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| 1. Project Data: | | Date Posted : 07/30/2001 | |
| PROJ ID: P008616 | | Appraisal | Actual |
| Project Name: Poland First Wholesale Markets Project (Gdansk) | Project Costs (US\$M) | 23.0 | 26.0 |
| Country: Poland | Loan/Credit (US\$M) | 15.9 | 15.9 |
| Sector(s): Board: RDV - General industry and trade sector (100%) | Cofinancing (US\$M) | 0 | 0 |
| L/C Number: L4377 | | | |
| | Board Approval (FY) | | 99 |
| Partners involved : | Closing Date | 07/31/2002 | 07/31/2002 |
| Prepared by : | Reviewed by : | Group Manager : | Group: |
| John R. Heath | Roy Gilbert | Alain A. Barbu | OEDST |
| 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 Gdansk area, complete with attendant physical infrastructure " (PAD, p. 2). The ICR notes that there are two aspects to the development objective : (i) satisfactory construction of the marketplace and associated infrastructure; and (ii) satisfactory financial operation . (Cf Poland Second Wholesale Markets Project [Lublin]). | | | |
| b. Components | | | |
| (with share of total project cost) | | | |
| (i) Development of market facilities and site infrastructure (87%). | | | |
| (ii) Public utilities and services infrastructure (13%) | | | |
| c. Comments on Project Cost, Financing and Dates | | | |
| Project costs were incurred exclusively through financing civil works . The project was executed by a joint stock company, Pomorskie Hurtowe Centrum Rolno-Spozywcze S.A., established in 1995, in which the public sector has a majority holding. PHCRS is wholly responsible for recovering the investment cost, based on successful commercial operation of the market. The three year delay between identification (November 1995) and loan effectiveness (November 1998) substantially reduced the timeliness of the operation . This delay was partly the result of the Bank's insistence on conducting a Category A Environmental Impact Assessment . | | | |
| 3. Achievement of Relevant Objectives: | | | |
| Construction of the marketplace was carried out within budget, within the contractually agreed period, and in line with environmental guidelines. The marketplace has not yet realized its financial objectives, owing to the smaller than expected throughput, which is in turn attributed to the failure of central and local government to enforce trading regulations---specifically, the failure to close two "primitive" markets which are in competition with the new wholesale market. | | | |
| 4. Significant Outcomes/Impacts: | | | |
| The economic rate of return is a satisfactory 12 percent, compared to the 19 percent forecast at appraisal . | | | |
| 5. Significant Shortcomings (including non-compliance with safeguard policies): | | | |
| Only 55 percent of the available space is rented, placing the commercial viability of the marketplace "in serious doubt" (ICR, p. 4). The net operating cashflow (excluding proceeds from commercial loans and land sales) is negative. The actual financial rate of return is 4 percent, compared to an appraisal estimate of 14 percent. "Due to the lack of data, it is not possible at this point to estimate the amount of employment created and, more importantly, the part of this employment that is in fact incremental" (ICR, p. 5). The profitability of the enterprise has been substantially undermined by the competition from Western European supermarkets, the scale of which was underestimated when the project was prepared . 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 PHCRS 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: | Unsatisfactory | Unsatisfactory | |
| Institutional Dev .: | Negligible | Negligible | |
| Sustainability: | Unlikely | Unlikely | |
| 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 foresee 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 July 1998 when the project was approved. In OED's judgment, poor quality at entry outweighs supervision (rated satisfactory by QAG). |
| Borrower Perf .: | Unsatisfactory | Unsatisfactory | |
| 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:

The following lessons also apply to Poland Wholesale Markets Project II (Lublin), the ICR of which was prepared simultaneously. (i) In projects like this where timeliness is of the essence, the Bank should cancel projects when preparation delays undermine the relevance of the operation; (ii) Wholesale market-places 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 market-places once the new facilities are ready for operation; (iv) In rapidly-developing economies, such as Poland's 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:

Adequate coverage of the important topics; but the report is handicapped by the absence of real data, owing to the short period that the marketplace has been in operation. The ICR notes that "It would be extremely difficult to re-estimate the actual benefits [from reduced search, transaction and transport costs] since there has been no overall monitoring of the commercial transactions carried out in the market's halls": the trader survey specified in the PAD was evidently not carried out. The economic analysis is therefore based on the throughput and cost reduction assumptions made in the PAD.