises that help the rural poor to share in the potential benefits of the new market economy and minimize the negative consequences of EU accession. Success in this regard can be measured at the national level by the uptake of project strategies by the Government and donor organizations, including an increased awareness of rural poverty in key policy decisions. IFAD is similarly well positioned to facilitate a dialogue on inclusive development strategies that truly help make transition work for everyone, including the rural poor.

4. The main features of three main project concepts are described in broad terms below to facilitate discussion of investment possibilities with the Government and other stakeholders.

### A. Farmer Organizations and Community Support

5. A project of this type would seek to promote new forms of rural association in support of market development, agricultural consolidation and non-farm rural enterprise. This would include legal advisory services, awareness-building and training of local service providers, rural beneficiaries and private traders on the organization, operation and potential benefits of genuine producer-owned and -operated cooperative structures.

6. At the field level, such a project could build on the experience of UNDP's Rural Women in Small Business Project and World Bank's RSDF, which have demonstrated that a process of community facilitation can be an effective way of identifying local priorities and of creating trust in new forms of group cooperation. Targeted communities would be supported with necessary training in essential agricultural and business management skills in carefully selected areas that reflect the group's priorities and are consistent with the Government's strategic development objectives.



7. Beyond an improved understanding and trust in modern cooperative structures, groups might also be helped to develop realistic plans for community-based micro-projects to be financed on a matching-grant basis. Eligible investments might include farm machinery, irrigation equipment, fish farms, dairy and other food-processing systems, handicrafts, agro-tourism and other rural services or whatever is needed to support the new association. Each micro-project would have the objective of helping farmers prepare for EU accession through the development of improved efficiencies and new market linkages and/or by the promotion of new areas of enterprise.

8. Associations and their projects would be carefully followed up to help farmers overcome problems and develop other skills needed to access formal bank credit. To ensure that funds are used to support strategic priorities for agriculture, a number of market studies and feasibility analyses would be necessary. These might be carried out in cooperation with MAFF in order to foster ongoing policy dialogue and ensure the sustainability of project investments.

### B. Mountain-Area Development

9. A second type of project that IFAD might reasonably support would be to develop a specific programme to address the distinct challenges faced by mountain area communities. Since market links and new forms of association are also important in these areas, such a project could be designed on the same principles as for the previous project to develop new forms of association through a process of group facilitation, technical advisory services and financing of community-based micro-projects on a matching-grant basis. Because of the fragile natural resource base of mountain areas, support for environmental activities would be an important focus of such a programme.

10. Typical mountain-area farm systems are based on the production of potatoes, cabbage and other short-season food crops, with a large share of arable farmland given over to hay production for feeding livestock during the long winter. Households typically have from one to four dairy cows, one or two pigs raised over a 14-month cycle, and several chickens. Although many farmers produce small surpluses of milk, there is likely to be only one processing unit in the area and so the farmers are forced to accept the price it offers. Mountain farmers also raise sheep, but the collapse of the wool market led to a significant reduction in herd sizes from 150 animals per farmer to as few as five-or-ten today. Sheep are typically fed on mountain pastures during the summer months when cheese-making takes place. The sharp decline in the animal population now threatens the environmental sustainability of this system since grazing is a natural regenerative process.

### C. Irrigation Rehabilitation and Support for Water User Associations

11. This project would support the World Bank-financed Irrigation Rehabilitation Project, to be designed in 2003. As with other IFAD projects it is proposed that IFAD should work with the World Bank, which would mainly focus on the rehabilitation of primary and secondary irrigation networks, to **develop local management capacity at the tertiary level** through support for WUAs and farm-level application systems. USAID is already cooperating with the Government on researching and developing an appropriate legal framework for establishing WUAs in Romania, and the rehabilitation of irrigation infrastructure is seen as a national priority.

12. In terms of the potential to support market development, IFAD could also work with WUA members to form market associations. As with the previous project concept, this would also be likely to require considerable **facilitation and support** to develop the necessary skills and collaborative spirit needed for farmers to succeed and trust in new forms of cooperation. Emphasis on **farm management**, including appropriate **models of association**, would also be an important aspect of any marketing component in order for small landowners to receive the maximum benefit.

## POTENTIAL FOR COMPLEMENTARY DONOR INITIATIVES/PARTNERSHIPS

Donor/Agency	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
European Bank for Reconstruction and Development	Investment finance	<b>Various products.</b> Loans, equity finance, trade facilitation, loan guarantees, financing through intermediaries, cofinancing facilities with nationwide coverage.	Ongoing	
EU	Grant funds for investment capital  Agricultural policy environment, including market analysis of main commodities	<b>SAPARD programme</b>  <b>Twinning Programme</b>	Ongoing	Potential source of grant funds for investment capital if procedural constraints can be overcome.
Food and Agriculture Organization of the United Nations	Policy and strategy development	<b>Agriculture Sector Strategy Project</b> , including formulation of strategies on marketing and processing, and rural credit.	Ongoing	Possible channel for policy dialogue with Government on poverty issues.
German Agency for Technical Cooperation	Promotion of farmers' associations and marketing of vegetables through Bucharest wholesale market project	<b>Technical assistance to ADP Support to farmers' associations</b> includes marketing of vegetables in Bucharest through assembly markets and establishment of producers' associations; promotion of farmers' associations, including milk, pig breeders and vegetable production in the mountain areas.	Ongoing	Strong – potential partner to provide technical assistance and grant funding for investment in marketing infrastructure, building on its ongoing experience with farmers' associations and development of vegetable marketing.
KfW	Credit for small and medium-scale enterprises (SMEs)	<b>Credit project</b> providing line of credit to partner commercial banks for lending to SMEs and provision of technical assistance to banks to develop capacity for lending to the SME sector.	Ongoing	Moderate – possibility of accessing credit funds if new modalities can be developed for lending to farmers' associations, but limited presence of partner banks in proposed programme areas.



**POTENTIAL FOR COMPLEMENTARY DONOR INITIATIVES/PARTNERSHIPS (continued)**

<b>Donor/Agency</b>	<b>Nature of Project/Programme</b>	<b>Project/Programme Coverage</b>	<b>Status</b>	<b>Complementarity/Synergy Potential</b>
Royal Netherlands Embassy	Supporting investment in dairy industry.			Moderate – has provided support in the past for the instrument for structural policies for pre-accession (ISPA) and may be interested in participating in replicating this successful model.
World Bank	<b>Rural Development Programme</b> focusing on capacity-building of local administration and funding of rural infrastructure.	Supports the development of roads and water/sanitation services in selected poor counties, including Botosani and Dolj.	Approved	Moderate – possible linkage with provision of improved road access to communities targeted for the establishment of farmer's organizations in Botosani and Dolj.
World Bank	<b>Irrigation Rehabilitation Project (IRP)</b> focusing on rehabilitation of primary and secondary irrigation structures and possibly some on-farm irrigation equipment.	Initial pilot areas are Sadova-Corabia scheme (Dolj/Olt counties ) and Nicoressti-Tecuci in Galati. Precondition is establishment of WUAs to manage the systems. Negotiating with Government on provision of grant funding for on-farm irrigation equipment.	To be designed in 2003	Proposed IFAD programme would support downstream activities, e.g. marketing assistance within the irrigation rehabilitation areas, and may include funding of on-farm irrigation equipment consistent with the approach negotiated by World Bank.
World Bank	<b>Rural Finance Programme</b> to expand rural lending through commercial banks and leasing companies and to expand microfinance facilities.	Provision of credit line for partner banks to provide loans to rural sector, and support for development of rural branch network. Provision of line of credit to private microfinance providers to expand small loan facilities to rural communities.	Ongoing	Moderate – potential to establish links with this project depends on response from commercial banks, terms of lending and coverage of microfinance providers.
World Bank	<b>Agricultural Support Services Project</b> to support agricultural research and dissemination.	Provides competitive grants scheme for adaptive research and extension projects by public and private sector, including community-based organizations implemented through stringent selection process.	Ongoing	Low – projects accepted are determined by the selection process and hence access to these funds cannot be predetermined.



**POTENTIAL FOR COMPLEMENTARY DONOR INITIATIVES/PARTNERSHIPS (continued)**

<b>Donor/Agency</b>	<b>Nature of Project/Programme</b>	<b>Project/Programme Coverage</b>	<b>Status</b>	<b>Complementarity/Synergy Potential</b>
World Bank/Council of Europe/Development Bank	<b>RSDF.</b> Community-based matching grants covering three types of investment: (i) rural infrastructure (USD 75 000 max); (ii) income-generating projects (USD 25 000 max); and (iii) urban social services (orphanages, homeless shelters, etc.).	Nationwide coverage with community facilitation in selected impoverished areas.	Ongoing; Phase II recently approved in amount of USD 20 million.	Micro-projects are approved through a rolling selection process and therefore cannot be allocated towards joint projects a priori. Thus, access to these funds cannot be predetermined.
UNDP		<b>Sustainable Livelihood Section</b>		
UNDP/Government of Japan	Empowerment of rural women in Romania, focusing on developing community-based income-generating projects.	Coverage extremely limited; two project sites so far with another two projects to be funded in Phase II.	Ongoing; Phase II recently approved (USD 200 000 Japanese grant through UNDP).	Low
USAID	<b>WUA Development Project</b> to establish and/or strengthen WUAs in the pilot areas of the World Bank's IRP.	Capacity-building of WUAs in Sarova-Corboba and Nicoresti-Tecuci irrigation schemes, and pilot commercialization of farmers.	Ongoing	Strong – potential partner to provide technical assistance in support of the proposed programme.
Japanese International Cooperation Agency	<b>Agricultural Cooperative Development,</b> focusing on cooperative education.	Provision of cooperative education to staff of the National Association for Agricultural Consulting, establishment of eight cooperative training centres in the regions, and development of model cooperatives.	Ongoing	Moderate – potential link to provide capital investment required by the model cooperatives located in the programme area (following review of their selection).





## POTENTIAL FOR COMPLEMENTARY DONOR INITIATIVES/PARTNERSHIPS (continued)

1. To become competitive and accede to the EU, Romanian agriculture will need significant reform, including an increase in productivity, investment, land consolidation and the creation of a land market. Crop yields, value-added per worker and fodder/livestock conversion rates are all well below the EU average.
2. Approximately 70% of Romania's exports are destined to countries of the EU, which is also the source of most foreign direct investment. Both politically and economically, preparation for rapid EU accession is one of Romania's main objectives. Romania initiated accession negotiations with the EU at the Helsinki Summit in 1999, and continues to work actively with EU and the donor community with the aim of becoming an EU member by 2007.
3. Although the EU accession process has helped to anchor and justify reform, there are a number of prerequisites that the EU cannot provide, such as adequate institutional capacity to implement laws and regulations, and a political consensus that provides continuity in spite of changes in government. But while the new government has been praised by the EU for its ability to pass legislation vital for EU entry at a much faster rate than its predecessor, such reforms, and indeed the entire accession process, are not necessarily a blueprint for economic transformation and development. In spite of enthusiasm by both the EU and the Romanian Government, neither speedy accession nor economic success can be assured without the necessary attention to institutional development and policy reform. In terms of poverty reduction and social equity, this would particularly call for attention to the deep-seated problems of Romania's rural areas.
4. Much work is still needed to address basic development problems, in addition to the work needed to build up Romania's capacity for enforcing EU regulations and new structures to manage EU policies and subsidy programmes (such as the common agricultural policy).
5. **Support instruments.** Among current EU programmes with a bearing on agriculture that support Romania's drive for accession are: (i) EU Phare for the development of national institutional capacity; (ii) ISPA, for the development of trans-European infrastructure; and (iii) SAPARD, to stimulate private and public investment in agriculture. Once fully on line, total annual disbursements under these programmes could amount to as much as EUR 650 million.
6. Once it joins the EU, Romania would also have access to structural development funds for underprivileged areas, including the Regional Development Fund and the European Agriculture and Guidance Fund. These funds, which were established to support development in regions of member countries with a GDP of less than 55% of the overall EU average, could be of enormous benefit to Romania.
7. **EU Phare.** In Romania, Phare has focused in particular on the institutional capacity-building of the Government to enforce EU regulations. This has included building new government structures to manage EU policies, including subsidies under the common agricultural policy, food safety and veterinary controls and the new SAPARD Agency. The EU Twinning Programme, also funded under Phare, provides technical assistance to MAFF and other ministries.
8. **SAPARD** aims to help accession countries implement the *acquis* related to the CAP, and to support the competitiveness of the sectors concerned, job creation and sustainable economic development in rural areas. Priority is given to operations designed to improve the effectiveness of the market, quality and health standards, with attention to environmental conservation. The SAPARD instrument has been allocated EUR 150 million (USD 136.5 million) for Romania annually through 2006. Unlike Phare, for which the European Commission retained authority over the expenditure of

available funds, the Government of Romania (through its SAPARD Agency) will decide how these funds are to be used.

9. For private investment projects, SAPARD will only finance 37.5% of the total cost of each project. The entrepreneur must provide half of the cash cost of each investment and, of the remaining 50%, SAPARD will fund 75% (37.5% of the total) and the Government 25% (12.5% of the total). Moreover, SAPARD will not provide pre-financing for private investments but will only reimburse projects for money spent in up to five tranches. Because of the pressure to disburse and the requirement that each entrepreneur should contribute substantially to the cost of each project, it is expected that most SAPARD funds will be used in favour of very large investment projects. For public-sector projects, SAPARD will finance 75% of the total cost of each project and the Government will contribute the remaining 25%.

10. **ISPA** is the European Commission's instrument for helping accession candidate countries to comply with EU standards and requirements for the environment and transport. Assistance granted under ISPA contributes to the objectives laid down in the accession partnership agreements for each beneficiary country, and to corresponding national programmes for improving the environment and transport infrastructure sectors. ISPA has an annual budget of about EUR 1.0 billion (USD 910 million), of which around Euro 230 million (USD 209.3 million) is for Romania.

11. **Common Agricultural Policy (CAP).** The EU is a substantial net exporter of agricultural commodities and, as such, market price support in the EU is delivered through export subsidies. For reasons of efficiency, CAP instruments aim at the first stage of processing or wholesaling. For example, intervention prices for cereals are wholesale prices rather than farmgate prices. Therefore, downstream sector market efficiency is important for the transmission of support to agriculture. Direct payments, on the other hand, are coupled to actual area and livestock heads.

12. **Accession costs.** The expected benefits from these processes are substantial, but so are the costs for EU accession: preparation costs, such as incorporation of the *acquis communautaire*, will include substantial costs to create and sustain the administrative capacities to enforce, monitor, supervise and judicially process EU legislation. The European Commission has provided substantial funds (over EUR 2 billion since 1992), a large part of which was intended for adopting and implementing the *acquis communautaire*. However, these resources can only be disbursed if and when the entities responsible for programming, operational management and financial control are at fully capacity and functional. There is therefore a substantial risk that these resources might be lost to Romania unless the institutional capacity to absorb them is developed within a certain timeframe. Transition costs include financial responsibilities that have to be met to prepare specific sectors of the economy for EU membership. For example, according to a European Commission study, the cost of Romanian compliance with EU environmental directives can be estimated at EUR 20 billion. The financial costs of bank restructuring, consolidation and stabilization are also substantial. Similarly, in the agricultural sector, the social costs of transformation could be staggering. Membership costs include Romania's direct contributions to the EU budget, estimated at 1% of GDP. Some 'membership costs' are already applicable – in agriculture this will include the need for cost-sharing of pre-accession instruments such as SAPARD.

**Source:** European Commission, Bucharest, and World Bank, 2001.s