MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN AN AMOUNT EQUIVALENT TO US$100 MILLION

TO

THE NATIONAL BANK OF POLAND

WITH THE GUARANTEE

OF THE REPUBLIC OF POLAND

FOR AN

AGROINDUSTRIES EXPORT DEVELOPMENT PROJECT

JANUARY 5, 1990
CURRENCY EQUIVALENTS

Currency Unit = zloty (zł)

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>US$1.00 =</td>
<td>147</td>
<td>175</td>
<td>265</td>
<td>430</td>
<td>1400</td>
<td>9000</td>
</tr>
</tbody>
</table>

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS

BFE - Bank for Food Economy
CC - Convertible Currency
CMEA (COMECON) - Council for Mutual Economic Assistance
FTC - Foreign Trade Company
LIBOR - London Interbank Offered Rate
NBP - Norodowy Bank Polski, National Bank of Poland
PB - Participating Banks

POLAND - FISCAL YEAR

January 1 - December 31

a/ The exchange rate at which the preappraised subprojects were evaluated was zł 250/US$1.00.
AGROINDUSTRIES EXPORT DEVELOPMENT PROJECT

LOAN AND PROJECT SUMMARY

**Borrower:** National Bank of Poland (NBP)

**Guarantor:** Republic of Poland

**Beneficiaries:** Exporting agroindustrial enterprises

**Amount:** US$100 million equivalent

**Terms:** Seventeen years, including five-year grace period, at the Bank's standard variable interest rate.

**Onlending Terms:** US$75 million of the Bank loan would be onlent by NBP to participating banks (PB). Subloans to final beneficiaries would be denominated in US dollars and interest would be at prevailing market rates. NBP would bear the foreign exchange risk between the US dollar and the Bank's currency pool. The interest rate charged by NBP to the PB would be established as a floating rate linked to the London Interbank Offered Rate (LIBOR) for dollar deposits and would include a margin for NBP. NBP would establish this interest rate for a six-month period. NBP would establish its margin, in consultation with the Bank, taking into account NBP's spread requirements and the cost of similar funds in the market. This margin would be set at 1.75% for the January 1 - June 30, 1990 period. Subloans would be for a maximum of 12 years, including a maximum grace period of 3 years. The remaining US$25 million equivalent of the Bank loan would be made available for sale by NBP to importers of livestock feed.

**Financing Plan:**

<table>
<thead>
<tr>
<th></th>
<th>US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>100.0</td>
</tr>
<tr>
<td>Participating banks</td>
<td>42.0</td>
</tr>
<tr>
<td>Sub-borrowers</td>
<td>12.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>154.0</strong></td>
</tr>
</tbody>
</table>

**Economic Rate of Return:** 21% to 70% for pre-appraised subprojects, averaging about 35%, and not less than 18% on those under the credit line.

**Staff Appraisal Report:** Report No. 7112-POL

**Map:** IBRD No. 20562R
MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT
OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN
TO THE NATIONAL BANK OF POLAND
WITH A GUARANTEE FROM THE REPUBLIC OF POLAND
FOR AN AGROINDUSTRIES EXPORT DEVELOPMENT PROJECT

1. The following memorandum and recommendation on a proposed loan to
The National Bank of Poland (NBP) with a guarantee from the Republic of Poland
for US$100 million equivalent is submitted for approval. The proposed loan
would be on standard IBRD terms with 17 years maturity including five years
grace to help finance an agroindustries export development project.

2. Background. As noted in the latest Country Brief, the environment
for effecting real reform has recently greatly improved and the new Government
has initiated measures aimed at moving towards a market-oriented economy with
a view to improving the efficiency and productivity of the economy, promoting
growth, and improving socioeconomic conditions. In this context, deposit and
lending interest rates have been liberalized. On January 1, 1990, the zloty
was devalued and exchange rates unified, and administrative price controls
were removed on most goods and services. Major progress on tax reform is
expected in the first quarter of 1990. These measures are part of a
comprehensive macroeconomic/stabilization program that has recently been
agreed with the IMF. In the short term, high priority is being accorded to
sharply reducing the rate of inflation, mitigating the country’s severe
external debt problem and beginning the process of restoring the country’s
creditworthiness. In the longer term, priorities in the economy will focus on
restructuring, including the development of a strong private sector both
through fostering new private sector initiatives and through privatization of
existing public-sector enterprises.

3. Agriculture is important for the Polish economy and plays a major
role in trade and employment. Its share in GDP has remained stable at about
13% over the last ten years, and the sector accounts for 15% of convertible
currency (CC) exports (as compared with only 3% of "transferable ruble"
exports) and for 28% of total employment. In terms of gross value of
agricultural production in 1988, the crop subsector contributed about 54% and
the livestock subsector about 46%. About 77% of the agricultural land,
totalling about 14.5 million hectares, is controlled by the private sector,
compared to about 23% which is under the control of the socialized sector.
The distribution of land between the two sectors is roughly in about the same
proportion as their share in total output. Within the socialized sector, the
state farms generate about 80% of the output compared to the cooperatives’
share of about 20%. The food processing industry subsector is handicapped by
outmoded technology and inadequate capacity, which are constraints on
increasing its share in existing export markets and penetrating new markets.
Furthermore, the present extreme scarcity of foreign exchange is causing a
critical shortage of agricultural inputs, particularly protein feed for
livestock, which is threatening a decrease in supplies of raw materials to
processors and a disruption in the transition to a market economy.
4. The Government’s main long-term objectives for the sector are to improve productivity of land and labor and increase the sector’s contribution to the trade balance. Improvement in productivity, which was constrained in the past by a policy of controlled agricultural prices, and an inadequate system of support services, has received a significant incentive recently with the liberalization of most agricultural prices, and the significant role being given to market mechanisms. Further improvement in the sector’s performance, however, would require fundamental changes in the agrarian structure (e.g., consolidation of land holdings and mechanization and adoption of other labor-saving technologies); adoption of advanced technology; demonopolization, privatization, and more efficient provision of specialized production inputs (pesticides, fertilizer, machinery and equipment). The Government intends to carry out these policy adjustments as part of its reform program and has already taken several major steps such as liberalization of commodity prices mentioned earlier. The aims of the proposed project are to support the Government’s long-term objectives and respond to the short-term goals of improving the efficiency and competitiveness of the agroindustry subsector and its contribution to the trade balance. In addition, the project would assist in overcoming the shortage of oilseed meal, a critical input for the livestock industry.

5. **Rationale for Bank Involvement.** The overall Bank strategy for Poland is aimed at (i) supporting the long-term objectives of the government, viz., to increase the efficiency and productivity of the economy, promote growth, improve socioeconomic conditions, and (ii) in the short run, helping to improve the balance of payments, alleviate the critical shortage of essential production inputs (livestock feed) which negatively affects output for both the export and the domestic markets, and begin the process of restoring the country’s creditworthiness. To fulfil these objectives, the Polish authorities are adopting macroeconomic policies for promoting stabilization and undertaking major reforms so as to make the economy more market oriented in its working. These measures include plans to: introduce positive interest rates, unify the exchange rates which would eliminate the need for the present system of export subsidies, and support the development of the private sector, increased autonomy of management and progressive privatization of state-owned enterprises, and demonopolization. The proposed project fits into the strategy of seeking policy reform and complementing it with support for investments that would improve the country’s trade balance and competitiveness vis-a-vis CC countries.

6. **Project Objectives.** The main objectives of the proposed project would be: to remedy existing constraints to rapidly increasing Poland’s exports of processed agricultural products to CC countries; to assist the lending institutions and enterprises involved in the project to operate efficiently; to promote further involvement of the private sector in food processing activities which are export oriented; and to help maintain supplies of livestock to processors and thus sustain meat exports.

7. **Project Description.** In order to generate incremental convertible currency export earnings, the project would aim at the rehabilitation,
modernization and expansion of existing agro-processing industries. Investments in the needed equipment would allow Polish products to be upgraded to levels of quality prevailing in western markets and would result in obtaining higher prices for them because of improved quality and packaging and in increased volume of exports. This would be particularly the case for ham in cans and in vacuum packing, frozen fruits and vegetables and forest products including game meat and berries, which are exported mainly to EC countries. The project would also include support for export marketing activities of agro-processors and would meet part of the shortage in livestock feed and thus help maintain adequate supplies of livestock to processors. To achieve the above objectives, the proposed project would support, over a four-year period, the following activities:

(a) **Credit Program.** The project would provide financing for investments by agro-processing enterprises, comprising freezing and processing lines for fruits and vegetables, cold storage facilities, equipment for processing of ham and meat products (including the production of metal cans for export of ham), machinery and equipment for the production of a coffee substitute and chicory, a processing and packing plant for herbs and creams, bottling lines for beer, refrigerated trucks, and machinery and equipment for the modernization and expansion of production of various other agroindustrial products. (This component includes a significant proportion of pre-appraised subprojects and a provision for a credit line for additional subprojects.) The project would also provide financing for export marketing support, market studies for export commodities, training of management and export marketing staff, leasing and testing of new equipment and export promotion activities. Special efforts would be made to promote and support investments by joint-venture enterprises and by small and medium-scale private processing plants.

(b) **Livestock Feed.** The project would also provide financing for the import of about 100,000 tons of protein feed for livestock, which would help meet part of the current deficit in imports estimated at approximately 200,000 tons.

8. **Markets.** Poland has well established export markets for the main commodities to be produced under the project, and is also expected to penetrate new markets. Marketing studies/surveys which were prepared for the main products to be produced under the project, such as meat and frozen fruits and vegetables indicated that increases in exports are well within the scope of projected potential growth of the relevant markets. In fact all the preappraised investments are related to enterprises which have already some share in export markets, and the possibility of expanding their share was examined on a case by case basis.
9. **Environmental Impact.** All the pre-appraised subprojects were reviewed and found to be in satisfactory compliance with the pollution control guidelines set by the authorities of the Government of Poland, to avoid any increase in pollution either in the water or the air. Further, PB would require that an environmental impact assessment and certification be undertaken for each subproject to be financed, for ensuring that no environmental deterioration would result from its implementation.

10. **Agreed Actions.** During negotiations, NBP agreed to the following main points: (a) US$75 million of the Bank loan would be onlent by NBP to the Bank for Food Economy (BFE), which is expected to be the main implementing bank, and other participating banks (PB). Subloans to final beneficiaries would be denominated in US dollars and interest would be at prevailing market rates. NBP would bear the foreign exchange risk between the US dollar and the Bank's currency pool. The interest rate charged by NBP to the PB would be established as a floating rate linked to the London Interbank Offered Rate (LIBOR) for dollar deposits and would include a margin for NBP. NBP would establish an interest rate for a six-month period. NBP would establish its margin, in consultation with the Bank, taking into account its spread requirements and the cost of similar funds in the market. This margin would be set at 1.75% for the January 1 - June 30, 1990 period. Subloans would be for a maximum of 12 years, including a maximum grace period of 3 years; (b) PB would conform to agreed operational and financial criteria, including the introduction of a sound financial structure, minimizing of exposure risks, introduction of adequate provisions for loan losses, and auditing of accounts by independent auditors acceptable to the Bank; (c) subloan repayments would be deposited with NBP and, to the extent that they are not required to service the Bank loan, such funds would be made available to PB for financing additional investments to expand exports; (d) PB would ensure that subborrowers adhere to sound operational and financial standards; and (e) PB would require that subprojects conform to agreed criteria, including economic and financial rates of return of at least 18%, and would generate in the first four years after completion cumulative net revenue in foreign exchange exceeding the foreign exchange cost of the investment. In support of its request for the financing of livestock feed, the Government confirmed at negotiations that its policy is that all users (private, cooperative and State farms) should have access to feed without preference for any sector. During project implementation, Bank supervision missions would verify that this policy is observed in practice.

11. **Benefits.** Economic benefits under the proposed project are expected from: (a) increased production of frozen fruits and vegetables, meat products and miscellaneous food items and increased exports of these commodities, mainly to CC markets; (b) increases in value added of fruits and vegetables and potato products; (c) decreases in operating costs due to technological innovation and more efficient use of labor; (d) increase in overall profitability due to improved organizational and managerial skills resulting from training and technical assistance to be provided under the project; (e) generation of an estimated 1,500 new jobs, mostly seasonal; and (f) establishment of appropriate management information and cost accounting.
systems by the enterprises. The economic rate of return of all preappraised subprojects, which varied between 21% and 70% was calculated to average about 35%. Although the exchange rate of the zloty vis-a-vis CC has depreciated since the time of appraisal, the preappraised subprojects are still judged to be amply viable under present and evolving conditions since the primary benefits would be in foreign exchange from exports, and the market prospects remain favorable. Relative prices of imported inputs have not changed significantly, and because the rate of depreciation of the exchange rate has been greater than the rate of inflation in Poland, the prices of domestic inputs have somewhat decreased in terms of foreign exchange. Therefore, the rates of return on investment are estimated to have improved since appraisal. Benefits from the livestock feed component derive from helping prevent a decline in livestock production which would result in a decrease in raw material supplies to processors, meat supplies to domestic consumers, and meat exports.

12. **Risks.** At the macro level, the project faces the risk that the policy and institutional reforms may not progress sufficiently to alleviate the constraints on efficient performance of the food processing industry. The risk is being reduced by actions to be taken by Government on the basis of its firmly-declared policy objectives and of an intense policy dialogue with the IMF and the Bank. Another risk is that international prices for project commodities may be lower than estimated. To offset this factor, the project seeks to improve the quality of output and of marketing services. As for the possibility that the project could be delayed with negative effects on its economic benefits, Bank staff have helped to reduce this risk by assisting with the procurement arrangements during preparation and appraisal. In any case, even with a delay of benefits by one year, the project would still yield a rate of return of about 20% on the pre-appraised portion; a two-year delay would reduce it to about 13%. Finally, the institutional capability of BFE and other PB may prove to be inadequate. Therefore the Industrial Export Development Project, which is being processed in parallel with this project, contains a component to provide technical assistance to the banks.

13. **Recommendation.** I am satisfied that the proposed loan would comply with the Articles of Agreement of the IBRD and recommend that the Executive Directors approve the proposed loan.

Barber Conable
President

Attachments
Washington, D.C.
January 5, 1990
## POLAND

### AGROINDUSTRIES EXPORT DEVELOPMENT PROJECT

#### Estimated Costs and Financing Plan

<table>
<thead>
<tr>
<th>Estimated Costs</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preappraised Subprojects</td>
<td>41.4</td>
<td>55.4</td>
<td>96.8</td>
</tr>
<tr>
<td>Credit Line</td>
<td>5.5</td>
<td>15.1</td>
<td>20.6</td>
</tr>
<tr>
<td>Marketing Activities</td>
<td>1.4</td>
<td>0.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Livestock Feed</td>
<td></td>
<td>25.0</td>
<td>25.0</td>
</tr>
</tbody>
</table>

**Total Project Cost**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preappraised Subprojects</td>
<td>48.3</td>
<td>96.0</td>
<td>144.3</td>
</tr>
<tr>
<td>Credit Line</td>
<td>6.0</td>
<td>4.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Marketing Activities</td>
<td>54.3</td>
<td>100.0</td>
<td>154.3</td>
</tr>
</tbody>
</table>

**Total Financing Required**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preappraised Subprojects</td>
<td>54.3</td>
<td>100.0</td>
<td>154.3</td>
</tr>
</tbody>
</table>

#### Financing Plan

<table>
<thead>
<tr>
<th>Total Financing Cost</th>
<th>Local Cost</th>
<th>Foreign Cost</th>
<th>% Share in Funds Required</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Funding Sources</th>
<th>Total Financing Cost</th>
<th>Local Cost</th>
<th>Foreign Cost</th>
<th>% Share in Funds Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) World Bank</td>
<td>100.0</td>
<td>0.0</td>
<td>100.0</td>
<td>65.0</td>
</tr>
<tr>
<td>b) BFE and other PB</td>
<td>42.4</td>
<td>42.4</td>
<td>0.0</td>
<td>27.0</td>
</tr>
<tr>
<td>c) Sub-borrower's Contribution</td>
<td>11.9</td>
<td>11.9</td>
<td>0.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Total</td>
<td>154.3</td>
<td>54.3</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

a/ Based on exchange rate of US$1=zł 250
POLAND
AGROINDUSTRIES EXPORT DEVELOPMENT PROJECT

Procurement Method and Disbursements

A. Procurement Method

<table>
<thead>
<tr>
<th>Project Category</th>
<th>Procurement Method a/</th>
<th>Int'l Direct Shopping</th>
<th>Contracting</th>
<th>Other b/</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ICB</td>
<td>LIB</td>
<td>Int'l</td>
<td>Direct</td>
<td>Shopping</td>
</tr>
<tr>
<td>Agroindustries Investments c/</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meat Processing</td>
<td>5.0 (5.0)</td>
<td>2.5 (2.5)</td>
<td>1.4 (1.4)</td>
<td></td>
<td>10.5 (4.4)</td>
</tr>
<tr>
<td>Other Pre-Appraised Subprojects</td>
<td>28.1 (28.1)</td>
<td>3.0 (3.0)</td>
<td>8.4 (8.4)</td>
<td></td>
<td>32.6 (2.1)</td>
</tr>
<tr>
<td>Credit Line</td>
<td>5.5 (5.5)</td>
<td>4.5 (4.5)</td>
<td>4.2 (4.2)</td>
<td>1.0 (1.0)</td>
<td>12.6 (0.9)</td>
</tr>
<tr>
<td>Livestock Feed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>38.6 (38.6)</td>
<td>10.0 (10.0)</td>
<td>14.0 (14.0)</td>
<td>1.0 (1.0)</td>
<td>80.7 (32.4)</td>
</tr>
</tbody>
</table>

a/ Figures in brackets correspond to Bank financing.
b/ Minor civil works, local costs of installation, technical assistance and training.
c/ Including cost of installation of equipment by suppliers, technical assistance and training.

B. Disbursements

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (US$ million)</th>
<th>% of Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings, equipment and spare parts for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cold stores for fruit and vegetables,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>meat processing plants, and for miscellaneous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>agroindustries and technical assistance</td>
<td>71.0</td>
<td>100% of foreign expenditures and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100% of ex-factory cost for goods,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and 100% of foreign expenditures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>for technical assistance.</td>
</tr>
<tr>
<td>Livestock Feed</td>
<td>25.0</td>
<td>100% of foreign expenditures.</td>
</tr>
<tr>
<td>Interest during construction</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Estimated IBRD Disbursements

<table>
<thead>
<tr>
<th>Bank FY</th>
<th>90</th>
<th>91</th>
<th>92</th>
<th>93</th>
<th>94</th>
<th>95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td>30.0</td>
<td>20.0</td>
<td>20.0</td>
<td>15.0</td>
<td>10.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Cumulative</td>
<td>30.0</td>
<td>50.0</td>
<td>70.0</td>
<td>85.0</td>
<td>95.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
POLAND

AGROINDUSTRIES EXPORT DEVELOPMENT PROJECT

Timetable of Key Project Processing Events

(a) Time taken to prepare: 5 months
(b) Prepared by: The Institute of Agriculture and Food Economy of the Government of Poland with assistance from FAO/CP and IBRD
(c) First IBRD mission: March 1987
(d) Appraisal mission departure: November 13, 1987
(e) Negotiations: December 4-13, 1989
(f) Planned Date of Effectivness: February 1990
### POLAND

**AGROINDUSTRIES EXPORT DEVELOPMENT PROJECT**

**Status of Bank Group Operations in Poland**

**A. STATEMENT OF BANK LOANS**  
(as of September 30, 1989)

As of September 30, 1989, Bank lending to Poland had not yet commenced.

**B. STATEMENT OF IFC INVESTMENTS**  
(as of September 30, 1989)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Obligor</th>
<th>Type of Business</th>
<th>Loan (US$ million)</th>
<th>Equity (US$ million)</th>
<th>Total (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>Hortex</td>
<td>Horticulture</td>
<td>17.90</td>
<td>-</td>
<td>17.90</td>
</tr>
</tbody>
</table>

Total Original Gross Commitments: 17.90

Less Cancellations, Repayments and Sales: -

Total Commitments now held by IFC: 17.90

Total Undisbursed: 11.90
POLAND

AGROINDUSTRY - EXPORT DEVELOPMENT PROJECT

LOCATION OF ENTERPRISES

- Coffee Substitute
- Forestry Products
- Transport
- Can Factory
- Chicory
- Potato Products
- Beer Bottling
- Herb Processing
- Meat Processing Plants
- Fruit and Vegetable Processing and Cold Stores

Main Roads
Railroads
Airports
Major Ports
National Capital
Province (Wojewodztwo) Capitals
Cities and Towns

Rivers
Canals
Province (Wojewodztwo) Boundaries
International Boundaries

This map has been prepared by the World Bank and is published for the convenience of the readers and is consistent to the interior views of The World Bank and the International Bank for Reconstruction and Development. The contents and the boundaries shown on the map do not imply, on the part of The World Bank and the International Bank for Reconstruction and Development, any endorsement or acceptance of such boundaries.