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McNamara Papers

Travel
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1772882

Travel briefs, Romania C1

A1995-259 Other #: 24

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Folder 3

DECLASSIFIED

WBG Archives

ROMANIA

How well will be held to D. ... - shift from London to West?

17th - 18th -

Business

Sabon-Corabia ... going well
poor, sandy, unworked soils (Pac) ...

East + ... from Sabon Sector

5 1/2 Plans (332 ... 72" 82pc")
... still plan to raise ...
... justified in part by sub-offer ...
... not to ... about ...
... comparison on ...
... but all commitments have been made ...
... this assumes an ...

Therms-Photo - their plan is ...
... but primarily for effort to ...
[...] ... it will be very diff. to ...
your efforts of ...
... to ...

East Pirate ...

Graduation: they need to work with: ...
... not only ...
but dual ...

use Sabon Sec surveys as ...
much improvement ...

An ... change ...
I am very ...
But see it another ...

Review

We still don't have a report on macro - review

but we for 1st time, may have a 2nd -

sector missions on elements of steel mill interesting guess

is not economic secondary over-investing on both sides (Int.

appl. in 85 needs W. Eur.) + steel -

jobs become less unlikely if there is a vertical integration
into higher consumption (present rate are based on

• efforts) - but no sign yet of Japan for new consumption
results of studies when completed (Sept) should be sent to

him & we will be prepared to discuss [Review with M&F]

his view on Protectionism - what should be done about it -

Independent foreign policy

his view re: World Energy Problem

NO/33 relations

Participation of Gov. in development

China's participation in BR & IMF

Graduation: discuss with N. St., NS, ERG prior 29/18

TABLE OF CONTENTS

- 1) A. Itinerary
- 2) B. Airport Statement
- 3) C. Maps and State Department Notes
- 4) D. List of Government and RCP Officials and Biographical Data
- 5) E. Topics for Discussion

- a) The Relationship with Romania; Improvements and Disappointments
- b) Future Lending Relationship and its Duration
- c) The Danube Black Sea Canal Project
- d) The Economy and Industry
- e) IDA Membership

6) F. Reference Material

- a) CPP ~~(*repeated*)~~
- b) Political Situation
- c) Economic Situation
- G) Summary of Findings of Chemicals and Steel Subsector Missions *+ Agri Sector*
- H) Foreign Assistance and Debt
- I) The Romanian System of Economic Planning and Implementation
- J) Summary of New Economic Reforms of 1979
- K) Cattle Development Project
- i) UNDP Activities

7) K. Bank Group Operations

- Statement of Bank Loans as of May 31, 1979
- Existing Projects
- Future Projects
- L Memoranda of Conversation

8) M. Field Visit Briefs

- Summary of Sadova-Corabia Project
- Summary of Livestock I and II Projects
- Summary of Brasov Ball Bearings Project

- NKIDA*
- N) Information Media and Press Clippings

P r o g r a m

of the visit of Mr. McNamara, president of the World Bank

July 19 - 22, 1979

Thursday July 19, 1979

- 19,00 - The arrival to Craiova
- 19,30 - 20,00 - Accommodation. Briefing of the IBRD Staff.
- 20,00 - Dinner

Friday July 20, 1979

- 7,00 - Breakfast
- 7,30 - Departure by cars to the airport.
- 7,45 - Departure by helicopters to Sasoava - Corabia.
- 8,00 - Arrival at Bechet investigation center.
- 8,30 - 9,30 - Visit of the irrigation system, orchards, vineyards.
- 9,30 - Departure for Bucharest by helicopters.
- 11,00 - Arrival at Bucharest
- 11,15 - Accommodation
- 11,30 - 13,00 - Meeting with Mr. Paul Niculescu-Mizil.
- 13,15 - 14,30 - Lunch (official) at Athenée Palace.
- 15,00 - 16,15 - Departure for Neptun by helicopters.
- 16,30 - Accommodation
- 20,30 - Dinner

Saturday July 21, 1979

- 7,30 - Breakfast
- 8,00 - 9,00 - Visit of the Danube-Black Sea Canal
- 10,30 - Visit of the irrigation system, of Rasova-Vederoasa.

11,30

- Continuation of the trip, by helicopters, to Braşov.
- Arrival at Prejmer.
- Lunch at State Farm of Prejmer.
- Departure, by cars to Braşov.
- Visit of the Black Church of Braşov.
- Visit of ball-bearing plant.
- Departure by helicopters to Bucharest.
- Arrival to Bucharest.

13,00

- Breakfast.

13,30 - 15,00

- Departure for airport.

15,30

- The take off.

16,00 - 17,00

- Breakfast.

17,00 - 18,00

- Departure for airport.

18,00

- The take off.

19,30

- The take off.

Sunday July 22, 1979

7,00

- Breakfast.

7,30

- Departure for airport.

8,30

- The take off.

-- o0o --

*cont
July 30*

B

ARRIVAL STATEMENT IN ROMANIA

I am very pleased to be back for my second visit to Romania, and I thank the government for extending its hospitality.

Romania had not become a member of the World Bank on the last occasion I was here. However, in the years since then, a close relationship has grown between Romania and the Bank. The World Bank made its first loan to your country five years ago, and we have subsequently committed more than \$1 billion in support of your development efforts. In fiscal year 1979 alone, we approved loans totaling \$295 million to assist five projects. The World Bank has provided funds for projects in the industrial, agricultural and power sectors, and we have also helped with your recovery programs following the 1975 floods and the 1977 earthquake.

In particular, the World Bank has helped Romania to acquire needed technology to complement your own industrial engineering expertise. Two recent loans for the Chemical Complex in Craiova and the Steel Pipe plant in Roman, support projects which involve the transfer of the most modern industrial technology from abroad.

The Bank's most recent loan to Romania of \$75 million--for the livestock sector--will be supported by a \$100 million syndicated Eurodollar credit which is being arranged as co-financing. This is illustrative of the catalytic role the Bank has played in mobilizing the flow of financing from commercial banks to Romanian borrowers. The World Bank has also given particular emphasis to projects in all sectors that will help you to bridge your foreign exchange gap.

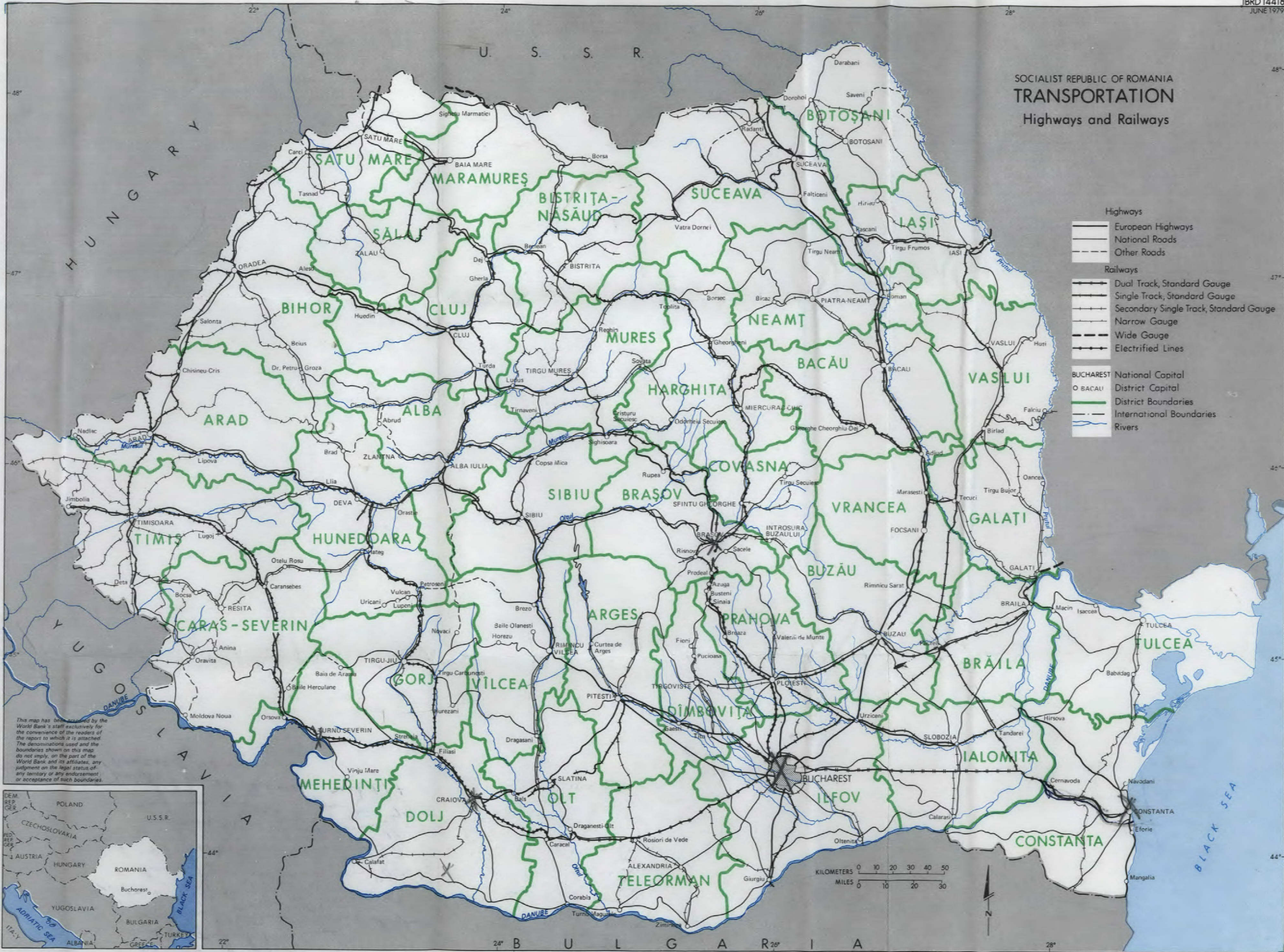
The World Bank's technical cooperation with Romania has also been significant. So far, 165 Romanians have been trained in new economic and, financial and technical disciplines by the Bank's Economic Development Institute, working with the International Center for Management Development (CEPECA) in Bucharest.

We look forward to our continued involvement in Romania's economic development, and during my stay here I will be discussing the nature of future World Bank cooperation with government officials.

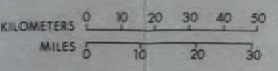
C

SOCIALIST REPUBLIC OF ROMANIA
TRANSPORTATION
Highways and Railways

- Highways**
- European Highways
 - National Roads
 - Other Roads
- Railways**
- Dual Track, Standard Gauge
 - Single Track, Standard Gauge
 - Secondary Single Track, Standard Gauge
 - Narrow Gauge
 - Wide Gauge
 - Electrified Lines
- Other Symbols**
- BUCHAREST National Capital
 - District Capital
 - District Boundaries
 - International Boundaries
 - Rivers



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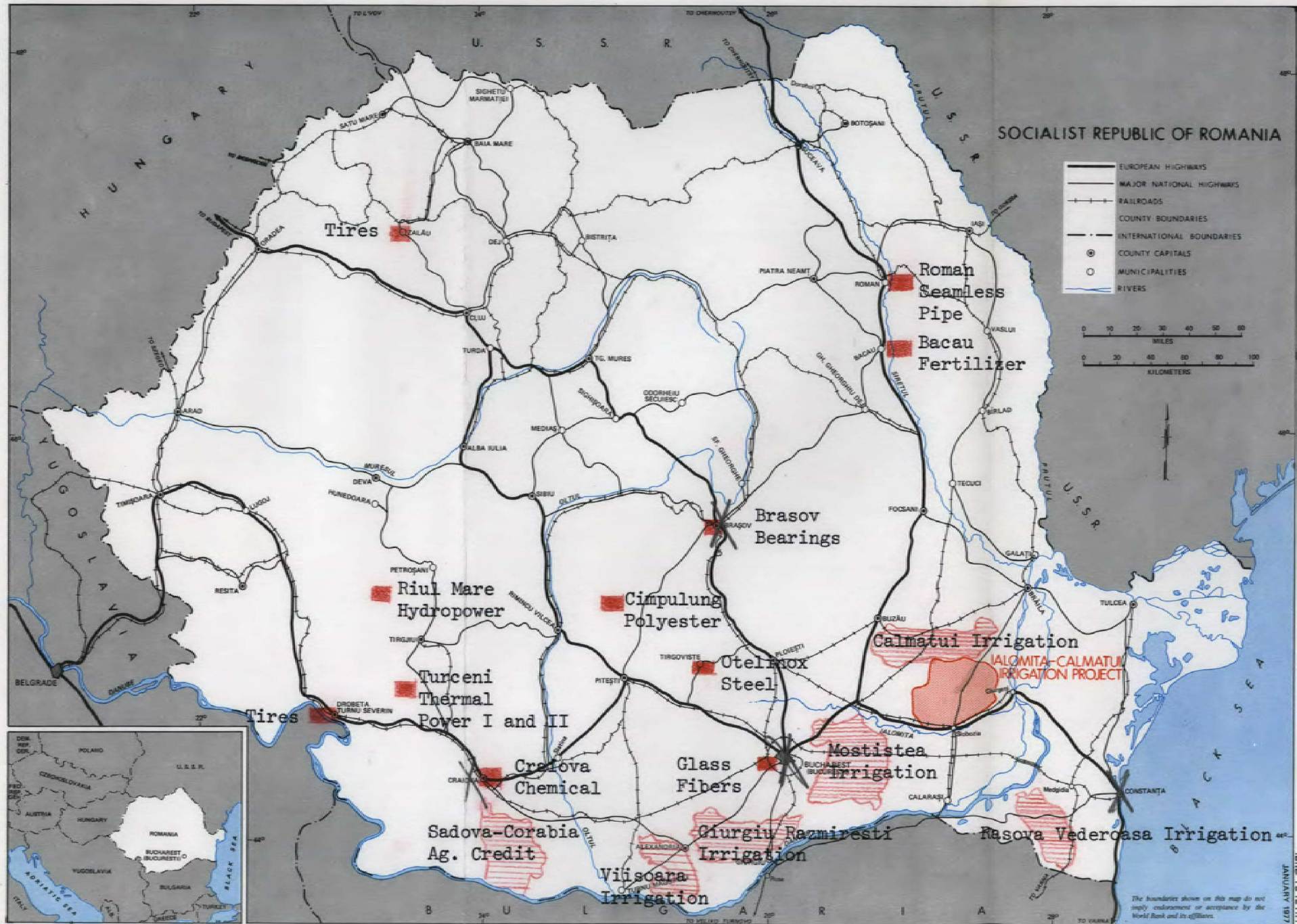
Centimetres
Inches

TIFFEN Color Control Patches

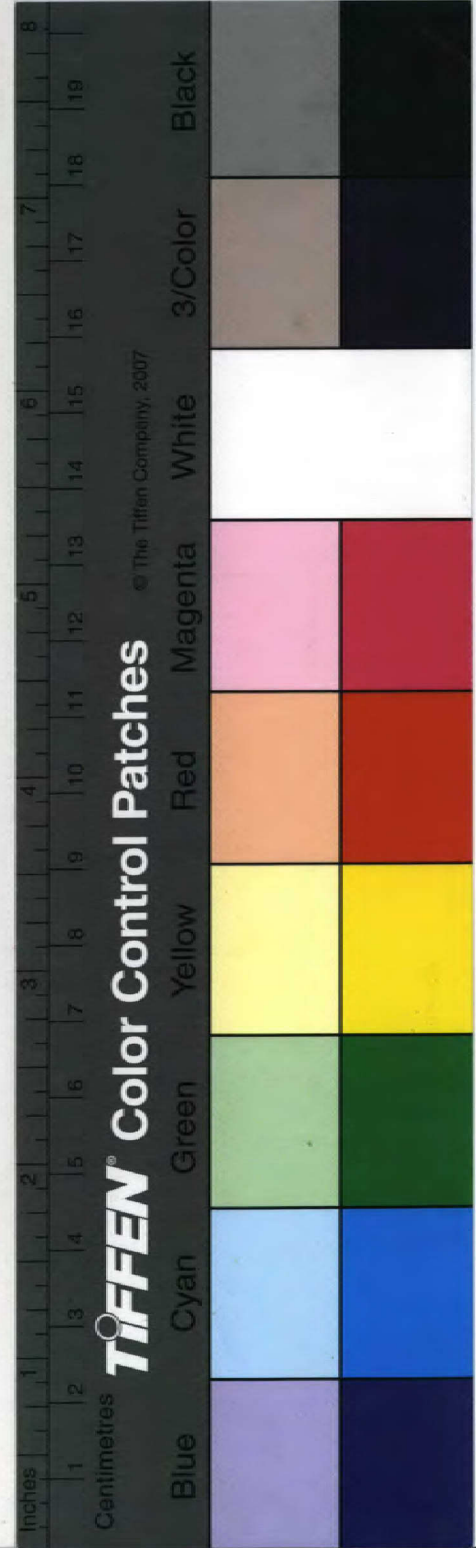
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Blue
Cyan
Green
Yellow
Red
Magenta
White
3/Color
Black

LOCATION OF BANK FINANCED PROJECTS IN ROMANIA



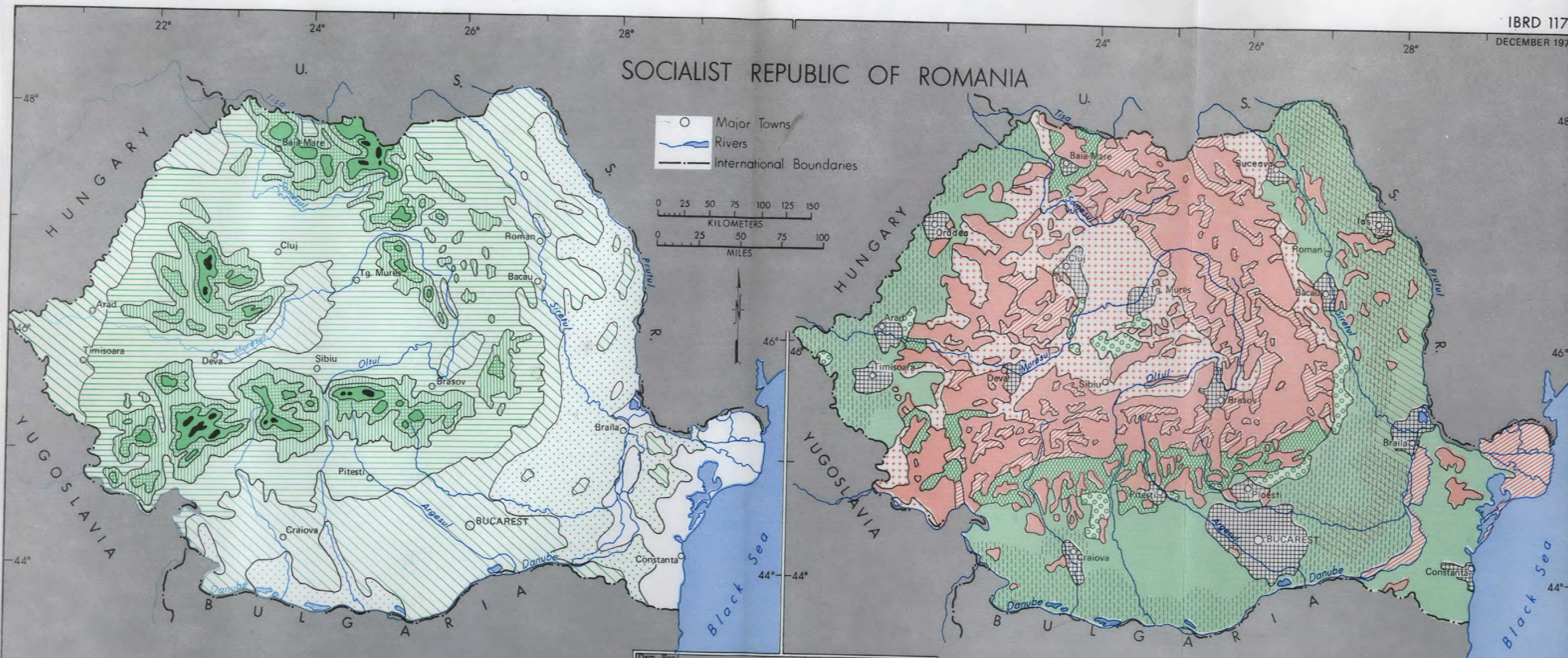
The following projects are not location specific: Flood Recovery Projects, Pig Production and Processing Project, Post Earthquake Construction Assistance Project, Livestock II (Pigs II) Project.



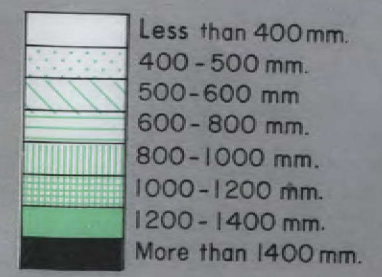
IBRD 10481 R1
JANUARY 1977

Centimetres
TIFFEN Color Control Patches
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Black
 3/Color
 White
 Magenta
 Red
 Yellow
 Green
 Cyan
 Blue



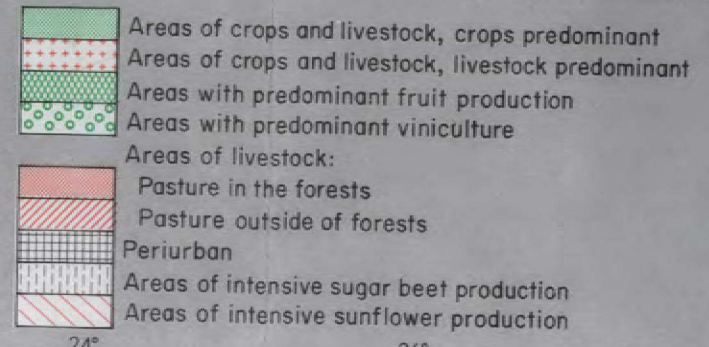
AVERAGE ANNUAL RAINFALL



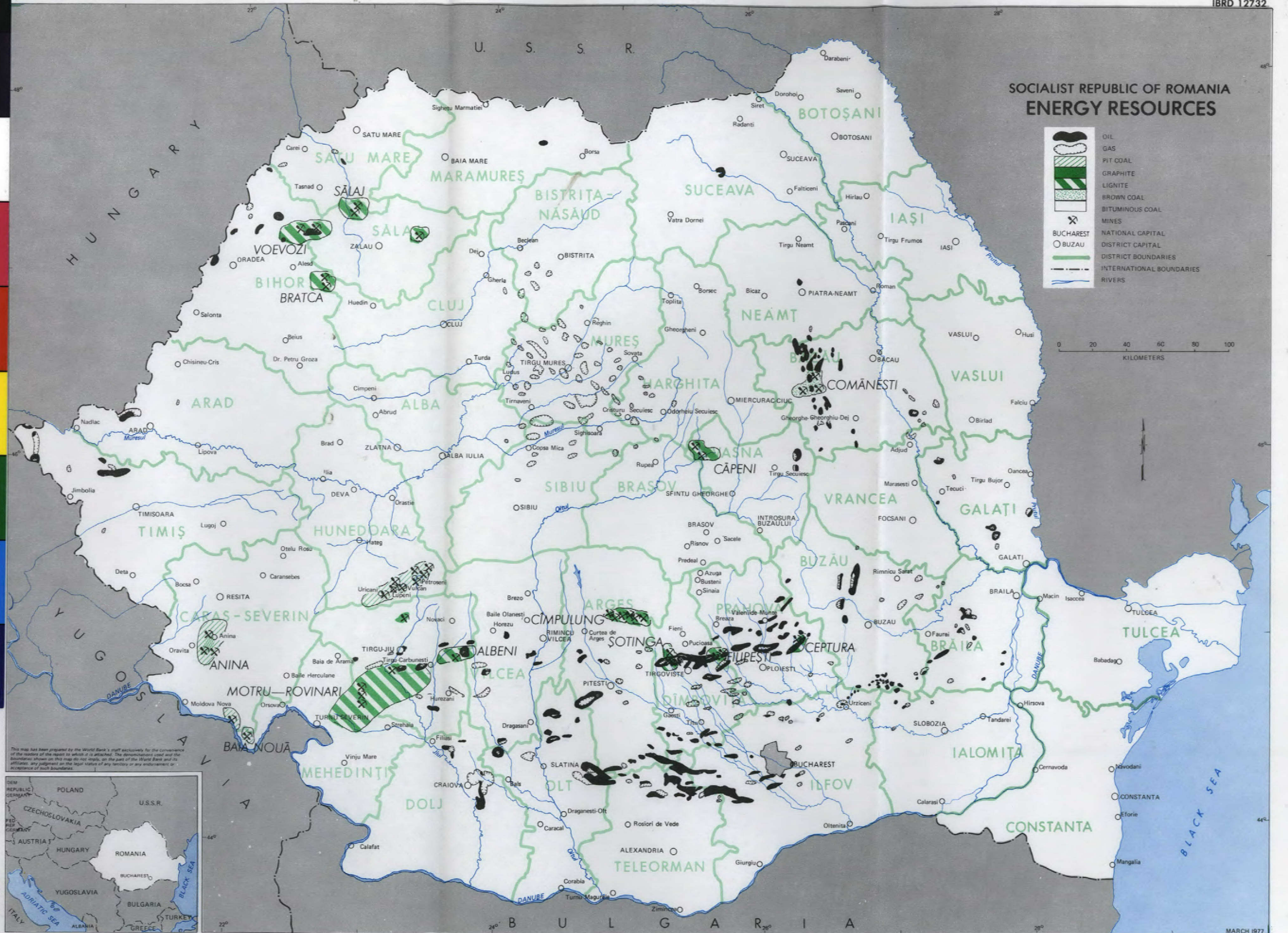
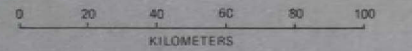
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AGRICULTURAL PRODUCTION AREAS



SOCIALIST REPUBLIC OF ROMANIA ENERGY RESOURCES



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background NOTES

Romania

department of state * march 1978

OFFICIAL NAME: Socialist Republic of Romania

PEOPLE

About 88 percent of the people are ethnically Romanian, a group which, in contrast to that of Slav or Magyar (Hungarian) neighbors, is traced back to ancestors closely related to the French, Italians, Spanish, and other "Latins." As a result, the Romanian language, although containing many elements of Slavic, Turkish, and other origins, is loosely related to French, Italian, Portuguese, and Spanish. Romania was a Roman colony during the second and third centuries, and modern Romanians consider themselves to be descendants of the Roman civilization. Hungarian and

German are also spoken in some parts of the country.

Most of the minority populations reside in Transylvania or areas to the north and west of Bucharest. Among the principal minorities are the Hungarians, Germans, and Jews, with smaller numbers of Serbs, Croats, Ukrainians, Greeks, Turks, Armenians, and Great Russians.

Before World War II, minorities represented more than 28 percent of the total, but that percentage was halved in large part by the loss of the border areas of Bessarabia and northern Bukovina (to the U.S.S.R.) and southern Dobrudja (to Bulgaria), as well as by the postwar flight or depor-



tation of ethnic Germans. However, in Transylvania, which was part of pre-

PROFILE

People

POPULATION: 21.7 million (1977 est.). ANNUAL GROWTH RATE: .9%. DENSITY: 236 per sq. mi. (91 per sq. km.). ETHNIC GROUPS: Romanians 88.1%, Magyars 7.9%, Germans 1.6%, Jews, Ukrainians, Serbs, Croats, Russians, Turks. RELIGIONS: Orthodox 80%, Roman Catholic 9%, Calvinist, Lutheran, Jewish. LANGUAGES: Romanian, Hungarian, German. LITERACY: 98%. LIFE EXPECTANCY (1973-75): 69.3 yrs (males); 71.8 yrs (females).

Geography

AREA: 91,699 sq. mi. (237,499 sq. km.); (somewhat smaller than NY and Pa. combined). BOUNDARIES: Land 1,845 mi. (2,969 km.); sea 140 mi. (225 km.). CAPITAL: Bucharest (pop. 1.9 million). OTHER CITIES: Constanta (290,226), Iasi (284,308), Timisoara (282,691), Cluj-Napoca (262,421), Brasov (262,041).

Government

TYPE: Communist. DATE OF CONSTITUTION: August 21, 1965. ADMINISTRATIVE SUBDIVISIONS: 40 Counties (includes City of Bucharest). SUFFRAGE: Universal (18 years and above) and compulsory.

BRANCHES: Executive—President (Chief of State), Prime Minister (Head of Government), Council of Ministers. Legislative—unicameral Grand National Assembly (GNA) and its Council of State. Judicial—Supreme Court, county courts, people's courts.

FLAG: Three vertical bands from left to right—blue, yellow, and red. Centered is a coat of arms depicting mountain forest and wheat field, with a red star atop the emblem.

Economy

GNP: \$27.8 billion (1976, in current prices). ANNUAL GROWTH RATE: 10.5 percent (1975-76). PER CAPITA INCOME: \$1,300 (1976). (These are World Bank

calculations. Other estimates of GNP are considerably higher.)

AGRICULTURE: Land 63%. Labor 36%. Products—corn, wheat, oil seeds, potatoes.

INDUSTRY: Labor 40%. Products—power, mining, forestry, construction materials, metal production and processing, chemicals, machine building, food processing, textiles.

NATURAL RESOURCES: Oil, timber, natural gas, coal.

TRADE: Exports—\$7.02 billion (1977): foodstuffs, lumber, fuel, manufactures. Imports—\$7.02 billion (1977): machinery, equipment, rolled steel, iron ore, coke and coking coal, cotton. Partners—Soviet Union, FRG, GDR.

EXCHANGE RATES: 4.47 lei=US\$1 (official), 12 lei=US\$1 (tourist).

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN and most of its specialized agencies, Council for Mutual Economic Assistance (CEMA), Warsaw Pact, World Bank, International Monetary Fund, GATT, Danube Commission, Interpol.



1918 Austria-Hungary, Romania retains areas where the ethnic "minority" sometimes makes up three-fourths of the local population and is therefore politically significant.

The official Romanian Government policy toward the national minorities is nondiscriminatory and allows them a degree of cultural autonomy, while insisting on their integration into the national economy and providing for compulsory study of Romanian, in addition to the minority languages.

The Jewish community surviving World War II has been reduced perhaps nine-tenths over the past three decades

by emigration to Israel. In recent years, up to 10,000 of the nearly 400,000 ethnic Germans in Romania have emigrated annually to the Federal Republic of Germany. Since World War II there has been little emigration of ethnic Hungarians to Hungary.

Religious observance in Romania has traditionally been extensive, and religious allegiances generally follow ethnic lines with about 80 percent of all Romanians nominally belonging to the Romanian Orthodox Church. The Greek Catholic or Uniate Church, to which about 10 percent of the populace belonged, was incorporated into

the Romanian Orthodox Church by fiat in 1948. Roman Catholics, largely Magyar, constitute about 9 percent of the population; Calvinists, Jews, and Lutherans comprise most of the remaining 1 percent.

GEOGRAPHY

Extending inland halfway across the Balkan Peninsula and covering a large elliptical area of 91,699 square miles (237,499 sq. km.), Romania occupies the greater part of the lower basin of the Danube River system and the hilly eastern regions of the middle

Danube basin. It lies on either side of the mountain system—the Carpathians and the Transylvanian Alps—which forms, with the Balkan Mountains, the natural barrier between the two Danube basins. In the past two centuries Romania has served as the natural gate for Russian expansion in the Balkans and the Mediterranean basin.

Romania's location gives it a definitely continental climate, particularly in the Old Kingdom (that part east of the Carpathians and south of the Transylvanian Alps), where temperatures approximate the extremes of the Russian climate, and to a lesser degree in Transylvania, where the climate is more moderate. A long and at times severe winter (December-March), a hot summer (April-July), and a prolonged autumn (August-November) are the principal seasons of the year. The change from winter to summer is so rapid that there is very little spring-time. At Bucharest the daily minimum temperature in January averages 20°F (-7°C) and the daily maximum in July averages 85°F (29°C).

HISTORY

Romania has had at least 22 centuries of violent and dramatic history. From about 200 B.C., when it was first colonized by the Dacians (a Thracian tribe), to modern times this territory has been the scene of many invasions and migrations that have left their mark on the country and its inhabitants. Today the Romanians form an island between the Slavic and the Hungarian peoples.

Before the postwar Communist regime, Romania looked to the Western countries, particularly France, for cultural, educational, scientific, and social inspiration and development. Among all the Balkan countries, Romania was considered the most Gallicized; the French language, along with Romanian, was compulsory in the schools. In 1948, the Russian language and Soviet institutions supplanted the French language and other Western influences in Romanian cultural life. Since the late 1960's, however, Russian has not been compulsory, and German, French, and English are widely taught in the schools.

Romania was an independent kingdom from 1881 until December 30, 1947, when the Communist-dominated government forced the abdication of King Michael. Before 1938 Romania had a series of governments dominated by a landowning aristocracy, based only nominally on a liberal constitutional system, with a de facto limitation of suffrage. A Social Democratic Party, which controlled the small labor movement, was tolerated by the monarchy but never had political power. In the thirties, an anti-Semitic, anti-Soviet, Fascist Iron Guard movement threatened the government, which was taken over in 1940-41 by the authoritarian General Antonescu. In June 1941 Romania entered World War II on the side of the Axis powers.

A coup led by King Michael and opposition politicians, with the support of the army, deposed the Antonescu dictatorship on August 23, 1944 (Romania's national holiday). An armistice, secretly negotiated at Cairo, was signed September 12 and brought Romanian forces into the war on the side of the Allies against the Germans in Transylvania, Hungary, and Czechoslovakia. Romania, which had suffered extensive losses in the war against the U.S.S.R., incurred additional heavy casualties.

The peace treaty, signed at Paris on February 10, 1947, confirmed the Soviet annexation of Bessarabia and northern Bukovina (originally occupied in 1940) and ceded a largely Bulgar-populated area of southern Dobrudja to Bulgaria. It also reincorporated into Romania that portion of northern Transylvania granted to Hungary in 1940 under German and Italian arbitration between Romania and Hungary. In addition, the treaty required substantial war reparations by Romania to the Soviet Union.

Soviet occupation forces supported Communist organizers, and the non-Communist political leaders were purged. In March 1945 King Michael was forced to appoint a Communist-front government. The King abdicated under pressure in December 1947 when the Romanian People's Republic was declared. With their accession to power, the Communists effectively subordinated national Romanian inter-

ests to those of the U.S.S.R. Since late 1961, however, Romanian communism has assumed an increasingly nationalistic cast. A substantial shift in Romania's foreign policy has resulted.

A new Constitution was adopted in 1965. It provided that the name of the country be changed to the Socialist Republic of Romania.

In 1968 a sweeping reorganization of the administrative structure and territorial division was carried out. The new territorial division was reminiscent of that existing before the imposition of the Soviet-style regime.

GOVERNMENT

Romania is governed by a centralized executive appointed by the Grand National Assembly. Real power, however, lies in the leadership of the Romanian Communist Party (RCP; until July 1965, the Romanian Workers' Party). The party's leading role has been written into the Constitution.

The three principal branches of the government are the Grand National Assembly with its Council of State; an executive consisting of a Council of Ministers, operating ministries, and state committees; and a judiciary.

Like the 1952 Constitution it replaced, the Constitution of 1965 provides for a unicameral Grand National Assembly (GNA). Its 349 Members are elected from single-member electoral precincts of equal population for regular 5-year terms, which may be extended in times of emergency.

The GNA is constitutionally charged with electing the President of the Republic, the Council of State, the Supreme Court, the Chief Public Prosecutor, and the Council of Ministers. Its other constitutional powers include amending the Constitution, reorganizing the bureaucracy, and granting amnesties. The GNA follows party policy on all these matters.

The bulk of legislative work is performed by the Council of State, a permanent body of 28 Members elected by the GNA, which acts when the Assembly is not in session. The Council consists of a President, three Vice-Presidents, 23 Members, and a secretary. Its President is the President

of the Republic, Nicolae Ceausescu, who was elected to this position as the country's first President in March 1974. The Council of State has the power to issue decrees with force of law.

The Constitution defines the Council of Ministers as the "supreme administrative organ" of the state. The Council is formally appointed by and theoretically subordinate to the Assembly. In fact, however, it executes the policies established by party leadership. The Council is composed of the Prime Minister (Head of Government), vice premiers, and ministers and heads of various other central administrative organs.

The Constitution gives the Council of Ministers extensive powers to carry out the state economic plan, manage the country's economy, insure public order, defend the interests of the state, protect the rights of the citizens, run the country's armed forces and military conscription, conduct foreign affairs, and suspend decisions of the county people's councils which do not conform to the law. In the fulfillment of its functions, the Council of Ministers is authorized to issue decisions and orders. In March 1969 a Defense Council was formally set up to take over many of the prerogatives of the Council of Ministers with regard to defense matters.

Following the July 1972 National Party Conference, several combined party and state bodies were formed to control a wide variety of party and government activities, further eroding the authority of the Council of Ministers. The Supreme Council for Economic and Social Development, headed by President Ceausescu, was established in 1973 to coordinate all social and economic planning. Other new party and state organs are the Council for Social and Economic Organizations, which controls the size and functions of ministries and economic enterprises, and the Central Council of Workers' Control over Economic and Social Activities which polices fulfillment of economic plan targets.

The judiciary is constitutionally limited to "defending the Socialist order and personal rights, educating citizens to the respect of law," and, by applying sanctions, "reeducating

lawbreakers and preventing the commission of new infractions." A new revision of the judicial system is being designed to remove misdemeanors from the court system, reduce punishments for felonies, reduce the number of crimes punishable by death from 28 to 5 (exempting altogether youth and some women), and create workers' judicial councils to handle 40-50 percent of cases previously requiring court appearance.

None of the courts—the Supreme Court, the county courts, the people's courts, etc.—has authority to review the constitutionality of laws. The Supreme Court guarantees uniformity of procedures by supervision and decision in procedural matters. It is elected anew by each GNA and is responsible to it or (between GNA sessions) to the Council of State. Theoretically, judges and assessors (lay judges) are independent and subject only to the law.

The office of the Chief Public Prosecutor, an important institution borrowed from the U.S.S.R., is also given constitutional status. The Chief Public Prosecutor is vested with the "supreme supervisory power to insure the observance of the law by ministries and other central organs, by the local organs of state power and administration, as well as by officials and other citizens."

For territorial/administrative purposes, Romania is divided into 39 Counties and the City of Bucharest. Each county is governed by a People's Council, whose chairman is also the First Secretary of the county's Communist Party organization.

Principal Government Officials

President and Chairman of the Council of State—Nicolae Ceausescu
 Prime Minister—Manea Manescu
 Minister of Foreign Affairs—Stefan Andrei
 Minister of Foreign Trade—Cornel Burtica
 Ambassador to the U.S.—Nicolae M. Nicolae
 Ambassador to the U.N.—Ion Datcu

Romania maintains an Embassy in the United States at 1607 23rd Street NW., Washington, D.C. 20008 (tel. 202-232-4748).

POLITICAL CONDITIONS

The transition immediately after World War II from the pro-German dictatorship of Ion Antonescu to the dictatorship of Moscow-trained Communists was relatively rapid. After 1947, the new government followed the Soviet example of agricultural collectivization and forced industrialization accompanied by a remodeling of the state along totalitarian Communist lines.

However, a general "de-Russification" of the country began in 1961 as the Romanian leadership displayed increasing independence of the Soviet Union, whose troops were withdrawn in 1958. The growth of political nationalism has also been intermittently accompanied by some relaxation of internal restrictions. In 1965, 1967, and 1977 nearly all political prisoners were released, and prison sentences of others were reduced or rescinded. A degree of liberality toward cultural creativity was shown in the 1969-71 period. Since 1964, Romania has also permitted a sharp increase in cultural relations with the West, although the level remains low in absolute terms. However, an extensive internal security apparatus has maintained a powerful influence on Romanian life.

The Romanian Government's nationalistic policies have won considerable popular acceptance. Increasing numbers of persons from those strata previously most antagonistic to the system—intellectuals and agricultural workers—joined the Romanian Communist Party. The Party's membership rose from 1.3 million in 1965 to over 2.7 million, or more than 10 percent of the total population, by 1977.

The political leadership since the late 1950's has been remarkably stable, and the passage of power from longtime party/government chief Gheorghe Gheorghiu-Dej, who died in 1965, to Nicolae Ceausescu was evidently smooth and uncomplicated. Ceausescu's 13 years in office (party chief since 1965, Chief of State since December 1967 and President of the Republic since 1974) have been characterized by a slowly improving living standard and popular acceptance of

the government's independent foreign policy.

There has been no evidence of any prospective change in Romania's policy of independence within the Communist system or its active development of relations with non-Communist governments. Responsible officials have repeatedly declared that these policies will be continued.

While the government's independent foreign policy remains popular, 1977 also witnessed important manifestations of unrest on the domestic scene.

ECONOMY

After the Communist takeover in 1945, Romania's economy was patterned after the highly centralized and controlled Soviet model. Although Romania is a member of the Council for Mutual Economic Assistance (CEMA), it maintains its right to decide on participation or nonparticipation in multilateral activities and has resisted supranational planning on the grounds that economic planning is a sovereign national prerogative.

Still one of the less developed countries of Europe, Romania has many natural resources. Its government is determined to show continued impressive growth rates along with a large measure of economic independence. In fact, Romania has sustained one of the highest annual GNP growth rates in post-World War II Europe (about 8 percent per year, 1965-74, according to World Bank estimates).

Its main economic goals are the rapid development of industrial capacity and output, especially in heavy industry; continued state ownership of industrial facilities and collectivized agriculture; rapid improvement of technology and diversification of industrial production; and, a goal since 1963, reduction of economic dependence on any single country or group of countries through an expansion of trade with many states.

Most of the increase in national income has come from growth of industrial production. This has resulted in a high priority on a high rate of investment at the expense of consumption; increased availability of inputs from agriculture and imports;

growth of the industrial labor force; and large imports of advanced technology and equipment, particularly from industrialized non-Communist countries.

The relative backwardness of agriculture and the low productivity of the agricultural labor force, which consists now primarily of older men and women, continue to be serious economic problems for Romania. Although the value of agricultural output rose by 17.2 percent in real terms in 1976, output reportedly fell by 1.3 percent in 1977. The agricultural sector has recently been receiving greater attention as a valuable source of hard-currency earnings, but Romania's development strategy remains overwhelmingly focused on heavy industry.

Among East European countries Romania is second only to Poland in area and population and has long been a major European corn- and wheat-growing country as well as being an important producer of oil, timber, and more recently, natural gas. The principal emphasis of postwar economic programs has been on development of power, mining, forestry operations, construction materials, metal production and processing, chemicals, and machine building. These industries now account for about three-fifths of the gross industrial output. The rapidly expanded machine-building industry, a key part of the industrial process, accounts for about one-fourth of the gross industrial product. The current 5-year plan (1976-80) also places heavy emphasis on the development of the chemical industry, which is slated to grow at an annual rate of 15 percent.

Light industry occupies a less important position in the economy relative to the prewar years when it supplied about two-thirds rather than the present two-fifths of industrial output. Food processing and textiles lead light industry, with production and consumption of durable consumer goods being rather low. Consumer goods are receiving somewhat more attention in current plans, but continued emphasis on heavy industry sharply limits expansion in this area.

The severe earthquake which struck Romania on March 4, 1977, although

causing damage estimated at between \$1-2 billion, did not prevent industrial growth from registering a 1977 increase of 12.5 percent.

Although Romania is not as dependent on foreign trade as other East European countries and is largely self-sufficient in foodstuffs and fuels, the development of Romanian industry requires imports of technology, machinery, equipment, and industrial materials—principally rolled steel, iron ore, coke and coking coal, and cotton. An increase in imports has forced expansion of traditional exports of food, lumber, and fuel in order to avoid trade deficits. It is also noteworthy that in 1976 Romania for the first time became a net importer of crude oil. Manufactures, including a wide variety of capital equipment, have lately accounted for about one-quarter of exports. In 1977 imports and exports were balanced at \$7.02 billion each.

Before World War II less than one-fifth of Romania's trade was with nations that are now Communist, and half of this amount was with Czechoslovakia. However, during the period 1947-59 annual trade with the Communist world reached as high as 86 percent. In more recent times Romania has increased its share of trade with non-Communist countries. The non-Communist share of 1959-69 Romanian trade increased three to four times faster than that of Communist countries, and in 1973 Romania became the first Warsaw Pact country to conduct less than half of its trade with Communist nations. In 1976 about 53 percent of Romania's trade was with non-Communist countries.

Approximately 17-18 percent of Romania's trade is with the Soviet Union, which is the most important supplier of iron ore, coke, and other raw materials. Romania's second largest trading partner is the Federal Republic of Germany, which held an 8-percent share of Romanian trade in 1976. Since 1960 Romania has received substantial credits from Western Europe. Romania has also attached great importance to developing economic ties with the Third World for economic as well as political reasons. In accordance with announced poli-

TRAVEL NOTES

Many foreign tourist agencies arrange travel and hotel reservations in advance for groups or individuals. The official Romanian travel agency, Carpati, has an office at 500 5th Ave., Room 328, New York City.

Visas are available, without fee, from Romanian Consulates or on arrival. Be aware, however, of the requirement that each visitor spend the equivalent of \$10 in hard currency each day in Romania. Retain receipts for all money exchanges and purchases carefully for presentation on departure. Romania is seven time zones ahead of the Eastern US.

Climate—Romania has hot Mediterranean summers and rather cold winters with low humidity.

Health—Although no inoculations are requested for travelers coming from the US or Europe, it is advisable for all travelers to be immunized against polio and to have had a recent gamma globulin injection. *Health requirements change. Travelers should check most recent information.*

Telecommunications—Local telephone service is automatic and fairly dependable. International telephone and telegraph connections are generally good, but there may be delays in placing calls.

Transportation—Bucharest has many inexpensive, but often crowded, buses and streetcars. Taxis are fairly inexpensive.

Driving to Bucharest from December through February is not advised, as mountain passes can be hazardous. Otherwise, the main roads are reasonably good. Rail and air facilities are also available for both domestic and international travel. The daily Wiener-Walzer Express from Vienna takes roughly 20 hours to reach Bucharest.

cies, the Third World's share of Romanian trade is scheduled to reach roughly 25 percent by 1980, as compared to about 20 percent now.

FOREIGN RELATIONS

Since the early 1960's Romania has increasingly asserted its national sovereignty and has sought closer ties with non-Communist countries. Major disputes with the U.S.S.R. have arisen

over Soviet proposals in 1962 to subordinate Romanian economic development to a supranational planning body within CEMA. In a "declaration of independence" of April 22, 1964, the Romanian leadership sharply criticized these proposals and emphasized the right of each Communist Party to work out its own policies in all fields on the basis of national self-interest. Romania consistently followed this policy during the Czechoslovak crises in the summer of 1968, when it publicly criticized and did not participate in the invasion of that country by the Soviet Union and other members of the Warsaw Pact.

Since 1964 Romania has frequently taken positions on international issues markedly different from those taken by the Soviet Union. These have included, among many others, neutrality in the early years of the Sino-Soviet dispute and continuing pursuit of good state and party relations with the People's Republic of China; recognition of the Federal Republic of Germany in 1967; maintenance of relations with Israel after the 1967 war and an independent view of Middle East developments during the 1967 and 1973 wars as well as during the current negotiating phase; early approaches and formal relations with the European Common Market; an independent position (close to Yugoslavia and the Italian and Spanish Communist Parties) in international Communist affairs; an active individual role both in the United Nations and in the CSCE process; "guest" status at nonaligned meetings; and, in addition to good relations with its neighbor Yugoslavia, promotion of Balkan regional cooperation efforts.

The Romanians describe their foreign policy as one of amicable relations with all countries regardless of differing social systems, noninterference in the internal affairs of other states, the pursuit of peace, and the advancement of Romanian national interests. The record bears them out. They have maintained proper relations with the Soviets while rejecting Soviet domination both directly and indirectly. At the 1976 conference of European Communist parties, they were among the successful proponents of the right of each party to develop

and pursue policies on the basis of its own experiences and of the conditions in which it operates. Their participation in Soviet-sponsored international Communist activities has been unpredictable.

Romania is a member of the General Agreement on Tariffs and Trade. It joined the International Monetary Fund and the International Bank for Reconstruction and Development in December 1972. Although a member of the Warsaw Pact, Romania has neither participated with troops in Pact maneuvers abroad since 1962 nor permitted such maneuvers within Romania since 1964.

U.S.-ROMANIA RELATIONS

After a 15-year period of coolness, the United States and Romania began to improve their relations in 1960 with the signing of an agreement providing for partial settlement of American property claims. In the same year, cultural, scientific, and educational exchanges were initiated. In 1964 the legations of both nations were raised to the level of Embassies.

In August 1969 President Nixon paid an official visit to Romania, the first by a U.S. President to Eastern Europe since World War II. During that visit an agreement was reached providing for the establishment of a U.S. library in Bucharest, a Romanian library in New York, and a U.S. bank office in Bucharest.

High-level contacts between U.S. and Romanian leaders have multiplied despite continuing political differences. President Ceausescu's April 1978 visit to the U.S. to meet with President Carter is his fourth visit since October 1970. President Ford (in 1975) and Secretaries of State Rogers and Kissinger each visited Bucharest. Also in 1975, the Romanian First Deputy Minister of Defense and Chief of the General Staff exchanged visits with the U.S. Army Chief of Staff. High-level visits have also included trips by American Cabinet officers and Romanian Ministers, Parliamentarians, and leaders in many fields.

In 1972 Secretary Rogers and Foreign Minister Manescu signed a Con-

sular Convention to facilitate the protection of citizens and their property in both countries. In the same year, Overseas Private Investment Corporation facilities were granted, and Romania became eligible for U.S. Export-Import Bank credits. An agreement signed in 1974 for cultural, educational, scientific, and technical exchanges and cooperation has resulted in a steady growth of contacts and exchanges of information in those fields.

The Joint Declaration signed by Presidents Nixon and Ceausescu in December 1973 gave rise to the signing in April 1975 of a trade agreement which entered into force for a 3-year period in August of that year. Romania was accorded most-favored-nation tariff status, the only East European country willing at that time to receive this treatment under the terms of Section 402 of the Trade Reform Act of 1974. Subsequently, the two countries signed a long-term agreement on economic, industrial, and technical cooperation. Total trade in 1977 amounted to \$492 million. Emigration remains a related issue for discussion between the two governments, and a dialogue has been maintained concerning problems of dual nationals, binational marriage cases, and reunification of divided families.

Approximately 1,200-1,500 Romanians now emigrate to the United States each year.

Following a series of natural disasters in the 1970's—major flooding as well as the earthquake of 1977—assistance from private Americans and from the U.S. Government (including a \$20 million grant for earthquake relief) has been a positive factor in U.S.-Romanian relations.

Principal U.S. Officials

- Ambassador—O. Rudolph Aggrey
- Deputy Chief of Mission—Thomas W. Simons, Jr.
- Counselor for Press and Culture—Norris D. Garnett
- Political Affairs Counselor—John B. Tipton
- Economic Affairs Counselor—Irving L. Sanders
- Defense Attache—Col. Richard J. Womack
- Air Attache—Lt. Col. David B. Hall
- Science and Technology Attache—Jay H. Blowers
- Consul—Luciano Mangiafico

The U.S. Embassy in Romania is located at Strada Tudor Arghezi No. 7/9 Bucharest (tel. 12-40-40).

READING LIST

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4) ROMANIA - LIST OF GOVERNMENT AND ROMANIAN COMMUNIST PARTY (RCP) OFFICIALS

a) GOVERNMENT OFFICIALS

- | | |
|------------------------------|------------------------------------------------------------------------------------------------------------------|
| Nicolae Ceausescu | - President of the Socialist Republic of Romania |
| Ilie Verdet* | - Prime Minister |
| Gheorghe Oprea* | - Senior Deputy Prime Minister |
| Nicolae Constantin | - Senior Deputy Prime Minister and President of State Planning Commission |
| Ion Dinca* | - Deputy Prime Minister and Minister of Industrial Construction |
| Janos Fazekas* | - Deputy Prime Minister and Minister of Home Trade |
| Ion Ionita | - Deputy Prime Minister |
| Angelo Miculescu* | - Deputy Prime Minister and Minister of Agriculture and Food Industry |
| <u>Paul Niculescu-Mizil*</u> | - <u>Deputy Prime Minister and Minister of Finance</u> |
| Emil Draganescu* | - Deputy Prime Minister and Minister of Tourism and Sport |
| Ion Patan* | - Deputy Prime Minister and Minister of Technical and Material Supply and Control of Fixed Assets Administration |
| Cornel Burtica* | - Deputy Prime Minister and Minister of Foreign Trade and International Cooperation |
| Stefan Andrei* | - Minister of Foreign Affairs |
| Ion Coman* | - Minister of National Defense |
| Nicolae Agachi* | - Minister of Metallurgical Industry |
| Ion Avram* | - Minister of Machine Building Industry |
| Mihai Florescu* | - Minister of Chemical Industry |
| Gheorghe Cioara* | - Minister of Electric Power |
| Vasile Patilinet** | - Minister of Mines, Petroleum and Geology |

Virgil Trofin*	- Minister of Forestry and Construction Material
Lina Ciobanu*	- Minister of Light Industry
Suzana Gadea*	- Minister of Education and Training
Traian Dudas*	- Minister of Transport and Telecommunications
Emil Bobu*	- Minister of Labour
Eugen Proca*	- Minister of Health
Constantin Statescu*	- Minister of Justice
Elena Ceausescu*	- President of the National Council for Science and Technology
Iosif Uglar*	- President of the Committee for the Problems of the People's Councils
Miu Dobrescu**	- President of the Council of Socialist Culture and Education
Gheorghe Gaston Marin*	- President of the State Committee for Prices
Florin Iorgulescu*	- President, National Council of Waters
George Homostean	- Minister of Internal Affairs
Iulian Bituleanu	- Deputy Minister, Ministry of Finance
Richard Winter**	- Minister State Secretary, Minister of Technical and Material Supply and Control of Fixed Assets Administration
Emilian Dobrescu	- Minister State Secretary, First Vice President of State Planning Commission
Ion Stanescu	- Minister State Secretary, Ministry of Industrial Construction
Tudor Postelnicu	- Minister State Secretary, Ministry of Internal Affairs and Chief of Department of State Security
Gheorghe Petrescu	- Minister State Secretary, Ministry of Machine Building Industry
Constantin Nita	- Minister State Secretary, Ministry of Foreign Trade and International Cooperation

Dumitru Bejan	- Minister State Secretary, Ministry of Foreign Trade and International Cooperation
Dumitru Popa	- Minister State Secretary, Ministry of Chemical Industry
Petre Blojovici	- Minister State Secretary, Chief of Food Industry Department
Marin Capisizu	- Chief of State Agriculture Department
Mihai Marinescu	- First Vice President of Council for Economic and Social Organizations
Pavoni	- Deputy Minister, Ministry of Chemical Industry
Caranfil	- Deputy Minister, Ministry of Metallurgical Industry
Gheorghe Popescu	- President, Investment Bank
Ion Rusinaru	- President, Bank for Agriculture and Food Industry
Leonte Rautu*	- President and Rector, Stefan Gheorghiu Academy

Note: * - Member, Council of Ministers
** - Auxiliary Member, Council of Ministers

Council of State

President	- Nicolae Ceausescu
Vice Presidents	- Gheorghe Radulescu Stefan Voitec
Secretary	- Silviu Curticeanu
Members	- Dan Anghel Ioan Anton Ioan Ceterchi Gheorghe Pana Tamara Dobrin Eduard Eisenburger Ludovic Fazecas Ioan Manciuc Gheorghe Petrescu Ion Popescu-Puturi Gheorghe Tanase Vasile Vilcu Ion Hortopan

Council of Ministers

- President of the Council - Ilie Verdet
- Senior Vice President - Gheorghe Oprea
- Vice Presidents of the Council - Ion Dinca
Janos Fazekas
Angelo Miculescu
Paul Niculescu-Mizil
Emil Draganescu
Ion Patan
Cornel Burtica
Stefan Andrei
Ion Coman
Neculai Agachi
Ion Avram
Mihai Florescu
Gheorghe Cioara
Virgil Trofin
Lina Ciobanu
Suzana Gadea
Traian Dudas
Emil Bobu
Eugen Proca
Constantin Statescu
Elena Ceausescu
Iosif Uglar
Gheorghe Gaston Marin
Florin Iorgulescu
Vasile Gliga
Gheorghe Pana
Dumitru Popescu
Gheorghe Radulescu
Leonte Rautu
Constantin Dascalescu
Stefan Voitec

Auxiliary Members

- Vasile Patalinet
Miu Dobrescu
Teodor Coman
Mihai Gere
Nicolae Giosan
Ion Iliescu
Stefan Mocuta
Mihai Telescu
Ioan Ursu
Richard Winter
Ludovic Fazecas

Grand National Assembly

President - Nicolae Giosan

Vice Presidents - Stefan Mocuta
Aneta Spornic
Gheorghe Puscas
Virgil Teodorescu

b) ROMANIAN COMMUNIST PARTY (RCP) OFFICIALS

General Committee

Secretary General - Nicolae Ceausescu

Secretaries - Dumitru Popescu
Virgil Cazacu
Constantin Dascalescu
Iosif Banc
Marin Vasile
Iosif Uglar

Executive Committee

Members - Nicolae Ceausescu
Iosif Banc
Virgil Cazacu
Ion Ionita
Emil Bobu
Cornel Burtica
Elena Ceausescu
Gheorghe Cioara
Lina Ciobanu
Emil Draganescu
Janos Fazekas
Petre Lupu
Paul Niculescu-Mizil

Central Collegium of the Party

President - Petre Lupu
Nicolae Constantin
Nicolae Agachi
Mihail Florescu
Traian Dudas
Gheorghe Cioara
Virgil Trofin
Ion Dinca
Cornel Burtica
Emil Bobu
Lina Ciobanu
Emil Draganescu
Elena Ceausescu
Constantin Dascalescu

CURRICULUM VITAE

Nicolae Ceausescu

(President of the Socialist Republic of Romania)

(61)

Born 1918 in Olt County, the third of ten children of peasant stock, started working in a factory at 11, joined Communist Party at 15.

Later studied part-time and took special courses at the Military Academy and the Academy of Economic Studies at Bucharest.

During the 1930's was prominent in anti-fascist movements, repeatedly imprisoned for political activities. In 1939 became member of Central Committee of the Union of Communist Youth. Spent most of early 1940's in fascist prisons.

In 1945 elected to the Central Committee of the Romanian Communist Party. In 1946 elected as the representative for Olt in the Deputies' Assembly. In 1948, following the merger of the Romanian Communist Party and the Social Democratic Party, became alternate member of the Central Committee. In 1952 became a member of the Party's Central Committee.

In 1948 he was appointed Deputy Minister of Agriculture and held a succession of ministerial and party offices until 1965 when he was elected Secretary General of the Romanian Communist Party following Gheorghe Gheorghiu-Dej's death.

He has been the Deputy of the Grand National Assembly -- the Supreme State body since 1948. He was Chairman of the commission that drafted Romania's new constitution in 1965. In 1967 he was elected President of the Council of State of the Socialist Republic of Romania. Since 1969 he has been Chairman of the Defense Council of the Republic and Supreme Commander of the country's armed forces.

President Ceausescu's articles and speeches have been published in many countries. In 1971, on the 50th Anniversary of the foundation of the Romanian Communist Party, he received the title of "Hero of the Socialist Republic of Romania", Romania's highest distinction.

Mrs. Ceausescu is a doctor engineer in chemistry. She is also a member of the Executive Committee of the Central Committee of the Romanian Communist Party, the Council of Ministers, and is President of the National Council for Science and Technology. She is one of the very few women who hold positions of importance in either the Party or the Government. There are three children.

Ilie Verdet

(Prime Minister)

One of the most durable members of the Romanian leadership, Ilie Verdet has held a number of top government and party jobs. Before his appointment as Prime Minister he had served since March 1978 as one of two senior deputy prime ministers and as Chairman of the State Planning Committee. (He had also been a senior deputy prime minister during 1967-74.) Verdet has been a member of the Grand National Assembly (parliament) since 1961 and of the Defense Council since 1969, and he has been a vice chairman of the Supreme Council for Economic and Social Development since 1977. He also belongs to two of the leading bodies of the Romanian Communist Party (RCP): the Political Executive Committee (since 1966) and that committee's Permanent Bureau (since 1977).

Verdet was born in Comanesti in 1926. As a young man he worked as a miner and later graduated from the Bucharest Academy of Economic Studies. In 1945 he became a member of the RCP and he worked from 1948 until 1954 for several local party organizations in the Banat region. Verdet was elected a candidate member of the Central Committee in 1955 and became a full member in 1960, after working for two years as first secretary of the Hunedoara Regional Party Committee. Verdet served briefly on the RCP Secretariat in 1965 to 1967. From 1966 to 1974 he held a seat on the RCP Permanent Presidium, the forerunner of the Permanent Bureau, after which he served again on the Secretariat until 1978.

He does not speak English.

Gheorghe Oprea

(Senior Deputy Prime Minister)

Gheorghe Oprea was one of two persons named to the newly created office of Senior Deputy Prime Minister in early March 1978. He had previously served as a Deputy Prime Minister since 1974. A candidate member of the Central Committee of the Romanian Communist Party (RCP) since 1965, he was promoted to full member in 1972. In November 1974, he was named to the party's Political Executive Committee and Permanent Bureau. He has also been a member of the Defense Council since April 1974 and a deputy to the Grand National Assembly (Parliament) since March 1975.

A mechanical engineering graduate of the Polytechnical Institute in Bucharest, Oprea was appointed a director general in the Ministry of the Metallurgical and Machine Building Industry in 1955 and promoted to Deputy Minister in 1962. In 1964, when responsibility for the metallurgical and machine building industry was divided between two new ministries, Oprea became a Deputy Minister in the new Ministry of the Machine Building Industry. Six

years later, in 1970, he left the Ministry to become a counselor to President Nicolae Ceausescu. He remained in that position until his appointment as Deputy Prime Minister in 1974.

Oprea, 50, is married and has a grown son. He does not speak English.

Angelo Miculescu

(Deputy Prime Minister; Minister of Agriculture and the Food Industry)

Angelo Miculescu was promoted to Deputy Prime Minister in March 1975. He has been Minister of Agriculture since 1969, except for a 17-month period (1971-72) during an administrative reorganization, when he was Minister State Secretary of Agriculture. Miculescu has been a member of the Central Committee of the Romanian Communist Party and a deputy to the Grand National Assembly (Parliament) since 1969.

An engineer-agronomist, Miculescu spent his early career as the manager of a state farm. In 1962 he joined the Higher Council of Agriculture (HAC), the forerunner of the Ministry of Agriculture, and was appointed a deputy chairman of the State Planning Committee. In 1965, he left the State Planning Committee to become a deputy chairman of HAC. He was promoted to the position of HAC first deputy chairman in 1966 and remained in that post until 1969.

Mr. Miculescu was born in 1931. He speaks French and English. He is married.

Paul Niculescu-Mizil

(Deputy Prime Minister and Minister of Finance and Governor of the Bank)

56
He was born in 1923; his parents were prominent Communists in the early days of the party. He graduated from the Academy of Commercial and Industrial Sciences, Bucharest, and was a professor at Bucharest University and then at the Romanian Communist Party (RCP) Central Committee's Stefan Gheorghiu Academy of Social and Political Sciences in Bucharest.

Mr. Niculescu was close to Gheorghiu-Dej, former President of Romania. By September, 1951, he was a Director of Studies at the Stefan Gheorghiu Higher Party School and was promoted Assistant Rector of the school in March, 1954. At the Party Congress in December, 1955, he was elected a full member of the Central Committee, and in February, 1958, became Deputy Head of its Propaganda and Culture Section, with special responsibility for propaganda. The following May he was promoted Head of the Propaganda Section. He was re-elected to the Central Committee at the June, 1960, Party Congress and in March, 1961, became Secretary of the Culture and Education Committee of the Grand National Assembly.

From 1956, when he took part in talks between Romanian and Yugoslav party leaders, he was prominent in international party affairs. He was associated with Romania's attempts to mediate in the Sino-Soviet dispute, notably as a member of Maurer's delegations which held discussions with the Chinese in September, 1964, and with the Russians in November, 1964, and again in May, 1965. In October, 1965, he visited Italy as head of a party delegation.

In June, 1965, he became Vice-President of the Grand National Assembly's Permanent Commission for Education and Culture.

He was appointed a party Secretary in March, 1965, and at the Party Congress in July of the same year was made a full member of the Executive Committee. Appointment to the Permanent Presidium followed in June, 1966.

At a Central Committee plenum in April, 1972, he was nominated a Deputy Prime Minister and released from the party Secretariat. This was seen both as a move to strengthen the Council of Ministers and as part of Ceausescu's policy to give party activists government jobs and vice versa. It also marked the end of Niculescu's period as Romania's chief spokesman on international Communist affairs in which capacity he was succeeded by Stefan Andrei.

In October, 1972, Niculescu was appointed Minister of Education and Instruction to replace Mircea Malita, whose Ministry had been criticized.

At the 11th Party Congress in November, 1974, he was made a member of the new Executive Political Committee, but has never quite recovered the standing he enjoyed between 1966 and 1972. In July, 1975, he became Chairman of the Department of Instruction, Education and Culture of the Supreme Council of Economic and Social Development and in October, Chairman of the new Higher Medical Council. However, in June, 1976, he lost his post as Minister of Education (to Suzana Gadea) and was made Chairman of the Coordination Council for the Production of Consumer Goods. In November and December, 1976, respectively, he led a high-level delegation to Vietnam and to North Korea; afterwards, he was described as Chairman of the joint commission of economic and techno-scientific cooperation between Romania and those countries. He was appointed Minister of Finance in March, 1978.

He does not speak English.

Nicolae Agachi

(Minister of Metallurgical Industry)

Nicolae Agachi, 41, has been Minister of Metallurgical Industry since March 1969. A graduate engineer who had spent 18 years in Romania's metallurgical industry, he was technically well prepared for the position. His experience included tours as technical director (1965-67) and director general (1967-69) of the large Hunedoara Iron and Steel Works--one of the

most important industrial facilities in Romania. Agachi is a member of the Romanian Communist Party, and he has been a full member of its Central Committee since August 1969. He has also been a Deputy to the Grand National Assembly since 1965.

After graduating from Bucharest Technical University in 1951, Agachi worked for 10 years in the Metallurgical Combine at Resita. His experience included supervision of the forge section there and of the Siemens-Martin furnaces at the combine's steel plant. In 1961 he was brought into the Ministry of Metallurgy as its chief of technical services, a post he held until his 1965 appointment to the Hunedoara plant.

Mr. Agachi has frequently traveled abroad in conjunction with his ministerial duties. In addition to visiting the USSR and other East European states, he traveled to the U.S. in 1967, China in 1971, Algeria in 1973, to India and the UK in 1976.

He does not speak English.

Mihail Florescu

(Minister of Chemical Industry)

Mihail Florescu is Minister of Chemical Industry for the second time, having previously served in this position from 1952 until 1965. His most recent appointment was made in September, 1970. He is noted for his contribution during that period to the successful development of the chemical industry. Between 1965 and 1970 Florescu served as a chief of the Economic Section of the Romanian Communist Party (RCP) Central Committee and as a deputy chairman of the Economic Council, the body then responsible for supervising the implementation of the Romanian economic policy.

He graduated as a chemical engineer from the Chemistry Faculty of the University of Bucharest. He served with the Loyalists during the Spanish Civil War and with the French Resistance during World War II. After the war, he held various government and RCP posts. A member of the RCP since 1933, he was elected a full member of the party Central Committee in 1955. He was elected a corresponding member of the Chemistry Section of the Academy of the Socialist Republic of Romania in 1974. He is also a member of the Grand National Assembly, the Romanian parliament.

Mr. Florescu is 67 years old, and is married. He speaks French, German, English and Spanish.

Gheorghe Popescu

(President of the Investment Bank and Alternate Governor of the Bank)

Until December 1977 when Mr. Popescu was appointed to the present position, he was the head of the State General Financial Inspectorate in the Ministry of Finance.

Ion Rusinaru

(President of the Bank for Agriculture and Food Industry)

Mr. Rusinaru has held his present position since 1968.

E

74-76	883
79-83	1430
76	170
77	166
78	256
79	275
80	295
81	280
82	280

5. TOPICS FOR DISCUSSION

(a) The Relationship with Romania; Improvements and Disappointments

When viewed in the light of the difficulties of the early years of our relationship with Romania, the position today is satisfactory. Indeed the degree of cooperation and mutual respect which has been developed over 6-1/2 years of membership is remarkable in several respects given the hostility and suspicion with which many of our interlocutors regarded the Bank in the past. Our relations are best in agriculture, where the Government has presented a series of projects to the Bank backed up by convincing evidence of their desirability and adequate supporting information. As a result the Bank has a large number of firmly identified projects, which places us both in a strong position. We have been emphasizing to the Romanians for years, the need to build a strong project pipeline, and we are very pleased with this development which has taken place mainly during the course of the past year; the more so because it occurred in parallel with and then following our refusal in October 1978 to finance the Cattle Development Project. A cattle subsector mission returned from Romania in May and identified a livestock project designed to support Romania's beef and dairy programs on a basis that is economically viable as well as provide for increased efficiency through regional specialization. We enjoy excellent relationships with the Ministry of Agriculture and the Bank for Agriculture and Food Industries (BAFI), which is our borrower for all agricultural loans.

Good progress has been made with cofinancing. After several years of obdurate resistance, the Government finally agreed to try cofinancing in early 1978. Two approved projects (Roman Pipe and Livestock II) are being cofinanced for a total amount in excess of \$100 million, and the Government has indicated its interest in cofinancing for a number of future projects. The past year has also seen the Bank invited to lend for the transport sector (a sector mission in March 1979 has tentatively identified a first project although the application of standard Bank procedures for procurement and so on still remains to be worked out), more favorable attitude by the Government towards sector lending for power for which Romania is ideally suited, the publication of the Basic Economic Report on Romania, and the continuation of EDI's work with Romania. The latter has always been one of the strongest aspects of our relationship, and to date some 165 Romanians have been trained either by EDI or in joint EDI-CEPECA courses in Bucharest. Joint courses in Industrial Projects and Agricultural projects are planned for later this year. We think that the next step needed to gain the maximum benefit from the training provided by EDI and CEPECA is the practical application by the Romanians of the new techniques being taught (e.g., discounting, net present value, economic rate of return, etc). To date we have always had to do the economic analysis ourselves on the basis of data provided by the Romanians. We are aware that to do this, the Government must take statutory action, but Dr. Rautu, Rector of Stefan Gheorghiu Academy of which CEPECA is a part and who is a reported confidante of Mr. Ceausecu, expressed strong interest in the idea during discussions held in the Bank in May. We should suggest that we are willing to work with the Government on applying the new techniques to one or more Bank financed projects before they are presented to the Bank as a pilot

operation to test the validity of the new methods as compared to those still in general use in Romania. In this connection you might also point out the value of exchange of advanced technical information to the Romanians. They would benefit considerably from the use of highly specialized foreign experts on the frontiers of technology where they need it (e.g. off-shore drilling, nuclear power). They themselves have done very advanced work in a number of areas (e.g. oil from shale at Anina) and should share/sell this knowledge to other countries which would benefit from their work. At the moment this type of exchange is severely inhibited by the approach taken towards information, and by a strong reluctance to use foreign consultants in the way they are used in the rest of the world.

Relations are less satisfactory in terms of economic reporting. Romania's debt reporting is still seriously deficient and economic missions still tend to be frustrated by the negotiating tactics for release of information and interpretation of economic events that Romanian counterparts frequently use.

Romanian procurement practices continue to raise questions, and we have to deal with a continual series of minor infringements of the Bank's procurement guidelines, long delays in bid evaluations, and a continued 100 percent success record by the Romanians where they participate in ICB bids. We have no evidence of any deliberate malpractice. Their success within Romania contrasts markedly with their poor performance outside. This is because of their unsophisticated export marketing techniques, not responsive to specifications, to bid documents, poor presentation of materials, poor after sales service, etc. It would be useful if you would raise the above points with the Romanians.

However, these deficiencies are minor in comparison to the difficulties we have faced in our work in the industrial sector. The central importance of industry to the economy, the problems for it that the Bank foresees and the necessity for the Bank to continue lending for industry are described elsewhere (see 5(d)). Yet we have much more difficulty in obtaining good information about the sector, more difficulty in engaging in policy discussions, and more difficulty in developing a project pipeline than we have experienced in the other sectors. One crucial example in the steel and chemicals sub-sectors is that we do not have production or consumption projections beyond 1985, when at a minimum we need 1990 estimates. Clearly, part of our difficulty is the relative sensitivity of industrial statistics, the sensitivity of the questions the Bank has been asking, which do not appear to have been asked before, and the possibility that perhaps increasing number of questions on the subject of industrial policy and strategy are being raised within Romania itself. But a part is undoubtedly the relative lack of communication with the responsible ministries, and the tight funnelling of all our industrial work through our borrower, the Investment Bank, which is a somewhat inadequately staffed institution, lacking in political stature. Moreover IB has to deal with quite a number of ministries and its relationships with these ministries are not as strong as the relationship between BAFI and the Ministry of Agriculture. We have two suggestions for improvement. One is to try and establish a more direct relationship with the various ministries, centrals and

enterprises responsible for industry though still in conjunction with the Investment Bank (so far this has proved very difficult to achieve); the second is to ask for an increase in the number and an improvement in the technical qualifications of the Investment Bank staff who deal with the Bank. We have begun to work on the first suggestion already but emphasis of this point will help us a great deal. The Romanians counter the second suggestion by saying that we should reduce Bank reporting and information requirements (these are less than in most countries already). But the point is that if the Investment Bank is to continue to play even a coordinating role, it must be staffed by people who can speak the same technical language as Bank project staff. Also the individually petty but cumulatively annoying irritants, such as withholding prepared data, negotiating information requirements, and control of direct communication with ministry, central and enterprise representatives during meetings, need to be reduced. Interestingly enough we do not seem to be facing the same problem in the transport sector (the lending for which is also channelled through the Investment Bank) partly because of our excellent contacts developed with the Ministry of Transport through EDI-CEPECA courses.

(b) Future Lending Relationship and its Duration

Romania has one of the higher per capita GNPs of borrower countries (1978 - \$1,750). It has been successful in sustaining a high per capita economic growth rate of about 8.5 percent p.a. between 1950-75. (The conclusions of our examination of the steel and chemicals sub-sectors could affect our thinking on the GNP level if as reported in a preliminary manner to date it confirms that consumption levels are inexplicably high unless a higher GNP is assumed. Interesting work done by Kravis et alia at Columbia University using a purchasing power parity approach suggests that Romania has a higher GNP per capita than Yugoslavia whereas Bank Atlas presently states the reverse.) The present lending program anticipates that lending will continue at the same nominal rate of \$280-295 million p.a. over the next five years thus involving a gradual decline in real terms. The Romanian Government will almost certainly press for higher levels of lending, probably arguing that it should be in line with the Bank's general capital increase. It will thus be necessary to explain the Bank's "graduation" policy. Under the proposals contained in the paper "Criteria for Bank Lending in the 1980's" only two major borrowing countries - Romania and Yugoslavia - would reach the graduation zone of per capita income of 30 percent of OECD North during the 1980's. Except for Barbados and Portugal no other countries reach even 25 percent of the OECD North average during the 1980's. Under the projections used in the paper Romania's per capita income as a percentage of OECD North would be 26 percent in 1980, 31 percent in 1985 and 36 percent in 1990. We could argue that a level rather than rising lending program is appropriate between now and 1985 since phase out is likely in the second half of the decade. The general strategy of our program and its sectoral composition remain as described in the CPP approved by you in January 1979. Your visit to Romania can be regarded as the initiation of discussions with the potential graduates promised in the "Lending Criteria" paper. Looking forward to the phase out period in the second half of the 1980's, we would expect to continue in those areas where we could help strengthen, through co-financing, Romania's access to private long-term capital markets and also where we could cooperate in the transfer of advanced technology from abroad.

(c) The Danube-Black Sea Canal Project

For the Romanians, the most important project at present is the Danube Black Sea Canal project. Work on this vast undertaking started in 1976. The estimated cost of the project is about \$1.7 billion with a \$550 million foreign exchange component. The project canal is a part of a larger program consisting of construction of a deep sea port at South Constanta, expansion of certain river ports and improvements of the river Danube. The 63 km canal (i) will eliminate the restrictions imposed by the lower Danube navigation channel on cargo movements and (ii) shorten the distance to the sea by about 360 km. The Canal will enable Romania to use its cost efficient energy saving inland waterway system more fully for the movement of large volumes of bulk cargo mainly consisting of imported raw materials. The project will add significant additional transport capacity needed for the growing economy and will also benefit other Danubian Countries, including Austria, Yugoslavia and West Germany by efficient movement of their imported raw material requirements as well as their exports. The project, moreover, will become an integral part of the European waterway system after the completion of the Rhine-Main-Danube Canal in West Germany in 1984. The Canal will also help accelerate the economic development of the Dobrogea region--one of the poorer regions of Romania. The tentative economic return is above 20 percent. The Romanians feel that our involvement will help them mobilize other international financial support for the Canal. They also feel as we do, that its benefits to other riparian countries make it particularly suitable for Bank financing and therefore less likely to raise problems with the Executive Directors.

The project has been included for 100 million in the lending program for some time and this figure has been indicated to senior Romanian officials both by the Program Director and Division Chief in lending program discussions and by the appraisal mission last March. Subsequently, the amount was raised to \$130 million when more money became available for the FY80 Romania program, although this higher figure has not been mentioned to the Government. The Romanians had consistently pressed us to increase the loan amount above \$100 million and will probably press you on the same point. You will recall that at the time the decision memorandum was reviewed, you and Mr. Stern felt we should limit our financing to \$75 million. This has not yet been mentioned to the Romanians and should be explained during your visit. We would, if necessary, be able to increase the amounts lent for our irrigation and live-stock projects scheduled for FY80 to ensure that lending remained at the target figure of \$295 million (the same level as achieved in FY79). However, this would leave less room for co-financing in the agricultural projects.

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Another important issue on the Danube Canal project relates to procurement. One of the contributions we are making to the project is to ensure that the full list of additional construction equipment needed to complete the Canal is designed to permit the most efficient execution of the work. Within this list, we have to agree the list of equipment to be financed by the Bank which would be put out to ICB. Initially the Romanians were inclined to include on the list for Bank financing only items which were likely to be won by Romanian manufacturers after ICB, leaving imported

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equipment--much of it from COMECON countries--to be financed by other means. We have emphasized to the Romanians--and you may need to re-emphasize this--the importance of including equipment likely to be imported on the list for Bank financing. Otherwise, we may face very difficult questions from the Executive Directors.

You should also be aware that Amnesty International produced a report in 1978 charging that so-called "prisoners of conscience" form part of the labor force used in the construction of the Canal. No Bank mission has seen any evidence of this. At the time of the presentation of the recent livestock and irrigation projects in March 1979, the US Executive Director's office noted the Amnesty International report on the canal project and asked if we had any evidence that "prisoners of conscience" were being used as forced labor on the two projects to be considered. We said we had no evidence on this and the question was not raised at the Board. We would expect to deal with any questions on the Canal Project in the same manner.

(d) The Economy and Industry

(NOTE: You may not wish to address the overall economic situation directly but it provides an essential framework for your discussions with the Romanian Government on future industrial policies and strategy (see p. 8)).

The Economy

Since the 1950's and until recently Romania has pursued a high growth strategy, whose cornerstones have been the rapid development of heavy industries and a very high investment rate (1951-55 - 17.6 percent rising to 1971-75 - 34 percent p.a.). Domestic sources of energy (oil and then gas) were in relative abundance and development priorities were simple and obvious. Consumption was severely restrained. Little attention was paid to how economically resources were being used, to the efficiency of the allocation mechanism (rigid central planning), or to concerns about quality or incentives. The economy was also relatively closed, and the external sector played a small although growing role in the economy. Between 1950 and 1975 average per capita growth of social product and national income was 8.7 percent and 8.6 percent p.a. respectively.

Beginning in the early 1970's it gradually became clear that Romania could no longer maintain its earlier strategy. The balance between consumption and investment has to change, and a period of consolidation is needed to iron out structural imbalances, to obtain a clear indication of areas for specialization in the future, and to permit the external sector to catch up with the rapid pace of internal growth. The relationship between costs and prices for the economy as a whole and in relation to the international economy must be examined and adjusted more frequently than in the past. The issues of efficiency and economy in resource allocation and quality of production in industry and agriculture can no longer be ignored. In 1972/73 Romania became a net importer of energy for the first time, a change which underlined the rapidly increasing importance of the foreign trade sector; imports, both of raw materials and industrial technology are growing rapidly, and so are Romania's foreign borrowing requirements (see 6(a) (CPP) and 6(e) (Foreign Assistance and Debt)). In response Romania is making extensive efforts to expand its existing export markets and develop new ones in convertible currency areas, but conditions have been difficult and are likely to become more so in the 1980's, especially in Western Europe. The growing reliance of the economy on the external sector is certainly the single greatest pressure for change in Romania's economic strategy.

Within the individual sectors of the economy, the pressures for change are also mounting. The performance of agriculture has been a source of continuing disappointment with output consistently below target for a number of years. The poorest performers seem to be the Agricultural Cooperatives (CAP), which control 74 percent of Romania's arable land. The sector has also been affected by poor weather in several years and also by underinvestment. The key sector of industry also faces a variety of serious problems including manpower shortages, bottlenecks caused by shortage of capacity that still exists in the construction and machine building industries (though this is

being remedied by investments in these sub-sectors), poor intra-sector coordination. There are also serious shortfalls in export performance, including quality of export goods and services produced, lack of export marketing capability, and domestic market constraints because of lack of emphasis on consumption. In the infrastructure sectors, while the road and rail systems complement each other reasonably well, and the electric power system is efficient, investment has been held back and an increase is now needed to meet the needs of the economy in the 1980's. In the transport sector the Government needs to expand and modernize existing facilities, and should avoid premature investment in superhighway construction.

The Government has been responding energetically to these changing circumstances. In March 1978, Mr. Ceausescu announced the introduction of a series of "new economic reforms" (see 6(f)), beginning January 1979. We are impressed by the intent and direction of these reforms which address the shortcomings of the planning system, quality of output, and the key issue of incentives for the worker. But we are not impressed by their extent; in essence they appear to be tinkering with the existing planning and implementation system and not a wholesale move to genuine decentralization. In parallel with the introduction of these changes, there have been a number of important changes to strengthen party control over management at the level of the central and the individual enterprise. The problems of the agricultural sector were attacked in a revised organizational structure for agriculture announced in March 1979 (see 6(f), para. 12). It is too early to make any judgement on their potential impact although it appears that organizational change is being substituted for real change.

Our key concern is that these responses are only partial in nature, and it is not clear how thoroughly senior government officials understand what needs to be done, or where the debate on future measures is going within the Government and more importantly within the Romanian Communist Party (RCP), since all these problems and the possible strategy and policy responses to them of course raise very tricky ideological issues. Thus while senior government officials you will meet will undoubtedly place great emphasis on "efficiency," it is not always clear whether they mean it in a physical sense or in an economic sense. Any opportunity to discuss the economies of resource allocation and the concept of economic efficiency should be taken.

Industry-Future Policies and Strategy

In March 1979 the Bank undertook in-depth reviews of the chemical and steel subsectors in Romania. These reviews had two objectives. First, they were intended to provide a context for project identification, so that projects could be 'placed' more clearly in relation to Romania's investment program and strategy within each subsector than we have been able to do in the past; second, given the difficulties of entering into a dialogue with the Romanians on broader questions of industrial strategy, it was hoped that the data and programs relating to these two key subsectors would both in themselves throw light on these broader questions and also provide a means of discussing them with the Romanian authorities. Despite the carefully negotiated agreement of the Romanian authorities to each step involved in the missions, in practice there were considerable difficulties and delays in

securing key data and projections, and in engaging the Romanian authorities in substantive discussions on the preliminary findings of the two missions. Despite this, the draft reports of the missions represent a very substantial advance on our past knowledge of Romanian industry and given the central role of industry in Romania's economic development the problems they raise assuredly merit the attention of the Romanian authorities and are the prime issues for discussion. The main findings of the two subsector missions and the issues relating to the individual subsectors are summarized in Section 6(d). The main policy issues which are common to the analysis of both subsectors are discussed briefly below. You may wish to raise these with senior Romanian officials during your coming visit.

(i) Investment versus Consumption: Perhaps, the most crucial policy issue facing the industrial sector at this time is the trade-off between investment and consumption. Romania's past development strategy emphasized industrial investment particularly in basic and heavy industries; the programs in the chemical and steel subsectors for 1981-85 Plan period suggest that this emphasis will be continued. The strategy has resulted in impressive gains in the past. Apart from the political and social objectives implicit in this choice, there are a number of new elements which need to be considered. The domestic market for many chemical and steel products can support only limited further expansion (for example planned 1985 domestic fertilizer consumption of 211 kg/ha for nitrogen and 112 kg/ha for phosphate are more than double current Western European application rates of 85 and 53 kg/ha respectively and planned 1985 per capita consumption of steel of 820 kg will far exceed present levels in industrialized countries: the U.S. (600 kg), Japan (534 kg) and West Germany (590 kg) - (see Section 6d, paras. 4, 15 and 17 for further information). There is concern about exports on two fronts, first the capacity of export markets, especially for chemicals, to absorb Romania's large planned expansion of exports; and second, Romania's capacity to mount the kind of export marketing effort required. This is discussed in (ii) below. There is already evidence that various constraints are already affecting the content and magnitude of the investment programs for the two subsectors e.g. the failure of both steel and chemical industry (and many other parts of the industrial sector) to meet investment targets during each of the first three years of the present plan and apparent difficulties in identifying suitable projects to fill the 1981-85 investment allocations (actual projects identified in the chemical sector total lei 47 billion versus allocation of lei 140 billion); and, in the case of steel, the reduction of the earlier proposed 1981-85 investment program from lei 145 billion to lei 100 billion. A strategy based to a greater extent on satisfying the demand for consumer goods for the domestic market could provide added impetus for growth in both subsectors. Romania may well be at the stage where a gradual shift towards consumption may be needed to meet overall growth objectives. The final discussions on the 1981-85 plan, which are in progress, may provide an opportunity for the Romanian authorities to re-examine this question.

(ii) Export Orientation: A second critical issue relates to the major expansion of exports implied by present and proposed programs - largely direct in the case of the chemical subsector and indirect (through export machinery and equipment) in the steel subsector. In the chemical subsector Romania is becoming an increasingly large importer of its hydrocarbon needs (64 percent

of its 1985 crude oil needs would be imported) and many other key raw materials, and will have to compete in export markets for petrochemical and fertilizer products with OPEC countries. Based on present production plans we estimate that, for example in 1985, 50-55 percent of all fertilizer and 65-75 percent of thermoplastics produced would be exported. Since for most basic chemicals other COMECON countries are also building additional capacity, much of it planned for export, those countries do not represent good export prospects for Romania in the 1980's. Most of Romania's additional exports would, therefore, have to go to market economies, in particular Western Europe. These markets are projected to be generally weak for most basic chemicals for the 1980's. Romania's production plans combined with our domestic and export market projections indicate that it would need to capture 13 percent of gross world imports of nitrogen fertilizers in 1985 versus 8 percent in 1978; and for various thermoplastics between 7-13 percent of West European imports in 1985 versus 0-1 percent in 1978. Romania's main competitive advantage, relatively low labor costs, is of limited relevance to the chemical industry. Here low labor cost is more than offset by Romania's continued use of smaller, less efficient plants using old processes. This results from the attempt to save foreign exchange by duplicating technology and equipment purchased from abroad earlier. From an economic viewpoint, therefore the planned investments directed primarily at exports appear questionable.

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In the steel subsector Romania has some comparative advantage on account of low labor costs (labor costs in Romania are about one-third of those in other major steel producing countries like Japan and the U.S. where it is about US\$90 per ton of finished products), higher capacity utilization of production units as a result of assured internal markets and low overhead costs, only partly compensated by higher transport costs due to substantial interplant shipments of semi-finished products (a special feature of the Romanian steel industry). In the future, this advantage will at least in part be lost, because of the planned increases in wages, increased reliance on imported raw materials and energy (by 1985 about 92 percent of the steel industry's iron ore and 70 percent of its coking coal requirements will have to be imported) by plants which are not optimally located for such imports and possible difficulties in production planning due to Romania's increasing export orientation. In steel the market situation is however somewhat different from chemicals in that, 50 percent of planned indirect exports are destined for COMECON countries, 30 percent for developing countries, and 20 percent for developed countries (direct exports of steel are planned to temporarily increase from 2.2 million tons in 1977 to 2.7 million tons in 1980 but then decline to 1.6 million tons in 1985). Nevertheless, these plans are extremely ambitious since Romania proposes to almost triple indirect steel exports between 1978 and 1985 by entering into fields such as plant and equipment. In these product fields, Romania has had little experience and lacks the necessary support infrastructure (e.g. efficient and well informed export organization, sales and after-sales services, export financing mechanisms and so on); and Romania will find it very difficult to develop this in the medium-term.

(iii) The Need for Further Capacity Expansion: Past Romanian industrial development strategy has largely emphasized investment in new capacity as a means of achieving a higher value of output over improved efficiency, quality and related factors. In view of the difficulties in meeting earlier investment targets and evident constraints on capacity expansion now and in the future, the 1981-85 plan period might well be devoted more to consolidating production gains already achieved, e.g., improved product quality, thus increasing the value per unit of output, rather than the planned continuation of high investment rates; or better capacity utilization in the case of chemicals (for example Romania's nitrogen fertilizer industry in 1978 operated only at 63 percent of its capacity). Constraints in implementing projects and in staffing and managing new plants are evident in the entire industrial sector (for example, project implementation shortfalls in the chemical industry and shortage of technical manpower and supplies of local equipment for the steel industry). While Romanian planners appear to recognize these problems and have begun to emphasize efficiency considerations, particularly through the new economic reforms, it is not clear whether they have considered that it might well prove advantageous to reduce the high investment rates for the purpose of achieving efficiency-related objectives. To achieve these objectives, further major changes in the economic planning and management systems may also need to be considered. Even after the new economic reforms, Romania remains far more centralized than most other COMECON countries at all stages of the economic decision-making process.

(iv) Pricing System: Domestic prices of most inputs, including energy and imported raw materials, are between 5 to 50 percent of international prices (when converted at the official exchange rate). The level and structure of domestic prices does not reflect their economic costs, and therefore, the pricing system provides an inadequate basis for resource allocation. The substantial underpricing of energy and most raw materials also appears to encourage plant managers to continue inefficient plant designs and operating procedures. While the official policy forbids export at prices which would result in financial losses, actual prices obtained by Romania for its exports of chemicals and engineering goods to market economies are in general significantly below the lower end of prices obtained by western producers. For many major export items such as high-density polyethylene and acetone in the chemicals subsector and engineering goods such as blast furnaces, agricultural equipment, railway wagons and motor vehicles in the steel subsector, prices received may not cover economic costs. While these low prices are partly due to product quality differences and weaknesses in the Romanian export marketing set-up, they also appear to be the result of low domestic input prices and the Romanian practice of not including depreciation and capital charges when calculating the minimum acceptable export prices. There seems to be some interest in evolving a system which would give proper signals to the policy makers and enterprise managers as to whether or not a particular export is economic.

It is likely that Romania is entering a difficult phase of its industrial development. We believe that the Bank can make a contribution to the formulation of an industrial strategy which is to Romania's best advantage, both through the identification and implementation of projects and through the broader analysis and discussion of policy and technical questions. Another avenue of support is through conducting EDI industrial courses in Romania.

The industrial sector has sufficient depth and diversity to have within it projects that are economically viable and permit the Bank to continue supporting the sector in our lending program, even in subsectors such as steel and chemicals where we have serious questions at present. In the past our contribution has been limited to introducing new technologies and export marketing related to specific industrial projects, and through the somewhat less tangible impact of EDI courses. The complexity of the present phase which Romanian industry is entering, and the introduction of a new system which somewhat increases the autonomy of decision-making at the enterprise level, suggest that the Bank could make a significantly greater contribution if the Romanians chose to avail themselves of our expertise in areas such as project analysis and export markets. So far we have had very limited success in engaging the Romanians in a dialogue on industrial strategy. For any future "dialogue" to be fruitful, senior Romanian officials would have to authorize more open policy discussions and release of relevant macro-economic data to the Bank. The reports of the two subsector missions are now at an advanced stage of preparation and we expect to discuss them with the Government in September. If we are successful in getting the Romanians to take up some of the broader questions which these reports will raise, rather than the endless negotiations about wording which have characterized the "dialogue" in the past, then we will attempt to follow up these reviews, by tackling some of the strategy questions through our macro-economic work during the early part of 1980.

(e) IDA Membership

Mr. Knapp's visit to the Minister of Finance in early March to discuss Romania's membership in IDA went very well and he is confident that Mr. Ceausescu will use the occasion of your visit to announce Romania's intention to join IDA. His report on that visit notes that the only outstanding questions relate to the amount of the Romanian contribution to IDA 6 and whether or not it will be tied to procurement in Romania. Mr. Knapp proposed \$20 million as an appropriate contribution on the basis of statistical comparisons with Greece, Austria, Italy and Yugoslavia, although he acknowledged that Romania's capacity to contribute might be a little less than Yugoslavia's; a point which the Minister of Finance endorsed. (Yugoslavia has subsequently announced a \$20 million contribution at the IDA meeting in Paris on March 21, to which the Romanian Government had sent an observer at Mr. Knapp's urging.) Mr. Knapp explained how the contribution he had proposed would be broken out into a subscription of about \$13 million and a contribution of about \$7 million, with a 10 percent or about \$1.2 million down payment on the subscription, and in what form the balance could be maintained and the rate of drawdown of the balance. In his discussions and a subsequent letter to the Deputy Minister of Finance, Mr. Knapp noted that IDA would be prepared to accept funds from Romania in Romanian lei and tied to procurement within Romania since the historical rate of IDA procurement in Romania (FY77 - \$2.6 million; FY78 - \$1.8 million; FY79 (1st half) - \$3.7 million) seems high enough to ensure that the \$18.8 million equivalent balance of Romanian funds would be used fully. However, he strongly urged the Government not to pursue this course since (i) few others do it, (ii) Yugoslavia does not do it, and (iii) it would probably result in a more rapid disbursement of Romanian funds compared to their release to IDA in freely convertible currencies, on the basis of the historical rate of IDA procurement within Romania. You may wish to comment both on the amount of Romania's contribution and its form if these questions are still subject to change. Otherwise this topic is clearly one on which the Government will take the initiative in its discussions with you.

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(a) CPP

COUNTRY PROGRAM PAPER -- ROMANIA

Postscript

62. This paper was reviewed on January 5, 1979 in a meeting chaired by Mr. McNamara. The following decisions were reached:

- (a) For planning purposes, the lending program of \$1400 million proposed for FY80-84 was adopted.
- (b) While it was accepted that the Government was now providing adequate project information, it is necessary that the flow of information be further improved, in particular as it affects sector knowledge, lest inadequate economic justifications make it impossible to sustain the level agreed under (a).
- (c) The meeting endorsed the proposed examination of industrial sub-sectors to evaluate the government's proposals for their development and to ensure that the viability of projects submitted for Bank financing can be assessed early in the project cycle.
- (d) The meeting acknowledged the CPP's exposition of the Bank's very limited impact on Romania's macro-economic policy and its more extensive influence on project design, but stressed the importance of continued focus on Romania's overall development strategy, investment allocation and external marketing prospects.
- (e) The meeting requested that the Publication Committee's decision not to publish the Basic Economic Report in book form be re-examined.

Division 1D
CP1, EMENA Region
February 28, 1979

(b) Political Situation

It is true to say that we know considerably less about the internal political situation in Romania than we do in most of our borrower countries. This is largely because of the centralized and highly secretive nature of the regime, and because the Bank has been confined to dealing with the Government as opposed to the Romanian Communist Party (RCP) where real power and influence reside. We consider that the description of the Government and Political Conditions contained in the US State Department Notes on Romania (see part 3) is a fair and balanced assessment of the overall situation. We have the following additional comments. Romania seems likely to continue to have internal political stability since the regime's policy of independence within the COMECON is almost certain to be continued and is politically popular at home, and because the Government has permitted a more rapid increase in real wages in 1978 than planned, after it had appreciated the significance and extent of feeling underlying the miners' strike of 1977. (This strike was supported by 30,000 miners in the Jiu valley area of southwest Romania, its principal coal mining area, in protest against legislation reducing pension rights. Although it did not last long, and its leaders have been severely penalized, its impact was not lost on the Government.)

In the field of external political relations, Romania is likely to pursue its present course, although it will probably become somewhat more dependent on the USSR for raw materials imports, particularly of iron ore, gas and oil as time goes on, and this will affect the degree of independence which Romania can show. But Romania's growing appetite for and marked preference for Western capital and technology will continue as a balancing factor. A major demonstration of Romania's policy of independence within COMECON was the visit in September 1978 of Mr. Hua, Chairman of the People's Republic of China, whose visit generated genuine popular excitement and enthusiasm. This has since been followed by Romania's criticism of increased defense expenditures by Warsaw Pact countries, its decision to cut its own previously planned expenditures (with the resultant savings to be channelled to services for children) and its condemnation of Vietnam's invasion of Cambodia. Information on the political leadership is contained in the List of Government and RCP Officials and Biographical Data (Part 4 of Brief).

(c) Economic Situation

(For a summary of events up to mid 1978, see CPP.)

The most significant event since mid 1978 has been the release of information concerning Romania's economic performance in 1978. The overall results show that the general slowdown in growth which occurred in 1977 continued in 1978, and that whereas results were somewhat mixed in 1977, production performance in 1978 was uniformly below target. Only in consumption were targets overfulfilled. Performance in each area of the economy is summarized below:

National Income

In 1978 increase by 7.6 percent in real terms versus target of 11-11.5 percent and versus 8.6 percent in 1977. Although national income is conceptually different from GDP or GNP it is the most reliable indicator there is of the economy's progress. Compared to international standards 7.6 percent is very good. However, many scholars believe inflation in East European countries is higher than published. A recent estimate for the period 1971-75 is 5 percent per annum, which extended into the current plan period makes Romania's performance less impressive.

Industry

In 1978 gross industrial production increased by 9 percent in real terms versus target of 10.6 percent, and versus 12.5 percent in 1977. Net production grew at 9.3 percent, which on the face of it is good. It may represent the re-establishment of an appropriate gross-net ratio, which had got badly out of line in 1977. Specific commodities showed the following results, coal (29.3 million versus a target of 36.4 million tons), crude oil (13.7 million versus 15.1 million tons), methane gas (28.9 million m³ versus 26.8 million m³), steel (11.8 million versus 12.1 million tons), electronic and electrical goods exceeded plan target, while machine building and equipment subsector fell a little short, chemicals (10 percent versus 15.2 percent), of which fertilizers (2.46 million versus 3.1 million tons); there were also shortfalls in the construction materials industry, the food industry had a bad year, but industrial consumer goods largely met their relatively modest targets. Of these results the shortfalls in chemicals and fertilizers (because of delays in commissioning new capacity and poor capacity utilization at many new plants), and in the construction materials industry (because of enlarged housing program requirements) are the most significant.

Agriculture

In 1978 gross agricultural production increased 2.4 percent over 1977 versus the plan target range of 6.2-16.1 percent, measured in 1963 prices. 1977 had also been a disappointing year. Production fell well below plan target for every crop, and also for the livestock sub-sector. Poor weather was a factor. This performance was in spite of larger than planned

investment (lei 26.7 billion versus lei 24.3 billion) and the successful completion of the physical works associated with it. It appears that production in 1976 was raised to a new plateau from which further improvement will only be very gradual.

Investment

For the second consecutive year, actual investment of lei 196.6 billion fell short of the plan target of lei 212.5 billion and once again the major shortfall was in industry (lei 98.1 billion versus plan lei 118.2 billion); agriculture received more than planned (lei 26.7 billion versus lei 24.3 billion).

Foreign Trade

Romania did not have a good year in foreign trade. Exports increased only 5.5 percent to \$8.23 billion equivalent, while imports jumped 16.5 percent to \$9.08 billion equivalent. The deficit of \$849 million equivalent was due in part to the explosion at Pitesti petrochemical complex in November but it was chiefly due to the fragility of Romania's export performance. Romania had to increase its reliance again on short-term financing (January-June 1978, \$116 million was contracted).

Standard of Living

It is always difficult to make satisfactory judgements on the consumption and personal income data as it is presented by the Romanian Government. But in general 1978 plan targets appear to have been met. Total real income (includes wages plus socio-cultural expenditures) increased 8.9 percent versus the plan target of 7.9 percent, and real wages rose more rapidly than planned. Two points are worth noting: housing targets were very significantly underfulfilled in both 1977 and 1978, partly because of the impact of the March 1977 earthquake; and the continued high growth of retail sales raises the interesting question of what is happening to savings and if greater availability of consumption goods is leading to dehoarding of cash balances by the population.

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(d) Summary of Findings of Chemicals and Steel Subsector Missions

I. Chemical Subsector

1. Over the past 25 years, the chemical industry in Romania (covering chemicals, fertilizers and petrochemicals) has grown at a very rapid pace of over 20 percent per annum. Its share of total industrial production has grown from 3.1 percent in 1950 to 9 percent in 1977 and of total industrial investments from 6.6 percent in 1951 (US\$121 million) to 15.5 percent in 1977 (US\$728 million). Its share of total industrial exports has increased from 2.4 percent in 1960 (only US\$15.6 million) to 11.7 percent in 1977 (almost US\$600 million); in the latter year, about 25 percent of total chemicals production was exported (vs 10 percent in 1970). Today Romania has a large, well established, and integrated chemical industry, supported by a competent labor force, extensive engineering, research and design facilities and an equipment fabrication industry, which can meet a significant part of the chemical industry requirements. This is a commendable achievement, despite major difficulties faced by the industry in the past few years in meeting its ambitious investment and production targets.

2. Until recently, the strategy adopted for the industry has been to develop projects based on indigenous raw materials (crude oil, natural gas, salts) and aimed primarily at import substitution. The main emphasis was on the production of standard refinery products and basic, large quantity chemicals (such as caustic soda, sulfuric acid, fertilizers) and less on higher value, fine chemicals needed in smaller quantities. In selecting plant designs and configuration, Romanian authorities have minimized to the extent possible import of know-how, processes, equipment and raw materials; they are particularly reluctant to engage outside consultants. This policy of maximizing local content has in many cases led to the installation of plants duplicate to those bought years ago which, though not technically obsolete, are in general smaller and less economic than plants now being installed in market economies.

3. While this past strategy has been quite successful on the whole, in quickly expanding and diversifying production, we believe that the chemical industry, and perhaps the entire industrial sector, is at an important crossroads today. It has exhausted most apparent import substitution possibilities, which had fueled its rapid growth in the past. In the future, a number of new internal and external factors will increasingly influence its direction and growth. Four such factors stand out:

- (a) Romania is no longer a surplus producer of hydrocarbons and will increasingly become a net importer of this basic raw material for the chemical industry. It is planned that in 1985 about 64 percent of Romania's total crude oil needs will be imported, compared to only 26 percent as recently as 1975. The country already imports all its requirements of natural rubber, phosphate rock and potash, and part of sulfur. Domestic production of natural gas has also peaked, though the chemical industry should be able to cover all

its needs locally due to the recent policy decision to reduce the use of gas as a fuel. Domestic supplies of some inorganic chemical raw materials, such as lime, salt and brines, are however not likely to be a problem in the foreseeable future;

- (b) Domestic consumption of most basic chemical products is already quite high and is planned to reach the per capita level of most developed countries by the mid-1980s (para 5 below). At the same time, domestic markets for most basic chemical products are already being, or will shortly be, met from local production. Thus, domestic consumption, which is based mainly on industrial demand, can no longer be expected to justify further rapid capacity increases for basic chemicals (see attached table for historic and projected production, consumption, imports and exports of key chemicals);
- (c) Export markets are expected to remain weak through the mid-1980s due to the substantial surplus capacities in Western Europe, Japan and North America for practically all major chemical products. At the same time, OPEC countries, who at present and most likely also in the future control Romania's hydrocarbon feedstock supplies, are currently implementing large, modern plants aimed at capturing large shares of export markets for petrochemical products; and
- (d) While the past rapid development of the industry was based on import substitution and on meeting industrial demand for commodity chemicals, the future development will have to put a much greater emphasis on speciality products and on products aimed at domestic consumer markets. While greater emphasis on meeting consumer needs would create new long-term market prospects for the chemical industry, such a shift would also require much greater capacity in downstream consumer products manufacturing facilities.

4. While some Romanian planners are aware of the above factors, our analysis of the information provided by the Romanians on the 1981-85 plan for the chemical subsector indicates that their significance for subsequent plans is not fully appreciated; at least the 1981-85 development plan does not reflect this. Planned growth rates of domestic consumption for most key products appear optimistic, and would lead to Romanian unit consumption levels in 1985 exceeding those in developed countries today, as shown in the table below.

Comparison of Domestic Consumption of Key Chemicals

	<u>Developed Countries (1976 Actuals)</u>					<u>Romania</u>		
	<u>Western Europe</u>	<u>USA</u>	<u>UK</u>	<u>France</u>	<u>Italy</u>	<u>1977</u> (Actual)	<u>1985</u> (Planned)	<u>1985</u> (Bank Estimate)
Nitrogen Fertilizer (kg/ha)	85	51	159	97	54	61	211	116
Phosphate Fertilizer (kg/ha)	53	27	56	96	35	43	112	.66
Thermoplastics (kg/capita)	29	37	23	31	17	11	32	13-19 /a

/a 1985 estimate.

As is evident, fertilizer application per hectare will already have exceeded Western European levels by 1980, yet is planned almost to double from that level by 1985. Domestic consumption of thermoplastics, is planned to treble on a per capita basis by 1985 but without any signs that an effort is being made to sharply increase the production of consumer goods which account for a major portion of consumption in developed countries. Based both on an end-use analysis and a cross-country comparison, involving 34 developed, COMECON and developing countries, we believe that in 1985 Romania would consume between 13-19 kg/capita of thermoplastics; even if the Bank estimates of Romanian GNP per capita were too low (as mentioned in Section 5b of the brief) the general conclusion would remain valid.

5. Even assuming that planned domestic consumption will in fact reach the levels assumed in the plan, export targets for 1985 appear overly optimistic; yet the likelihood is that local consumption will grow at a slower rate than planned, thus releasing an even larger portion of planned production for exports. Since other COMECON countries are also simultaneously implementing additional capacity for most basic chemicals, much of it planned for export, those countries do not represent good export prospects for the additional capacity planned by Romania in the 1980's. Most of Romania's additional exports would, therefore, have to go to market economies, particularly Western Europe. Even after reducing production estimates below planned figures (Romanian figures assume timely completion and 100 percent capacity utilization of all plants in 1985), Bank staff estimate that to dispose of its surplus production Romania would need to capture significant market shares of world trade for most products in 1985, compared to negligible shares now for all products except fertilizers. Bank projections for such Romanian market shares for key products are: nitrogen fertilizers 17 percent of gross world imports in 1980 and 13 percent in 1985, compared to 8 percent in 1978; 1/

1/ The share falls because of the Romanian assumption that most capacity is on stream by 1980 and growing domestic consumption accounts for a greater share of total output thus leaving less surplus for export.

phosphate fertilizers 6 percent of gross world trade in both 1980 and 1985, compared to 2 percent in 1978; for various thermoplastics between 7 to 13 percent of West European imports in 1985, compared to between zero to one percent for most plastics now; and for man-made fibers between 6 to 8 percent of European gross imports in 1985 compared to 0-2 percent in 1977. With the projected continued low capacity utilization of domestic industries in OECD countries through the mid-1980's, the likely slowdown in the growth rate of developed economies, and the expected entry of OPEC countries into the fertilizer and petrochemical export markets, the above export figures necessary to meet planned production targets appear unrealistic if Romania wants to obtain profitable prices.

6. Weaknesses in the export marketing organization make the achievement of these targets even more questionable. The Romanian foreign trade system, for many classes of industrial products at least, has been developed to handle trade of products sold mainly on price considerations, often in the context of bilateral trade agreements. Foreign trade enterprises which are centralized in Bucharest, are bureaucratic, not fully informed about markets and have hardly any arrangements for customer service; these weaknesses must be expected to become crucial in the marketing of consumer goods and high value industrial products. Even to achieve export levels much lower than needed to meet 1985 production targets, Romania must urgently strengthen its export marketing organization and ensure that the quality of its products rises to Western European standards. Since in future Romania needs to export finished products to sophisticated customers, it needs to substantially strengthen the quality of staff, provide much better customer servicing facilities, and improve market intelligence capabilities.

7. While the official policy forbids export at prices which would result in financial losses, prices obtained by Romania for its exports of chemicals to market economies are in general significantly below the lower end of prices obtained by western chemical producers, and for many major export items may not cover economic costs. This dichotomy could be for three reasons. First, Romania badly needs convertible foreign exchange and its exporters are under considerable pressure to meet volume export targets. Second, domestic prices for most inputs are between 5 to 50 percent of international prices and therefore domestic product prices to which export prices are compared to judge profitability, are in general also much lower. Third, in calculating minimum acceptable export prices no provision is made for capital charges or depreciation. Thus, the pricing system fails to give proper signals to the policy makers whether or not a particular export price adequately covers the economic cost of production. The pricing system also does not provide a basis for resource allocation (the level and structure of domestic prices does not reflect economic costs) and may encourage plant managers to continue inefficient plant designs and operating procedures (by substantially underpricing energy and most raw materials).

8. In order to save foreign exchange, the Romanians have adopted the policy of buying know-how and equipment from abroad for the first of a series of plants and then repeating the designs and making the maximum use of local fabrication facilities for succeeding plants. This strategy means that while

Romanians are still planning projects based on older, less economic (though not necessarily technically obsolete) plants, the rest of the world is building larger, more efficient plants. Since the Romanians are in many cases using imported raw materials for processing in these plants and then exporting a large part of their output, they have no economic advantage and may well be suffering an overall foreign exchange loss on some of these operations.

9. Future strategy for the sector, as enunciated by the State Planning Commission, calls for an even greater reliance on locally developed know-how and equipment and a move downstream towards production of higher value, more sophisticated products. Development of new know-how takes a long time and the missions have not come across any outstanding developments indigenous to Romania. On the other hand, a move towards fine chemicals and downstream products would mean many more smaller plants involving a wide range of new processes not yet available in Romania. Thus, these two objectives are in apparent conflict with each other, particularly if Romania intends to maintain or increase the rate of investments in the sector as planned. Marketing of these newer, more sophisticated products, both in the home (to the extent these may be consumer products) and export markets, would require a major effort. Incidentally, only about 20 percent of the investments planned for 1981-1985 fit into this strategy while the remaining projects are for the production of basic chemicals as in the past.

10. Romanian authorities are apparently finding it difficult to put together the 1981-85 plan. Even though the Party Congress is due to meet this Fall to approve the Plan Directives, there are apparently major questions about the size and allocation of investments; as a result preparation of projects is lagging and it is doubtful if many major projects will be ready in time for implementation by 1980-81 as planned. According to the State Planning Commission, the chemical industry's investments during the 1981-85 Plan would total 140 billion lei (US\$7.5 billion) or about 20 percent of total industrial investments. However, the detailed project list submitted by the Ministry of Chemicals, which reportedly includes all major chemical investments now under active consideration, needs investments totalling 47 billion lei or only one third of the "target" investment level. The project list is consistent with the capacity and production figures submitted for 1985. It is difficult to conceive of a total investment program three times the size of investments reportedly identified so far, which would not materially increase the capacities of most product groups. Possibly in the coming months, the target investment will be substantially reduced below the 140 billion Lei level (particularly because of the recent oil price increases). If it is not, then the resultant even larger capacities than now indicated would further exacerbate the market and marketing problems mentioned above. We also seriously doubt if the chemical industry can successfully implement a much larger investment program.

11. Our analysis of the chemical subsector also raises a number of policy issues which you may want to raise with senior Romanian officials. One of the most critical policy issues relates to the basic economic justification for developing an even more export oriented chemical industry. Romania is projected to become a large net importer of its energy needs, particularly crude oil, during the 1980's. While imported oil itself is not

a significant economic disadvantage for the development of a domestic market oriented industry, an export oriented industry in an oil importing country must be justified on the basis of clear economic advantages. The projected large crude oil imports would not only put a very heavy burden on Romania's foreign trade balance, but also create a major uncertainty about the reliability of the supply of critical feedstocks for the organic chemical industry. At the same time, most of the incremental capacity planned for petrochemicals and basic organic chemicals in Romania must be oriented towards export and would require capturing of large market shares in developed countries (particularly Western Europe) during the 1980's when the markets in these countries are projected to remain weak and their own domestic plants expected to run substantially below capacity. Romanian chemical and petrochemical exports would also have to compete against exports into these countries from large, modern plants being built in OPEC countries who would control Romania's basic feedstock supplies. Since Romania's main resource advantage, cheap and well-trained labor, is of limited relevance to the chemical industry and it would in any case most likely be more than offset by the disadvantages of smaller, less efficient plants planned in Romania, the economic justification for building new capacity in the industry for serving export markets is uncertain at best; this doubt is reinforced by our preliminary evaluation of the economic viability of the proposed Bacau-Borzesti petrochemical complex, which is a good representative of many export oriented chemical plants; it has a small ethylene core plant based on older process design and will on the margin export virtually all of the output. When its feedstock is priced at the cost of imported crude even at late 1978 prices and its output at the export value, the complex shows a very low economic return. Moreover, Romania's projected increasing reliance on imported crude oil could also create a major uncertainty about the reliability of the supply of critical feedstocks for the organic chemicals industry.

12. There are other industrial policy issues which affect the chemical industry (see Section 5d of the brief). Future Bank lending to the chemical subsector should, of course, concentrate on projects which recognize these issues and fit well in the future strategy for the subsector. The chemical subsector mission has tentatively indentified four projects for FY80-82 program which are essentially directed at the domestic market, are closely linked with production for final consumption and are based on domestic raw materials. These are: a pharmaceuticals, a magnesium oxide, a titanium dioxide, and a polyurethane resins project (see Section 7C of Brief--Future Projects--for further information). The chemical mission's report is now at an advanced stage of preparation. We intend to make it available to the Romanians later this year for a detailed discussion of issues involved, at the time of the preappraisal of the next chemical project tentatively planned for September/October.

II. Steel Subsector

13. The present status of Romania's steel industry is largely the result of a process of continuous development since 1950. The industry has benefited from the priority accorded to basic industries within the overall

program of industrial development underway since that time. Raw steel production increased from 560,000 tons in 1950 to about 12 million tons in 1978, reflecting average annual growth rates of around 12 percent in the 1950s, 14 percent in the 1960s and 8 percent in the 1970s. The industry presently accounts for about 8 percent of gross industrial production and employs over 110,000 people. Investment in the industry in the 1976-80 plan period is planned at US\$4.2 billion or 14 percent of total industrial investment.

14. While early capacity was based primarily on Russian technology, recent additions have taken advantage of some of the latest developments in technology worldwide and incorporate technological improvements developed in Romania. Technological advances are also reflected in Romania's present capability to manufacture most types of steel plant equipment. Gains in quality, efficiency and related factors of steel production have lagged behind the considerable achievements in production increases, but nonetheless appear to be approaching comparable international standards. In view of Romania's policy of regionalization of industry, the steel production units are spread throughout the country with extensive interlinkages and resulting cross-flows of product. Despite this their product mix and production plans suggest a high degree of coordination and rationalization and in fact make up a unified national industry.

15. Consumption and Demand. The basic production/consumption data for the Romanian steel industry for the period 1970-85 is provided in Annex 1. While in the past production increased rapidly, steel imports and exports have largely been in balance at around 2 million tons per year. In future Romania is expected to become a net exporter of about 1 million tons per year by 1985. Steel consumption per capita in comparison to other countries is shown in Annex 2, which indicates that Romanian steel consumption in relation to its GNP (based on present estimates and exchange rates) is very high by international standards. In 1976 Romania's per capita consumption of steel was 511 kg compared to 593 kg for West Germany, 604 kg for the U.S., 54 kg for Japan and 426 kg for France. In 1985, the per capita consumption of steel in Romania is expected to be around 820 kg. While it is difficult to precisely quantify the reasons for this high consumption, it can be attributed to the following major factors:

- (i) Heavy emphasis on investment in general, and within such investment priority to steel-intensive sectors such as industry, energy and transport and again within these sectors emphasis on steel intensive items;
- (ii) Large and increasing indirect exports of steel through export of machinery and other steel manufactures; and
- (iii) Relatively high unit consumption of steel in construction due to seismic factors and in manufactures possibly due to "heavier" designs and inefficient steel use.

16. Economic Competitiveness. It is difficult to clearly quantify economic costs given the nature of Romania's planning and pricing systems.

All indications however suggest Romania's steel industry to be internationally competitive though not to enjoy the significant cost advantages in economic terms that the industry presently has in financial terms due to the controlled low domestic prices for most of its production inputs, including low plant cost and services. The industry relies increasingly on imports for its two basic raw materials. In 1978 it imported 85 percent of its iron ore and 60 percent of its coking coal requirements and is expected to import 92 percent and 70 percent respectively in 1985 to meet the planned production targets. However, import prices as reported are low under existing long-term supply contracts relative to international levels. This advantage will be reduced as contracts are renegotiated during the eighties. Capacity utilization has been high as producers are insulated from market forces and instead cater to needs predetermined by the national economic plan. Central planning also results in a substantial reduction in overhead costs. Finally, wage rates are, at present, relatively low leading to advantages in both investment and operating costs.

17. Development Program. As shown in Annex 1 steel production in Romania is planned to reach over 17 million tons in 1980 (an annual growth rate of 12.7 percent between 1975 and 1980) and then increase less rapidly (3.4 percent annually) to over 20 million tons in 1985. It should be noted that these targets reflect significant reductions in plan figures made in recent months (the 1985 target was cited as 22 million tons as late as March 1979). Correspondingly, the industry's investment program for 1981-85 was cut from a previous budget of lei 145 billion (US\$8.1 billion) to lei 100 billion (US\$5.6 billion), or to about 15 percent of total industrial investment. The planned increases reflect: a continuing emphasis on investment in industry; increasing indirect exports of steel in the form of machinery and equipment of which 50 percent is earmarked for COMECON countries, 30 percent for developing countries and 20 percent for developed countries; and some direct exports of steel (at a level similar to the current level of about 2 million tons annually). A breakdown of steel consumption by user sectors is shown in Annex 3. In 1985 the machinery and equipment sector is planned to consume 46 percent of steel output (excluding "reserves" (Annex 3) and forgings and castings), of which nearly half would be directed to export markets. Romania's exports of machinery and equipment in 1985 are planned to equal around 165 kg/capita (steel equivalent) as compared to the current estimated level of about 200 kg/capita in Japan.

18. Development Issues. The study of the steel subsector was undertaken by the Bank and agreed to by the Romanian authorities with the specific objective of gaining a fuller understanding of the subsector as a basis for possible continued Bank lending to the steel industry. While this has remained the basic objective, a number of important issues regarding the future direction of the industry have emerged. Primarily, these are:

(i) Constraints to Achieving Production Targets: The proposed production targets for 1980-85 appear to be ambitious and likely to face a number of problems. The most critical problem relates to the availability of managers, technicians and skilled labor to both implement and operate the proposed plants. An addition of over 60,000 to the labor force would be required to

achieve the planned production increases. While some training is underway, it appears to be far short of being able to meet these needs. In view of the extensive interlinkages between fairly widely dispersed steel making facilities that are characteristic of the system, production increases would require more than usual increases in related infrastructure, particularly in transportation. The adequacy of investments planned for such purposes could not be confirmed. Finally, while production at the existing scale has been reasonably well coordinated, planning, coordination and control mechanisms are likely to be further constrained as production nearly doubles. Extensive computerization has become a necessity for which Romania may not yet have the necessary technical expertise. In view of the above constraints, the 1980-85 period might well be devoted more to some consolidation of production capacity gains already achieved than to the planned continued high capacity addition. The recent reduction in the investment program noted earlier, might be a first step in this direction.

(ii) Consumption and Market Factors: Assuming that the production targets can be achieved despite the above constraints, projected total consumption levels deserve close attention. Consumption projections for steel have in the last three months been revised downwards but still remain ambitious, particularly in view of the planned reductions in the specific consumption of steel in the consuming sectors, particularly in machine building and construction which remain important consumers of steel. The largest increase in steel consumption is projected for the machine building and equipment sector. Steel consumption for machinery and equipment destined for exports is planned to triple between 1978-85 (Annex 3). Such an increase relies among others on entry into fields, such as steel plant and equipment exports, where Romania has as yet little international experience. It would require sales organizations, after-sales service mechanisms, export financing arrangements, quality control and other procedures which are not presently available or only inadequately so, in the Romanian system, and which cannot be built up in the medium-term. In view of the lack of export experience and of these support measures, the export plan is extremely optimistic. If the projected exports do not materialize the planning system might not have the flexibility to cope with and respond quickly to the need for change, such as by increasing direct steel exports at economic prices which in turn would require additional sales support and organization.

(iii) Economic Costs and Competitiveness: At present, the steel industry benefits from low labor costs (reflected in investment and operation), reportedly low prices for raw materials, and sustained high levels of capacity utilization. These factors represent a competitive advantage as regards production costs. In the future, as local raw material prices adjust to international levels and Romania becomes reliant on imports for most of its raw material requirements for the steel industry, the advantage will be significantly reduced. Further adverse effects can be expected from the need to respond to direct and indirect export market requirements rather than predetermined domestic needs. As noted earlier presently the steel industry benefits from low controlled prices for its inputs and for transportation, which is a key cost element in view of the extensive cross-shipment of products. It is not clear whether these "subsidies" do not distort investment

decisions and will not lead to further eroding competitiveness, particularly in export markets. Further, at least in Bank projects undertaken in the steel subsector, there is evidence of the desire to produce a whole range of products without adequate regard to the economics of such a policy. If the steel industry is to continue to be competitive, these factors and their impact on the industry will have to be closely examined.

19. Finally, perhaps the most crucial policy issue facing the entire industrial sector at this time, and therefore also the steel sector, is the trade-off between investment and consumption. Romania's past development strategy emphasized industrial investment particularly in basic and heavy industries. Future Plans appear to continue such an emphasis; the product-mix of the steel industry, for example, continues to be biased towards investment goods. The strategy has resulted in impressive gains but might bear reconsideration in view of emerging constraints in executing investment projects, in staffing and managing new plants, and most significantly in domestic and export markets. In the future, demand from domestic consumer markets could not only provide an impetus for economic growth, but might even be needed to counteract a possible decline in steel use for investment goods. Romania may therefore well be at the stage where it could begin to consider a gradual shift in emphasis from investment towards consumption.

20. Future Bank Lending to the Steel Subsectors. The Romanian authorities have presented several projects for Bank financing, four of which were proposed for consideration in FY80: Coke ovens for Calarasi Stage II; Otelinox Bar mill (Tirgoviste); Assel Seamless Tube mill (Zalau); and Tin-plate production at Galati. The Romanian authorities may specifically request Bank involvement in the Calarasi coke oven project. However, the coke ovens represent only a component of a large expansion project (addition of 4 million tons of raw steel capacity and a further 6 million tons in a second stage) and its appraisal would require an evaluation of the entire Calarasi expansion project. Not only would the large increase in raw steel capacity be difficult to justify but its evaluation would be constrained since the required data is not expected to be readily provided. Further, the project does not reflect a domestic market or a consumer-products orientation which is felt to be appropriate for Romania at this time, and the Bank's involvement at this late stage is not likely to bring about any basic changes in project concept. The tin-plate production project at Galati appears to be the most promising for FY80 (see Section 7C of brief--Future Projects--for further information) because it is oriented towards the domestic consumer sector and does not increase steel production capacity that focuses on product diversification to meet domestic needs. In addition to the Romanian proposals, the subsector mission identified a project for the computerization of steel sector coordination, in which the Bank could play a useful role. The Romanian authorities, however, were not keen to involve the Bank in such a project.

21. The steel subsector report is in an advanced state of preparation and expected to be completed by August 1979. At that time, we propose to provide the report to the Romanian authorities, and thereafter to discuss the major findings with the Government in September/October.

ROMANIA - CHEMICAL SUBSECTOR
Production, Exports (Imports) and Domestic Consumption of Principal Products 1950-1985
(000 tons)

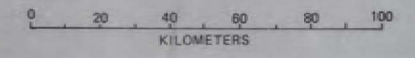
Average Annual Growth Rates (%)

Principal Products	1950		1960		1970		1975		1980		1985		1970-1977		1977-1980		1980-1985		1977-1980		1980-1985		1985-1988	
	Production	Export	Production	Export	Production	Export	Production	Export	Production	Export	Production	Export	Domestic Consumption	Domestic Consumption	Domestic Consumption	Domestic Consumption	Domestic Consumption	Domestic Consumption	Domestic Consumption	Domestic Consumption	Domestic Consumption	Domestic Consumption	Domestic Consumption	Domestic Consumption
INORGANIC CHEMICALS																								
Soda Ash	39	183	19	166	166	647	1,133	603	503	641	1,381	1,381	740	373	981	1,180	1,263	1,237	15.8	29.7	4.5	17.6	0.0	10.6
Caustic Soda	15	77	19	166	354	693	1,133	603	503	641	1,381	1,381	740	373	981	1,180	1,263	1,237	15.8	29.7	4.5	17.6	0.0	10.6
Sulphuric Acid	52	226	77	238	238	566	566	223	343	423	735	735	312	423	968	1,180	1,263	1,237	15.8	29.7	4.5	17.6	0.0	10.6
FERTILIZERS																								
Nitrogenous Fertilizers (100% N)	-	-	19	166	166	647	1,133	603	503	641	1,381	1,381	740	373	981	1,180	1,263	1,237	15.8	29.7	4.5	17.6	0.0	10.6
Phosphatic Fertilizers (100% P ₂ O ₅)	-	-	19	166	166	647	1,133	603	503	641	1,381	1,381	740	373	981	1,180	1,263	1,237	15.8	29.7	4.5	17.6	0.0	10.6
Potassic Fertilizers (100% K ₂ O)	-	-	19	166	166	647	1,133	603	503	641	1,381	1,381	740	373	981	1,180	1,263	1,237	15.8	29.7	4.5	17.6	0.0	10.6
Total Fertilizers (100% Nutrients)	-	-	19	166	166	647	1,133	603	503	641	1,381	1,381	740	373	981	1,180	1,263	1,237	15.8	29.7	4.5	17.6	0.0	10.6
PESTICIDES																								
Methane used for chemical purposes (million m ³)	na	-	460	935	935	2,180	2,850	-	2,850	3,100	3,100	3,100	-	6,000	7,600	7,600	7,600	16.8	5.2	24.6	4.8	4.8	24.6	
Methanol	-	-	-	-	-	88	189	(1)	189	214	228	228	14	396	530	640	640	24.0	14.2	27.3	2.0	2.0	18.9	
Formaldehyde	-	-	-	-	-	20	28	(1)	29	32	36	36	(4)	67	87	87	87	4.9	4.9	10.2	3.8	3.8	10.2	
Acetic Acid	-	-	-	-	3	3	28	(1)	29	32	36	36	(4)	67	87	87	87	4.9	4.9	10.2	3.8	3.8	10.2	
PETROLEUM																								
Crude Oil Processed	5,000	11,500	12,300	15,638	15,638	14,590	14,590	(5,040)	19,630	23,267	14,650	14,650	(8,620)	6,870	12,300	12,300	12,300	34,300	-6.4	0.5	0.5	(32.1)	0.1	14.3
Naphtha Processed	-	-	160	160	160	700	700	1,460	2,786	4,048	4,048	1,800	1,800	6,930	7,210	7,210	7,210	3,300	9.0	25.6	10.8	(2.0)	0.1	25.6
Gasoline	1,500	2,792	2,458	2,786	2,786	4,048	4,048	1,800	2,786	4,048	4,048	1,800	1,800	6,930	7,210	7,210	7,210	3,300	9.0	25.6	10.8	(2.0)	0.1	25.6
Gas Oil	731	2,376	3,600	5,049	5,049	5,919	5,919	2,030	3,690	4,450	7,660	7,660	2,500	4,450	8,850	8,850	8,850	11,740	3.6	10.9	11.4	-38.4	0.1	10.9
Fuel Oil	1,681	3,824	3,773	4,249	4,249	5,989	5,989	2,260	3,370	5,160	7,660	7,660	2,500	4,450	8,850	8,850	8,850	11,740	3.6	10.9	11.4	-38.4	0.1	10.9
PLASTICS AND RESINS																								
Ethylene	-	-	110	110	110	32	32	-	67	155	263	263	(20)	105	115	115	115	1,192	13.3	37.1	14.0	(37.5)	1.8	37.1
Propylene	-	-	92	92	92	121	121	-	121	170	170	170	-	24	24	24	24	819	9.2	31.0	11.7	(0.0)	0.0	31.0
Aromatics	-	-	10	107	107	372	422	(43)	465	540	540	422	-	181	181	181	181	1,086	5.5	10.0	8.6	-	0.0	10.0
Phenol	-	-	6	19	19	57	64	-	64	69	69	69	26	96	96	96	96	1,086	5.5	10.0	8.6	-	0.0	10.0
Acetone	1	2	19	28	28	36	36	19	17	21	41	41	20	21	21	21	21	3,580	2.8	18.9	13.7	-8.4	0.0	18.9
Carbon Black	3	25	37	72	72	86	86	30	56	100	100	46	63	130	130	130	130	4,735	5.6	18.9	13.7	-8.4	0.0	18.9
Detergents	-	-	1	4	4	8	8	3	14	17	20	20	3	37	37	37	37	2,475	4.8	18.9	13.7	-8.4	0.0	18.9
PLASTICS AND RESINS																								
Thermosetting - urea formaldehyde	-	-	1	9	9	32	32	-	67	155	263	263	(20)	105	115	115	115	1,192	13.3	37.1	14.0	(37.5)	1.8	37.1
Thermosetting - alkyds	-	-	5	5	5	10	10	-	10	15	15	15	-	20	20	20	20	819	9.2	31.0	11.7	(0.0)	0.0	31.0
Total Thermosetting Resins	-	-	6	14	14	42	42	na	77	170	278	278	2	121	121	121	121	1,015	10.4	22.8	10.9	-	0.0	22.8
Thermoplastics - LDPE	-	-	8	8	8	66	66	5	83	104	104	26	26	214	214	214	214	350	6.7	27.2	14.2	93.4	13.2	27.2
Thermoplastics - HDPE	-	-	8	8	8	66	66	5	83	104	104	26	26	214	214	214	214	350	6.7	27.2	14.2	93.4	13.2	27.2
PVC	-	-	4	31	31	56	56	3	47	84	84	123	123	120	120	120	120	1,120	19.7	72.1	6.6	36.8	0.3	72.1
Polystyrene	-	-	1	11	11	14	14	-	15	15	18	18	18	66	66	66	66	171	14.4	23.0	15.2	33.3	3.2	23.0
Polypropylene	-	-	1	1	1	14	14	-	14	14	14	14	14	134	134	134	134	134	14.4	23.0	15.2	33.3	3.2	23.0
Total Thermoplastics	-	-	6	61	61	144	144	50	156	206	206	369	369	770	770	770	770	1,007	14.4	27.8	12.2	43.3	11.5	27.8
SYNTHETIC RUBBER																								
MAN MADE FIBERS	-	-	31	31	31	61	61	39	60	83	136	136	53	282	282	282	282	140	12.1	27.5	9.8	38.2	11.4	27.5
Polyamide	-	-	1	2	2	7	7	-	19	19	23	23	1	40	40	40	40	52	19.3	20.3	19.1	100.0	45.4	20.3
Polycrylonitrile	-	-	1	1	1	12	12	-	23	23	43	43	12	52	52	52	52	30	20.0	20.3	19.1	100.0	45.4	20.3
Polyester	-	-	1	1	1	10	10	-	12	12	46	46	12	46	46	46	46	71	27.8	28.1	9.7	63.0	6.4	28.1
Artificial Fibers	2	3	18	47	47	63	63	(23)	88	104	104	104	(23)	104	104	104	104	25	27.8	28.1	9.7	63.0	6.4	28.1
Total Man Made Fibers	2	4	21	77	77	159	159	16	142	181	183	183	2	311	311	311	311	178	13.2	19.3	11.8	237.7	18.2	19.3
PAINTS AND VARNISHES																								
Pharmaceuticals (tons)	5	20	43	85	85	130	130	26	104	123	152	152	29	213	213	213	213	127	8.7	11.9	11.6	32.2	13.6	11.9
Sulfonamides	-	-	22	82	82	155	155	na	na	284	342	342	58	420	420	420	420	263	12.0	7.1	7.1	26.4	17.6	7.1
Vitamins	3	71	84	242	242	268	268	na	na	206	497	497	290	597	597	597	597	1,520	10.8	10.8	6.3	5.4	34.9	10.8
	-	-	2	55	55	102	102	na	na	127	140	140	13	167	167	167	167	94	4.6	6.1	6.1	77.7	82.1	6.1

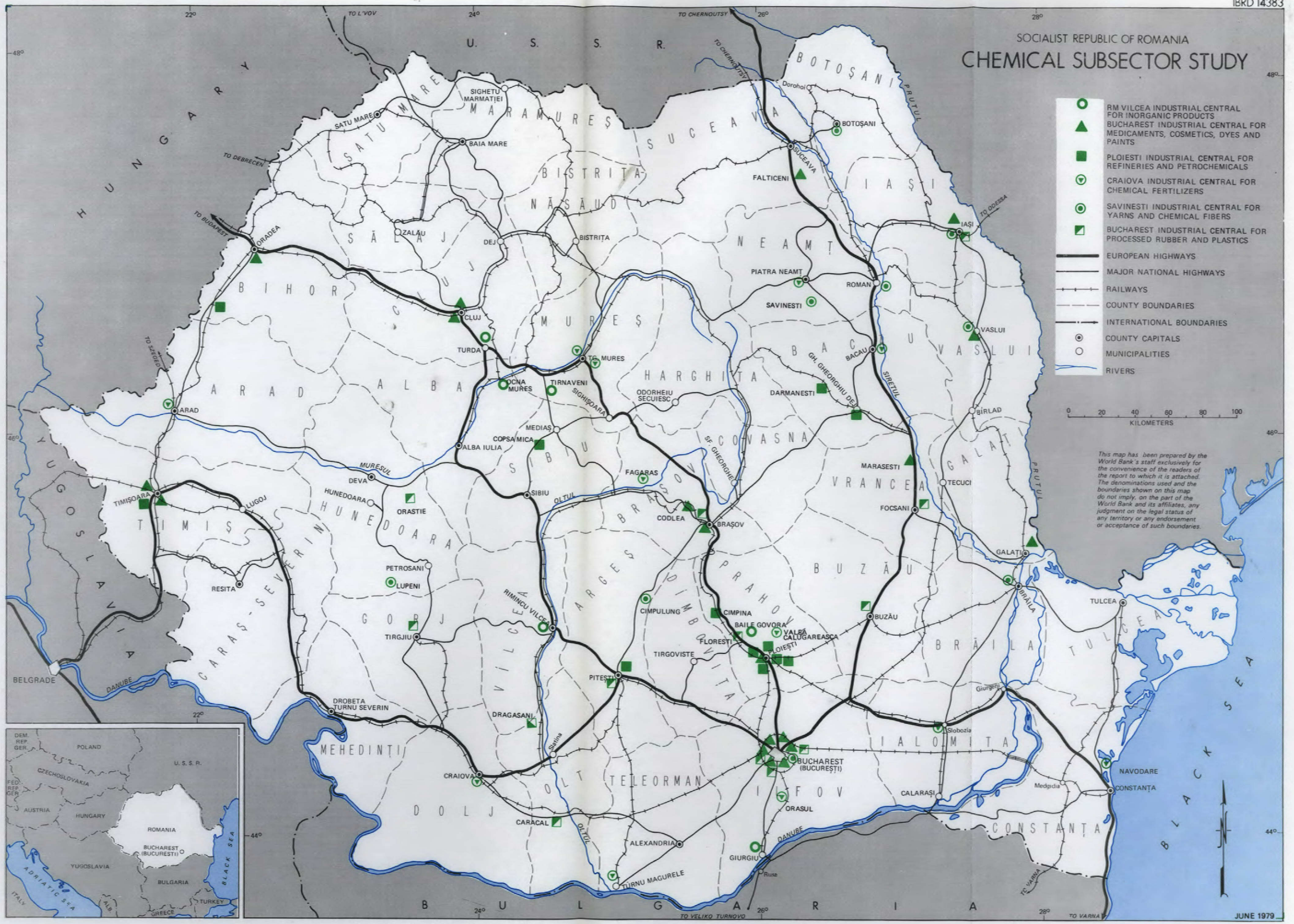
a) Romanian plan.
b) Bank estimates.

SOCIALIST REPUBLIC OF ROMANIA CHEMICAL SUBSECTOR STUDY

- RM VILCEA INDUSTRIAL CENTRAL FOR INORGANIC PRODUCTS
- BUCHAREST INDUSTRIAL CENTRAL FOR MEDICAMENTS, COSMETICS, DYES AND PAINTS
- PLOIESTI INDUSTRIAL CENTRAL FOR REFINERIES AND PETROCHEMICALS
- CRAIOVA INDUSTRIAL CENTRAL FOR CHEMICAL FERTILIZERS
- SAVINESTI INDUSTRIAL CENTRAL FOR YARNS AND CHEMICAL FIBERS
- BUCHAREST INDUSTRIAL CENTRAL FOR PROCESSED RUBBER AND PLASTICS
- EUROPEAN HIGHWAYS
- MAJOR NATIONAL HIGHWAYS
- RAILWAYS
- COUNTY BOUNDARIES
- INTERNATIONAL BOUNDARIES
- COUNTY CAPITALS
- MUNICIPALITIES
- RIVERS



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Centimetres
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19

INCHES
1 2 3 4 5 6 7 8

Blue
Cyan
Green
Yellow
Red
Magenta
White
Black

TIFFEN Color Control Patches

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ROMANIA

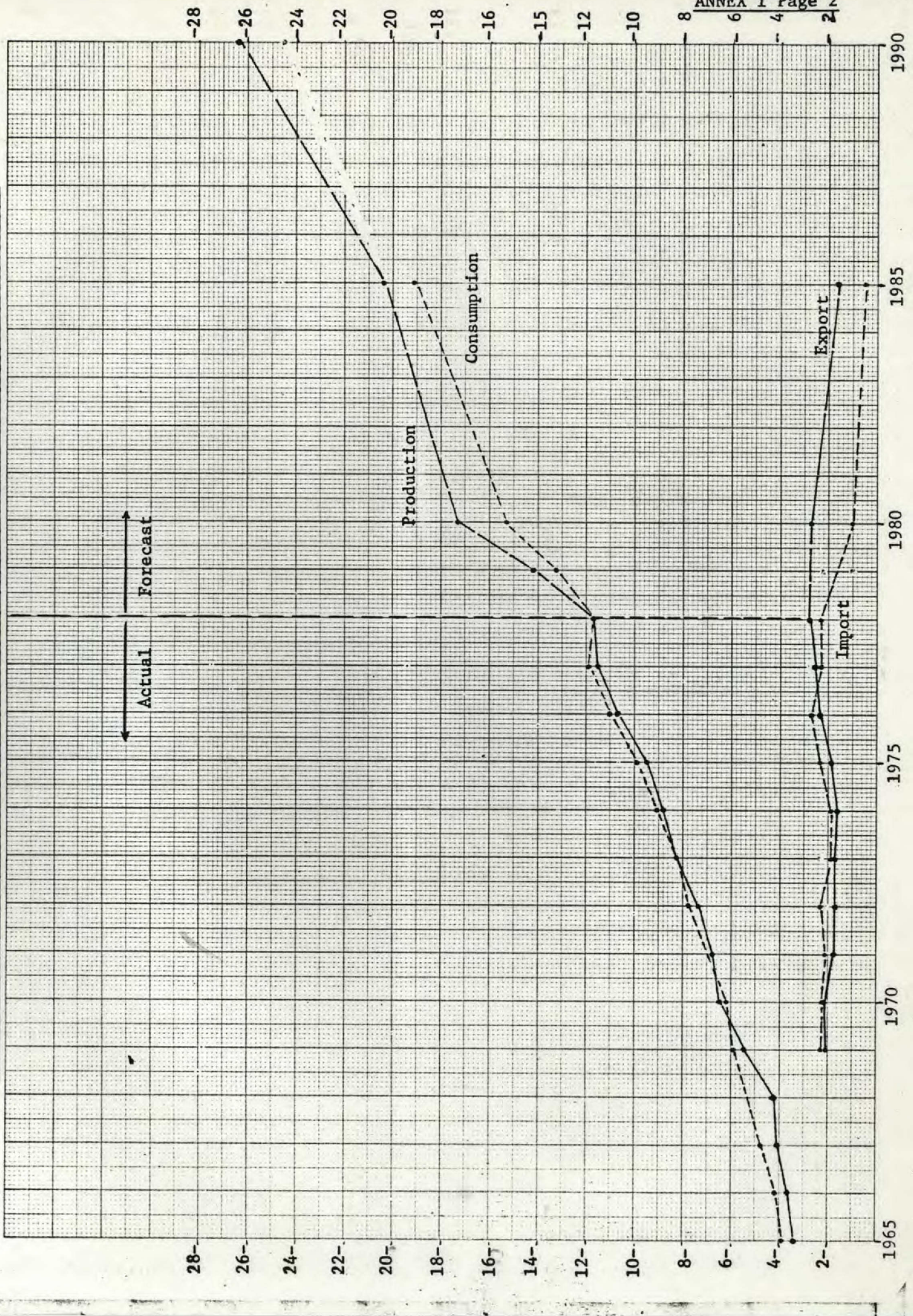
Steel Production, Trade and Consumption in Selected Years

	<u>1970</u>	<u>1975</u>	<u>1977</u>	<u>1980</u>	<u>1985</u>	Growth Rate			
						<u>70-75</u>	<u>75-77</u>	<u>77-80</u>	<u>80-85</u>
Production	6.5	9.5	11.4	17.3	20.4	7.9%	9.5%	14.9%	3.4%
Import	2.1	2.4	2.2	0.8 ^{a/}	0.5 ^{a/}	2.7%	-4.4%	-	-9.9%
Export	2.0	1.9	2.2	2.7 ^{a/}	1.6 ^{a/}	-1.0%	7.6%	-	-11.0%
Inventory Changes	0.2	0.2	0.1	0.2	0.3	-	-	-	-
Consumption	<u>6.4</u>	<u>9.8</u>	<u>11.3</u>	<u>15.2</u>	<u>19.0</u>	<u>8.9%</u>	<u>7.4%</u>	<u>10.4%</u>	<u>4.6%</u>
Consumption per Capita (kg) <u>b/</u>	317	464	536	681	820	7.9%	7.5%	8.3%	3.8%
of which indirect mach- inery exports	n.a.	n.a.	53	74	165	n.a.	n.a.	11.8%	17.4%
Consumption per Capita (kg) excluding in- direct exports	n.a.	n.a.	483	607	655	n.a.	n.a.	7.9%	1.5%

a/ Projections do not include trade under compensation and barter arrangements.

b/ Comparator figures for other countries are shown in Annex 2.

ROMANIA: Production, Consumption, Import and Export of Steel (million tons of raw steel)



Steel Consumption and GNP Per Capita
in Selected Countries 1976

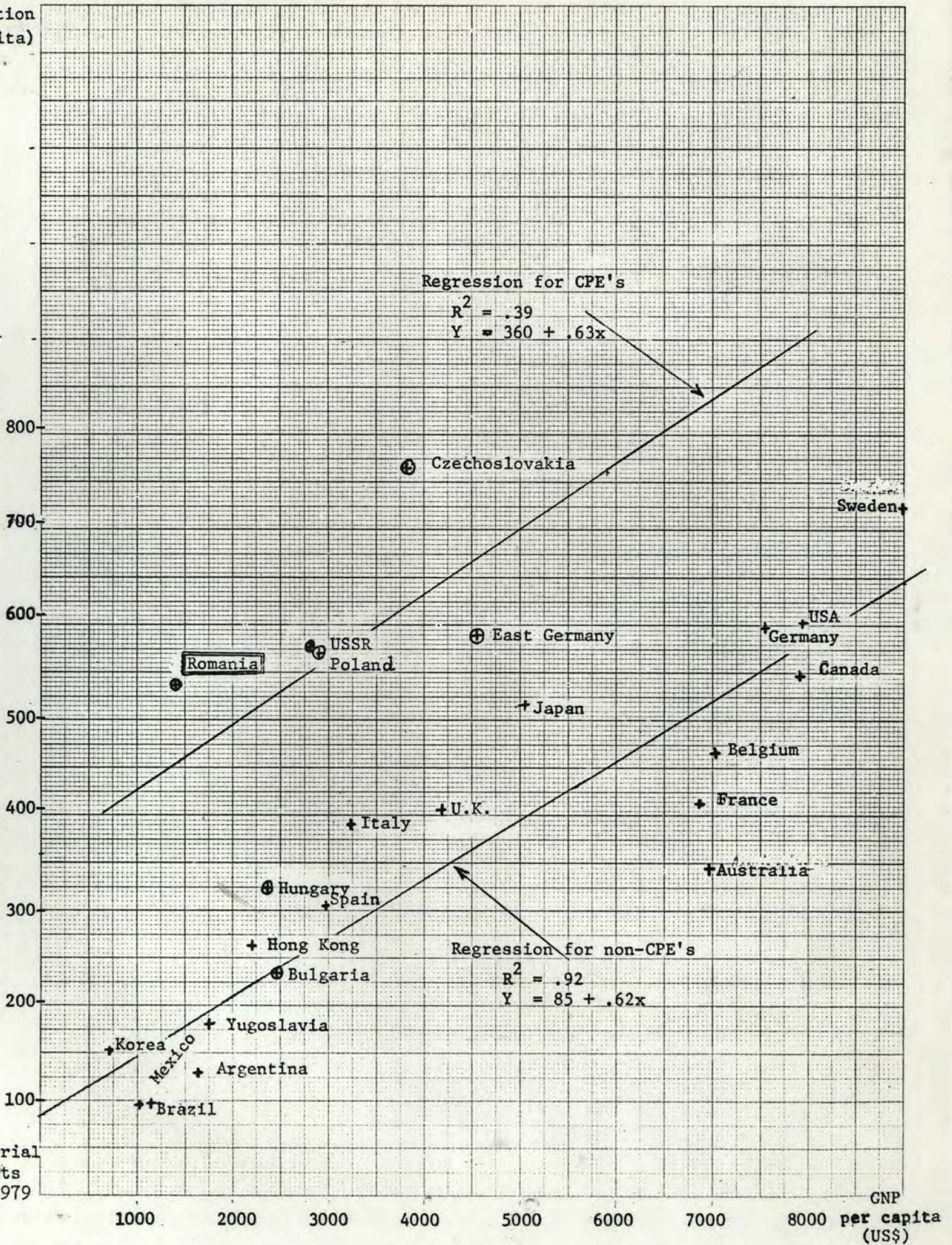
<u>Country</u>	<u>GNP Per Capita</u> <u>(US\$)</u>	<u>Steel Consumption Per</u> <u>Capita (kg)</u>	<u>Steel Intensit</u> <u>(kg/1000 US\$)</u>
	(1)	(2)	(2)/(1)
Argentina	1,580	129	82
Australia	6,990	346	49
Belgium	7,020	467	67
Brazil	1,300	98	75
Bulgaria	2,460	236	96
Canada	7,930	543	68
Czechoslovakia	3,790	767	202
France	6,730	426	63
German Democratic Republic (East)	4,520	590	131
Germany, Federal Republic of (West)	7,510	593	79
Hong Kong	2,230	264	118
Hungary	2,340	324	138
Italy	3,220	389	121
Japan	5,090	534	105
Korea	700	151	216
Mexico	1,060	96	91
Poland	2,880	533	185
Romania	1,400	511	365
Spain	2,990	305	102
Sweden	9,030	725	80
USSR	2,800	567	203
UK	4,180	407	97
US	7,880	604	77
Yugoslavia	1,750	182	104

Source: UN, World Bank Atlas

Steel Consumption (kg/capita)

No. 19-0610 (R-2470-10-C) 10 Millimeters to a Centimeter • Made in U.S.A.

VERNON McMILLAN, INC., ELIZABETH, N.J. 07208



Industrial Projects June 1979

GNP per capita (US\$)

ROMANIA: Steel Consumption by Consuming Sector 1978, 1980 and 1985
(in million tons of finished products)

	<u>1978</u>	<u>1980</u>	<u>1985</u>	<u>Growth Rate 78-85 (p.a.)</u>
A. <u>Steel Products</u>				
Machine building for domestic use	2.4	2.8	2.8	2.2%
Machine building for exports	0.9	1.1	2.6	16.4%
Construction	2.8	3.0	3.5	3.2%
<u>Other Sectors</u>	<u>2.0</u>	<u>2.1</u>	<u>2.9</u>	<u>5.4%</u>
Sub-Total I	8.1	9.0	11.8	5.5%
B. <u>Reserves 1/</u>	<u>-</u>	<u>1.6</u>	<u>1.8</u>	<u>2.4%</u> (1980-1985)
Sub-Total II (in terms of finished products)	8.1	10.6	13.6	7.5%
x 1.28 (conversion into raw steel equivalent)	10.5	13.6	17.4	7.5%
C. <u>Forgings and Castings</u>	<u>1.2</u>	<u>1.6</u>	<u>1.6</u>	<u>4.2%</u>
Total Steel Consumption (in terms of raw steel)				
including reserves:	<u>11.7</u>	<u>15.2</u>	<u>19.0</u>	7.2%
excluding reserves:	<u>11.7</u>	<u>13.1</u>	<u>16.7</u>	5.2%

1/ Although the reserves are primarily earmarked as a result of Romanian planned reductions in specific consumptions in major consuming sectors, the impression given by the Romanians is that such reductions may not be likely and therefore most reserves would be consumed.

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(in million tons of finished products)

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Total Steel Consumption (in terms of raw steel)				7.2%
including reserves:	<u>11.7</u>	<u>15.2</u>	<u>19.0</u>	
excluding reserves:	<u>11.7</u>	<u>13.1</u>	<u>16.7</u>	

1/ Although the reserves are primarily earmarked as a result of Romanian planned reductions in specific consumptions in major consuming sectors, the impression given by the Romanians is that such reductions may not be likely and therefore would be consumed.

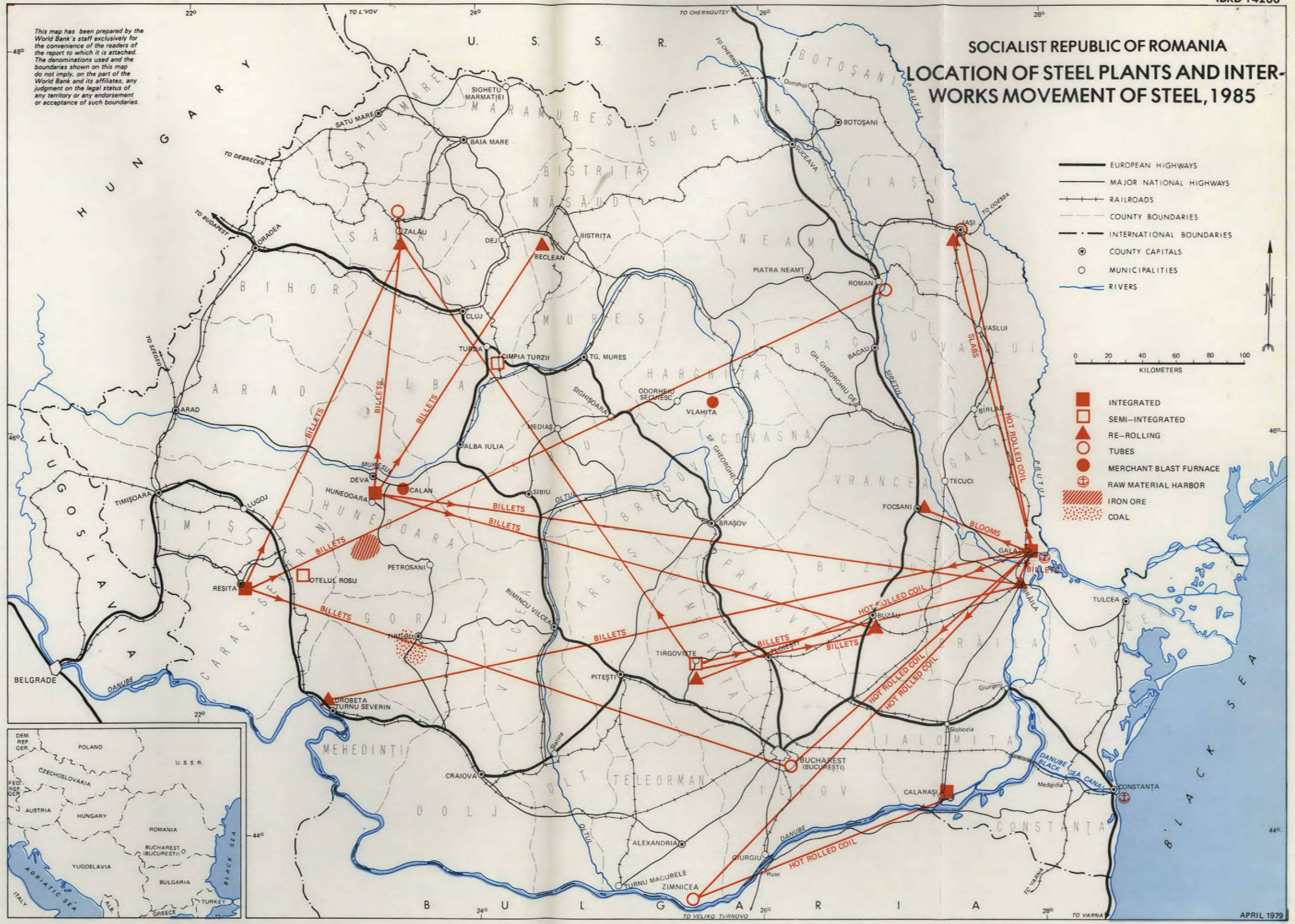
SOCIALIST REPUBLIC OF ROMANIA LOCATION OF STEEL PLANTS AND INTER- WORKS MOVEMENT OF STEEL, 1985

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Centimetres
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Yellow
Red
Magenta
White
3/Color
Black

TIPPEN Color Control Patches
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(i) THE AGRICULTURAL SECTOR IN ROMANIA

Agriculture

Agriculture continues to be a key sector in the Romanian economy, providing both convertible foreign exchange earnings and industrial raw materials which contribute to progress in other sectors, especially in industry. In 1977, agriculture accounted for 16 percent of national income and 34 percent of the labor force (compared with 74 percent in 1950). About 14.9 million hectares, or almost two-thirds of the land area, are used for agriculture. Of this area, 65 percent is arable, 30 percent is under pasture and the remaining 5 percent is used for orchards and vineyards. About 8.5 million hectares of all agricultural land is in Wallachia, the region composed of the southern plains in the Danube valley. Approximately 64 percent of all arable land is used for grain production (mainly maize and wheat), while industrial crops (mainly sunflower and sugar beet) are the next most important. Vegetables are also produced for domestic consumption and export, predominantly by private farmers and individual members of cooperatives, but also often in large-scale commercial greenhouses operated by State farms and cooperatives. In 1976, livestock accounts for a relatively high 41 percent of agricultural production.

The major problems of Romanian agriculture are the instability of its output and low productivity. Growth achieved in agricultural production has been slower than in other sectors and has been characterized by year-to-year variations. The Government has taken account of these problems in its five year plans. Investment in agriculture accounted for 12.7 percent of actual total investment in the 1966-70 plan period and 14.1 percent in the 1971-75 plan period. Investment in agriculture in the 1976-80 plan period is expected to be US\$7 billion, about 50 percent more than during the 1971-75 plan period. Included in these plans are major programs of irrigation investment to address the sector's problems, in particular the problem of the instability of production. In addition to investment, the Government has introduced institutional reforms, price incentives, and production targets and delivery schedules geared to stimulate agricultural production. It has also taken a number of other specific measures to increase agricultural productivity including increases in the supply and utilization of fertilizers, investments in livestock production and the promotion of agro-industrial enterprises to provide processing and marketing facilities. The Bank has also identified the production instability and the low productivity as the two major problems in the Romanian agricultural sector as stated in the Agricultural Sector Survey (953a-RO) and the recent basic economic report (1601-RO). Through the process of preparing these documents and the Bank financed projects, the Bank has maintained a close dialogue with the Government and contributed to improving the design of agricultural development projects. The Bank has assisted the Government efforts by providing so far

seven loans totalling \$371.5 million since 1975 when the first Bank loan for agriculture was made to Romania.

The Need for Irrigation Infrastructure

Instability in agricultural production results from vulnerability to erratic weather conditions and the lack of infrastructure to mitigate their impact. Excessive precipitation and flooding during planting and harvest seasons, and inadequate rainfall during summer growing seasons, have resulted in year to year fluctuations in national output of the order of 10 to 20 percent. Fluctuations of production in particular regions can be even greater. Only production of vegetables has increased steadily, reflecting the relatively more controlled conditions under which they are produced. The Government is well aware of this problem and has placed high priority within the agricultural sector on solving it. Forty percent of agricultural investment in the 1971-75 Five-Year Plan was for land reclamation, irrigation and drainage; the comparable figure for the 1976-80 Five Year Plan is about 20 percent, reflecting a relative decline in infrastructure investment and increasing emphasis on investments to make productive use of irrigation facilities already established. Since 1965, total irrigated land has been increased from about 0.2 million hectares to 1.9 million hectares in 1977, and, the relative reduction in the share of the agricultural budget allocated for irrigation notwithstanding, another 700,000 hectares are expected to be brought under irrigation during the last three years of the 1976-80 plan period. Irrigation works to date have concentrated on large schemes using waters pumped from the Danube. Four such projects have already been financed by the Bank since 1975 including one in the Calmatui district; execution of these projects, which also include drainage and farm mechanization components, is proceeding satisfactorily (see Annex II), and the proposed project would continue Bank support in this subsector.

Agricultural Productivity

In addition to improving its irrigation infrastructure, Romania is also taking measures to improve productivity through upgrading the quality of farm mechanization, increases in the supply and utilization of fertilizers, the establishment of large-scale livestock complexes, and the promotion of agro-industrial enterprises to provide processing and marketing outlets for increased farm production. A long-term goal in development strategy is to free labor from the agricultural sector for industry. Steps are also being taken to reduce inequality between State farms and cooperatives in access to farm inputs. State farms, which own 30 percent and cultivate 14 percent of agricultural land, received about 42 percent of on-farm investment in the 1971-75 Plan period. Productivity on State farms is correspondingly higher than that on cooperatives, but the Government is now moving toward elimination of the disparities between the two types of farm organization in order to stimulate general improvement in agricultural productivity. About eighty percent of the land to be irrigated under the project is owned by cooperatives.

Sector Organization

State agricultural units and cooperatives account for the major portion of agricultural production; individual farmers play a much less significant role, except in the production of a few selected commodities. The current sector organization is primarily a result of collectivization and increased government participation from 1949 to 1962, when small-scale, peasant-oriented agriculture was replaced by large, state-owned or state-controlled production units. The dominant form of state-owned agricultural unit is the state enterprise (IAS). There are 392 such state enterprises averaging about 5,300 hectares and about 650 workers each. These large scale, capital intensive farms have been considered a pilot sector in Romania and, as such have been favored in terms of land allocation, fertilizer distribution and investments in irrigation and mechanization. About 2.1 million hectares of agricultural land, of which 1.7 million are arable, are owned by these farms. Workers on the farms are employed on salaries which are fixed by law and vary according to skill levels. The state farms are generally well managed by directors (usually agricultural engineers) who are appointed by the Director General for State Farms of the Ministry of Agriculture and are responsible to workers' councils. The Ministry of Agriculture determines the production plans for individual State farms; it also has a role in determining the use of their net income, a portion of which is remitted to the State treasury.

There are about 4,400 agricultural production cooperatives (CAP) with about 3.4 million member families and owning about 9.0 million hectares, of which 7.2 million are arable. Workers in cooperatives are entitled to a minimum salary, which is lower than the salaries of their counterparts on state farms by about 20 percent. Salaries of cooperators may be supplemented with the cooperator's shares of profits in excess of plan targets, as bonus programmed to be about two percent of the planned benefits. Frequently more than one member of a family works (on a full- or part-time basis) in the cooperative, and some family members are employed outside of the cooperatives. Cooperators are also allowed to farm about 0.15 hectares each in and around their villages for their personal use, and they are allowed to own livestock. Production on personal plots is always intensive, and produce is either self-consumed or sold to consumption cooperatives to supplement other income of the cooperators. About 11,800 hectares of such plots farmed by about 56,000 cooperative members would be irrigated under the project. A cooperative is managed by a General Assembly of cooperators and its elected President; it reports to the District Director General for Agriculture, the local representative of the Ministry of Agriculture. Some cooperatives have begun to pool their resources for large-scale investments in agroindustries and livestock production. These intercooperative associations are operated by state employees paid from intercooperative revenues. Part of the net income from intercooperative sales is retained for further inter-cooperative development; the balance is divided among member cooperatives in proportion to their contribution to shares in the inter-cooperative association.

Individual farmers number only about 150,000 families and own about 10 percent of total agricultural land. Their lands are often located in

mountainous regions, and include 19 percent of pasture lands and 21 percent of orchards. Individual producers own 16 percent of all cattle, 14 percent of sheep, and 6 percent of pigs. The individual farming subsector has not received strong government support but is significant in production of potatoes (16 percent of production), meat (13 percent), milk (20 percent), eggs (14 percent) and wool (12 percent).

At the national level, the State institution in the agricultural sector is the Ministry of Agriculture and Food Industry. It plays a major role in preparing the Five-Year Plan for the sector and is the supervisory institution for plan implementation. In each district, the Ministry is represented by a general directorate, which is responsible for all agricultural activity in the district including both cooperatives and State farms. Marketing is organized nationally under 13 centrals accountable to the Ministry and responsible for processing and marketing specified commodities. Each central obtains produce at the district level and allocates it among domestic retail, processing, storage and export channels. A foreign trade company is responsible for the exports of each central.

Agricultural Investment Financing

The Bank for Agriculture and Food Industry (BAFI) is the Government's specialized agency for financing projects in agriculture, irrigation and food processing. As such, BAFI has been the Borrower for all Bank loans in support of agriculture and would be the Borrower for the proposed loan. BAFI was established in 1968 as a channel for, and administrator of, all investment funds provided under the State plan for the agricultural sector. Financing in agriculture had previously been done by a department of the National Bank of Romania. BAFI is involved in all phases of project appraisal, execution and supervision, and it has a large technical and economic staff located in Bucharest, in 39 country (judet) branch offices and in 92 sub-branches throughout the country. One of BAFI's more important functions is that of fiscal agent administering for the account of the national budget, all government investment in State farms and enterprises. BAFI also receives interest-free funds from the State budget for investment lending to cooperatives (and in some cases State farms) and repays the Government as it receives repayments of the sub-loans. BAFI has thorough review and approval procedures for all investment projects. In addition to BAFI's review, all agricultural investments for more than lei 10,000,000 (US\$500,000) are reviewed and approved by the Ministry of Agriculture and those greater than lei 70,000,000 (US\$3.5 million) must be approved by the Council of Ministers. BAFI also provides short-term credit to, and maintains settlement accounts for all cooperative and state agricultural enterprises; it also acts as fiscal agent for the Government for collection of state revenues from these enterprises. As the Government's channel for investment financing in agriculture, BAFI's primary source of funds is the State budget; the Guarantee Agreement therefore includes a provision that the Guarantor shall provide all necessary funds for the implementation and operation of the project (Section 2.02, Guarantee Agreement). The Guarantor will ensure that BAFI can meet the debt service on the Bank loan (Section 2.01, Guarantee Agreement).

H

(e) Foreign Assistance and External Debt

Romania has always been cautious in its approach to external debt. As of June 30, 1978 convertible medium and long-term debt outstanding was \$3.7 billion compared to \$3.4 billion at the end of 1977; the convertible debt service ratio in 1978 was approximately 18 percent compared to 19 percent in 1977. The principal components of Romania's convertible debt in 1978 were as follows: guaranteed suppliers credits (30 percent of total), financial credits (including unguaranteed suppliers credits) (35 percent of total), Government to Government loans (17 percent of total), and IBRD and IMF borrowings (18 percent of total). Approximately 80 percent of the convertible debt outstanding at the end of 1978 is due for repayment within four years (1979-82).

Although eurocurrency borrowings (included under financial credits) are still small they are the most rapidly growing form of debt because of their relatively favorable terms. Joint ventures within Romania with foreign participants and joint banks are also becoming important means of securing capital. Six joint ventures have been formally established to date and will stimulate capital inflow (mainly in the form of equity) of as much as \$1 billion over the next few years if they are all consummated. The two largest are with Kuwait for a petrochemical complex on the Black Sea coast, and an automobile plant with Citroen. However, all these joint ventures have been delayed probably because of the hard negotiating tactics of the Romanian Government. The single largest borrowing ever, \$1 billion for the "Candu" nuclear power project from Canada is close to being completed. A commercial credit of \$320 million from Canadian banks has been finalized and the remaining \$680 million is being lent by the Export Development Corporation of Canada.

Romania's access to international capital markets has been limited but adequate in the past. For the future, Romania will continue to diversify its sources of borrowing as much as possible, and lengthen the terms of its debt; this latter exercise could be vitiated by developing balance of payments weaknesses.

We have no information on Romania's borrowing or external debt position with respect to COMECON. The Bank does not play any role in coordinating foreign assistance to Romania, except in the narrow sense of encouraging co-financing on Bank financed projects.

Our last projection

Attachment 4B

CONVERTIBLE DEBT AND CREDITWORTHINESS

	Actual			Projected								
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1990
A. MEDIUM AND LONG-TERM DEBT (Disbursed only)												
1. Total Debt Outstanding (end of period)	2529.0	3023.0	3402.0	4073.9	4853.7	5771.4	6741.3	7869.0	9171.8	10681.1	12376.0	22965.3
2. Total Debt Service	-472.0	-634.0	-756.0	-849.0	-1184.1	-1376.8	-1323.4	-1610.8	-1994.1	-2368.1	-2859.2	-6013.8
of which interest	-102.0	-152.0	-195.0	-203.0	-230.6	-298.7	-387.7	-483.0	-587.9	-713.4	-842.3	-1609.6
B. DEBT BURDEN												
Debt Service Ratio	15.2	17.4	19.0	17.8	20.6	20.2	16.8	17.7	19.0	19.7	20.8	23.8
C. TERMS												
1. Interest Total/Total Debt Outstanding	7.9	5.7	5.7	5.0	4.8	5.2	5.8	6.1	6.4	6.7	6.8	7.0
2. Total Debt Service/Total Debt Outstanding	18.7	21.0	22.2	20.8	24.4	23.9	19.6	20.5	21.7	22.2	23.1	26.2
D. EXPOSURE												
1. IBRD Disbursements/Total Disbursements	4.5	14.8	15.7	10.9	9.1	10.2	11.7	10.3	9.0	8.5	7.4	2.3
2. IBRD Debt Outstanding/Total Debt Outstanding	1.5	4.8	9.1	11.7	13.1	14.1	14.8	15.0	14.8	14.5	13.9	9.0
3. IBRD Debt Service/Total Debt Service	0.4	1.1	2.2	3.5	4.1	5.6	4.2	4.6	4.4	4.3	7.9	5.4
E. EXTERNAL DEBT (disbursed only)												
1. IBRD	288.1	8.5	8.5	815.9	14.1	14.1	1722.7	13.9	13.9	13.9	13.9	7.0
2. Suppliers and Financial Institutions	3113.9	91.5	91.5	4955.5	85.9	85.9	10653.3	86.1	86.1	86.1	86.1	9.0
3. Total Public Medium and Long-Term Debt	3402.0	100.0	100.0	5771.4	100.0	100.0	12376.0	100.0	100.0	100.0	100.0	16.0
F. DEBT PROFILE												
Total Debt Service 1978-82/Total Debt Outstanding end of 1977												186.5

Europe, Middle East and North Africa Region
December 29, 1978

Balance of Payments and External Assistance
Convertible Account
(US\$ Million)

	Actual					Projected					
	1972	1973	1974	1975	1976	1978	1979	1980	1985	1990	
A. Summary Balance of Payments											
1. Exports (including NFS)	1211.4	1837.0	2237.9	3105.1	3653.0	3983.0	4765.0	5734.6	8221.1	13755.2	25303.8
2. Imports (including NFS)	1264.5	1923.9	3233.9	3216.9	3592.0	4080.0	4829.4	5822.4	8968.8	14300.3	25849.3
3. Resource Balance	-53.1	-86.9	-396.0	-111.8	-61.0	-97.0	-64.4	-97.8	-147.7	-545.1	-345.5
4. Net Factor Service Income	-71.6	-87.9	-120.0	-148.0	-122.0	-176.0	-270.9	-295.6	-361.1	-930.6	-1733.9
a) Interest	-71.6	-87.9	-120.0	-148.0	-122.0	-195.0	-215.9	-235.1	-294.8	-823.3	-1583.3
b) Other	0	0	0	0	0	+19.0	-45.0	-40.5	-66.6	-107.2	-172.6
5. Balance on Current Account	-124.6	-174.7	-516.1	-259.8	-61.0	-273.0	-325.3	-399.3	-508.7	-1475.8	-2301.4
Public Medium and Long-Term Loans											
6. Disbursements	380.0	421.8	1020.0	810.0	740.0	890.0	1315.9	1733.3	1995.7	3711.9	6896.7
7. Amortization	266.5	296.0	334.9	370.0	482.0	361.0	544.0	553.6	1078.1	2016.9	4404.2
8. Net Disbursements	+113.5	+125.8	+685.1	+440.0	+258.0	+529.0	+771.9	+1179.8	+917.7	+1695.0	+2492.5
Other											
9. Export Credits Extended	1/	1/	-26.1	-40.8	-274.0	-171.0	-196.7	-216.3	-238.9	-189.2	-161.0
10. Use of IMF Resources	-	+56.6	-	-	-173.0	+38.0	-50.0	-50.0	-30.0	-	-
11. ST Capital Transactions (net)	+6.1	-86.1	-136.0	-68.6	-44.0	+156.0	+60.0	-90.0	-	-	-
12. Capital Transactions (net)	+119.5	+96.3	-522.9	+237.2	-113.0	+352.0	+365.2	-423.3	+538.8	-1505.8	-2331.3
13. Errors and Omissions	-10.0	+7.9	-1.2	-	-	-	-	-	-	-	-
14. Change in reserves (net 2/)	-4.9	+70.5	-5.6	-25.9	-32.0	-32.0	-30.0	-30.0	-30.0	-30.0	-30.0
15. Foreign Reserves (end of period)	197.4	148.0	156.0	174.1	225.0	193.0	223.0	253.0	283.0	333.0	383.0
B. Loan Commitments											
1. Total Public M and LT Loans	n.a.	n.a.	n.a.	1107.1	946.0	843.0	1405.2	1827.9	2027.9	3738.9	6916.0
a) IBRD	-	-	60.0	230.0	170.0	237.3	275.8	295.0	265.0	280.0	4916.0
b) Other	n.a.	n.a.	n.a.	877.1	776.0	605.7	1129.4	1532.9	1762.9	3458.9	2000.0
C. Memorandum Items											
1. Average maturity (years)	n.a.	n.a.	n.a.	7.8	7.8	7.8	7.7	7.2	7.0	6.4	6.1
2. Average interest (%)	n.a.	n.a.	n.a.	8.3	8.3	8.3	8.4	8.5	8.5	8.6	8.5
3. Grace period (years)	n.a.	n.a.	n.a.	1.5	1.5	1.5	1.6	1.6	1.4	1.2	1.0
4. Grant element (%)	n.a.	n.a.	n.a.	4.4	4.4	4.4	4.3	4.2	3.9	3.6	3.5

1/ Included in medium and long-term capital
2/ minus sign denotes an increase in reserves.

EMENA CPDI ID
October 13, 1978



(f) The Romanian System of Economic Planning and Implementation

Organization

1. Romania is a socialist republic in which the state owns the major productive resources. The country has a single political party, the Romanian Communist Party (RCP). Formally, the RCP is also a part of the Socialist Unity Front which contains trade union and other groups which are themselves dominated by the RCP. The Party controls the organs of Government through the existence of joint Party-Government institutions and because some 25 percent of the working population belongs to the Party. At managerial levels, virtually everyone in the Government and production units is a Party member and it is customary that the head of each level of the Government and productive pyramid is a Party representative. The Party also maintains a system of commissions, bodies and responsible persons parallel to the Government at all levels: party control has tended to become tighter during the past decade.

(a) The Party Pyramid

2. The supreme forum of the Party is the Congress, held usually every four years and which last met in 1975. When necessary, special conferences are called. Between Congresses, the Central Committee of the Party is responsible for decision-making and within that, the real power is located in the Executive Committee.

3. Little, of course, is known about the organization of the Party and its various levels, but Party cells exist in each organization and are linked geographically into areas from which delegates to the Congress are appointed.

(b) The Government Pyramid

4. The structure of Government basically breaks down into two systems - central (or republican) and local. The central government system is described in the State Department Notes. The local government system is described below. In the local Government hierarchy, the highest body is the Legislative House of People's Councils which consists of members of executive committees of the People's Council from each of the 40 judets (county) into which Romania is divided, and is responsible for discussing, approving and submitting to the GNA measures affecting local activities. The People's Council is an elected governing body of each judet (county) and is responsible for planning and administering activities under its jurisdiction (housing, local public utilities, primary education, etc.). People's Councils also have, like the RCP, a Congress every five years to discuss common problems and solutions. People's Councils also operate at municipal, town and commune level; the latter is the basic unit of regional organization.

Organization of Production Activities

5. Economic and social activities in Romania are organized in three separate sectors - state, cooperative and private. Almost all industry is organized under the state sector (under central or local government, depending

upon whether the activity is of national or local importance) although some handicraft activities are carried out through cooperatives. Construction is carried out by both the state sector and cooperatives, the latter working mainly in the rural sector and housing. Agriculture is carried out in state farm units (21% of land) cooperatives (74%) and private farms (5%). Services such as transport, telecommunications, health, education are all under state control; in the case of retail trade, the state sector handles much of the urban and large-scale activities, while cooperatives cover the rural areas.

6. In those industries controlled by the central government, there is a three-tier hierarchy of ministry, central and enterprise. Each major sector (e.g. steel, chemicals etc. is covered by a technical ministry which has overall responsibility for the sector and all its activities. The central is an economic unit under the ministry which directs and coordinates the operations of all enterprises in a particular sub-sector of the sector and carries out a number of common services such as sales, training, supply and planning (sometimes in a small sub-sector the central is the enterprise). The lowest level in the hierarchy is the enterprise which is generally a production unit with limited autonomy and decision-making responsibilities outside production. Under ministerial control, there also exist foreign trade enterprises which, with joint responsibility to the Ministry of Foreign Trade, carry out the foreign trading operations; construction enterprises which do minor works and projects to supplement the work of the large construction enterprises under the Ministry of Construction; and research, engineering and design institutes which carry out research and project preparation. Small industries controlled by the local Government are subordinated directly to a department of the People's Council.

7. In agriculture under the control of the state, there is also a three-tier hierarchy of ministry, Agro-Industrial Councils (AIC) and state farm (IAS). The Ministry exercises its overall responsibilities through various Departments and regional offices. The Agro-Industrial Councils were announced in March 1979 and are not yet in place. They will play a very similar role to the industrial centrals, acting as regional administrators, coordinating the activities of all agricultural organizations under their geographical jurisdictions (that is, state farms, cooperatives (CAPs), machine tractor stations, research and education institutes and consumer cooperatives). Initially, they will concentrate on agricultural production but over the longer term they will have a broader role in developing and directing regional agricultural development. The state farm is the production unit which is customarily made up of farming units covering both arable and livestock activities. It is owned by the State, and has employees. In agriculture organized under the control of cooperatives (CAPs) (these farms are owned by their members and are underdeveloped relative to state farms), the same three-tier hierarchy exists, but in a formal sense the cooperatives have more decision-making authority. In practice, the cooperatives are controlled fairly tightly through party planning mechanisms. Private farms exist mainly in mountainous areas and are independent of government control. Private plots in irrigated areas are small in area but highly productive. There is a steady effort to bring the private farms into the planning system through incentives and cooperative ventures between socialist units and the private farmers. The

new agricultural reform of March 1979 in addition to establishing the AICs stated that all inputs to all agricultural units must be equalized in order to increase overall production and eliminate differences in performance. The likelihood of this happening is not good. Management of both IASs and CAPs is quite good and the volume of other inputs is not likely to change much in the medium-term. If an equalization (or reallocation) of inputs away from the IASs (which have the best land) to CAPs does occur, it may even cause a decline in output.

Planning and Implementation of Plans

8. Romania's economic development is controlled through the social ownership of the means of production and distribution, and through planning of economic activities. Four principles can be said to underlie the planning system; complementarity of activities, continuity, comprehensiveness of the plan, and democratic centralism.

9. Economic activities are regarded as complementary not competitive, and to be oriented to a common objective. The planning process is a means of reconciling and coordinating needs and supply. The planning process is continuous and each organization which carries out its activities in the framework of a plan is constantly revising its plan. The process also takes place within a formal framework of five-year and annual plans, a brief outline of which is given below. The plan is a comprehensive document that covers the bulk of economic activity in all sectors and levels of administration, and once finalized, the plan becomes the sole basis for economic activities. The principle of democratic centralism expresses the idea of grass roots participation in plan formulation and the process of reconciling enterprise level plans with the overall aims of the economy. In principle, it implies a discussion between equals; in practice, as shown in the section on the New Economic Reforms (see 6(g)), the enterprise levels have been dictated to, and the principle of democratic centralism has frequently meant only the obligation of the lower levels to implement the plans which have been decided for them at higher levels.

10. The planning process for the five-year plan begins about three years before the beginning of the plan period, when producing enterprises submit their plans to their central and to the People's Council (a regional plan is prepared at the same time as the sectoral/ministerial plan); foreign trade enterprises submit their proposals to the enterprises, the centrals to the Ministry of Foreign Trade. The centrals (and People's Councils) amalgamate the proposals, maybe modifying them in accordance with their own priorities, and then submit them to the ministry level which carries out the same consolidation and reconciliation before submitting them to the State Planning Commission (SPC) which receives draft plans from all agencies and studies from economic institutes and carries out its own modelling analyses. It is responsible for producing a consistent plan draft and frequently does this only after considering a number of variants dealing with the major allocative and productive options. The SPC's draft is then scrutinized by the Supreme Council of Economic and Social Development (SCESD), a joint party-government body, before being passed on to the Party Congress for its

formal approval and publication as Directives for the 5-year plan. These are usually issued about two years before the beginning of the plan period in question and constitute the RCP's requirements for growth during the period.

11. Following the Congress' approval, the SPC breaks down the draft plan and produces guidelines which are submitted to the Ministries. These are decentralized to central and enterprise level and provide the framework within which the enterprises prepare a new draft plan, involving foreign trade enterprises, design institutes and suppliers and purchasers in the same and other ministries, as well as the People's Council in which the enterprise is located. As before, the enterprise's plan is submitted through the central where changes may be made and then to the Ministry which, after a similar process, submits the ministerial plan to the SPC. As in the case of the Directives, the plan, once finalized by the SPC, is submitted through the state and party organs of the SCESD, the RCP Executive Committee, the plenary session of the Central Committee and finally to the GNA, after whose approval the major aspects and targets of the plan are embodied in law.

12. The five-year plan is implemented through annual plans, whose preparation is similar to that of the five-year plan, beginning at enterprise level and ending in a law of the annual plan. Under the New Economic Measures, greater dialogue between enterprises and the center is planned, to alleviate an earlier problem which resulted in enterprises, which were largely excluded from the reconciliation process after providing their first drafts, being given unrealistic plan targets.

13. Just as there are clear responsibilities for plan formulation, so the various levels of the economy are responsible for implementation, monitoring and responses to changing circumstances. Each level of production and government administration has direct responsibility for the fulfillment of plan tasks and is responsible for ensuring that organizations under its supervision fulfill their plan tasks. Each central is then responsible for the performance of the enterprises under it, and these monitoring tasks are facilitated by the regular reports that enterprises make and the computerization of financial results. Monitoring is also carried out by the banks (i.e. IB, BAFI and the National Bank) which provide fixed and working capital, by the Ministry of Finance in the case of overall financial matters, by the Ministry of Technical Supply in the case of deliveries of inputs into production and the Ministry of Foreign Trade and Bank for Foreign Trade in the case of trade and international financial matters respectively. At the local level the People's Councils are responsible for the fulfillment of the total plan for their judet (county). This overlaps of course with the responsibilities of ministries and centrals for all planned activities under their jurisdiction. One of the impressive features of this system is the way in which judet authorities and the local RCP bosses assist the centrally controlled centrals and enterprises in their judet to break bottlenecks in plan and project implementation both by the use of resources under judet control and by using their influence in Bucharest through RCP channels to support a central or enterprise in its dialogue with its superior ministry or central.

The Banking System

The National Bank

14. The National Bank combines the functions of a central bank and a commercial bank. It is responsible for currency issue and organizes and coordinates the circulation of money and all activities connected with short-term credit. It prepares, together with the State Planning Committee, the Ministry of Finance, the Ministry for Material Supplies and the specialized banks, the credit and cash plans and monitors their implementation. It extends credits to the enterprises and economic organizations which have accounts with it on the basis of the approved plan. The specialized banks also hold accounts at the National Bank and may receive credits from it to supplement their own resources. All state economic units (except those in agriculture, construction and foreign trade) are required to hold current accounts at the National Bank and to channel all transactions through these accounts. The Bank also is the main conduit for budgetary flows and, with the agreement of the Ministry of Finance, coordinates and monitors the collection of state revenues. In the field of foreign relations, the National Bank participates in planning the balance of payments and monitors its planned execution. It establishes the rates of exchange in lei of the foreign currencies and organizes the exchange of foreign currencies. Finally, it concludes some external financial contracts and payments agreements.

The Investment Bank

15. The Investment Bank (IB), which is one of the two institutions through which World Bank funds are channelled, is the channel for all State sources of major domestic investment financing other than in agriculture and food processing industries. Since 1973, IB has also been slowly increasing its own funds for lending but the amount remains insignificant. IB also acts as the channel for all long-term foreign borrowing for its sectors of responsibility. The President of IB reports to the Minister of Finance who has comprehensive authority in the financing of all projects. IB's operations are carried out by 40 branches. IB has a range of responsibilities in the implementation of projects. Its role is somewhat similar to that of the World Bank in project preparation, execution, procurement, disbursement, supervision and evaluation, although its degree of involvement is often quite limited. IB has no legal authority to bring its view to bear directly on the management of an enterprise. In practice, however, IB can recommend action to the Ministry of Finance, which, in turn, can act through the ministry concerned with the project. Foreign borrowing is the responsibility of the Foreign Relations Department, which however is understaffed and does not have staff with adequate technical backgrounds to permit them to play a role of any importance in project preparation and implementation. World Bank staff have often noted their lack of contribution in these areas and have found them even somewhat of a bottleneck in certain instances. The IB is not a politically powerful institution and from our perspective at least its relationships with counterpart ministries do not strike one as good.

Bank for Agriculture and Food Industry

16. The Bank for Agriculture and Food Industry (BAFI) which is the second of the two institutions through which World Bank funds are channelled is an integrated bank established to finance production and investment in agriculture and agro-industries. BAFI's operations are carried out by 39 branches and 57 sub-branches. About 800 credit cooperatives also execute BAFI operations on a commission basis for small-scale lending. BAFI acts as financial agent for State investments in agriculture and agro-industries and plays a similar role to the IB in project processing. Long-term investments in State enterprises are normally financed from the State budget. Long-term lending to State agricultural enterprises by BAFI itself started in a very limited way with the "Small Mechanization Program" and on a regional basis under a Bank-financed project (Sadova-Corabia Agricultural Credit Project) as well as other Romanian-financed projects. The introduction of lending by BAFI is designed to require greater financial responsibility in the State agricultural sector. Short-term capital requirements of State enterprises are met by BAFI production credits. BAFI also makes both short- and long-term loans to the cooperative sector and to a limited degree to individual co-operators and private farmers. BAFI appears to be a good quality institution with technically capable staff who work in close cooperation with their counterparts in the Ministry of Agriculture. BAFI is also a more politically powerful institution than the IB.

Romanian Bank for Foreign Trade

17. The Romanian Bank for Foreign Trade executes all foreign payments and undertakes all other operations in foreign exchange. It provides Romanian foreign trade enterprises export and import credit facilities. The Bank has concluded a large number of agreements with foreign banks in order to develop Romanian exports. In 1975, the Romanian Bank for Foreign Trade monitored the implementation of 115 such agreements, and the network of correspondent banks had been extended to 1,055, in 110 countries. Finally, the Bank has entered into joint operations in four countries, forming the Anglo-Romanian, French-Romanian, German-Romanian, Egypt-Romanian banks in which the Bank for Foreign Trade owns 50 percent of the capital.

The Savings Bank

18. The Savings Bank serves the banking needs of the population. It has an extensive network of branches and sub-branches (about 1,800 altogether) in both urban and rural areas. In addition, there are 8,000 counters, manned by part-time personnel, in schools and enterprises throughout the country. Both sight and term deposits are offered and both bear interest. A part of these funds--about 40 percent-- are lent to finance housing. The remainder are available to the National Bank to finance its own lending for working capital.

(g) Summary of New Economic Reforms of 1979

1. In comparison with any other East European country, Romania operates a very centralized economic system. The introduction of decentralized planning and implementation and of financial and other indirect indicators and signals has been very gradual. For every couple of steps in this direction there has been a step backward to tighter central government and Party control. The growing complexity of the economy, the interdependence of sectors and increased involvement in the world economy have, however, generated pressures for economic reforms. To date, these have been restricted largely to making the existing system of central planning work more effectively.

2. The Government announced its latest package of reforms in February 1978, and since last summer has been slowly implementing the changes following widespread debate. The Government announcements have given two objectives for the measures: first to improve economic efficiency and to stimulate rapid growth on a least-cost basis; and second to bring the economic and financial system into line with the responsibilities of enterprises embodied in the present laws of self-management and democratic centralism. The measures can be divided into two areas:

- (a) improvements in planning and management;
- (b) incentive, bonus and profit-sharing schemes.

3. The improvements in planning and management can be broken down into four topics:

(a) The Planning Process: in the past, enterprises have not been fully involved in preparing the annual plan since, having prepared their first draft, they have been largely excluded from the reconciliation process. As a result, enterprises often received final targets and tasks which did not correspond to what they could achieve. Under the new measures, enterprises will be involved in the reconciliation process, so the Annual Plan reflects reality more closely. In addition, changes are being made to the contracting system. In the past, the annual plan was made operational when contracts for inputs and sales for that year were signed; because circumstances changed between completion of the plan and the signature of contracts, the latter were frequently different from the plan which thus lost its orientative function. In future, enterprises will be allowed to conclude contracts over several years; these will form the basis of the first draft of the annual plan and will be modified annually according to the precise form of the plan targets.

4. These measures acknowledge that planning in Romania has been too centralized and has, as a result, resulted in enterprises receiving inappropriate targets. The measures which are designed to involve the implementers of plans more fully in plan formulation, and to ensure plans reflect reality, do not mean that Romania is moving towards a system whereby the aggregate plan is little more than a collection of individual enterprise plans. The importance of the central plan remains and enterprises will still be operating within the confines of guidelines established at centralized levels.

5. (b) Indicators and Value Targets: the planning system in Romania has used for many years value and volume indicators to provide indirect instruction to enterprises. The major plan target has been gross output which, because of double-counting and its failure to distinguish between inputs and final output, does not stimulate enterprises to be concerned about increased efficiency. The new measures replace gross output with net output as the primary plan target. Other indicators previously based on gross output, e.g. labor productivity, production per unit of capital, will be rebased on net output. Net output will become the basis on which wage payments and efficiency and quality indicators will be based, and as of January 1, 1979 the tax on profit was replaced by a tax on net output.

6. As technical changes, the new measures for indicators and plan targets are not extensive or radical; in many cases they represent an extension and refinement of what exist already. Their major importance is ideological, representing a changing perception of Romania's position in the world economy, the role of comparative costs in determining production, the ability of the present pricing system and an expanded system of indicators to guide enterprise decisions more fully, and the capacity of enterprises to take on more economic and management functions. The extent to which enterprises' decisions on efficiency are appropriate depends, of course, upon the accuracy of prices in reflecting production opportunity costs. Price signals have traditionally not played an important role in influencing decision-making at the level of the enterprise, a more direct administrative approach has been preferred, and price resettings have been an occasional, and not a continuous process. Considerable distortions have thus built up in the economy and will undoubtedly affect the responses of individual enterprises to the new net production indicators. Whether the Romanians feel they can operate their new system without a major price resetting is unclear.

7. (c) Responsibilities and Financial Performance of Enterprises. Existing legislation governing the responsibilities and rights of enterprises sets out more than enterprises are presently equipped to handle. Thus, the new measures contain proposals to match enterprise capabilities with their legal responsibilities in carrying out plans and to improve the accounting of enterprise expenditures and income. In future, each enterprise will prepare, as a planning implementation tool, an income and expenditure budget which will include all financial flows within the enterprise.

8. In addition, enterprises in future will retain a greater proportion of their revenues so as to carry out their legal responsibilities. In the past, almost all profits were channelled to the state budget and new investments were financed from it. In future, retained profits will be channelled into funds for investment, working capital, housing, social activities and profit-sharing; where necessary, these funds will be supplemented by budget flows.

9. (d) Foreign Trade. Over the past decade, foreign trade has undergone numerous reorganizations in order to promote an increased flow of exports. In future, the producer enterprise will have primary responsibility for the fulfillment of export targets and thus the foreign trade enterprise will

be put in the position of being an agent for the producer. This change which continues the previous practice of substituting institutional change for the more mundane but necessary work of export promotion and quality improvement, is to be complemented by a revised bonus scheme linked to foreign exchange earnings.

10. The changes in the wages and bonus systems introduced under the New Economic Measures revolved around the introduction of net output and incentives for foreign exchange earning. The payment of wages will in future depend upon the fulfillment of net output and foreign trade targets rather than gross output; the bonus payments will be determined by the overfulfillment of profits and foreign exchange targets. A portion of excess profits will be paid into a bonus fund for distribution to workers, individually and collectively; overfulfillment of foreign exchange earnings will generate payments into the bonus fund and also may generate the use of a small proportion of the earnings for the financing of workers' trips abroad.

J

(h) Cattle Development Project: Summary of Ruminant Livestock Subsector Survey Mission Findings and Recommendations

The mission undertook an assessment of the potential resource base and concentrated on identifying efficient production systems and associated investments for beef, dairy and sheep production.

Findings

While some segments of the ruminant livestock production systems were found to be well conceived, considerable scope for increased efficiency was identified. Modern Romanian beef and lamb production systems are acceptable but milk production is not. For beef and sheep meat productivity is quite satisfactory but for dairy cows productivity and output are poor. The genetic production potential of the existing stock is adequate. However, worthwhile gains in milk production efficiency of the cow herd could be made by increasing the share of Friesian cows based on imports in the herd. The prevailing dairy cow housing and milking systems are outmoded and very inefficient in terms of labor use and milking efficiency. This is also true of the more modern systems now being developed in Romania. Technical assistance in design and housing and milking systems would be needed to help them bridge the gap and achieve reasonable labor costs.

Considerable improvement in animal feed production efficiency is possible. Crop yields, particularly on irrigated land are very poor due to insufficient mechanization and inadequate use of fertilizers, herbicides and pesticides. Standard cropping patterns do not provide for optimal animal feed value output. Weak crop management and, to a more serious degree, the internal pricing system are also constraints to optimizing animal feed production.

Grasslands are exploited rather than managed. Increased carrying capacity of 1 million cows or the equivalent is within ready reach. A modest investment per hectare and increased fertilization will achieve this and provide the lowest cost feed base possible in Romania. Crop and poultry by-products which are currently being utilized are also an extremely important source of low cost feed and available in very large quantities especially in the irrigated areas.

The problem facing Romania is not one of constraint on feed base size but rather of utilizing the large mix of available feeds in an optimum economic manner. Improvement of the rather poor quality of Romanian forage produced both on rainfed and irrigated land can further expand this base and greatly reduce the cost of livestock production.

Recommendations

The mission has recommended that Romania prepare a project incorporating both new and modernized dairy and beef production systems utilizing grass and crop and poultry by-products as well as various green forages and silages and incorporating investment in harvesting, handling and storage of feeds. Technical assistance during project preparation would be necessary in

the detailed design and cost of animal barns, milking units and feed production and handling systems. Investment would include incremental processing, storage and transportation systems as well as a national forage quality control laboratory.

Comparison With Previous Cattle Development Project

Last October the Bank decided against financing a beef and dairy production project on the grounds that its calculated economic return was not sufficiently high to justify Bank lending. In conveying this decision to the Romanians, we emphasized, at Mr. McNamara's request, that our rejection of the project did not indicate our belief they should not proceed with it but rather our belief that Bank financing of the project would lead to an attack by many ED's on the size of the Bank lending program for Romania.

The on-farm investments proposed by the latest mission would be basically similar to those proposed under the previous project. Many of the dairy and beef production units would be sited on irrigated land although a significant number would be located in natural pasture areas. However we do not expect the same problems of economic viability: the envisaged reduction in operating costs through improved labor productivity, reduced unit feed costs and reduction of the opportunity cost of land for forage production (due to proposed changes in the cropping pattern) should ensure a satisfactory economic rate of return. Given their interest in increasing efficiency we would expect the Romanians to accept the suggestions for technical improvement although the details still have to be worked out. Likewise more work remains on the other key factors affecting project viability - milk and beef prices. Considerable controversy developed within the Bank on the appropriate prices to be applied to Romania's production of milk and beef. We have not yet received definitive guidance on the issues of the tradeability of milk and the long-term economic prices for imported milk powder if this is considered as an acceptable substitute. With respect to beef, the Bank's projection of a real price increase for the period 1977-85 dropped from 56 percent to 34 percent during the course of the appraisal. In the latest (May 1979) commodities projections, the real price of beef is expected to decline 10 percent between 1979 and 1985. The mission has recommended a specialized analysis of the market and price outlook for the quality of beef - feed lot - which would be produced under the project for export.

K

STATUS OF BANK GROUP OPERATIONS IN ROMANIA

STATEMENT OF BANK LOANS (As of May 31, 1979)

<u>Loan Number</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose^{a/}</u>	<u>US\$ Million</u>			
				<u>Amount Bank</u>	<u>TW</u>	<u>IDA</u>	<u>(less cancellations) Undisbursed</u>
One loan fully disbursed				20.0			-
Ln. 1020-RO	1974	Investment Bank	Fertilizer	60.0			6.6
Ln. 1027-RO	1975	Investment Bank	Special Steel	70.0			3.4
Ln. 1028-RO	1975	Investment Bank	Thermal Power	60.0			0.0
Ln. 1082-RO	1975	BAFI ^{a/}	Irrigation	70.0			0.0
Ln. 1083-RO	1975	BAFI	Agricultural Credit	30.0			5.0
Ln. 1169-RO	1976	BAFI	Flood Recovery	40.0			2.0
Ln. 1242-RO	1976	Investment Bank	Hydropower	50.0			16.9
Ln. 1247-RO	1976	BAFI	Irrigation	60.0			24.4
Ln. 1368-RO	1977	BAFI	Irrigation	60.0			38.2
Ln. 1436-RO	1977	Investment Bank	Bearings	38.0			34.5
Ln. 1447-RO	1977	Investment Bank	Glass Fiber	18.3			4.2
Ln. 1448-RO	1977	Investment Bank	Polyester	50.0			22.8
Ln. 1479-RO	1978	BAFI	Agricultural Credit	71.0			52.3
Ln. 1509-RO	1978	BAFI	Irrigation	40.5			40.5
Ln. 1536-RO	1978	Investment Bank	Tire	85.0			84.2
Ln. 1581-RO	1978	Investment Bank	Post Earthquake	60.0			54.3
Ln. 1634-RO	1979	Investment Bank	Chemicals	40.0			40.0
Ln. 1651-RO ^{c/}	1979	Investment Bank	Pipe	40.0			40.0
Ln. 1652-RO ^{c/}	1979	Investment Bank	Thermal Power	70.0			70.0
Ln. 1669-RO ^{c/}	1979	BAFI	Livestock	75.0			75.0
Ln. 1670-RO ^{c/}	1979	BAFI	Irrigation	<u>70.0</u>			<u>70.0</u>
Total				1,177.8			684.3
of which has been repaid				<u>2.5</u>			
Total now outstanding				1,175.3			
Amount sold				19.4			
of which repaid				<u>2.5</u>			<u>16.9</u>
Total now held by Bank ^{b/}				1,158.4			
Total undisbursed				684.3			684.3

a/ Bank for Agriculture and Food Industry

b/ Excluding exchange adjustments.

c/ Not yet effective.

B. PROJECTS IN EXECUTION

Ln No. 1020 Bacau Fertilizer Project; US\$60 Million Loan of June 28, 1974;
Date of Effectiveness: December 31, 1974; Closing Date:
December 31, 1979

The project is proceeding satisfactorily after initial delays due to changes in site and project scope, and delays in design and construction. About 85 percent of total procurement has been completed, and construction is well advanced. The ammonia and the DAP plants have been commissioned, and the urea plant is expected to be commissioned by the end of 1979, about 24 months later than expected. The final project cost is expected to be close to the appraisal estimate.

Ln No. 1027 Otelinox Special Steel Project; US\$70 Million Loan of July 10,
1974; Date of Effectiveness: April 3, 1975; Closing Date:
December 31, 1979

Execution of the project was delayed about one year, primarily because of the complexity of two large bid packages, the Romanians' lack of familiarity with international competitive bidding procedures under the Bank's Guidelines, and lack of interest and competition among suppliers. The contracts for the two steel mills under the loan have been signed and construction is progressing in accordance with contracted schedules. Total project costs are expected to be essentially equal to appraisal estimates. The Bank loan is expected to be fully disbursed in mid 1979 and the project is now expected to be completed in September 1979.

Ln No. 1028 Turceni Thermal Power Project; US\$60 Million Loan of July 10,
1974; Date of Effectiveness: November 6, 1974; Closing Date:
June 30, 1979

Delays in construction due to late delivery of equipment are likely to result in a nine-month delay in commissioning of generating units. Project execution is otherwise according to plan and satisfactory. Training of future operational staff is in hand. The loan is now fully disbursed.

Ln No. 1082 Giurgiu-Razmiresti Irrigation Project; US\$70 Million Loan of
February 6, 1975; Date of Effectiveness: May 5, 1975; Closing
Date: June 30, 1979

Construction of project works is progressing satisfactorily and about 99 percent of the project has been completed. Procurement is completed. About 70 percent of the project area was irrigated during 1978, and the full project area will be irrigated during 1979. Total project costs are expected to be about US\$33 million less than appraisal estimates. The loan was fully disbursed in March 1979.

Ln No. 1083 Sadova-Corabia Agricultural Credit Project; US\$30 Million Loan of February 6, 1975; Date of Effectiveness: April 29, 1975; Closing Date: December 31, 1979

Progress continues to be satisfactory in implementing subprojects. Construction of the pre-mix feed mill is satisfactory and final project procurement, for chemicals and fertilizers, has been carried out under bulk contracts tendered internationally. Disbursements amounted to US\$25.0 million as of May 31, 1979 or 83 percent of the loan amount.

Ln No. 1169 Flood Recovery Project (Agricultural Component); US\$40 Million Loan of November 12, 1975; Date of Effectiveness: December 2, 1975; Closing Date: December 31, 1979

Project execution is proceeding well and disbursements are on schedule. Equipment procured under international competitive bidding has been delivered and only small quantities of spare parts remain to be procured. Delivery of flood warning equipment is expected to be completed in mid 1979 and installation may extend into 1980. The loan closing date has been extended to December 31, 1979 and may need to be extended further. Disbursements as of May 31, 1979 totalled \$38.0 million or 95 percent of the loan amount.

Ln No. 1242 Riul Mare Retezat Hydropower Project; US\$50 Million Loan of April 28, 1976; Date of Effectiveness: July 26, 1976; Closing Date: December 31, 1981

Due to shortage of manpower, tunneling works have been delayed and mechanized excavation methods are expected to be introduced in 1979. Project execution is currently about one year behind schedule. Civil works for the dam and underground power station are well underway, and about 75 percent of the loan amount has been committed.

Ln No. 1247 Rasova-Vederoasa Irrigation and Agriculture Development Project; US\$60 Million Loan of April 28, 1976; Date of Effectiveness: November 3, 1976; Closing Date: June 30, 1981

Construction of pumping stations, canals, and other project works is well underway and progress on these facilities is satisfactory. Facilities for four dairy farms are complete and contracts for purchase of 9,130 imported heifers (100 percent of total) valued at over US\$8 million have been awarded. Procurement contracts for all equipment have been awarded. The feedmill and silo in Negruvoda is 62 percent completed. Work on soil erosion control and the land levelling is behind schedule.

Ln No. 1368 Ialomita-Calmatui Irrigation Project; US\$60 Million Loan of March 2, 1977; Date of Effectiveness: June 23, 1977; Closing Date: June 30, 1982

Procurement for this project has been consolidated with that for the Rasova-Vederoasa Project (Ln. 1247) noted above, and all contracts have

already been awarded. Some construction equipment and about 35 percent of pipe has been delivered. Construction of project works is about 40 percent complete and progress is satisfactory.

Ln No. 1436 Brasov Bearings Project; US\$38 Million Loan of June 15, 1977;
Date of Effectiveness: August 11, 1977; Closing Date:
December 31, 1982

Contracts on most major packages have now been signed and implementation of the project is proceeding satisfactorily. Project costs are expected to be close to, or slightly over, appraisal estimates, according to the initial cost data and overall economic aspects of the project look somewhat more favorable due to the improved market outlook, improved product mix, and changes in project design to achieve lower product costs.

Ln No. 1447 Bucharest Glass Fiber Project; US\$18.3 Million Loan of June 15,
1977; Date of Effectiveness: August 11, 1977; Closing Date:
June 30, 1980

Procurement is about 90 percent complete, and execution of the project is proceeding satisfactorily with some minor cost overruns and about four months behind schedule.

Ln No. 1448 Cimpulung-Muscel Polyester Project; US\$50 Million Loan of
June 15, 1977; Date of Effectiveness: October 3, 1977;
Closing Date: March 31, 1981

The main supply contract has been signed, and execution of the project is proceeding satisfactorily with production still expected to begin in early 1980 as planned.

Ln No. 1479 Pig Production and Processing Project; US\$71 Million Loan of
July 15, 1977; Date of Effectiveness: September 28, 1977;
Closing Date: June 30, 1982

Project implementation is proceeding satisfactorily. Construction materials and slaughterhouse equipment procurement under ICB is almost complete. Disbursements as of May 31, 1979 were \$18.7 million.

Ln No. 1509 Viisoara Irrigation Project; US\$40.5 Million Loan of January 27,
1978; Date of Effectiveness: May 15, 1978; Closing Date:
December 31, 1983

Bids for all procurement contracts were received in November and December, 1978, and all contracts have been awarded. Construction of project works is proceeding satisfactorily, and are about 25 percent complete.

Ln No. 1536 Tires Project; US\$85.0 Million Loan of March 30, 1978; Date of
Effectiveness: June 9, 1978; Closing Date: December 31, 1981

Construction of the Zalau plant (truck tires) is on schedule. The Turnu-Severin plant (off-the-road tires) has been delayed 15 months mainly

as a result of difficulties in obtaining adequate responses from prospective suppliers of the main technology and equipment package. The Romanian Government has recently begun negotiations with Dunlop (U.K.) for the OTR package.

Ln. No. 1581 Post Earthquake Construction Assistance Project; US\$60.0 Million Loan of June 12, 1978; Date of Effectiveness: September 5, 1978; Closing Date: June 30, 1981

Procurement is proceeding satisfactorily. Disbursements have lagged because the amount of advance contracting has been greatly reduced, because of the use of terms which extend payments far beyond what was envisaged, and because of delays in submitting withdrawal applications. They are expected to accelerate in FY80.

Ln No. 1634 Craiova Chemical Project; US\$40.0 Million Loan of January 15, 1979; Date of Effectiveness: Not yet effective; Closing Date: December 31, 1982

Initial procurement is proceeding satisfactorily.

Ln No. 1651 Roman Seamless Pipe Project; US\$40.0 Million Loan of February 26, 1979; Date of Effectiveness: Not yet effective; Closing Date: December 31, 1982

Initial procurement is proceeding satisfactorily, but construction has not yet begun because of a five-month delay in final project approval, which approval is also a condition of effectiveness of the Bank loan.

Ln No. 1652 Second Turceni Thermal Power Project; US\$70.0 Million Loan of February 26, 1979; Date of Effectiveness: June 29, 1979; Closing Date: December 31, 1982

Initial procurement is proceeding satisfactorily.

Ln No. 1669 Second Livestock Project; US\$75.0 Million Loan of April 16, 1979; Date of Effectiveness: July 6, 1979; Closing Date: June 30, 1984

Initial works are proceeding satisfactorily.

Ln No. 1670 Mostistea and Calmatui Irrigation and Drainage Project; US\$70 Million Loan of April 16, 1979; Date of Effectiveness: Not yet effective; Closing Date: June 30, 1984

Initial works are proceeding satisfactorily.

C. FUTURE PROJECTS

ROMANIA - LENDING PROGRAM FY80-84
(US\$ millions)

<u>FY80</u>		<u>FY81</u>	
Covurlui Irrigation	95	Irrigation VII	70
Livestock III (Poultry)	85	Horticulture	70*
Industry X (Steel)	40	Industry XI (Chemicals)	40*
<u>Danube Black Sea Canal</u>	<u>75</u> ¹⁰⁰	<u>Power IV (Sector)</u>	<u>115</u>
4	295	4	295
		Industry XII (Chemicals)	40 (81R)
<u>FY82</u>		<u>FY83</u>	
Irrigation VIII	70*	Irrigation IX	70*
Livestock IV	60*	Irrigation X	70
Agriculture Credit II	60	Industry XIV	40
Industry XIII (Chemicals)	40*	<u>Power V</u>	<u>100*</u>
<u>Transport I</u>	<u>50</u>	4	280
5	280		
<u>FY84</u>			
Agriculture Credit III	70*		
Agriculture Credit IV	70		
Industry XV	40*		
Industry XVI	40		
<u>Transport II</u>	<u>60*</u>		
5	280		
Industry XVII	40 (84R)		

* = Standby Project
R = Reserve Project

FY80

Covurlui Irrigation Project

Provision of irrigation and drainage facilities on about 180,000 ha, and drainage and soil erosion control facilities on another 30,000 ha in the judet (district) of Galati in eastern Romania to increase and stabilize agricultural production and to raise national income and labor productivity. Total cost roughly estimated at \$465 million. The project was appraised in June, 1979.

Livestock III (Poultry)

Support of investments in integral poultry complexes for broiler production, poultry slaughterhouses, breeding farms for rearing parent stock and modernization of existing broiler production units, to increase production of poultry meat primarily for the domestic market. Total cost estimated at \$311 million including \$109 million foreign exchange portion. The project was appraised in March and April 1979.

Industry X (Steel)

A project consisting of a cold reduction mill and tinning line at Galati has been identified by the steel industry sub-sector mission. It is oriented towards the domestic consumer sector and would feed the canning and processing industries. Capital cost is about \$210 million with a foreign exchange component of \$90 million. Of the other projects suggested by the Romanians, our difficulties with being involved in the coke ovens project for Calarasi Stage II are described in Section 6d (para. 20) of the brief, because it may be the subject of a specific request by the Government to you. They also suggested a seamless tube mill project but it is directed primarily towards export markets where future prospects are uncertain (capital cost \$127 million, with a foreign exchange component of \$55 million); and a bar mill project with a capital cost of \$57 million and a low foreign exchange component of \$22 million (resulting from increased domestic equipment manufacturing capability); but as project details become available, this could perhaps be combined with other projects into a viable package, as was done in the case of the 1978 Tire Project.

Danube Black Sea Canal Project

The project is the construction of a 63 km. canal from Cernavoda on the Danube to South Constanta-Agigea on the Black Sea. It includes construction of three ports on the canal (at Cernavoda, Medgidia and Basarabi), two locks, and associated power, irrigation and bridge works. Total project cost is \$1.7 billion equivalent, with a foreign exchange component of \$550 million. In addition a new deepwater port at South Constanta-Agigea, is being constructed. The Bank loan will finance only the Canal. Appraisal was completed in March, and the project has an estimated economic return of 27 percent.

FY81

Irrigation VII (Cimpia Buzaului and Bucsanic Ciordiu Irrigation and Drainage Project (FY81S))

Irrigation, drainage including title drainage and soil erosion control works for about 135,000 ha. in four provinces north and west of Bucharest. About 200 km. river training work also included. Cost estimates not yet available. Preparation mission scheduled for November 1979.

Horticulture (FY81S)

Planning new orchards and vineyards in favorable areas located throughout much of the country. Revamping and modernizing existing orchards and vineyards, including installation of irrigation systems. Building packing and storage facilities, processing plants for freezing and canning products and a wine facility. The objectives of the project are to improve fruit quality and increase exports. The Romanians have not yet provided an analysis of export market prospects. The total cost of the entire investment programs is roughly estimated at \$650 million, including about \$130 million foreign exchange. A preparation mission is scheduled for early September 1979 to be followed by appraisal in October.

Industry XI (Chemicals)

The project is not firmly identified yet. The chemical sub-sector mission has tentatively identified four projects of potential interest to the Bank for lending. A more detailed analysis of the preliminary project data will be completed by July 9, and the Romanian Government advised which of these projects are worth pursuing further. They are: (i) Pharmaceuticals; this project may consist of four separate plants which will produce antibiotics, vitamins and glucose-based derivatives based on maize byproducts. Capital cost is US\$217 million with a direct foreign exchange component of US\$25 million. (ii) Magnesium Oxide; a plant to produce 100,000 tpy of this material, all of which is required for furnace refractories in Romania. The Romanian developed process uses an ingenious technology integrated with an existing soda ash plant operating on indigenous raw materials. Capital cost is US\$85 million with a direct foreign exchange component of US\$28 million. (iii) Titanium Dioxide; 30,000 tpy capacity using local ilmanite ore. All production will be used in the local paint, paper and fiber industries. Capital cost is estimated at US\$105 million with a direct foreign exchange component of US\$26 million. (iv) Polyurethane resins; 30-40,000 tpy capacity. The products are used for insulation and as upholstery fillers. There are some doubts about process safety and product performance still to be resolved. Capital cost is estimated at US\$194 million with a direct foreign exchange component of US\$40 million.

Power IV

The project is not firmly identified yet. The Government has proposed three projects for possible Bank financing. These and a possible sector loan or transmission subsector loan will all be examined by an identification/preappraisal mission in July.

Industry XII (FY81R)

(See Industry XI.)

FY82

Irrigation VIII

The project is not identified yet.

Livestock IV

Following the livestock sub-sector mission in May 1979, a livestock sub-sector report is being prepared which is likely to recommend a possible newly designed cattle development project which should be economically viable and technically sound.

Agricultural Credit II

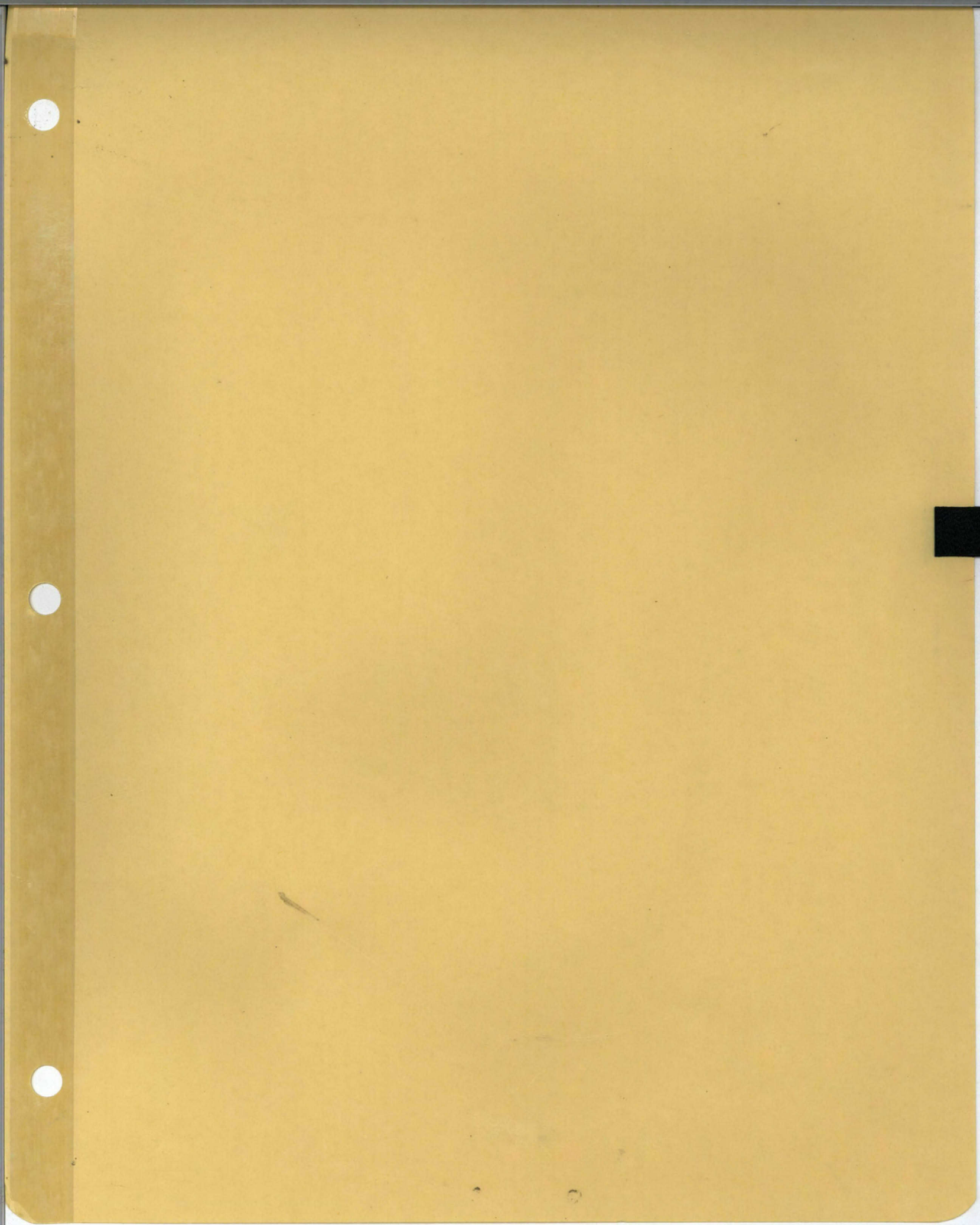
This project is not identified yet.

Industry XIII

(See Industry XI.)

Transport I (Integrated Railway/Highway)

This project will consist of modernization of some key railway lines together with primary roads which serve them. Details and costs remain to be determined once the Government has prepared the project in detail.



September 29, 1978

MEMORANDUM FOR THE RECORD

Romania: Annual Meetings 1978 --
Meeting with the Romanian
Delegation on September 28

Present: Messrs. Nicolescu-Mizil (Vice Prime Minister and Minister
of Finance), Popescu (President, Investment Bank),
Moisescu (Investment Bank), Looijen (Executive Director)

Messrs. McNamara, Benjenk, Paijmans, Humphrey

1. Mr. Nicolescu-Mizil opened the meeting by saying how happy he had been to note Mr. McNamara's strenuous efforts to help solve difficult development issues. He also passed on the greetings of President Ceausescu. In commenting on the relations between the Bank and Romania, Mr. Nicolescu-Mizil spoke favourably of the cooperation between the Bank and Romania, and said that over the years each had learned much from the other. He hoped that some of the problems being encountered in projects now under discussion would be quickly solved, and that the Bank would continue to support Romania by financing projects to be undertaken in the next five-year plan (1981-85). He stressed that Romania was still a developing country, with a good growth rate derived from investing a very high proportion of national income. He fully supported Mr. McNamara's observation that no external participation could replace strenuous domestic efforts. The volume of lending received by Romania from the Bank should be interpreted as support for Romania's development strategy. He emphasized that Romania would continue to follow an accelerated program of industrial development, since there was still a long way to go before it reached standards of living enjoyed in the advanced industrial countries. He hoped that it might be possible for the World Bank to provide higher levels of lending in the future than in the past, in particular in support of the next five-year plan (1981-85) now under preparation.

2. Mr. McNamara said that the Bank wanted to support Romania and to continue to give it preferential treatment, in the sense that the Bank's total funds were limited and that there was a cut-off level of income per head above which the Bank did not lend to a country. In relation to this cut-off level the Bank was providing relatively large support to Romania. We were doing this because Romania's levels of savings were high, its program sound and its own efforts great. He expected that as Romania's per capita income rose, there would be increasing opposition to lending at the levels being discussed. For this reason it was important that these problem areas would be addressed: the pipeline of projects, the flow of information and the issue of cofinancing. In this connection Mr. McNamara referred to future industrial projects where he felt the pipeline was at present rather weak. In addition there continued to be delays in obtaining information, especially for the industrial sector. He pointed out that controversy over information tended to delay work on projects.

3. Mr. McNamara then turned to the subject of cofinancing. He said that the size of Romania's investment program meant that large amounts of capital were needed. The Bank was a financing agent of last resort and it was therefore necessary for us to show our Board that, when we brought forward a project, Romania had made the maximum effort to obtain funds from other sources at competitive rates. He realized that Romania's concern was that increased cofinancing might mean lower levels of support from the Bank. In fact the reverse was the case -- we could only support our present levels of lending if they were supplemented by cofinancing. He believed that these problems could be solved, and that lending could continue at the present high levels.

4. In response, the Deputy Prime Minister said that the Government had now made a decision in principle in favour of cofinancing with the Bank, provided the terms were competitive. He also reaffirmed that it was Romania's intention to provide all the information needed for project appraisal. In response to Mr. McNamara's request that Romania should participate in the negotiations for the sixth IDA replenishment and provide funds for IDA, the Minister said that he would take this up on his return to Bucharest. In conclusion, the Minister renewed the invitation for Mr. McNamara to visit Romania in the near future. Mr. McNamara replied that it would be difficult for him to make this visit before the end of calendar 1978, due to his preoccupation with the Bank's capital increase, but that he hoped to visit Romania at a mutually convenient time in the first half of 1979.

W. S. Humphrey

William S. Humphrey
Division Chief, Country Programs ID
Europe, Middle East and North Africa Region

Cleared with & cc: Mr. Paijmans

cc: Mr. McNamara's office


Messrs. Stern
Benjenk
Knox
Dubey
Maiss
Pepper
Steel/Ijichi

WSHumphrey:js

January 26, 1979

William S. Humphrey, Division Chief, EMENA CP1D

ROMANIA - Meeting Between Mr. Rusinaru, President of BAFI,
and Mr. McNamara on January 25, 1979

1. Mr. Rusinaru, President of BAFI, met with Mr. McNamara at 5:00 p.m. on January 25. Messrs. Besteliu and Angel of the Romanian Embassy in Washington were also present, in addition to Messrs. Benjenk and myself from the Bank.
2. Mr. Rusinaru started by saying that his Government was looking forward to receiving Mr. McNamara in Romania, and wondered if he could give any indication of the timing of the visit. Mr. McNamara said that discussions related to the prospective capital increase required his presence in Washington for a number of important Board meetings over the next few months. However, he hoped to be able to visit Romania at a time convenient to the Government in the second quarter of 1979.
3. Mr. Rusinaru went on to describe Bank relations with Romania as very good, and stressed that Romania appreciated both the financial and technical assistance provided through the medium of Bank lending. Romania's next Five-Year Plan, which was under preparation, would be designed to continue Romania's present growth rates and there would consequently be a large number of investment projects requiring finance, including finance from the World Bank. He understood that the Bank's management was studying the question of graduation, and his Government accepted that Romania would eventually graduate. However, in the next five years the investment needs would be heavy and he hoped that Bank lending would continue, if possible at a higher level than at present. He understood the importance of the capital increase, and of the IDA replenishment. He conveyed a message from Finance Minister Nicolescu-Mizil that the question of Romania's IDA membership was being studied in Bucharest. 
4. Mr. Rusinaru then referred to the experience of the cattle project, and said that the Romanian Government agreed with Mr. McNamara's decision for the Bank not to finance this project if he thought that it would cause difficulties when presented to the Executive Directors. The Government wished to continue to work with the Bank in this sector, and the timing of a mission to discuss the preparation of an alternative project was being decided with the Region. Mr. McNamara commented that the Bank would be happy to work with the Romanian Government towards a project which would satisfy both their objectives and our own standards.
5. Mr. Rusinaru then turned to the negative position of some of the Executive Directors towards Romania, and asked what the Government could do to get more support on the Board for Bank lending to Romania. In this context he stressed that Romania enjoyed excellent political relations with many of

the countries whose Executive Directors were sometimes critical of Bank lending to Romania, and that Romania had now accepted cofinancing and indeed was contemplating as much as \$100 million of commercial bank financing for the livestock project now being negotiated.

6. With respect to graduation, Mr. McNamara commented that the Bank being a lender of last resort needed some method to determine whether a country could obtain its needs for external capital without using Bank financing. The Board, in the past, had taken the income per capita of a country as an indicator to determine this. However, in the case of Romania, he felt that the per capita income was much too rough and crude an instrument to measure Romania's needs for Bank financing. It was his impression that the new plan contained a large volume of investment in projects which also would benefit from Bank technical assistance, demonstrating Romania's continued need for Bank financing. He thought it would be helpful if the Romanian Government could bilaterally approach the Government of the US, the UK, the Federal Republic of Germany, and France, to emphasize that Romania, after making all efforts to tap other sources of external capital, still had need of Bank financing and technical assistance. In particular Mr. Rusinaru might wish to visit the US State Department and Treasury, along with the Romanian Ambassador, during his present visit to Washington. It would also be good if the approaches to other Governments took place before April 1, since the Management had promised the Executive Directors a discussion of graduation policies some time after that date. Mr. Rusinaru indicated he would follow up on these suggestions.

7. Finally, Mr. Rusinaru asked whether the lending ceiling of \$295 million for Romania for FY79 could be raised. The two projects being negotiated were the last for the fiscal year, and therefore the last opportunity for Romania to receive a higher lending amount. Mr. McNamara stressed that because the capital increase had not yet occurred, the Bank was having to allocate funds since countries' needs were greater than our ability to supply finance. Romania was already one of the 5 or 6 largest recipients of Bank funds in relation to the size of the country. Additional money could only be made available to Romania by cutting the allocation for some other country. In addition to the difficulty this raised because of the already relatively large Romanian program, it also could raise political questions of why the Bank was giving undue preference to a country already near the margin of graduation. An increase in the \$295 million lending ceiling for FY79 would therefore be very difficult. While not wishing to say no, he would not want to hold out much hope that an increase would be possible.

cc: Mr. McNamara

Cleared with and cc: Mr. Benjenk

cc: Messrs. Stern, Knox, Paijmans (o/r), Fuchs, Haynes, Pollan, El Darwish, Frank, Dubey, Kavalsky, Steel, Ijichi, Pepper

WSHumphrey:ap

M

SUMMARY OF THE SADOVA-CORABIA AGRICULTURAL CREDIT PROJECT

Loan 1083-RO

Loan Amount: \$30 million
Board Date: January 25, 1975
Project Completion Date: December 1982
Total Project Cost: \$59.5 million equivalent
of which Foreign Currency: \$22.7 million
Local Currency: \$36.8 million

As of May 31, 1979

Physical Works: More than 90 percent complete

IBRD Commitments: \$29.9 million (99.7 percent complete)

IBRD Disbursements: \$25.0 million (83.3 percent complete)

Project

Description: The project consists of about 40 percent of the ten-year investment program for on-farm development and agro-industries required to bring the 74,600 ha. Sadova Corabia irrigation scheme (in southern Romania along the Danube) into full production. The project area was sandy and almost non-productive before the introduction of the irrigation scheme. It also includes some investment in dairy farms and heifers for four existing farms, two beef fattening farms, a fruit handling and storage complex, 15 refrigerated trucks, a feed mill and silo, a pre-mix feed mill, machinery and equipment for farm mechanization services to cooperatives, a leaf analysis laboratory, and training for technicians. The project is being administered by BAFI. Loans are made to cooperatives and State-owned enterprises on the basis of detailed plans, most of which have been completed.

Status:

The project is making good progress. The feed mill and silo in Corabia is completed and operating at full capacity. The Sadova fruit handling and storage complex is also completed for operation. Construction of the pre-mix feed mill is progressing well after some delay due to the cold winter. Other sub-projects are also well underway. The Bank loan is almost fully committed, and the cumulative disbursements through May 31, 1979 was \$25.0 million.

SUMMARY OF PIG PRODUCTION AND PROCESSING PROJECT

Loan 1479-RO

Loan Amount:	\$71.0 million
Board Date:	July 21, 1977
Project Completion Date:	December 1981
Total Project Cost:	\$322.5 million equivalent
of which Foreign Currency:	\$71.3 million
Local Currency:	\$251.2 million
As of May 31, 1979	
Physical Works:	About 35 percent complete
IBRD Commitments:	\$60.4 million (85 percent complete)
IBRD Disbursements:	\$18.7 million (26.3 percent complete)

Project

Description: Agricultural credit sub-projects under the project include investments undertaken in 1977 and 1978 for the establishment of large scale pig breeding/fattening farms, establishment of farms for production of crossbred gilts, modernization of existing pig production complexes, development of testing and selection centers, dispersion of production capacity, and provision of adequate slaughtering and processing units.

Status: Project implementation is proceeding satisfactorily. To date the Borrower, the Bank for Agriculture and Food Industry (BAFI) has approved \$272 million equivalent investment sub-projects under this project. The approved amount is about 85 percent of the planned investment under this project. The quality of construction is good and there is a definite standardization of building design throughout all project facilities. Construction of new complexes and other facilities is either some weeks ahead of schedule or on schedule, but there are some delays in construction of slaughtering and processing units. As a result, disbursements under this project are about 4 percent behind the planned target.

SUMMARY OF THE SECOND LIVESTOCK (PIGS II) PROJECT

Loan 1669-RO

Loan Amount: \$75 million
Board Date: March 20, 1979
Project Completion Date: December 1983
Total Project Cost: \$435.5 million equivalent
of which Foreign Currency: \$95.0 million
Local Currency: \$340.5 million
As of May 31, 1979: Loan not yet effective.

A \$100 million cofinancing syndicate loan is at an advanced stage of negotiation between BAFI, the Borrower, and several European and Japanese banks led by a French bank.

Project

Description: Provision of continued support to the planned expansion of the Romanian pig industry. Agricultural credit sub-projects are estimated to include investments undertaken in 1979 and 1980 for construction and modernization of large scale social sector breeding, production and fattening farms, slaughtering and processing plants, a pig nutrition related research component and assistance through investment credits to small scale individual producers in expansion of pig production.

Status: The status of preparation for effectiveness was reviewed by a supervision mission in May. No problems are expected in meeting the deadline. Apart from the usual legal opinion, no special effectiveness conditions are attached to the loan.

SUMMARY OF BRASOV BALL BEARINGS PROJECT

Loan 1436-RO

Loan Amount: \$38 million
Board Date: May 26, 1977
Project Completion Date: December 1981
Total Project Cost: \$80.9 million equivalent
of which Foreign Currency: \$40.0 million
Local Currency: \$40.9 million

As of May 31, 1979

Physical Works: Construction 70 percent complete
Equipment 10 percent complete

IBRD Commitments: \$31 million
IBRD Disbursements: \$3.5 million

Project

Description: Expansion of Brasov Bearings plant from annual production level of 20 million to 33.5 million bearings per year with expanded product mix and improved quality.

Status:

The project is generally being implemented on time and progress has been satisfactory; equipment delivery and start-up timing for major facilities will very probably be ahead of appraisal schedule. Marketing prospects particularly exports are looking better than they did at appraisal which may boost the project's financial and economic returns once operations begin.

The problems the Bank has faced in this project are typical of most of our projects financed in Romania. We have had continual problems with inadequate reporting, and we have faced a steady stream of minor infringements of the Bank's Procurement Guidelines as well as a lack of effective competition for all packages on which Romanian manufacturers have bid.

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 11, 1979

FROM: J. Burke Knapp

SUBJECT: Romanian Contribution to IDA 6

One of the matters that I hope you will be able to resolve during your discussions with the Romanian authorities on your forthcoming visit to Bucharest is the question of Romania joining IDA and making a contribution to IDA 6. I attach for your convenience a copy of my memorandum to Files dated March 26, reporting my conversations on this subject in Bucharest on March 9, together with a copy of my letter of March 21, 1979 to the Deputy Minister of Finance setting forth the procedures by which, through a capital subscription of about \$13 million equivalent, plus a further special contribution of \$7 million equivalent, Romania could take a participation in IDA 6 in the amount of \$20 million equivalent. We have received no response to this letter, but I think we can definitely expect them to join IDA and make their required capital subscription. Whether or not they will top this up with a special contribution remains to be seen. I think they will be ready to reach an agreement with you on this at Bucharest. (You may recall that we once heard through Mr. Stojiljkovic that the Romanians were thinking of what kind of a "plum" they could present to you in Bucharest and that after considering a University degree they were coming to think of participation in IDA as an appropriate presentation!)

Herewith a few comments:

1. As to the amount of \$20 million equivalent, this is based mainly on an appeal to them to keep pace with Yugoslavia. The two countries have about the same population but the Romanian GNP and per capita income are reckoned at 77 percent of Yugoslavia's. Of course on the other hand Romania is a late comer since Yugoslavia has long since made its capital subscription to IDA and released it for IDA's use, as well as making further contributions to IDA 3, 4 and 5.
2. Since Romania is not yet a member of IDA their first contribution to the Sixth Replenishment would be their membership subscription, which would amount to \$13 million equivalent, calculated on the basis of the standard ratio between IDA and Bank subscriptions. There is ample precedent for regarding subscriptions by new members as a contribution to IDA Replenishments - the latest case was the UAE in IDA 5.
3. We are also prepared to accept as a contribution to a Replenishment any funds provided "in useable form", a term interpreted to cover not only amounts made available in convertible currency, but also amounts tied to local procurement if, in our judgment, there is a reasonable prospect of utilizing these monies on a competitive basis during the Replenishment disbursement period. IDA procurement in Romania averaged 0.4 percent of total identifiable foreign procurement by IDA in FY77, FY78 and the first half of FY79^{1/}; even if only half of IDA disbursements from a \$12.5 billion

^{1/} It was actually 0.8 percent in the first half of FY79.

July 11, 1979

Sixth IDA Replenishment took the form of identifiable foreign procurement, 0.4 percent of this amount would come to \$25 million. Hence we are prepared, if necessary, to accept Romania's contribution to IDA 6 on a tied basis, except for the \$1.2 million down payment on their original subscription which must be made in freely convertible currency. (For further details see my letter to the Deputy Minister of Finance of March 21, 1979, including the argument presented to them that they ought nonetheless to make all of their contribution to IDA 6 in freely convertible form.)

Attachments

cc: Messrs. Cargill
Benjenk
Vibert

JBKnapp:isk

328

OFFICE MEMORANDUM

TO: Files

DATE: March 26, 1979

FROM: J. Burke Knapp

SUBJECT: Romanian Contribution to IDA 6

Pursuant to arrangements made by Mr. Looijen with the Romanian Finance Minister, I visited Bucharest on March 9 for discussions regarding Romania's possible contribution to IDA 6. I was received very cordially. The discussions were positive in tone and Romania subsequently sent an observer to the IDA meeting in Paris. I have no doubt that Romania will join IDA and make a contribution to IDA 6. The only outstanding questions relate to the amount of their contribution, and whether or not it will be tied to procurement in Romania.

In Bucharest I met at 11:30 a.m. on March 9 with the Deputy Minister of Finance, Mr. Bituleanu, who was accompanied by the President of the Agricultural Bank, the President of the Investment Bank, and a representative of the Foreign Office. After making a general exposition about why Romania should join in support of IDA 6, we got down to the subject of the amount and form of their possible contribution. On the basis of various statistical comparisons with Yugoslavia, Greece, Austria and Italy, I proposed that their participation in IDA 6 be in the amount of \$20 million, the same as we had asked from Yugoslavia, although I also frankly acknowledged that their capacity to contribute might be a little bit less than Yugoslavia's. (It should be noted that Yugoslavia announced a contribution of \$20 million at the IDA meeting in Paris on March 21.)

I pointed out that this sum would be divided between subscription money and a contribution, probably in the ratio somewhat like \$13 million and \$7 million respectively. We then discussed the question of whether these sums (aside from the 10 percent payment on their subscription to IDA, which must be paid in convertible currency) would be released in freely convertible form or only for use in financing IDA procurement in Romania. Mr. Bituleanu asked me to write him a letter expressing our views on this subject and I have since done so (see copy attached).

At 7:00 p.m. I called upon the Minister of Finance, Mr. Niculescu-Mizil, with much the same group present on the Romanian side, and we went through the same subject matter. He suggested that the figure of \$20 million might be somewhat high, commenting, among other things, that Romania was in a difficult position because it had not supported the Comecon Bank. He concluded that he would discuss the matter with the President, Nicolae Ceausescu, and would advise us in due course of the Romanian decision. I expect that this would be communicated to Mr. McNamara when he visits Romania in May, and I have some hopes that they will rise to the challenge of matching the Yugoslav contribution.

Attach.

cc: Mr. McNamara

cc: Messrs. Benjenk, Gabriel, Vibert, D.R. Clarke

JBKnapp:isk

(Re-written in the Paris Office
and delivered by hand to
Mr. Ioan Mada, Senior Economist,
Ministry of Finance)

March 21, 1979

Dr. Iulian Bituleanu
Deputy Minister of Finance
Ministry of Finance
Strada Doamnei, 8
Bucharest, Romania

Dear Dr. Bituleanu:

First of all may I express my warm appreciation for the kind reception that you gave to me when I called upon you last week in Bucharest to discuss the subject of Romania's participation in the Sixth Replenishment of IDA Resources. I hope that I shall have the opportunity of greeting an Observer from Romania at the meeting to be held in Paris on March 21 - 22, and in any case I am confident that in due course we shall have your Government's participation in our forthcoming Replenishment.

In the meanwhile, I am writing to clarify certain points that came up during our discussion with regard to the manner in which Romania could participate in the Sixth Replenishment. I take as a starting point the suggestion that I submitted for your consideration, namely, that the Romanian participation be in the amount of US\$20 million, realizing at the same time that you have come to no decision on this figure.

We would expect a US\$20 million participation to take the form of a subscription to IDA's capital in the amount of approximately US\$13 million equivalent, plus a further contribution of US\$7 million equivalent. 1/

With respect to the modalities for the payment of these amounts, about \$1.2 million would be payable in convertible currency as soon as Romanian membership in IDA became effective. The remaining amount of approximately US\$18.8 million equivalent would be payable initially

1/ The exact distribution between these two amounts would be subject to further refinements in accordance with the regular procedures of the Association: for one thing, the figure of approximately US\$13 million equivalent has been calculated on the assumption that Romania takes up the additional shares in the World Bank which were allocated to it under Resolution #314 of the Board of Governors of February 9, 1977.

March 21, 1979

in lei, either in cash or in non-interest bearing demand notes, subject to release to IDA under one of the following alternatives:

- a) In freely convertible currency to be drawn upon pro rata with other resources provided to IDA by donor countries for purposes of the Sixth Replenishment (attached is a table showing the presently estimated rate of drawings under this alternative), or
- b) In lei as and when required to finance procurement in Romania for purposes of projects financed by IDA out of Sixth Replenishment Resources (in this case the rate of disbursement would depend upon the amount of procurement in Romania).

As you will see, after reviewing the matter here, I can confirm that IDA would be prepared to accept funds from Romania under the second alternative, since the rate of IDA procurement in Romania in recent years makes it appear likely that US\$13.8 equivalent of Romanian funds would be usable by IDA for disbursements on projects financed by Sixth Replenishment funds. According to our records IDA financed purchases in Romania of US\$2.6 million in FY1977, US\$1.8 million in FY1978 and US\$3.7 million in the first half of 1979.

In spite of the technical availability of this second alternative, I would urge you nonetheless to give your earnest consideration to the adoption of the first alternative. First of all, the great majority of the donors to the Sixth Replenishment will be making their funds available in freely convertible form and it seems to me that Romania would get maximum political credit for its participation in the Sixth Replenishment if it, too, made its funds available without procurement restrictions. (Incidentally, Yugoslavia has been releasing its capital subscriptions to IDA in this form.) Secondly, as a matter of your own practical interest, it seems very likely, on the basis of the recent record of IDA procurement in Romania, that you would have to release your funds more rapidly under the second alternative than under the first.

With best regards,

Sincerely yours,

~~(Signed)~~ J. Burke Knapp

J. Burke Knapp

P.S.

Encl.

As soon as your Government has reached a decision in principle on this matter, we would be very happy to receive a Romanian delegation in Washington to work out the final details.

Cleared with Messrs. Nurick and Perch

cc: Messrs. Nurick, Perch and Vibert

Estimated Rate of Drawings on Country Donor Contributions
To Sixth Replenishment

<u>Fiscal Year</u>	<u>Percent</u>	<u>Amount for Romania</u> ^{1/} <u>(In US\$ Equivalent)</u>
1981	1	0.2
1982	5	0.9
1983	13	2.4
1984	20	3.8
1985	20	3.8
1986	15	2.8
1987	10	1.9
1988	7	1.3
1989	5	0.9
1990	4	0.7

1/ Assuming US\$20 million Romanian participation in the Sixth Replenishment, of which US\$18.8 million would be subject to pro rata drawings.

JEK
March 16, 1979

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ROMANIA -- INFORMATION MEDIA

Although prior censorship was formally abolished in 1974, Romanian newspapers and broadcasters are directed not to carry reports or commentaries which may promote "internal unrest, fascism or violations of normal or socialist morality". While the government announced in 1977, it was abandoning all forms of official censorship in favor of "self-censorship", President Ceausescu told the party conference that the change was designed to tighten controls rather than to relax them, and since then the media has been even more closely regulated.

Newspapers

All newspapers are affiliated to the party or government. Of more than 50 dailies nationwide, the most influential are published in Bucharest.

By far the largest and most important is Scinteia, the organ of the Central Committee of the Communist Party of Romania, which has a circulation of 1,600,000. Scinteia Tineretului (circ. 250,000) is the paper of the Communist Youth Union, and Romania Libera (circ. 350,000) is published by the Front of Socialist Unity (FUS). All three of these papers are published in Romanian, but the FUS also publishes a Hungarian language paper called Elore (circ. 150,000) and a German language daily called Neuer Weg (circ. 65,000).

The Central Trades Unions Council and the agricultural cooperatives both publish weeklies in Bucharest. In addition to the Hungarian and German papers published by the FUS, there are nine dailies published in the languages of the national minorities of Romania, including Hungarian, German, Serbian and Armenian.

New Agencies

The national news agency, Agentia Romana de Presa (Agerpress) is a government department, based in Bucharest with bureaux throughout the country and in 22 foreign countries. The Italian News Agency (ANSA), the Yugoslav Tanjug agency, the Associated Press and a number of Communist bloc agencies all maintain bureaux in Bucharest.

Radio and Television

A government agency, Romanian Radio and Television (Radioteleviziunea Romana) operates all radio and television services. Romanian Radio's home service, based in Bucharest, consists of three programs. A national program for all sections of the public, is broadcast in nine cities, and carries all or part of the 22-hour daily schedule. The second program is primarily educational and cultural, broadcast for 19 hours a day. The third is devoted largely to music and is broadcast for 8 or 9 hours a day.

The six regional stations (at Bucharest, Cluj, Tirgu Mures, Timisoara, Craiova and Iasi) originate their own programs and also link up with the national network. In addition to Romanian-language programs, these stations also broadcast in Hungarian, German and Serbian, with some summertime programs in English, Russian and French.

Romanian television service began regular operations in 1957, and now broadcasts two programs totalling around 60 hours a week. They consist of news and information (16 hours), arts, letters and science (13 hours), light entertainment (12 hours), education (11 hours), and broadcasts for ethnic minorities (3 hours, in Hungarian and German).

About 27 percent of programs are imported. Most foreign programs are broadcast through Eastern European Television (Intervision) and a small number from western European countries and the USA. In 1970, Romanian television originated 59 hours of Intervision programs and received 289 hours.

In 1976 there were approximately four persons per radio and 7.2 persons per TV set.

World Bank
News Service of the Department of Information and Public Affairs

This news item appeared on page 53 of the 2-8 DECEMBER 1978 issue of:

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|----------------------------------------------|--------------------------------------------------|--------------------------------------------------------|
| <input type="checkbox"/> THE NEW YORK TIMES | <input type="checkbox"/> THE WALL STREET JOURNAL | <input type="checkbox"/> THE CHRISTIAN SCIENCE MONITOR |
| <input type="checkbox"/> THE WASHINGTON POST | <input type="checkbox"/> THE JOURNAL OF COMMERCE | <input checked="" type="checkbox"/> THE ECONOMIST |

Le défi roumain

The Warsaw pact is having its biggest row since the Soviet-led invasion and occupation of Czechoslovakia in 1968. The latest troubles began with Rumania's refusal, at the pact's summit meeting in Moscow on November 22nd and 23rd, to toe the Soviet line, and President Ceausescu's decision to give his act of defiance the widest possible publicity.

In Moscow, Rumania declined to sign a declaration condemning the Camp David agreements between Israel and Egypt and voiced its disagreement with the pact's strong anti-Chinese line. More seriously, it refused to go along with the proposals for a general increase in military expenditure within the pact, arguing that the state of the world did not warrant such an increase and that Rumania would rather spend money on improving its people's living standards. It also voted against the proposed speeding up of military integration in the Warsaw pact, and repeated that Rumania was not prepared to place its forces under foreign generals' command. The only document Rumania did sign, along with its fellow pact members, was a 9,000-word declaration calling for a world treaty renouncing the use of force in international relations. Who could object?

The Russians are clearly angry, and are reported to be thinking of recalling their ambassador from Bucharest, in concert with the other Warsaw pact countries. There are dark mutterings about other reprisals against Rumania. But Rumania has been little more than a nominal member of the Warsaw pact ever since it refused to come out against Israel in the 1967 Middle East war, and followed this up by declining to join in the invasion of Czechoslovakia in 1968. Since then it has persistently refused permission for Warsaw pact manoeuvres to be held on its soil.

What may have particularly annoyed the Russians this time is the Rumanians' cheekiness in publicising their challenge;

but also Rumania's choice of issue. Several smaller Warsaw pact members are already shelling out a lot of money in support of Soviet policy in Africa and Asia. A further increase in military budgets would be highly unpopular in these countries, and would have to be kept as quiet as possible. But this will be difficult after the fuss made by the Rumanians. Equally, more military integration is unwelcome because it emphasises the smaller east Europeans' second-class status compared with Russia. The Russians have a further score to settle with Rumania over its efforts (together with Yugoslavia) to bring China and the west European communist parties closer together, tilting the balance against Russia.

But ticking Rumania off, let alone bringing it to heel, may prove far from easy. Rumania's 180,000-strong, badly-equipped army would be no match for the combined might of the rest of the Warsaw pact in the event of an invasion. But such an invasion would cause consternation in the west, as well as in the developing countries where Rumania and its well-travelled president are known and liked; and it would produce a wave of sympathy for Rumania inside the Soviet block, especially in Poland. It would almost certainly drive Yugoslavia closer to the west. Even a desperate last-resort policy of assassinating President Ceausescu would not by itself work in the Russians' favour unless it were followed by political changes inside Rumania. But Mr Ceausescu's vigilant secret police give their Soviet counterparts little opportunity for such plots.

Economic sanctions applied by the Soviet block would certainly hurt Rumania, even though less than half of its total trade is with other Comecon countries. Much of its iron ore comes from Russia, as do many other raw materials (though not its oil). But sanctions might actually strengthen rather than weaken Mr Ceausescu's government. They could be

used as an excuse for the country's continued low living standards, which the regime is now hastily trying to improve. Even strong political and ideological pressure on Rumania might rally disaffected Rumanians round Mr Ceausescu.

Ousting Rumania from the Warsaw pact would open the way to a formal alliance between Rumania and Yugoslavia, which already has a circuitous (but never severed) link with Nato through its 1953 Balkan pact with Greece and Turkey. Yet doing nothing might damage Warsaw pact discipline still further. Since all the choices are invidious, the Russians are likely to take their time over deciding what Rumania's punishment should be.