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Report No. 20687

PERFORMANCE AUDIT REPORT

UKRAINE

AGRICULTURE SECTOR ADJUSTMENT LOAN
(LOAN 4103-0-UA)

June 30, 2000

Sector and Thematic Evaluations Group
Operations Evaluation Department

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Currency Equivalents
Currency Unit = Hryvnia (Hrv)

Annual Average Exchange Rate to US$1.00

1995	Hrv 1.473
1996	Hrv 1.829
1997	Hrv 1.862
1998	Hrv 2.500
1999	Hrv 4.130

Abbreviations and Acronyms

AgSECAL	Agriculture Sector Adjustment Loan
AIS	Agro-Industrial Sector
AMC	Anti-Monopoly Committee
CAE	Collective Agricultural Enterprise
CAS	Country Assistance Strategy
ECA	Europe and Central Asia Regional Office of the World Bank
EFF	Extended Fund Facility
ESW	Economic and sector work
GOU	Government of Ukraine
IMCAR	Inter-Ministerial Committee for Agrarian Reform
IMF	International Monetary Fund
MOJ	Ministry of Justice
OED	Operations Evaluation Department
PGF	Pre-Export Guarantee Facility
USAID	United States Agency for International Development

Fiscal Year

Government: January 1 – December 31

Director-General, Operations Evaluation	:	Mr. Robert Picciotto
Director, Operations Evaluation Department	:	Mr. Gregory Ingram
Manager, Sector and Thematic Evaluation	:	Mr. Ridley Nelson (Acting)
Task Manager	:	Mr. Christopher D. Gerrard

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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

June 30, 2000

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on Ukraine Agriculture Sector Adjustment Loan (Loan 4103-0-UA)

Attached is the Performance Audit Report prepared by the Operations Evaluation Department (OED) on the above project.

For this project, the Board of the World Bank approved a loan for a total amount of US$300 million, on October 17, 1996, which was signed on November 14, 1996, and which became effective with the release of the first tranche of US$150 million on December 26, 1996. The original financing plan was modified by releasing the second tranche of US$150 million on September 10, 1998, fourteen months after the original plan of June 30, 1997, and by extending the closing date of the loan from December 31, 1997, to December 31, 1998.

This project was designed to advance the transition to a market-based agricultural economy in Ukraine. As a "second generation" adjustment loan, the project built upon earlier IMF and World Bank loans that helped stabilize the economy in 1995 and 1996, and upon a large program of economic and sector work that the Bank had undertaken concurrently with the stabilization program in order to lay out an appropriate reform agenda in key sectors of the economy and broaden the constituency of reformers in Ukraine.

The overall objective of the project was to support the development of a market-based agricultural system in Ukraine with private ownership of land and other productive assets, competitive markets for agricultural inputs and outputs, and domestic prices in line with world prices of agricultural products, in order to promote the efficient use of agricultural resources, to improve the agricultural terms of trade, to increase input flows to farmers, to reverse the dramatic decline in agricultural output that had occurred in the early 1990s, and to increase rural income and employment.

In line with the government's Memorandum of Agricultural Reform Policies, the specific objectives of the project were to support ongoing policy reforms in five areas, each of which may be considered one component of the project:

- Liberalizing domestic agricultural markets, among other things, by removing the remaining profit and price margins in the grain and bread sectors, by removing the discriminatory profit taxes on intermediary activities in the agro-industrial sector, and by implementing more competitive government procurement methods
- Liberalizing international trade in agricultural products, among other things, by removing grain export quotas and by discontinuing indicative prices on trade contracts

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- Encouraging land reform, farm restructuring, and the development of viable farm management units, among other things, by strengthening the legal basis and simplifying the process for the privatization and division of collective agricultural enterprises
- Encouraging market entry in the production, processing, and marketing of agricultural inputs and outputs by privatizing and demonopolizing existing agricultural enterprises
- Restructuring state agricultural institutions from the past role of a direct manager of agricultural enterprises to the new roles of market facilitator and provider of timely agricultural information.

This audit rates the overall outcome of the project as **marginally satisfactory**. The project made more than satisfactory progress in one of the five policy reform areas (privatizing and demonopolizing agricultural enterprises), somewhat satisfactory progress in two areas (liberalizing international trade and land reform), and less than satisfactory progress in the remaining two areas (liberalizing domestic agricultural markets and restructuring state agricultural institutions). This audit rates the institutional development impact as **modest**, and the sustainability of the policy reforms that have been achieved as **uncertain**. Some policy reforms that were achieved under the AgSECAL have already been reversed, while other reforms could also regress with a slight change in the balance of political power.

Four major lessons arise from this project:

- ***Where there is a limited political consensus for reform, as in Ukraine, there are limits to the effectiveness of sector adjustment loans, and their related conditionalities, in advancing the reform agenda.*** In addition to high-quality sector work, the Bank must broaden the range of partners and stakeholders involved during project preparation in order to enhance the domestic ownership of the reforms. While this will take more time during preparation, it will pay off during implementation and improve the outcome and sustainability of such projects.

- ***The process of policy and institutional reform is just as important as the substance of the reforms in achieving sustainable outcomes.*** A major problem between the first and second tranches was the lack of a credible, representative forum in which the key domestic stakeholders could reach a workable consensus on each step of the reform process. Eventually, the Inter-Ministerial Commission for Agrarian Reform came to play this role. Now reconstituted as the Presidential Commission on Agrarian Reform, it includes significant representation from nongovernmental stakeholders as well as all levels of government.

- ***It is important to be realistic about the amount of time required to implement the institutional reforms that undergird the various policy reforms.*** Not only do institutional reforms require continuous consultation concerning the details of the reforms, with key stakeholders in credible and representative forums, they also require changes in laws, regulations, and procedures in order to become effective.

- ***In order for the private sector to become the major supplier of agricultural inputs, the government needs to take explicit measures to demonstrate to the private sector a credible commitment to maintaining the policy reforms.*** This includes reducing the role and the size of the public sector from a direct participant to a market facilitator, clarifying the legal priority in the collection of farm debts, and actively resisting policy reversals such as the export taxes on agricultural commodities.

Attachment

Contents

This report was prepared by Christopher D. Gerrard (Task Manager), who audited the project in December 1999. William B. Hurlbut edited the report. Ms. Marcia Bailey provided administrative support.

Principal Ratings

	ICR	*Audit*
Outcome	Satisfactory	Marginally satisfactory
Sustainability	Uncertain	Uncertain
Institutional Development Impact	Substantial	Modest
Borrower Performance	Deficient	Unsatisfactory
Bank Performance	Satisfactory	Satisfactory

Key Staff Responsible

	Appraisal	*Completion*
Vice-President		Johannes Linn, ECAVP
Country Director	Basil Kavalsky	Paul Siegelbaum, ECC11
Sector Leader	Geoffrey Fox	Laura Tuck, ECSSD
Task Team Leader	Mark R. Lundell, ECSSD	Mark R. Lundell, ECSSD

Preface

This is a Performance Audit Report (PAR) on Ukraine Agricultural Sector Adjustment Project. For this project, the Board of the World Bank approved a loan (4103-0-UA) for a total amount of US$300 million, on October 17, 1996, which was signed on November 14, 1996, and which became effective with the release of the first tranche of US$150 million on December 26, 1996. The original financing plan was modified by releasing the second tranche of US$150 million on September 10, 1998, fourteen months after the original plan of June 30, 1997, and by extending the closing date of the loan from December 31, 1997, to December 31, 1998.

This report is based on the Implementation Completion Report prepared by the Europe and Central Asia Region, issued on April 27, 1999, the Staff Appraisal Report, loan documents, project files, the recent country assistance evaluation,[1] discussions with Bank staff, and a mission to Ukraine. The Operations Evaluation Department (OED) mission visited Ukraine from December 5 to 12, 1999, to discuss the effectiveness of the Bank's assistance with the government and the various project implementing agencies. The full cooperation and assistance of all government officials visited are gratefully acknowledged.

Following standard OED procedures, this draft PAR was sent to the borrower for review and comments. Comments were received from the Ministry of Agricultural Policy and are attached as Annex D.

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[1] OED, *Ukraine: Country Assistance Review* (May 3, 1999).

1. Background, Methodology, and Findings

This project was designed to advance the transition to a market-based agricultural economy in Ukraine. As a "second generation" adjustment loan, the project built upon earlier IMF and World Bank loans that helped stabilize the economy in 1995 and 1996, and upon a large program of economic and sector work that the Bank had undertaken concurrently with the stabilization program in order to lay out an appropriate reform agenda in key sectors of the economy and broaden the constituency of reformers in Ukraine.[1]

The Bank's first stand-alone Country Assistance Strategy in June 1996 envisaged a graduated lending program, increasing with the intensity of the government's reform effort, and identified the agriculture sector—along with the energy sector, the financial sector, and public sector management—as one of the four key sectors in the lending program.[2] Following the election of President Kuchma in mid-1994, while there was a critical mass for reform, there was still not a widespread political consensus for reform, particularly not in the Ukrainian Parliament.

In the agricultural sector, the AgSECAL was the centerpiece of an ambitious lending program, consisting potentially of six adjustment and investment loans. However, only the first two—a Seed Development Project for US$32 million and the AgSECAL for US$300 million—were approved by both the Bank and the GOU. After the Ukrainian Parliament refused four times to approve the third project—a Pre-Export Guarantee Facility for US$120 million that was approved by the Bank in February 1997—the Bank temporarily suspended preparation of the remaining three loans—a Title Registration Project for US$50 million, a Rural Finance Pilot for US$25 million, and an Agribusiness Development Project for US$20 million.[3]

The AgSECAL was also the centerpiece of a multi-donor program supporting Ukrainian agricultural reforms at the time. While the Bank financed the AgSECAL without any cofinancing, USAID, the United Kingdom, the Netherlands, and the European Union were all providing technical assistance and grants for farm restructuring, business development, and agricultural inputs.

The AgSECAL provided, in two tranches of $150 million each, balance of payments support for agricultural reforms in five areas: liberalizing domestic agricultural markets, liberalizing international trade in agricultural products, land reform, privatization and demonopolization of agricultural enterprises, and restructuring state agricultural institutions. Although the Bank released the first tranche more or less on schedule (on December 27, 1996), the GOU failed to meet all the conditions for the release on the second tranche (initially planned for June 30, 1997). However, when the GOU took various actions that substituted for these unfulfilled second tranche conditions, and given the progress that was made in areas where conditionality was fulfilled, the Bank waived these unfulfilled conditions and released the second tranche on September 10, 1998.

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[1] In agriculture, this included *Ukraine: The Agriculture Sector in Transition* (World Bank country study, November 1994), *Land Reform and Farm Restructuring in Ukraine* (World Bank discussion paper, December 1994), and *Ukraine Report: Agricultural Trade and Trade Policy* (World Bank technical report, October 1995).

[2] OED, *Ukraine: Country Assistance Review* (May 3, 1999), p. 7.

[3] See Table 1. The Bank resumed preparation of the title registration project and the rural finance pilot project in June 1999.

Audit Methodology

The OED mission which visited Ukraine in December consulted with a range of stakeholders (representing government, NGOs, and other donors) who were involved in the process of agricultural policy reforms in Ukraine.[4] To expedite the interviews, OED prepared a common list of topics to be discussed with each interviewee, and the country office translated and circulated this list of topics to each interviewee beforehand.[5] Among other things, the OED mission asked interviewees to provide their own ranking of the progress that was achieved under each of the five components of the project, along with the reasons for their rankings.

On a one-day field trip to Kagarlyk Rayon in Kyiv Oblast, the mission also visited the head of the *rayon* administration, one collective agricultural enterprise (an intensive livestock operation), and representatives of agro-industry and local farmers. The mission concluded with an extensive wrap-up session with the Bank's country office staff responsible for the implementation of the AgSECAL.

Findings

This audit rates the overall outcome as **marginally satisfactory**, which concurs with the rating of the ICR.[6] The project made more than satisfactory progress in one of the five policy reform areas (privatizing and demonopolizing agricultural enterprises), somewhat satisfactory progress in two areas (liberalizing international trade and land reform), and less than satisfactory progress in the remaining two areas (liberalizing domestic agricultural markets and restructuring state agricultural institutions). Even that progress which did occur generally took longer than expected. 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.

The failure to establish well-functioning and transparent markets for agricultural inputs has been particularly costly in terms of the ultimate objectives of increasing input flows to farmers, expanding agricultural output, and improving rural incomes and employment.

This audit also rates the institutional development impact as **modest**, and the sustainability of the policy reforms that have been achieved as **uncertain**. Some policy reforms that were achieved under the AgSECAL have already been reversed, while other reforms could also regress with a slight change in the balance of political power.

The Government of Ukraine still needs to address some significant issues in order to achieve its stated objectives of establishing a market-based agricultural system in Ukraine. These include:

- Reducing the role and size of the public sector in agriculture
- Resolving the farm debt crisis
- Clarifying the legal priority in the collection of farm debts

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[4] See Annex C for the complete list of persons consulted in Ukraine.

[5] See Annex B for this 2-page list of topics.

[6] While the ICR rates the overall outcome as "satisfactory" in the summary table of assessments on page 18, the text of the ICR assesses the overall outcome as "marginally satisfactory" on page 13.

- Taking explicit measures in order to demonstrate to the private sector a credible commitment to sustaining the policy reforms.

2. Project Objectives, Components, and Design

Project Objectives and Components

The overall objective of the project was to support the development of a market-based agricultural system in Ukraine with private ownership of land and other productive assets, competitive markets for agricultural inputs and outputs, and domestic prices in line with world prices of agricultural products, in order to promote the efficient use of agricultural resources, to improve the agricultural terms of trade, to increase input flows to farmers, to reverse the decline in agricultural output that had occurred in the early 1990s, and to increase rural income and employment.

In line with the government's Memorandum of Agricultural Reform Policies,[7] the specific objectives of the project were to support ongoing policy reforms in five areas, each of which may be considered one component of the project:

- Liberalizing domestic agricultural markets, among other things, by removing the remaining profit and price margins in the grain and bread sectors, by removing the discriminatory profit taxes on intermediary activities in the agro-industrial sector, and by implementing more competitive government procurement methods
- Liberalizing international trade in agricultural products, among other things, by removing grain export quotas and by discontinuing indicative prices on trade contracts
- Encouraging land reform, farm restructuring, and the development of viable farm management units, among other things, by strengthening the legal basis and simplifying the process for the privatization and division of collective agricultural enterprises
- Encouraging market entry in the production, processing, and marketing of agricultural inputs and outputs by privatizing and demonopolizing existing agricultural enterprises
- Restructuring state agricultural institutions from the past role of a direct manager of agricultural enterprises to the new roles of market facilitator and provider of timely agricultural information.

Project Design

While these reforms were expected to have beneficial medium and long-term impacts on farmers, agro-industry, food consumers, and the national budget, the AgSECAL would provide balance of payments support to offset adverse short-term macroeconomic impacts in three areas:

- Domestic market liberalization (reducing taxes on agricultural intermediaries and paying higher prices for government procurements of agricultural commodities) would increase the government's budget deficit

[7] Contained in a letter from the Government of Ukraine to James Wolfensohn, August 30, 1996. See the Staff Appraisal Report, Annex 1.

- Trade liberalization (removing export quotas and discontinuing indicative prices) would reduce the implicit export taxes on agricultural commodities, increase domestic consumer prices for food, and increase the private sector investment-savings gap
- In addition to these increases in the public and private savings gaps, increased imports of agricultural equipment and other inputs (due to the initial lack of domestically produced inputs) would put further pressure on the current account deficit.[8]

Within the Cabinet of Ministers, the Deputy Prime Minister for the Agro-Industrial Complex would be responsible for spearheading the implementation of the reforms (including obtaining Parliamentary approval, whenever necessary). When the government met each set of first and second tranche conditions, the Bank would transfer the resources to the central bank to be used by the government as part of its public resources, in order to relieve the government's budget deficit and the country's current account deficit.

Since the entire loan was for adjustment purposes, the proceeds of the loan could not, according to Bank rules, be made available to the agencies responsible for implementing the reform program for which the loan was given, unless a part of the loan amount was specifically allocated for some investment purposes.[9] While the loan could have been prepared as a hybrid loan, partly for adjustment and partly for investment purposes, this was not done because the Bank was preparing other investment loans at the same time.

The principal conditions for the release of the first tranche[10] were the following:

- Removing profit margin controls on grain procurement, and storage and trade margin controls on bread, flour, and bread products
- Removing discriminatory profit taxes on intermediary activities in the agricultural sector
- Limiting the total state purchases of agricultural products to the equivalent of US$550 million in the 1996 budget
- Reducing agricultural credit subsidies to less than the equivalent of US$130 million in 1996, and preparing plans to phase out these subsidies thereafter
- Removing export quotas for grain products and indicative prices for export contracts
- Undertaking certain steps to expedite the land reform and farm restructuring processes, including simplifying the procedures for individuals to exchange their land and property shares for land plots and other farm assets, and preparing a public information program to inform beneficiaries of these simplified procedures
- Achieving certain land reform and farm restructuring targets
- Undertaking certain steps to streamline and clarify the privatization process for agro-industrial enterprises.

The principal conditions for the release of the second tranche were the following:

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[8] See Staff Appraisal Report, p. 13.

[9] E-mail, dated December 8, 1999, from Aly K. Abu-Akeel, legal counsel for the Ukraine country team.

[10] See Staff Appraisal Report, pp. 14-16 for details. Some of these conditions were required prior to appraisal, other prior to negotiation, and the remaining prior to board presentation.

- Demonstrating that all state procurements, starting in November 1996, were carried out on a competitive basis through open tenders and/or agricultural commodity exchanges in a manner that facilitates private sector participation
- Eliminating export duties and indicative prices on agricultural sector goods, in particular, those imposed on livestock and skins in May 1996
- Completing additional steps to expedite the land reform and farm restructuring processes, including abolishing the 6-year moratorium on land sales, carrying out the public information program in relation to exchanging land and property shares for land plots and other farm assets, and initiating the establishment of a single registry of rural and urban land and other real estate
- Achieving additional land reform and restructuring targets
- Implementing additional steps to streamline the privatization process for agro-industrial enterprises
- Achieving certain privatization and demonopolization targets.

The SAR identified two major risks with the AgSECAL. The first was the possibility of policy slippage due to domestic political opposition to specific agricultural policy reforms. The second was that a lack of working capital at the farm level might hinder the recovery of the agricultural sector too much to sustain the policy regime of limited distortionary incentives. The Bank attempted to mitigate this second risk by preparing a Pre-Export Guarantee Facility (PGF) as a parallel operation to the AgSECAL. By providing insurance against political risks (i.e., changes in government policy), this would encourage foreign investors to provide a large share of the finance and working capital inputs to fuel the recovery of the agricultural sector. If, for example, the government re-instituted taxes on agricultural exports, which would make it more difficult for foreign investors to recover their advances to Ukrainian agricultural enterprises, then the foreign investors could seek redress from the guarantee facility and ultimately from the GOU for the losses incurred as a result of the *ex post facto* change in the government's policy. In this way, the PGF would limit the ability of the GOU or the Parliament to levy taxes on the agricultural sector. But Parliamentary approval of the PGF was not a specific condition for releasing either the first or second tranches of the AgSECAL.

3. Project Implementation

While the GOU met all the first tranche conditions to the satisfaction of the Bank's Board, the implementation of the project got off to an inauspicious start. First, the Parliamentary approval of the AgSECAL was not clean. Parliament approved the project as part of the budget law of 1996, rather than as a separate Parliamentary resolution. When the GOU realized that the Parliament was not likely to approve the project as an separate resolution, the GOU obtained an opinion from the Ministry of Justice that Parliament was not required to approve the project a second time since Parliament had already *de facto* approved it as part of the budget law.

Second, there was a misunderstanding at high levels within the Ministry for the Agro-Industrial Complex (MAIC) concerning the legitimate use of the loan funds. Believing that the funds could be used for investment purposes, the MAIC solicited investment proposals from *oblast* governments, and some *oblasts* even signed contracts with foreign suppliers before this misunderstanding was corrected. Even though the MAIC was able to utilize other lines of credit (from USA, Japan, and Germany) to honor these contracts, this misunderstanding dampened the MAIC's enthusiasm for the project. As several people told the audit mission, while the Ministry of Finance received all the money from the AgSECAL, the MAIC felt that they experienced all the pain associated with spearheading the implementation of the reforms.

Third, the Deputy Prime Minister for the Agro-Industrial Complex who had worked with the Bank to prepare the project suffered a stroke just before the project became effective, resigned from the Cabinet of Ministers, and returned to his former position as the head of the Institute for Agrarian Economy. Overall, during the preparation and implementation of the AgSECAL from June 1995 to October 1998, there were three Prime Ministers, two Deputy Prime Ministers for the Agro-Industrial Complex, and six Ministers of Agriculture. This constant change of personnel significantly diminished the ownership and slowed down the implementation of the policy reforms.

Fourth, Parliament refused to approve two second tranche conditions—to remove the export duties on livestock and skins, and to abolish the 6-year moratorium on land sales—and the GOU did not fulfill a third second tranche condition—to carry out state procurements of grain on a competitive basis through open tenders and/or commodity exchanges in 1997 and 1998.

The Bank and the reformers in the GOU had to regroup. Having to choose between abandoning the project, or renegotiating the second tranche, the Bank decided to accept a less than complete result, and to renegotiate.

A major problem was the lack of a credible, representative forum in which the key domestic stakeholders could reach a consensus on each step of the reform process. Initially, it had been thought that the Institute of Agrarian Economy (part of the Academy of Agricultural Sciences) might play this role, since the Deputy Prime Minister for the Agro-Industrial Complex, who had worked with the Bank to prepare the project, had been head of the Institute.

Eventually, the Inter-Ministerial Commission for Agrarian Reform (IMCAR) came to play this role. Established by resolution of the Cabinet of Ministers in December 1996, it held its first plenary session in May 1997, and played the key role in renegotiating the second tranche conditions in 1998. Now reconstituted as the Presidential Commission on Agrarian Reform (effective February 1999), it includes significant representation from non-governmental stakeholders as well as all levels of government. It is also supported by a secretariat and by an agricultural policy analysis unit.

As a substitute for competitive state procurements of grain, the GOU agreed to privatize 100 out of 545 state-owned grain elevators, these being the critical control point in the grain marketing and distribution system. To compensate for the Parliament's refusal to remove export taxes on livestock and skins, the GOU granted exemptions for the export of skins that are processed abroad and re-imported, thus somewhat mitigating the effect of the tax. Concerning the 6-year moratorium on land sales, the government obtained an opinion from the Ministry of Justice which meant, in practice, abolishing the moratorium for 98 percent of agricultural land. With these agreements, and together with the progress that was achieved in areas where conditionality was fulfilled, Bank management agreed to a waiver and released the second tranche on September 10, 1998, fourteen months later than initially planned.

4. Overall Outcome

Relevance: Were the project's objectives right?

The objectives of the project were **highly relevant** in relation to Ukraine's development objectives of making a transition to a market economy and of increasing the productivity and competitiveness of Ukrainian agriculture. High investment levels in field mechanization and intensive livestock production facilities in the 1970s and 1980s had not increased the productivity of large-scale collective enterprises because the routine covering of enterprise losses had eroded labor incentives and management rewards for containing costs. Central controls also resulted in monopolistic and inefficient marketing systems for agricultural inputs and outputs. Although the GOU officially stopped setting most agricultural input and output prices in 1992, state trading agencies continued to use their control over the supply of inputs to pressure farms to sell their products at low prices. These practices along with export quotas and taxes led to a large decline in the agricultural terms of trade and in rural incomes. Liberalization, privatization, and demonopolization were essential to addressing these problems.

Even with hindsight, OED agrees that the project was a good risk. After his election in mid-1994, President Kuchma had made much progress in stabilizing the economy—in reducing the rate of inflation from more than 3000 percent in 1993 to 64 percent in 1996—and some progress in liberalizing agricultural markets. While there was not a widespread political consensus for pursuing further agricultural reforms, there was a critical mass and a window of opportunity.

Efficacy: Did the project achieve its stated objectives?

The OED mission which visited Ukraine in December 1999 asked interviewees to provide their own ranking of the progress that was achieved under each of the five components of the project, along with the reasons for their rankings. Respondents, both inside and outside the government, gave very similar rankings. Therefore, this report assesses the progress achieved under each component, in descending order, from the most progress to the least progress achieved.

Privatization and demonopolization of agro-industrial enterprises

OED assesses that the greatest progress was made in this component. The State Property Fund (SPF) privatized 3,900 large and medium-scale agro-industrial enterprises by December 1997, far exceeding the second tranche condition of 1,000 enterprises, and 6,592 enterprises by the time of the OED audit mission in December 1999.

As already mentioned, as part of the second tranche negotiations, the GOU agreed to privatize 100 grain elevators as partial compensation for not carrying out state procurements of grain on a competitive basis in 1997 and 1998. The SPF also met this target as of August 1998 and far exceeded the target thereafter. By the time of the OED mission in December 1999, the State Property Fund had privatized 438 out of 545 grain elevators and grain handling facilities.

The GOU Anti-Monopoly Committee also met the second tranche conditions to demonopolize more than 100 AIS regional or national monopoly enterprises during their privatization. In addition, the Anti-Monopoly Committee has also drawn up definitions of anti-competitive and collusive practices (which are now prohibited), and has developed guidelines for the behavior of industry associations to try to prevent components of former monopoly enterprises from colluding and exercising a *de facto* monopoly.

The OED mission raised the concern expressed in the ICR that privatizations which result in control by management and workers seldom restructure or achieve the operational efficiencies which are the ultimate goal of privatization.[11] While interviewees acknowledged these concerns, they also claimed that a broader range of individuals—termed "real investors"—were now purchasing shares from the original shareholders, acquiring ownership, and beginning to restructure the privatized agro-industrial enterprises. They also praised the Bank's persistence in this area, and regarded the privatization of the grain elevators as a good substitute for the original second tranche condition, since state ownership of the elevator system was one the major ways in which the government had previously controlled the marketing of grain.

The OED mission also explored how the State Property Fund has been so successful in achieving and exceeding the privatization targets established under the AgSECAL. Established in 1992, the SPF developed the state privatization program with technical support, among others, from the IMF and the Bank. While the chairperson is nominated by the President and approved by the Parliament, the SPF has its own board (which meets monthly) and is able to operate rather independently of both the President and the Parliament. For administration and other operating expenses, it receives an annual allocation from the Ministry of Finance, as well as 10 percent of proceeds from the privatizations. With competent chairpersons and staff, a well-defined mandate, and adequate financial resources, it appears to have done its job fairly effectively.

Liberalizing international trade in agricultural products.

The progress which the government had made in liberalizing international trade in agricultural products since 1994 continued under the AgSECAL. The government met the first tranche conditions to remove export quotas on grain products, as well as indicative prices for export contracts (which had constituted an implicit export tax). And, when the Parliament refused to remove the export duties on livestock and skins, the government was nonetheless able to grant exemptions for the export of skins that were processed abroad and re-imported, thus somewhat mitigating the effect of the tax. Overall, the producer subsidy equivalent for the agricultural sector increased from –88 in 1994 to +51 in 1997.

However, the GOU announced its intention in the spring of 1998 to impose a 23% export duty on sunflower seeds, which was emerging as the most profitable cash crop in Ukraine. Lobbying in favor of the export tax were domestic crushers and refiners who complained about the increasing exports of sunflower seeds and their inability to compete with foreign competitors. The GOU also argued that this would generate needed revenue, attract foreign investment in the sunflower industry, and increase employment in crushing and refining facilities. With support from the IMF and other donors, and by tying the repeal of this intention to the release of the second tranche, the Bank was able to prevent the imposition of the tax in 1998. However, when the same pressures for this tax materialized in the spring of 1999 (i.e. after the second tranche had been released), the GOU and the Parliament agreed to impose the 23% tax. In addition, the Cabinet of Ministers issued a resolution in October 1999 proposing to eliminate the 20% VAT rebate on the

[11] ICR, p. 5.

export of grain and grain products, which would also be tantamount to introducing an export tax on grain and grain products of 20%. However, this proposal was not implemented in 1999.

Thus, while the GOU has made progress in liberalizing international trade and bringing domestic prices more in line with world prices, it lacks, from time to time, a sufficient political consensus to sustain all the progress which it has made. The farm sector has also failed to expand its output as much as hoped in response to the improved product prices due to the continued weaknesses in the agricultural input and credit markets. At the time of the OED mission, the export tax on sunflower seeds and the proposed elimination of the 20% VAT rebate were being hotly debated. Two senior government officials told the OED mission that they hoped that the IMF would require the removal of the export tax on sunflower seeds as a condition for the release of the next tranche of its EFF loan.[12]

Land reform and farm restructuring

During the preparation and implementation of the AgSECAL, the GOU continued to make slow progress in land reform and farm restructuring towards the development of a privately-owned, productive, and competitive agricultural production system. The first stage of the farm restructuring process—the transformation of state and collective farms into collective agricultural enterprises (CAEs) with ownership of the farm land and assets—was essentially completed by the beginning of the AgSECAL. The second stage of the process—the issuance of land and property shares to qualifying members of each CAE was underway. The third stage—the conversion of individual land and property shares into physical land plots and other farm assets—was just starting.

During the implementation of the AgSECAL, the State Committee for Land Resources (SCLR) completed the second stage of the process on more than 8,500 CAEs, far exceeding the second tranche condition of 2,000 farms. Regarding the third stage, when the Parliament refused to repeal the 6-year moratorium on land sales, the GOU obtained a legal opinion from the Ministry of Justice which meant, in practice, abolishing the moratorium for 98 percent of the agricultural land.[13] Those working with the farm restructuring process confirmed that both the legal opinion from the Ministry of Justice and the public information campaign to inform beneficiaries of the procedures for exchanging land and property shares into land plots and other farm assets did have a major psychological effect in unblocking the third stage of the farm restructuring process. A principal manifestation, they said, has been the rapid growth in leasehold arrangements (perhaps as much as 10% of the total land under production in 1998).

The week before the OED mission to Ukraine in December 1999, the President also issued a decree[14] that was intended to further expedite the third stage of the farm restructuring process. In particular, this decree enhanced the legal status of land share certificates by making it possible for land share certificates to be the subject of a lease, and was expected to further increase the incidence of leasehold arrangements, while at the same time providing legal protections for the

12 The IMF did attach this condition, in January 2000, to the release next tranche of its EFF loan.

13 The Ministry of Justice ruled that only land which had been privatized from state ownership was subject to the moratorium. Therefore, land to be privatized from collective ownership (i.e. from CAEs)—collective ownership being legally a form of private ownership—was not subject to the moratorium.

14 "On Immediate Measures to Accelerate the Reform of the Agrarian Sector of the Economy", December 3, 1999.

owners of land share certificates (many of whom were pensioners). As a result, the head of the *rayon* administration in Kagarlyk Rayon informed the OED mission that he now expected to see a complete restructuring of the CAEs in his *rayon*.

Finally, while the GOU issued a regulation providing for the establishment of a single registry of rural and urban land and other real estate (a second tranche condition), this has not yet been implemented. The Bank expects this system to be further developed and implemented under the anticipated Title Registration Project.

Liberalizing domestic agricultural markets

Only moderate progress was made under this component. While the GOU met the first tranche conditions of removing profit margin controls, storage and trade margin controls, and the discriminatory profit taxes on intermediary activities in the agricultural sector, the GOU did not satisfy the second tranche condition of carrying out state procurements of grain on a competitive basis in a manner that facilitated private sector participation.

One interpretation of this failure is simply that the amount of time required to establish workable institutional mechanisms for the government to carry out state procurements of grain on a competitive basis was greater than anticipated. The government has facilitated the establishment of commodity exchanges in each *oblast*, and the Cabinet of Ministers has passed several resolutions requiring all government agencies to procure grain on commodity exchanges, but it has not yet effectively implemented these resolutions. A less charitable interpretation is that the government failed to effectively address the farm debt problem—the roughly US$1.5 billion which farmers owe the GOU for inputs delivered in previous years. Defying central government edicts, *oblast* governors have often directed regional agricultural administrators to freeze grain movements until farmers have repaid a given year's advances in the form of grain deliveries. The least charitable interpretation is that the government is fundamentally unwilling to relinquish its control over the domestic marketing of grain products. According to this view, by establishing a new government parastatal, Khlib Ukrainy,[15] with the mandate of collecting (seizing) produce from farms for payment of taxes, pension liabilities, inputs and working capital, the government is deliberately maintaining the old system of state orders under a different guise.

Whatever the reasons, the OED mission regards the failure of the government to foster well-functioning and transparent markets for agricultural inputs—a fact which no one denied during the OED mission to Ukraine[16]—as the most significant failure of the AgSECAL. This failure has been particularly costly in terms of the ultimate objectives of increasing input flows to farmers, expanding agricultural output, and improving rural incomes and employment.

This failure has also highlighted a range of issues which the GOU needs to address in order to achieve its stated objectives of establishing a market-based agricultural system in Ukraine:

- *Reducing the role and the size of the public sector in the agricultural economy.* The government met the AgSECAL limitations on state purchases of agricultural products in name only. While the administrative budget of the Ministry of Agriculture was

[15] Freely translated, "Bread of Ukraine".

[16] Indeed, one interviewee described the agricultural inputs market in the spring of 1999 as "wild" and "barbaric".

approximately Hrv 400 million (about US$100 million) in 1999, the consolidated budget (including expenditures on input supply programs) was approximately Hrv 4 billion.

- *Resolving the farm debt crisis.* The existing farm debt to the government is probably not collectible. The government needs to write down the debt, but without also sending signals to farmers that it will not collect future debts as well.
- *Clarifying the legal priority in the collection of farm debts.* The private sector is understandably less willing to supply agricultural inputs if various government agencies can claim legal priority in collecting farm debts incurred for whatever reason—whether taxes, pension liabilities, or agricultural inputs.
- *Achieving sufficient policy stability to encourage private sector participation in agricultural input marketing.* The government needs to take explicit measures, such as approving the PGF, in order to demonstrate to the private sector a credible commitment to sustaining its policy reforms.

Establishing new roles for the government

At appraisal, the GOU stated that it would attempt to restructure government institutions in the agro-industrial sector away from their past roles as a direct manager of agricultural enterprises and towards new roles as a market facilitator in a market-based agricultural system, in particular, as a provider of timely agricultural market information, policy making, and sub-sectoral analysis.

The GOU has made little progress in these directions. As discussed immediately above, the government has not significantly changed its structure for managing the AIS. Nor has it significantly developed new functions consistent with that of a market facilitator. With specific respect to providing timely agricultural market information, the Bank and the GOU mutually agreed to drop this component early in the implementation of the AgSECAL. Bank management argued that the Bank could support the development of this function more effectively in the Agribusiness Development Project that was under preparation. Subsequently, however, the preparation of this project was put on reserve.

Efficiency: Was the project cost-effective?

The Bank did not calculate an economic rate of return for this project, at appraisal or at completion, since it is not meaningful to do so for a structural adjustment project. However, it is meaningful to assess the effectiveness of structural adjustment loans, like the AgSECAL, in advancing policy reforms in a situation like Ukraine in which there is a limited political consensus for reform.

The AgSECAL has clearly had some impact on the direction and extent of reform in Ukraine. First, the preparation of the AgSECAL provided an overall framework for policy reform in Ukraine. It identified five major reform areas and identified specific actions to advance the reform process in each of these areas. Even though the AgSECAL is now completed, this still remains the overall framework for policy reform in Ukraine.

Second, the GOU met all the first tranche conditions to the satisfaction of the Bank's Board before the release of the first tranche. While the government did not backtrack during the life of the AgSECAL, it has effectively backtracked on one first tranche condition since then—levying the export tax on sunflower seeds—and has considered backtracking on a second—eliminating the 20% VAT rebate on the export of grain and grain products.

Third, while the GOU did not meet three of the second tranche conditions, it was able to mitigate the Parliamentary opposition to two of these, and provide a partial substitute for the third. The renegotiation of the second tranche provided the opportunity to explore alternative ways of advancing the reforms.

On the other hand, the GOU often blocked the achievement of reform goals outside the framework of conditionality. While technically the government may have eliminated state orders for agricultural products, it effectively re-introduced this old system by requiring farmers to repay their debts to the state in the form of grain.

Conditionality is clearly no substitute for ownership. If there is genuine ownership of the reforms, the main function of conditionality is to enhance the credibility of the government's commitment to the reform process. Where there is limited ownership, as in Ukraine, there are clearly limits to the effectiveness of conditionality. Nor does conditionality appear to be an effective way of generating a greater degree of ownership for the reforms because the short-term costs are more evident than the long-term benefits, at least during the relatively short life of an AgSECAL.

Conditionality is also a rather blunt instrument. Since the proceeds of the loan are provided to the Ministry of Finance, rather than to the agency responsible for implementing the reform program (in this case the MAIC), its effectiveness also depends upon the unity of the executive branch of the government (quite apart from the Parliament). If one part feels that it is experiencing all the pain, while another part is experiencing all the benefits, the first part will clearly be less enthusiastic about implementing the reforms.

5. Institutional Development and Sustainability

This audit rates the institutional development impact of the project as **modest** and the sustainability of the project's achievements as **uncertain.**

Both these assessments involve weighing the relative success of the five components of the project. Ukraine has made much institutional progress in some areas—such as farm restructuring, and the privatization and demonopolization of agro-industrial enterprises—but significantly less in other areas—such as agricultural marketing and restructuring state agricultural institutions. Yet, even in those areas where much progress has been made, few agricultural enterprises that have been privatized have yet achieved the operational efficiencies which are the ultimate goal of privatization.[17] [18]

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[17] See ICR, p. 5, and "Ukraine Agribusiness Development: Ownership, Management, Performance," Carana Corporation, September 1998.

[18] Both the Bank's regional operations and the borrower rate the institutional development impact as "substantial" rather than "modest". Obviously, this is a close call, given that the project achieved considerable institutional reform in three out of five project components. However, on balance, OED rates the institutional development impact as modest because very little was achieved in two major areas by the time that the project closed.

With respect to sustainability, many interviewees argued that the reforms which have been achieved, such as privatization and demonopolization, are by their very nature irreversible. The direction of reform is clear, they said, and the reforms will continue because it is no longer possible to go back to the former system. On the other hand, OED agrees with the ICR that the government still has to address some significant issues—particularly, the size of the public sector, the fiscal deficit, and the farm debt problem—before sustainability can be assured.[19] Some progress that was achieved in international trade has now been reversed. The progress achieved in agricultural marketing was tortuous, and could also easily regress with a slight change in the balance of political power.

6. Borrower and Bank Performance

Borrower Performance

OED agrees with the ICR that the borrower performance was **unsatisfactory**. The fundamental problem was the limited political consensus for reform. With some branches of the government (such as Parliament) openly opposing reforms and refusing to approve key second tranche conditions, and with other elements of the government (such as local governments) delaying and blocking the implementation of other reforms, even those who were committed to the reforms could only proceed slowly and with difficulty. Frequent changes of key personnel also diminished ownership of the project and slowed down the implementation of the reforms. While the GOU overcame some roadblocks (such as the export tax on skins and the moratorium on land sales) in a roundabout way, it failed to achieve the key AgSECAL objective of procuring agricultural products on a competitive basis.

Bank Performance

The Bank devoted substantial resources to this project. It conducted a large ESW program—higher than Bank-wide averages, but in line with averages in the ECA region—to lay out an appropriate reform agenda and broaden the constituency of reformers in Ukraine. Preparation to appraisal required four times the resources (staff weeks and US dollars) than originally expected. Supervision intensity was higher than Bank-wide averages in terms of staff weeks per project per year, but lower in terms of US$ per project per year. (See Table 2.)

OED rates the overall Bank performance as **satisfactory**. The sector work was of high quality, and established a coherent framework for policy reform in Ukraine. However, at the beginning, Bank staff did not fully understand, or know how to deal with, the wide range of vested interests within the central government, the AIS, and regional administrations.

The Bank was correct in being cautious up to mid-1994, when a political consensus for reform was lacking. After the election of President Kuchma, the Bank—along with most donors and the reformist groups in the country—overestimated the momentum for reform. The Bank accurately identified at appraisal the two major risks—domestic political opposition and a weak domestic capital market—which seriously hindered the achievement of project's objectives.

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[19] ICR, pp. 12-13.

With hindsight, the Bank should probably have taken the Pre-Export Guarantee Facility to the Bank's Board in tandem with the AgSECAL, and maybe the Government's approval of the PGF should have been a first or second tranche condition of the AgSECAL. While the concurrent implementation of the PGF would likely have supported the market liberalization objectives of the AgSECAL, it is impossible to say how the Government would have reacted to the Bank's tying the two loans together. Maybe the Government would have rejected both loans.

Even if senior members of the government had continued to provide political commitment and cover for the reform process, the Bank underestimated the amount of time required to implement institutional reforms in each of the five areas. It was unrealistic to expect the GOU to achieve all the second tranche conditions in a six-month period. However, the Bank was flexible in its approach to supervision. The Bank consciously redirected its efforts from restructuring the Ministry of Agriculture to strengthening the Inter-Ministerial Committee on Agrarian Reform and its policy-making function, among other things, by utilizing funds from the Bank's Strategic Compact to build up the capacity of IMCAR secretariat and the policy analysis unit. The Bank decided to accept a less than complete result, rather than abandon the AgSECAL at the second tranche, and thereby accomplish more (such as the demonopolization of grain elevators) than would otherwise have been accomplished.

7. Lessons

The following are the principal lessons arising from this project:

(1) ***Where there is a limited political consensus for reform, as in Ukraine, there are limits to the effectiveness of sector adjustment loans, and their related conditionalities, in advancing the reform agenda.*** In addition to high-quality sector work, the Bank must broaden the range of partners and stakeholders involved during project preparation in order to enhance the domestic ownership of the reforms. While this will take more time during preparation, it will pay off during implementation and improve the outcome and sustainability of such projects.

(2) ***The process of policy and institutional reform is just as important as the substance of the reforms in achieving sustainable outcomes.*** A major problem between the first and second tranches was the lack of a credible, representative forum in which the key domestic stakeholders could reach a workable consensus on each step of the reform process. Eventually, the Inter-Ministerial Commission for Agrarian Reform came to play this role. Now reconstituted as the Presidential Commission on Agrarian Reform, it includes significant representation from nongovernmental stakeholders as well as all levels of government.

(3) ***It is important to be realistic about the amount of time required to implement the institutional reforms that undergird the various policy reforms.*** Not only do institutional reforms require continuous consultation concerning the details of the reforms, with key stakeholders in credible and representative forums, they also require changes in laws, regulations, and procedures in order to become effective.

(4) ***In order for the private sector to become the major supplier of agricultural inputs, the government needs to take explicit measures to demonstrate to the private sector a credible commitment to maintaining the policy reforms.*** This includes reducing the role and the size of the public sector from a direct participant to a market facilitator, clarifying the legal priority in the collection of farm debts, and actively resisting policy reversals such as the export taxes on agricultural commodities.

Table 1. Other Project Data

Project	*Loan amount*	*Present status*
Rehabilitation Loan	US$500 million	Completed June 1996
Seed Development Project	US$32 million	Effective July 1996
Pre-Export Guarantee Facility	US$120 million	Approved by Board February 1997, not approved by Ukrainian Parliament, and cancelled by the Bank in 1999
Title Registration Pilot	US$50 million	Under preparation
Rural Finance Pilot	US$25 million	Under preparation
Agribusiness Development Project	US$20 million	Cancelled by the Bank in 1999

Table 2. ESW and Supervision Intensity

	Rural	*All sectors*
ESW (ESW staff years as % of total staff years classified under "client services")		
Ukraine, ESW, FY93-98		21.56
ECA, FY93-98		22.54
All regions, FY93-98		19.31
Supervision Intensity (Staff weeks per project per year)		
AgSECAL	29.0	
Ukraine, FY97-98	30.8	28.4
ECA, FY97-98	22.3	22.8
All regions, FY97-98	18.4	18.9
Supervision Intensity (US$ per project per year)		
AgSECAL	48,450	
Ukraine, FY97-98	72,017	79,984
ECA, FY97-98	61,746	63,159
All regions, FY97-98	50,976	52,783

Source: World Bank, Corporate Resource Management

Annex A: Basic Data Sheet

AGRICULTURE SECTOR ADJUSTMENT LOAN (LOAN 4103-0-UA)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual*	*Actual as % of appraisal estimate*
Total project costs	300	300	100%
Loan amount	300	300	100%
Cofinancing			
Cancellation	0	0	0%
Date physical components completed	N/A	N/A	
Economic rate of return	N/A	N/A	
Institutional performance			

Cumulative Estimated and Actual Disbursements

	FY97	*FY98*
Appraisal estimate (US$M)	$300	$0
Actual (US$M)	$150	$150
Actual as % of appraisal	50%	--
Date of final disbursement:		September 10, 1998

Project Dates

	Original	***Actual***
Identification	March 1995	March 1995
Preparation	June 1995, November 1995, and February 1996	June 1995, November 1995, and February 1996
Appraisal	May 1996	June 1996
Negotiations	August 1996	August 1996
Letter of Development Policy	September 1996	September 14, 1996
Board presentation	October 1996	October 17, 1996
Signing	October 1996	November 14, 1996
Effectiveness	October 1996	December 27, 1996
First tranche release	October 31, 1996	December 27, 1996
Second tranche release	June 30, 1997	September 10, 1998
Loan closing	December 31, 1997	December 31, 1998

Staff Inputs

	Weeks	US$(000)	Weeks	US$(000)
Preparation to appraisal	34.7	78.4	150.2	345.0
Appraisal, negotiations through Board approval	36.9	52.0	39.1	53.9
Supervision/tranche release	52.0	85.9	53.1	82.8
Completion	16.7	28.5	4.9	14.1
Total	140.3	244.8	247.3	495.8

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating	Rating trend	Types of problems
Through appraisal	1/95	6	16	Agricultural economists, Fin. specialist, Guar. specialist, Legal specialist, GIS specialist			
	5/95	5	18	Agricultural economists, Market specialist, Guar. specialist			
	9/95	5	14	Agricultural economists, Legal specialist, Guar. specialist			
	2/96	3	12	Agricultural economists			
	4/96	3	6	Agricultural economists			
Appraisal through Board approval	N/A						
Supervision	2/97	1	6	Agricultural economist	S	S	
Supervision	6/97	4	9	Agricultural economists, agricultural development specialists	U	S	Slow progress on reform regarding trade liberalization, removal of land sale moratorium, and state procurements
Supervision/ tranche release	2/98	4	12	Agricultural economists, agricultural development specialists	S	S	Lack of reform on land tenure; farmer debt to GOU and payment in kind
Supervision/ completion	10/98	4	9	Agricultural economists, agricultural development specialists, monitoring specialist	S	S	

Annex B: List of Topics for Interviews

Background

Chris Gerrard is a senior evaluation officer with the Operations Evaluation Department (OED) of the World Bank. OED is an independent department of the World Bank Group that reviews, after their completion, all Bank lending operations such as the Agriculture Sector Adjustment Loan to the Republic of Ukraine.

From the point of view of the World Bank, the major objective of this project performance audit is to learn as much as possible from the experience of this project in order to improve the quality of similar projects both in Ukraine and in other countries in the future. Soliciting the views of the Government of Ukraine, its agencies, and other stakeholders is a vital part of this process.

Interviews

Each interview will last approximately one hour, or perhaps slightly longer, but only if you can spare the time. The purpose for providing you with the following list of topics is to help you prepare for the interview.

Project Components

The Agriculture Sector Adjustment Loan had five major components, each of which may be considered one objective of the project:

1. To liberalize domestic agricultural markets, among other things, by implementing more competitive government procurement methods and by removing the remaining profit and price margins in the grain and bread sectors;
2. To liberalize international trade in agricultural products, among other things, by removing grain export quotas and by discontinuing indicative prices on trade contracts;
3. Land reform to encourage the development of viable farm management units by establishing the legal basis for division and privatization of large farms;
4. To privatize, demonopolize, and thereby to encourage market entry in the production, processing, and marketing of agricultural inputs and outputs; and
5. To restructure state agricultural institutions from the past role of a direct manager of agricultural enterprises to the new roles of market facilitator and provider of agricultural information in a timely manner.

The agriculture sector adjustment loan became effective in December 1996. In your opinion, which objective was achieved to the greatest extent in 1997 and 1998? Which objective was achieved to the least extent? Please rank the achievement of the five objectives from one to five, where "one" represents the most successful and "five" represents the least successful.

Reasons

Please provide some reasons why you consider the achievement of some objectives more successful than other objectives. These reasons might include:

- Factors, both positive and negative, that were external to the project
- Factors relating to the design, or substance, of the policy reforms associated with the project
- Factors relating to the implementation of these policy reforms
- Factors relating to the role of the World Bank
- Unanticipated events and consequences

Lessons of Experience

With hindsight, now that the loan has been closed, what are the major lessons of experience that you derive from the project? What was done well at various stages of the project? What should have been done better at various stages of the project?

- Identification and preparation
- Appraisal
- Negotiations
- Approval (by both parties)
- Implementation by the Government of Ukraine
- Supervision by the World Bank
- Monitoring and evaluation

The Future

Please assess the sustainability of the various policy reforms that were achieved in relation to the project as "likely", "uncertain", or "unlikely".

Please provide some reasons for your assessment. These reasons might include:

- The commitment of the Government of Ukraine
- The economic viability of the reforms
- The relative benefits and costs of the reforms
- The institutional development associated with the reforms
- The human resource capacity building associated with the reforms
- The participation of important or influential stakeholder groups in the reforms

Annex C: Principal Persons Consulted by OED Audit Mission to Ukraine, December 6-10, 1999

Government of Ukraine

Volodymyr Vederechko
Cabinet of Ministers of Ukraine
Department of Strategy for Development of Agro-industrial Complex

Roman M. Shmidt
People's Deputy of Ukraine
Member of Committee on Agrarian Politics and Land Relationships

Volodymyr V. Demyanchuk
Head of Secretariat, and
Advisor to Vice Prime Minister of Ukraine
Commission for Agrarian Policy of the President of Ukraine

Volodymyr Artiushyn
Team Leader
Agricultural Policy Analysis Unit
Commission for Agrarian Policy of the President of Ukraine

Volodymyr Noha
Agricultural Analyst
Agricultural Policy Analysis Unit
Commission for Agrarian Policy of the President of Ukraine

Don A. Van Atta
Advisor to the Secretariat
Commission for Agrarian Policy of the President of Ukraine

Marina V. Netesa
Deputy Head
Main Department of Foreign Credits, Investments, and Leasing
Ministry of Agro-industrial Complex of Ukraine

Sergiy M. Karpenko
Principal Specialist
Main Department of Foreign Credits, Investments, and Leasing
Ministry of Agro-industrial Complex of Ukraine

Anatolij D. Jurchenko
Head of Land Relations
State Committee of Ukraine on Land Resources

Volodimir V. Tchornoivanov
Head of Department

State Property Fund of Ukraine

Victor Sinchenko
Head of Administration
Kagarlyk Rayon
Kyiv Oblast

Non-Governmental Organizations

Nikolay P. Barabach
Executive Director
Ukrainian Association of Farmers

Leonid Kozachenko
President
Ukrainian League of Entrepreneurs of Agro-industrial Complex

Others

Gregory Jedrzejczak
Resident Representative
The World Bank, Kiev

Aleksander Kaliberda
Economist
The World Bank, Kiev

Oleg Belash
Project Officer, Agriculture
The World Bank, Kiev

Ken Lyvers
Agriculture and Agribusiness Specialist
U.S. Agency for International Development

Conrad F. Fritsch
Team Leader/Project Manager
RONCO Consulting Corporation
Agricultural Land Share Project

Peter Sochan
Senior Policy Coordinator
The Citizens Network for Foreign Affairs, Inc.

Annex D

Borrower Comments

(Unofficial translation)

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June 30, 2000
No. 37-23-1-7/5383

The World Bank Office in Ukraine

According to Instruction of the Cabinet of Ministers #22 dated June 29 the Ministry of Agricultural Policy of Ukraine jointly with the Ministry of Economy of Ukraine, Ministry of Finance of Ukraine and the Commission for Agrarian Policy under the President of Ukraine have reviewed AGSECAL Audit Report and inform you of the following.

Agricultural Sector Adjustment Loan was instrumental in achieving a considerable progress in the development of agricultural sector in Ukraine. The AGSECAL Tranche II conditionalities were aimed at achieving macroeconomic stability in agricultural sector, augmenting the efficiency of the private sector and restructuring the state sector, reducing the distortions on agricultural markets, and further increasing the volume of agricultural production and export.

After studying the results of the draft Agricultural Sector Adjustment Loan Audit Report we propose the following:

1. To leave the wording of the Project implementation evaluation related to "Impact on institutional development" Section (page 5 of the Ukrainian version of the Audit Report) as proposed in the Implementation Completion Report (ICR) of April 27, 1999. In the ICR, the impact on institutional development was assessed as "substantial", and in the Audit Report – as "modest". It should be noted that in reality during the Project implementation a substantial institutional progress was achieved only in some areas, namely in farm restructuring, privatization and demonopolization of agricultural enterprises. At the same time, these changes made reforms irreversible, including the irreversibility of changes in such areas as the restructuring of state agricultural institutions and the marketing and sale of agricultural products. In these (latter) areas the progress was insignificant during the Project implementation.

To date these changes can be observed. For instance, the Ministry of Agro-Industrial Complex has been reformed into the Ministry of Agricultural Policy of Ukraine, which included a number of former state committees. The Ministry is transferring to function based activity instead of operating on administrative and sector principles. The Ministry organizational structure has now a separate department for reforming the agricultural sector. Currently efforts are underway to set up a network of advisory service, which will provide agricultural producers with different types of information and advice.

Presidential Decree #767/2000 "On Actions to be taken to ensure the formation and functioning of agrarian market" was issued on June 6, 2000. The Decree provides for actions to develop agricultural market infrastructure and promote transparency, purchasing agricultural products and food for the state and selling them from the state reserves only on competition basis, not to allow executive power authorities to interfere with business activities of entrepreneurs, and to avoid unlawful prohibitions to sell agricultural products, to streamline the custom procedure for agricultural products and goods in order to increase export.

By a separate Resolution the Cabinet of Ministers prohibited the central and local legislative bodies to interfere into businesses in rural areas.

On February 11, 2000, the Prime Minister of Ukraine and representatives of public and business entities signed the "Cabinet of Ministers Address to the Subjects of Entrepreneurial Activity and Agricultural Producers", in which non-interference of the state into production and commercial activities of businesses was officially declared.

Draft Laws are being prepared on introducing livestock auctions, creating wholesale fruit and vegetable markets, and other institutions which are inherent features of agricultural sectors in developed countries.

2. As for the evaluation in the section "Borrower's activity", it would be expedient to study the whole range of World Bank evaluation scale and to clear up the following misunderstanding.

In par. 13 on page V and in par. 38 on page 13 of the ICR in English, the Borrower's activity was assessed as "unsatisfactory". At the same time, Table 1D in Part II of the ICR and page 5 of the Draft Audit Report state that the ICR evaluated the Borrower's activity as "deficient". The Draft Audit Report proposed the "unsatisfactory" mark.

In any case the term "deficient" more adequately characterizes the actions of the Government of Ukraine in implementing the Project as the major part of unfulfilled conditionalities lie within the sphere of competence of the Verkhovna Rada (the Parliament). Only this year it was possible to constitute a capable of functioning majority in the Verkhovna Rada. Besides it should be noted that the appointment of Vice Prime Minister S. Tyhypko considerably streamlined the implementation of the Project. In particular, on his initiative the Inter Ministerial Commission for Agricultural Policy (later on – the Commission for Agrarian Policy under the President of Ukraine) was created, which played an essential role in meeting agricultural sector reform conditionalities.

On the whole the Ministry believes that the Project implementation efforts did not contradict the Government of Ukraine Action Plan to reform the agricultural sector and that the objectives of the Project were achieved.

R. M. Shmitd

Deputy Minister

Annex D

Borrower Comments in Ukrainian

МІНІСТЕРСТВО АГРАРНОЇ ПОЛІТИКИ УКРАЇНИ
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30.06.2000 № 37-23-1-7/5383
На № ____________ від ____________

Представництво Світового банку в Україні

Згідно з дорученням Кабінету Міністрів України від 29 червня №інд.22 Міністерство аграрної політики України разом з Міністерством економіки України, Міністерством фінансів України та Секретаріатом Комісії з питань аграрної політики при Президентові України розглянули Аудиторський звіт по Проекту структурної перебудови сільського господарства та повідомляє.

Позика на структурну перебудову галузі сільського господарства сприяла значному прогресу в розвитку сільського господарства України. Заходи, які передбачали надання другого траншу позики, були направлені на макроекономічну стабільність в сільському господарстві, на підвищення ефективності діяльності приватного сектора і перебудову державного, на зменшення деформацій на ринках сільськогосподарської продукції, на подальше зростання обсягів сільськогосподарського виробництва і експорту.

За результатами вивчення проекту Аудиторського звіту про виконання Проекту структурної перебудови сільського господарства пропонуємо:

1. Залишити оцінку виконання Проекту по *пункту "Вплив на інституційний розвиток"* (стор.5 української версії проекту Аудиторського звіту) у редакції, запропонованій у Звіті про завершення впровадження проекту (ЗЗВП) від 27 квітня 1999 року. Так, вплив на інституційний розвиток у ЗЗВП був оцінений як "значний" (англ. мовою substantial), а в проекті Аудиторського звіту - як помірний (англ. мовою modest). Слід визнати, що насправді, під час виконання Проекту значний інституційний прогрес було досягнуто лише у деяких сферах, а саме реструктуризації господарств, приватизації та демонополізації агропромислових підприємств. Водночас, ці зрушення зумовили незворотність реформ, включаючи незапобіжність змін у таких сферах, як реформування державних сільськогосподарських інституцій та збут сільськогосподарської продукції, прогрес по яких під час виконання Проекту був незначним.

На сьогодні ці зміни вже спостерігаються. Так, Міністерство агропромислового комплексу реформовано у Міністерство аграрної політики України, до якого увійшли ряд колишніх державних комітетів. Міністерство переходить з адміністративно-галузевого принципу роботи на функціональні засади діяльності. У структурі міністерства утворено окремий департамент з реформування сільського господарства. Нині проводиться робота над розгортанням в Україні мережі дорадчої служби, завданням якої буде надання сільськогосподарським виробникам різноманітної інформацій та консультацій.

Видано Указ Президента України від 6 червня 2000 р. №767/2000 "Про заходи щодо забезпечення формування та функціонування аграрного ринку", яким передбачені заходи по розвитку інфраструктури та забезпеченню прозорості аграрного ринку, закупівлі сільськогосподарської продукції та продовольства для державних потреб та її реалізації з державного резерву лише на конкурентних засадах, недопущення втручання органів виконавчої влади у господарську діяльність підприємців та неправомірної заборони реалізації сільськогосподарської продукції, спрощення порядку митного оформлення сільськогосподарської продукції та продовольства з метою збільшення обсягів їх експорту.

Окремою постановою Кабінет Міністрів України заборонив центральним та місцевим органам законодавчої влади втручатися у діяльність суб'єктів господарювання на селі.

Прем'єр-міністром України та представниками громадських і бізнесових структур 11 лютого ц.р. підписано "Звернення КМУ до суб'єктів підприємницької діяльності та сільгосптоваровиробників", в якому офіційно задекларовано невтручання держави у виробничу та комерційну діяльність суб'єктів господарювання.

Готуються законопроекти щодо запровадження аукціонів живої худоби, створення оптових плодоовочевих ринків та інших інститутів, притаманних аграрному сектору у розвинених країнах.

2. Щодо оцінки по *пункту "Діяльність позичальника"*, доцільно було б вивчити повну шкалу оцінок Світового банку, а також з'ясувати наступне непорозуміння.

Пунктом 13 на стор. V та пунктом 38 та стор. 13 англійської версії ЗЗВП діяльність позичальника була оцінена як "unsatisfactory", тобто "незадовільна". Водночас, у Таблиці 1D Частини II ЗЗВП та на стор. 5 проекту Аудиторського звіту зазначено, що у ЗЗВП діяльність позичальника була оцінена як "недостатня" (англ. мовою - deficient). Проектом Аудиторського звіту запропонована оцінка "незадовільно" (англ. мовою - unsatisfactory).

У будь-якому разі, оцінка "недостатньо" більш адекватно характеризує дії Уряду України по впровадженню Проекту, оскільки значна частина невиконаних вимог належить до компетенції Верховної Ради, дієздатна більшість у якій, була сформована лише у цьому році. Крім того, не можна не зазначити, що з призначенням на посаду Віце-прем'єр-міністра України С.Л.Тігіпка впровадження Проекту набуло значної впорядкованості. Зокрема, з його ініціативи була утворена Міжвідомча комісія з питань розроблення механізмів координації аграрної політики в Україні (згодом - Комісія з питань аграрної політики при Президентові України), яка відіграла значну роль у забезпеченні виконання умов по реформуванню аграрного сектора.

Вцілому, на думку міністерства, робота по впровадженню зазначеного проекту не суперечила програмі дій Уряду України по реформуванню галузі сільського господарства і цілі, які ставилися в проекті, були досягнуті.

Заступник Міністра **Р.М.Шмідт**

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