



1. Project Data:		Date Posted : 08/13/2001	
PROJ ID: P008795		Appraisal	Actual
Project Name: Romania Agriculture Sector Adjustment Loan	Project Costs (US\$M)	350.00	300.00
Country: Romania	Loan/Credit (US\$M)	350.00	300.00
Sector(s): Board: RDV - General industry and trade sector (39%), General agriculture fishing and forestry sector (28%), Central government administration (14%), Crops (14%), Banking (5%)	Cofinancing (US\$M)	0.0	0.0
L/C Number: L4176			
	Board Approval (FY)		97
Partners involved : None	Closing Date	12/31/1998	12/31/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
Christopher D. Gerrard	Madhur Gautam	Alain A. Barbu	OEDST

2. Project Objectives and Components

a. Objectives
To support a series of agricultural policy reforms that would advance the transition to an agricultural market economy with efficient market incentives, increased private sector entry and competition, and reduced direct government intervention in the agricultural sector. These policy reforms in turn were intended to support broader government objectives including domestic food security, increased rural incomes and employment, foreign exchange generation, and the promotion of efficiency and economic growth.

b. Components
The project supported policy reforms in six areas -- the first three areas comprising the Phase I reforms associated with the first tranche release and the second three areas comprising the Phase II reforms associated with the second tranche release.

- (a) Incentive reforms in agricultural pricing and trade policy
- (b) Agricultural and rural finance
- (c) Land market development
- (d) Cereals market development
- (e) Privatization, restructuring, and development
- (f) Reforming the role of the Ministry of Agriculture consistent with a market-oriented agriculture

c. Comments on Project Cost, Financing and Dates
The loan was designed to provide balance of payments support in two tranches of \$ 200 and \$150 million each. While the first tranche was released on schedule after the completion of the Phase I reforms, the second tranche was progressively delayed, pending the completion of the second phase reforms. The project was restructured in June 2000 into a new second tranche of \$100 million and a third tranche of \$50 million. The loan was closed two years behind schedule in December 31, 2000, without disbursement of the third tranche, primarily due to the lack of an acceptable macroeconomic program.

3. Achievement of Relevant Objectives:
The ASAL was negotiated in early 1997 in an atmosphere of intense macroeconomic pressure, but with high expectations for reform. A coalition of parties had been elected in November 1996 on a platform of accelerated economic reform to address a rapidly deteriorating macroeconomic situation. With hindsight, however, the Bank's assumptions about the level of political support for a fast two-tranche reform program proved optimistic. While the government met all the first tranche conditions regarding agricultural price and trade policy, the government largely failed to achieve sustained and credible incentive reforms, as a result of threatened and actual backtracking after the first tranche release. In spite of massive balance of payments support from the Bank, the IMF, and the EU, the government also largely failed to stabilize the macroeconomic situation. In spite of some significant achievements,

the ICR concurs that the overall outcome is moderately unsatisfactory .

4. Significant Outcomes/Impacts:

- (1) Agricultural and rural finance: Central bank refinancing of agriculture was ended, all subsidies were transparently placed on budget, the level of directed credit declined substantially in real terms, and the credit cooperatives law was modified as agreed .
- (2) Land market development: Conditions aimed at removing legal obstacles to agricultural land sales and leasing were fulfilled on schedule. A 1999 survey demonstrated a marked increase in land transactions .
- (3) Privatization: The ASAL privatization targets were substantially delayed, but ultimately met in full . These delays severely limited the impact of what incentive changes did occur earlier in the ASAL .

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

- (1) Incentive reforms: While significant incentive reforms did occur, many of the reforms have not been credible, their sustainability is in doubt, and they have been undermined by some degree of backtracking during each year of the project.
- (2) Cereals market development: Legislative reforms regarding warehouse receipts, grain grading, and inter-professional associations were delayed . The State Grain Reserves continues to intervene in the cereals market in violation of ASAL agreements.
- (3) Role of the Ministry of Agriculture and Food: The Ministry is still preoccupied with allocating subsidies that benefit favored groups rather than defining a clear role for itself that supports a market -oriented agriculture.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Moderately Unsatisfactory	The text of the ICR rated the outcome marginally unsatisfactory. Three components were satisfactory, while the other three components and the macroeconomic performance were unsatisfactory.
Institutional Dev .:	Modest	Modest	
Sustainability:	Unlikely	Unlikely	
Bank Performance:	Unsatisfactory	Unsatisfactory	
Borrower Perf .:	Unsatisfactory	Unsatisfactory	
Quality of ICR:		Exemplary	

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

7. Lessons of Broad Applicability:

- (1) Given the high-risk political situation, the Bank should have opted for two single -tranche operations (as in neighboring Bulgaria) rather than one two-tranche operation. This would have avoided the need to pre-specify the second tranche conditions at the outset, as well as the difficult decisions to postpone or cancel the second tranche, depending on whether the partial implementation progress was sufficient or not .
- (2) At \$350 million, the Romanian ASAL was too large relative to the size of the agriculture sector . It was the largest of the four adjustment loans to Romania between 1997 and 2000, and the largest ASAL in the ECA region (even larger than Ukraine). Senior Bank management should not have increased it from \$ 250 million to \$350 million shortly before Board approval.
- (3) Generating early positive results, which is important for political sustainability, requires rapid, efficient implementation. For example, the significant delays in the privatization program limited the impact and the sustainability of the initial incentive reforms .

8. Assessment Recommended? Yes No

Why? This would complete a series of four OED audits of agriculture sector adjustment operations in the ECA region, contribute to an OED impact study, and to an anticipated country assistance evaluation in FY 02.

9. Comments on Quality of ICR:

The ICR was an exemplary, intensive-learning ICR. It was complete, well analyzed, and open about the failures of both the Bank and the borrower. The weighting scheme for determining the overall outcome, which included a weight for macroeconomic performance, was innovative and transparent .