



1. Project Data :			
OEDID:	L3282		
Project ID:	P003959		
Project Name:	Fertilizer Sector Restructuring Project		
Country:	Indonesia		
Sector:	Industrial Restructuring		
L/C Number:	L3282		
Partners involved :	None		
Prepared by :	David Greene (Consultant), OEDCR		
Reviewed by :	Roger Robinson		
Group Manager :	Ruben Lamdany		
Date Posted :	08/06/1998		

2. Project Objectives, Financing, Costs and Components :
 The Fertilizer sector operation approved in 1990 was the seventh Bank operation in the fertilizer sector since 1970. Despite this, Indonesian fertilizer policy continued to be characterized by controlled and heavily subsidized prices, production inefficiency and low returns to equity, regulated distribution that constrains competition and inadequate environmental monitoring. This loan provided Indonesia with US\$221.7 million for relending to five state-owned fertilizer companies for investments in new capacity and improved performance in some existing facilities, plus studies relating to marketing and distribution and the environment. The project's overriding objectives were to assist the Government implement a Statement of Policy for the fertilizer sector, support the industry-wide investment program, identify the scope for improved marketing and distribution, and assess the industry's environmental impact and prepare an environmental action plan. The brief Policy Statement underpinning the operation called for gradually adjusting prices to reflect economic prices and gradually eliminating subsidies, and carrying out marketing and environmental studies.

3. Achievement of Relevant Objectives :
 There has been some upward adjustment in fertilizer prices and in input prices and a reduction of budgetary subsidies to the industry. All the physical objectives of the program were achieved. However, an increase in gas input prices and a decline in export prices resulted in economic and financial rates of return below appraisal estimates.

4. Significant Achievements :
 There has been an improvement in the technical efficiency of the fertilizer industry.

5. Significant Shortcomings :
 The project did not address the fundamental issues of deregulation or privatization. The sector remains heavily regulated and economically inefficient. The government has not introduced fundamental changes in the distribution system and this has led to continued misuse of fertilizer. Some progress has been made on environmental issues: wastewater emission standards have been adopted and work on air pollution standards has been progressing. The Bank's long involvement in the sector has contributed to an improvement in technical efficiency, but the policy framework remains deficient and the sector economically inefficient. The industry is still unable to finance its investment program without external finance backed by government guarantees and this casts doubt on sustainability. The Bank's performance was deficient in accepting a weak policy statement, not addressing key sectoral issues directly nor having a program for adopting key policy actions.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev.:	Partial	Modest	
Sustainability:	Uncertain	Uncertain	

Bank Performance :	Deficient	Unsatisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

When policy changes underlie an investment operation, required measures and a timetable for their implementation should be agreed prior to Board presentation . Given the pervasive policy reform needed in this state owned sector, it may have been more appropriate to have had a sector adjustment operation, with clearly demarcated tranche actions.

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The ICR is generally satisfactory . However, although the appraisal estimated ex ante financial and economic rates of return of the various investments financed, ex post calculations do not appear in the ICR . The borrower's input into the ICR consisted of corrections of the Bank's text, rather than its own assessments of the project's outcome or what had been learned from the project .