ICR Review
Operations Evaluation Department

Report Number : ICRR11186

1. Project Data:		Date Posted :	05/30/2002	
PROJ ID :	P008538		Appraisal	Actual
Project Name :	Priv Agric Devt	Project Costs (US$M)	54.8	30.0
Country :	Lithuania	Loan/Credit (US$M)	30.0	9.4
Sector(s):	Board: RDV - Micro- and SME finance (100%)	Cofinancing (US$M)	24.8	20.6
L/C Number :	L3995			
		Board Approval (FY)		96
Partners involved :	EU-PHARE, Sweden, Finland, Denmark, UK	Closing Date	06/30/2001	06/30/2001
Prepared by :	Reviewed by :	Group Manager :	Group:	
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2. Project Objectives and Components

a. Objectives

The overall objectives of the project were to assist the Government (GOL) with the development of a viable private agricultural sector, and foster economic growth and reduce poverty in rural areas by providing a combination of financial and technical assistance .

Specifically, the project aimed to strengthen the rural financial intermediation system and the establishment of commercial lending to the agricultural sector . It also aimed to foster the development of private farms and promote the emergence of private small and medium enterprises in rural areas; increase productivity, competitiveness, and marketing prospects for Lithuanian products; expedite land reform and develop a mortgage system for increased access to credit; increase the availability of alternative employment opportunities; and improve business management skills of farmers and entrepreneurs .

b. Components

The project had two main components :

- a *Rural Credit component* to be supported by the Bank through participating financial intermediaries ((US$ 46.7 million - $ 21.9 million to be directed towards farmers and $ 24.8 million for rural enterprises); and
- an *Institutional and Human Resources Component* comprising technical assistance supported by grant financing provided by cofinanciers ((US$ 8.1 million).

c. Comments on Project Cost, Financing and Dates

The appraisal greatly overestimated the demand for credit from farmers, under the terms offered . In total sub-loans only totaled US$ 4.4 million (20% of the appraisal estimate.. Loans for other enterprises were also below forecast at US$ 16.6 million (67% of forecast). There was a small overrun in the institutional component as expenditure was estimated at US$ 9.0 million. The loan closing was not extended .

3. Achievement of Relevant Objectives:

The project did not achieve its principal objective . On-lending was only 45% of the intended level and little progress was made in strenghtening the rural financial intermediation system . On the other hand considerable progress was achieved in providing support services to rural enterprises .

4. Significant Outcomes/Impacts:

The outcome of the institutional and resource development component was satisfactory . The component was implemented through TA and most of the envisaged activities were carried out . No Bank funding was involved .

- The largest element of this effort assisted an ongoing program to achieve a complete and effective registration and information system for land, buildings, titles and mortgages, so as to support the development of a market in real property. Substantial progress was made, although the task is not yet complete .
- An extension services and business skills development effort was also satisfactorily implemented . It included training and information to farmers and agro -processors and assistance to the Lithuanian Agricultural Advisory Service (LAAS) to strengthen their ability to provide advice to farmers, particularly in crop and livestock

production and business management.
- A program to increase access to export markets, focussing on workshops, development of promotional material and assisting enterprises participating in international trade fairs, had a more limited impact.

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

The failure of the lines of credit to disburse has been noted. The main reasons for the shortfall were:
- interest rates charged to sub-borrowers were too high. The rates charged were changed at minimal intervals of six months and generally lagged market rates because of a secular down trend in rates in the local market;
- there were too few bankable sub-projects. Generally potential borrowers had difficulty in demonstrating creditworthiness, given the high standard demanded under Bank requirements, especially since land could not be used as collateral;
- the limited scope of the financial system. The main intermediary was intended to be ABL but, for the reasons noted above, its capacity was reduced and other banks had limited interest in rural lending, especially to agriculture.
- bank interest in participating was also reduced by the perception that the administrative costs to the intermediaries were higher (due in part to Bank procurement requirements) than for other sources of funds.

Aspects of the institutional and resource development component also had significant shortcomings:
- an effort to generate increased economic activity and employment in a rural area with high unemployment through establishment of a Rural Business Development Center (RBDC) had only a limited impact. It was intended to help develop opportunities suitable for financing through the line of credit, but few loans resulted.
- TA was also provided to the Agricultural Bank of Lithuania (ABL), (the principal channel for agricultural lending). The impact of this effort was limited by steps taken by GOL, reducing management salaries and replacing the bank's management board.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev.:	Substantial	Modest	The project as a whole only increased the country's ability to effectively use human financial and other resources to a limited extent.
Sustainability:	Unlikely	Unlikely	
Bank Performance:	Unsatisfactory	Unsatisfactory	
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:
- When beginning lending in a country it may not be most effective to move directly to operations that require organizations to drastically change long held patterns of operation, especially because the latter is likely to involve management upheavals. It would be preferable to focus on the macro-framework through adjustment or more straightforward investment projects at the outset.
- The project did not fully take into account the possibility of a limited demand for long-term credit. Successful macro-economic adjustment is necessary for credit line projects to succeed. On the other hand, successful macroeconomic adjustment, along with a liberalized, open economy and fully convertible exchange rates may obviate the need for credit line projects.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

This is a good quality ICR.