ICR Review
Operations Evaluation Department

Report Number : ICRR10945

1. Project Data:		Date Posted :	06/21/2001	
PROJ ID :	P055988		Appraisal	Actual
Project Name :	Poland Wholesale Markets Project II (Lublin)	Project Costs (US$M)	19.3	22.2
Country:	Poland	Loan/Credit (US$M)	11.1	10.5
Sector(s):	Board: RDV - General industry and trade sector (100%)	Cofinancing (US$M)	0	0
L/C Number:	L4397			
		Board Approval (FY)		99
Partners involved :		Closing Date	11/30/2002	06/30/2001
Prepared by :	Reviewed by :	Group Manager :	Group:	
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2. Project Objectives and Components

a. Objectives

"The project's primary objective is the construction of a commercially self -sustaining urban wholesale market for the greater Lublin area, complete with associated physical infrastructure ". (Project Appraisal Document)

b. Components

There was only one component: "Development of market facilities and site infrastructure ": this consisted entirely of construction works, including the building of fruit, vegetable and flower provision halls, and services and roads .

c. Comments on Project Cost, Financing and Dates

Project costs were devoted exclusively to funding the civil works . The project was executed by a joint stock company, LGRO, established in 1996, in which the public sector has a majority holding . LGRO is wholly responsible for recovering the investment cost, based on successful commercial operation of the market . There was a delay of almost three years between delivery of the Project Concept Document and loan approval, partly reflecting the Bank's insistence on conducting a Category A Environmental Impact Assessment .

3. Achievement of Relevant Objectives:

Construction works were satisfactorily completed, with 15% cost overrun. The facilities are of "superior quality" (ICR) and comply fully with the Bank's stringent environmental safeguards .

4. Significant Outcomes/Impacts:

The economic rate of return, based on four scenarios of growth in market throughput, ranges from 19 to 25 percent, compared to the 20 percent that was forecast at appraisal . When the ICR was written, the market had only been in operation for three months. Therefore, the *ex-post* economic analysis is based on assumed rather than actual throughput, taking the PAD assumption (20 t/m2 per day), and measuring benefits based on estimated growth rates in throughput that vary between 5 and 15 percent per year.

5. Significant Shortcomings (including non-compliance with safeguard policies):

The financial rate of return is low: the return on total capital is assumed to be only 1 percent in real terms, compared to 12 percent at appraisal. [A communication from the Region indicates that now--9 months since the marketplace entered operation--LGRO is breaking even and able to cover depreciation and interest charges; but its cash flow is not yet large enough to cover principal payments, although the first of these is not due until March 2004]. Four factors initially reduced the commercial viability of the marketplace . First (and most important), "The competition from European supermarkets expanding in Poland was underrated, competition which is now very substantial " (ICR). Second, the economic growth of the south -east was weaker than expected . Third, import restrictions imposed by Ukraine have substantially depressed market throughput . Fourth, local authorities were slow to enforce laws and regulations designed to contain "primitive" [informal] markets in Lublin, further removing business from the new wholesale market. Since marketplaces of this type combine the aspects of private and public goods it could be argued that, while management of the facility should be private, the investment cost should be borne jointly by private and public agencies. It was probably unreasonable to expect LGRO to be solely responsible for recovering the investment cost. Government has failed to shoulder the investment burden and has helped undermine the commercial viability of LGRO through delays in extending a loan guarantee and in enforcing regulations .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	Although physical goals were fully achieved, the remaining doubts about the operation's commercial viability suggests that a rating of moderately satisfactory is appropriate.
Institutional Dev .:	Substantial	Modest	In the ICR, the section on institutional development impact refers to outputs (seminars and meeting organized), rather than outcomes. It is assumed that the project will provide "impetus towards the formation of farmers' marketing cooperatives"; but this is peripheral. The real test is whether LGRO and wholesale marketing in general have become more efficient as a consequence of the project: there is no evidence of this in the ICR.
Sustainability :	Likely	Non-evaluable	Too early to call: the trading environment is not promising but on the other hand the executing agency is energetic and creative and may manage to raise cashflow by enough to begin paying back principal in 2004.
Bank Performance :	Satisfactory	Unsatisfactory	OED rates quality at entry as low, owing to the absence of co-financing of investment costs by private and public sectors. Also, although the failure to forsee the extent of competition from foreign supermarkets may have been plausible when the project was conceived (the PCD was issued in November 1995), it is not clear that this was still the case in September 1998 when the project was approved. In OED's judgment, poor quality at entry outweighs supervision (rated satisfactory by QAG).
Borrower Perf .:	Highly Satisfactory	Satisfactory	The ICR wrongly assumes that the borrower refers only to the executing agency (LGRO), not the government (which is necessarily involved because it guarantees the loan). The government is described in the ICR as being responsible for a delay of 1.5 years in the construction (aggravating the timeliness problem), as well as delaying enforcement of applicable laws and regulations. Therefore, even if LGRO's performance was highly satisfactory, an overall rating of satisfactory is warranted.
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

(i) In projects like this where timeliness is of the essence, the bank needs to show the resolve to cancel projects when preparation delays undermine the relevance of the operation; (ii) Wholesale marketplaces combine the features of public and private goods and therefore it is not reasonable to expect private firms to be solely responsible for covering the investment cost; (iii) For projects like this, loan agreements should contain commitments by local authorities to close older wholesale marketplaces once the new facilities are ready for operation; (iv) In rapidly-developing economies, such as Poland in the 1990s, current conditions may not be a reliable guide to future developments: market niches may disappear very quickly.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

This was a hard evaluation to make given that the market had only been in operation for three months when the ICR was prepared. The economic analysis is detailed but the *ex-post* ERR is impossible to substantiate since it is based on PAD assumptions rather than actual data.