



1. Project Data:		Date Posted : 08/09/2001	
PROJ ID: P008774		Appraisal	Actual
Project Name: Industrial Development Project	Project Costs (US\$M)	334	199.4
Country: Romania	Loan/Credit (US\$M)	175	97
Sector(s): Board: PSD - General industry and trade sector (98%), Central government administration (1%), Banking (1%)	Cofinancing (US\$M)	159	102.4
L/C Number: L3735			
	Board Approval (FY)		94
Partners involved : EIB; EC-PHARE, EBRD, USAID, UK Know-how Fund	Closing Date	12/31/1998	12/31/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
The IDP's objective was to (i) promote the growth of the private sector and create conditions for increases in investments and an effective supply response from viable private industrial enterprises and to increase exports, (ii) stimulate transformation of Romanian credit markets and introduction of safe and sound banking practices, and (iii) advance structural transformation of the enterprise sector through privatization & restructuring .			
b. Components			
The 2 components were (i) a US\$172m credit line (US\$102m for private enterprise investments and US\$ 70m for exporters' pre-shipment finance) lent through participating banks with the apex institution (initially Ministry of Finance and central bank and subsequently the Eximbank) maintaining a revolving fund facility, and (ii) US\$3m technical assistance (later raised to US\$7m) to the Ministry of Industry for industrial restructuring and privatization (subsequently dropped when the IDP was delayed and other donor funds were available) and to the central bank to help improve the accounting, controls and lending of commercial banks .			
The subloans under the credit line were in US\$ at fixed interest rates (LIBOR plus a spread) for (i) up to US\$8m for 2 to 7 year maturities for investment loans and (ii) up to US\$5m and 1 year for export credits.			
c. Comments on Project Cost, Financing and Dates			
The project took almost 3 years to prepare, during which time the government slowly took the initial steps to privatize firms. The staff appraisal report noted the slow pace of privatization but argued that the project would stimulate an early supply response. This appears to have been quite unrealistic: the demand for such credit was over-estimated, and the balance of the loan was cancelled in 2000 after about US\$97m was disbursed.			
3. Achievement of Relevant Objectives:			
The ICR does not present any evidence that the project increased private sector growth or that there was a supply response from the viable industrial sector. The credit line disbursed slowly and the ICR reports that borrowers were remiss in servicing their debts and that the Eximbank (the apex) did not monitor sub-borrower repayments. The ICR acknowledges that the project over-estimated the capacity of participating banks and borrowing enterprises and had focussed too narrowly on providing credit, while ignoring other severe problems that borrowers faced (e.g. inadequate institutions for a market economy).			
Seventy five investment loans for US\$80.4m were made to 55 firms, and US\$12.4m to 23 firms for export finance. Although banks do not classify and provision bad loans adequately, the ICR reports that bad loans were a severe problem.			
Eight of the 13 banks accredited by the central bank participated in the project, but the ICR acknowledges that 4 were inactive, others went bankrupt (Bankcoop) or were merged (Bancorex). Eximbank and 3 participating banks used US\$4.1m of technical assistance (mostly to buy computers and software) but the ICR presents no evidence that the project benefited the banks (e.g. in making sounder loans etc.).			

The ICR acknowledges that the project was executed at a time when the macro-economic and business environment were volatile. The government did not privatize, restructure or close its loss-making enterprises but instead prevailed on banks to lend despite their over-indebtedness and losses.

4. Significant Outcomes/Impacts:

The ICR does not describe any specific significant outcome.

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

The project did not anticipate the typical problems of a transition economy. In particular, it took no special precautions against the predictable government pressures on banks to lend to loss-making enterprises. The central bank, responsible for certifying participating banks, was not immune to such pressures either. Neither the participating banks nor the apex institution appear to have adequately vetted the borrowers or monitored their loan repayments.

The IDP expected private industry to develop rapidly, but it was clear during project preparation that slow privatization and inappropriate policies created few such profitable opportunities. Industry was still reeling from the CMEA collapse and Romania in particular was adversely hit by the UN embargoes on Yugoslavia and Iraq. The project proceeded as if banks could make sound loans with some technical help, although the ICR mentions that banks lacked the experience or incentive to lend well.

Furthermore, the sub-loans were dollar denominated, leaving borrowers vulnerable to exchange risks that they were unaccustomed to take and could not hedge against.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Unsatisfactory	No evidence that the project significantly improved banks' ability to make sound loans or that borrowers utilized funds effectively to generate a supply response. ICR notes that private sector development was hampered by slow privatization and inappropriate government policies.
Institutional Dev.:	Modest	Negligible	No evidence that Eximbank (apex institution) in Bucharest improved the soundness of participating bank loans; or that central bank prudential supervision improved. There is also no evidence that the technical assistance improved the central bank.
Sustainability:	Likely	Unlikely	There is no evidence that the project benefited the banking system's ability to make sound loans. Even the revolving fund that was created under the project may not be sustainable because bad loans whittle down its size.
Bank Performance:	Satisfactory	Unsatisfactory	The Bank should not have lent for a credit line project when the relative prices were still distorted in the economy, and banks and enterprises lacked the incentive to operate efficiently. The Bank knew of Romania's difficult transition to a market economy and should have delayed or greatly reduced the scale of the project.
Borrower Perf.:	Satisfactory	Unsatisfactory	Borrower could have better ensured that the apex institution monitored the borrowers' loan repayments and taken corrective actions.
Quality of ICR:		Unsatisfactory	

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

7. Lessons of Broad Applicability:

Credit line projects are especially prone to problems when borrowers face distorted prices and /or incentives and banks seem unable to make sound loans. This was particularly true in Romania at the time the project was appraised and implemented.

8. Assessment Recommended? ☒ Yes ☐ No

Why? The ICR mentions several problems in the project but does not describe the situation clearly .

9. Comments on Quality of ICR:

The ICR's conclusion on ratings contradicts its description of the project developments . The description is also incomplete (e.g. bad loans are mentioned but their aggregate percentage is not provided).

The ICR also lacks basic project information (e.g. how much co-financing was utilized).