Report Number : ICRR12552

IEG ICR Review
Independent Evaluation Group

1. Project Data:		**Date Posted :**	11/30/2006	
PROJ ID :	P054966		**Appraisal**	**Actual**
Project Name :	Private Sector Development Project (APL #1)	**Project Costs (US$M)**	38	2.16
Country:	Ukraine	**Loan/Credit (US$M)**	30	2.2
Sector(s):	Board: PSD - Sub-national government administration (40%), Central government administration (40%), General industry and trade sector (20%)	**Cofinancing (US$M)**		
L/C Number:	L7111			
		Board Approval (FY)		02
Partners involved :		**Closing Date**	12/19/2005	02/09/2006
Evaluator :	**Panel Reviewer :**	**Division Manager :**	**Division :**	
Michael R. Lav	Ismail Arslan	Lily L. Chu	IEGCR	

2. Project Objectives and Components

a. Objectives

To increase the competitiveness of Ukraine's enterprise sector by creating constituencies for reform and demand for restructuring at the enterprise and oblast levels, demonstrating the economic pay -offs resulting from positive restructuring, and providing incentives to oblast administrations to improve the local business environment and reduce the administrative costs of doing business .

b. Components (or Key Conditions in the case of Adjustment Loans):

i. Advisory services to improve management, profitability and productivity of private and privatized enterprises (estimated cost at appraisal, US$24 million, actual cost US$1.05 million).

ii. Managerial and consulting secondments (appraisal, US$11.5 million, actual cost, nil).

iii. Monitoring and project administration (appraisal, US$1.38 million, actual cost, US$0.81 million).

iv. Assistance to the Ukrainian Government to provide incentives for oblast officials to improve the regulatory environment by introducing performance based incentives into the oblast -level policy process (appraisal US$0.82 million, actual cost nil).

c. Comments on Project Cost, Financing, Borrower Contribution, and Dates

The project cost US$2.16 million financed by the Bank loan (which was originally US$30 million, of which US$27.9 million was cancelled). None of the US$8 million in counterpart financing was provided . The project was appraised February 2001, approved by the Board on March 28, 2002, made effective on April 2, 2003, and closed on February 9, 2006, 2 months behind schedule.

3. Relevance of Objectives & Design :

The relevance of the project's objectives and design is rated negligible .

The project was conceived in 1998 and described in the FY99 CAS Progress Report as the first component (planned for FY01) of an Adaptable Loan Program to support post-privatization restructuring through management training and education. The FY01 CAS specifies this project as an FY02 project with the objective of supporting Government efforts to develop entrepreneurial and managerial capacity for SMEs, under which participating local authorities and businessmen would work together to improve the regulatory environment and the utilization of idle capacity by small and medium enterprises . Conceptually, the PSD project was seen to complement the PAL operations proposed in the FY01 CAS, but the CAS itself does not explicitly make this linkage.

Despite its inclusion in the FY99 CAS Progress Report and the FY01 CAS, the PSD project was not relevant for Ukraine as an FY02 project because of several reasons. Most important, the private sector was already growing rapidly and the kind of management training to be supported by the project was not needed . Therefore, the relevance of the project's objective was negligible .

Even if the objective had been relevant, the project's design by itself would have made the project of low relevance. There was considerable resistance in the government to using funding from the World Bank through the government budget to pay for consultants to engage in private sector management training, partly because there were large amounts of bilateral grant funding available for these purposes. This resistance was a major reason why the Borrower failed to provide counterpart funds needed for the project, an important indication of lack of ownership. (The fact that the project had to be approved by special procedures rather than the normal Parliamentary approval was an early indication of this lack of ownership.)

Lack of ownership was also evident in continuing disputes which plagued the project. There were differences between the Ministry of Finance and State Committee on Regulatory Policy and Entrepreneurship (SCRPE), the agency responsible for project implementation, over procurement rules which took a long time to resolve, and then, only with intensive Bank supervision. There were also differences between SCRPE and the Ukrainian Center for Enterprise Restructuring and Private Sector Development (UCER) which was to provide consulting services specified in the project. The new SCRPE management appointed shortly after the project was approved introduced cumbersome decision-making and reporting requirements for consultants and for UCER, so that SCRPE's role changed from policy dialogue and overall supervision which was envisaged when the project was formulated, to day-to-day implementation, responsibility for which was to have resided with UCER. Thus, the project design became even less relevant during implementation.

4. Achievement of Objectives (Efficacy) :

The objectives of the project were not achieved and efficacy was negligible.

5. Efficiency :

Although the project net of cancellations did not cost much, its lack of achievement of objectives implies very poor efficiency. Further, approximately US$1 million was spent in project preparation and supervision, which turned out to be a waste of World Bank budget resources.

6. M&E Design, Implementation, & Utilization:

The monitoring and evaluation design as proposed in the PAD would have been relevant had the project been relevant. In the event, the M&E system (along with the rest of the project) was not useful.

7. Other (Safeguards, Fiduciary, Unintended Impacts--Positive & Negative):

There appear to be no fiduciary or safeguard issues.

8. Ratings:	ICR	ICR Review	Reason for Disagreement /Comments
Outcome:	Highly Unsatisfactory	Highly Unsatisfactory	
Institutional Dev.:	Negligible	Negligible	
Sustainability:	Highly Unlikely	Highly Unlikely	
Bank Performance:	Unsatisfactory	Unsatisfactory	
Borrower Perf.:	Highly Unsatisfactory	Highly Unsatisfactory	
Quality of ICR:		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

9. Lessons:

1. By the time this project was formulated and approved, the private enterprise sector in Ukraine was growing rapidly and management training of the sort to have been provided by the project was not needed. Therefore, the project was not synchronized with the needs of the economy. It is important that project cycles need to be closely aligned with opportunities and needs of the economy.
2. Borrower ownership is essential for project success. Broad-based consensus building is essential before proceeding with projects with broad objectives. The lack of support for this project, with consequent implementation delays, can be traced in part to this lack of consensus building. The fact that the Borrower had to approve the project by special procedures rather than the normal parliamentary process should have been an important sign of lack of ownership.
3. The Bank should seek to promote the use of bilateral and other grant aid where this is available for training programs rather than seek to have clients borrow from the Bank to finance these activities.

10. Assessment Recommended? ○ Yes ● No

11. Comments on Quality of ICR:

The ICR is clearly written and provides a cogent analysis of why the project failed, both in terms of the broad changes in the economy as well as detailed descriptions of the lack of ownership and infighting among agencies. The lessons developed in the ICR are most appropriate .