



1. Project Data :
OEDID: L4103
Project ID: P009113
Project Name: Agriculture Sector Adjustment Loan
Country: Ukraine
Sector: Agriculture Adjustment
L/C Number: L4103
Partners involved :
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2. Project Objectives, Financing, Costs and Components :

The overall objective of this sector adjustment loan was to support the growth of a market -based agricultural system in the Ukraine in order to increase farm-level output and incomes, rural welfare, and reinvestible profits for future capital formation. The project provided, in two tranches of \$US 150 million each, balance of payments support over a 2-year period for a package of agricultural and trade reforms aimed at increasing market competition, and encouraging private ownership and investment in land and other productive assets . The package of reforms comprised five components:

- (1) Liberalizing domestic agricultural markets and prices;
- (2) Liberalizing foreign trade in agricultural products;
- (3) Land reform and farm restructuring;
- (4) Privatizing and demonopolizing the agricultural distribution and processing system; and
- (5) New roles for government.

While there are other donors active in the sector, providing technical assistance and other support in related areas, there was no co-financing nor government budgetary contributions to the costs of this specific project .

3. Achievement of Relevant Objectives :

The Government of Ukraine (GOU) made less progress with the reforms than anticipated, and what progress did occur took longer than expected. While the GOU made progress in some areas, such as liberalizing foreign trade and privatizing and demonopolizing the agricultural distribution and processing system, it was fundamentally unready to yield government control over many segments of the agricultural sector . While the GOU met all but three Ag SECAL conditions to the letter, it often blocked the achievement of reform goals, such as the development of a stronger domestic capital market, outside the framework of conditionality . Bank management released the second tranche 14 months late after waiving the three Ag SECAL conditions, based upon progress in areas where conditionality was achieved and upon other GOU actions which substituted for the three conditions to some extent . The loan closed one year late on December 31, 1998.

4. Significant Achievements :

(1) The greatest progress was made in the fourth component . The GOU privatized around 3,900 out of 4,800 agro-industrial sector (AIS) enterprises -- far exceeding the project goal of 1000 enterprises. The GOU also demonopolized more than 100 regional or national monopoly enterprises during their privatization and took other measures to prohibit anti-competitive and collusive practices . However, privatizations to management and workers -- the general case -- has not yet led to restructured or more efficient enterprises due to weak corporate governance and a weak domestic capital market, the development of which was hindered by the GOU's continued interventions in the grain sector.

(2) The next best progress was made in the second component . The GOU removed most of the remaining trade restrictions, exercised restraint in imposing new trade barriers, and thereby reversed the former implicit taxation on the agricultural sector. However, the Parliament refused four times to remove the export tax on livestock and skins, and the farm sector has failed to expand output in response to the improved product prices, once again due to a weak domestic capital market.

5. Significant Shortcomings :

- (1) The least amount of progress was made in the fifth component . The GOU failed to dismantle its past structure for managing the agro-industrial sector. There was no significant reduction in the role of the government in the direct management of agricultural enterprises, even though the majority of these have been privatized .
- (2) With respect to land reform and farm restructuring, the Parliament refused to amend the land code to abolish the 6-year moratorium on land sales. While the GOU maneuvered around this with a legal opinion from the Ministry of Justice, this left open the possibility of reversal . While about 95% of all members of collective agricultural enterprises (CAEs) had received land share certificates by January 1, 1998, only 4% had exited the CAEs and therefore the management of these farms has changed little . On the other hand, the leasing of CAE lands -- as much as 10% in 1998 -- is a potentially positive development .
- (3) With respect to market and price liberalization, while the GOU repealed profit and margin controls on grain procurement and storage, the GOU refused to implement more competitive government procurement methods through open tenders or commodity exchanges -- a key second tranche condition . As an alternative, the GOU agreed to privatize 100 grain storage or processing facilities . While this constituted a significant step to ensure that grain will move through private intermediaries, this did not fully compensate for the original condition of the loan .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Marginally Unsatisfactory	The ICR, paragraph 40, rated the overall outcome as "marginally satisfactory". The project was overly ambitious in a difficult political environment. Less than satisfactory progress was made in three out of the five policy reform areas. (See above.) Both of the two major risks identified at appraisal -- domestic political opposition and a weak domestic capital market -- seriously hindered the achievement of project's objectives .
Institutional Dev .:	Substantial	Modest	The project attempted to support institutional reforms in each of the five major policy areas, and the ICR itself, paragraph 8, rated progress in implementing agricultural reform as "partial". In particular, the GOU made little progress in restructuring state agricultural institutions from a direct controller to a facilitator of private sector development.
Sustainability :	Uncertain	Uncertain	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Deficient	Unsatisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

- (1) The process of reform is just as important, if not more important, than the actual substance of the reforms . Three aspects of the process were weak . First, it is not clear who was responsible for providing the political commitment and the political cover for the reforms -- the Prime Minister, the Deputy Prime Minister for Economic Reform, or the Minister of Agriculture. Second, it is not clear who or what unit was responsible for managing the reform process on a day-to-day basis. Third, some influential stakeholders did not support the reform process, since the Parliament blocked the implementation of several second tranche conditions . Together, the GOU and the Bank should have involved and managed the key stakeholders more effectively .
- (2) Conditionality has its limits . It is only possible to craft a set of necessary, but not sufficient conditions for the achievement of the project's reform objectives . Therefore, it is important for the Bank to assess the government's commitment, not only to the letter but also to the spirit of the reforms .
- (3) For an institutional reform project, the objectives were far too ambitious . It was unrealistic for the GOU to achieve all the immediate institutional outcomes (such as changes in legislation) during the short time-frame of the project, let alone the expected results of the project (such as the dissolution of 1000 collective agricultural enterprises).

8. Audit Recommended? Yes No

Why? The project attempted a number of wide-ranging policy and institutional reforms in support of a market-based agricultural system in the Ukraine. The project provides the opportunity for learning a number of important lessons about both the process and the substance of such reforms .

9. Comments on Quality of ICR :

The ICR is complete, well-written, and easy to read. It contains a frank and open discussion of both the successes and shortcomings of the project. However, in Table 1A, I am surprised why the ICR rated financial objectives, public sector management objectives, and private sector development objectives as "not applicable". All three were important aspects of the project.