

Document of
The World Bank

FOR OFFICIAL USE ONLY

FILE COPY

Report No. 3145

PROJECT PERFORMANCE AUDIT REPORT

IRAN FISHERIES PROJECT

(Loan 1047-IRN)

September 30, 1980

Operations Evaluation Department

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

Abbreviations

ADBI	Agricultural Development Bank of Iran
IMDB	Industrial and Mining Development Bank

Project Performance Audit Report

IRAN FISHERIES PROJECT

(Loan 1047-IRN)

TABLE OF CONTENTS

	<u>Page</u>
Preface	i
Basic Data Sheet	ii
Highlights	iii
PROJECT PERFORMANCE AUDIT MEMORANDUM	
I. Summary	1
The Project	1
Implementation and Project Results	2
II. Main Issues	3
Project Organization and Management	3
Supervision and Cancellation	4
Interest Rate	5
PROJECT COMPLETION REPORT	
I. Introduction	6
II. Project Identification, Preparation and Appraisal	7
III. Implementation	8
IV. Operating Performance	12
V. Financial Performance	15
VI. Bank Performance	16
VII. Conclusions and Lessons	18
Map	

Project Performance Audit Report

IRAN FISHERIES PROJECT

(Loan 1047-IRN)

PREFACE

This is a performance audit of the Iran Fisheries Project for which Loan 1047-IRN in the amount of US\$12.5 million was approved in September 1974. The loan was closed on June 20, 1979 with only US\$0.6 million disbursed following cancellations of US\$5.0 million in November 1978 and US\$6.9 million in May 1979. The original closing date was December 31, 1978.

The audit consists of a memorandum prepared by the Operations Evaluation Department and a Project Completion Report (PCR) dated February 29, 1980. The PCR was prepared by the Europe, Middle East and North Africa Regional Office. The audit memorandum is based on a review of the Appraisal Report (No. 375a-IRN) dated August 7, 1974, the President's Report (P-1405b-IRN) of August 27, 1974, the Loan Agreement and two Project Agreements dated October 14, 1974, and the PCR. Correspondence with the Borrower and internal Bank memoranda and records related to project issues as contained in relevant Bank files have been surveyed and Bank staff associated with the project have been interviewed.

A copy of the draft report was sent to the Borrower on June 9, 1980 for comments; however, no comments have been received.

On the basis of this abbreviated review process, the audit finds that the PCR generally presents an accurate description of the project's history and achievements (or lack of achievements). The audit focuses on organizational reasons for lack of project implementation and the supervision process which are relevant for this as well as other Bank projects.

PROJECT PERFORMANCE AUDIT BASIC DATA SHEET

IRAN - FISHERIES PROJECT

(Loan 1047-IRN)

KEY PROJECT DATA

Item	Appraisal Expectation	Actual or Current Estimate
Total Project Cost (US\$ million)	18.0	NA
Loan Amount (US\$ million)	12.5	0.6
Disbursed (US\$ million)	-	0.6
Cancelled	-	11.9 ^{1/}
Date Physical Components Completed	June 1978	August 30, 1978 ^{2/}
Economic Rate of Return (%)	35	-

Cumulative Estimated and Actual Disbursements
(US\$ 000)
(Year Ending)

	1976	1977	1978	1979
Appraisal Estimate	4.5	9.0	12.5	-
Actual	0.2	0.5	0.6	0.6 ^{1/}
Actual as % of Estimated	7.0	6.0	5.0	-

OTHER PROJECT DATA

Item	Original Plan	Revisions	Actual or Current Estimate
First Mention in Files		-	02/07/72 ^{3/}
Negotiations	04/22/74	06/16/74	07/29/74
Board Approval	-	-	09/10/74
Loan Agreement Date	-	-	10/14/74
Effectiveness Date	02/11/75	04/15/75	04/30/75
Closing Date	12/31/78	12/31/79	06/20/79 ^{4/}
Borrower	Iranian Government		
Executing Agency	Agric Development Bank of Iran and Southern Fisheries Co.		
Fiscal Year of Borrower	March 21 - March 20		
Follow-on Project Name	None		

MISSION DATA

Item	Sent by	Month, Year	No. of Weeks ^{5/}	No. of Persons	Man- weeks	Date of Report
Identification	IBRD	02/73	1	4	4	03/26/73
Preparation	IBRD	04/73	2	3	6	03/23/73
Appraisal	IBRD	11/73	3	4	12	08/07/74
TOTAL					22	
Supervision I	IBRD	03/75 ^{6/}	1.0	2	2.0	04/14/75
Supervision II	IBRD	09/75	1.0	1	1.0	10/15/75
Supervision III	IBRD	02/76	0.4	1	0.4	05/17/76
Supervision IV	IBRD *	10/76	1.5	2	3.0	12/13/76
Supervision V	IBRD *	03/77	1.0	2	2.0	04/25/77
Supervision VI	IBRD	07/77	0.4	2	0.8	08/01/77
Supervision VII	IBRD *	03/78	2.0	2	4.0	04/18/78
Total					13.2	

^{1/} US\$5.0 million was cancelled on November 26, 1978 and the remainder of US\$6.9 million on May 5, 1979.

^{2/} Date consultants report completed.

^{3/} References in early letters to IBRD Agricultural Sector Survey in 1970 where several fisheries projects were identified.

^{4/} Date Iran asked Bank to confirm closing of loan account.

^{5/} Estimated time spent in country on this project.

^{6/} Before effective date.

* Field visits undertaken.

Project Performance Audit Report

IRAN FISHERIES PROJECT

(Loan 1047-IRN)

HIGHLIGHTS

This project, which was approved in September 1974, was the first by the Bank for support of fishery development in Iran. The main objective was to improve the organizational structure, operational policies, marketing activities and regulatory functions of Shilar Jonoub - otherwise known as the Southern Fisheries Company which was responsible for development, regulation and licensing of commercial fishing along the southern coast of Iran. The project also aimed at training traditional fishermen in better fishing techniques and providing credit to commercial and traditional fishermen for boats and equipment. As a result of these programs, the project was expected to increase Iran's fish and shrimp production by over 18,000 tons per year. Due to rising incomes the demand for these products was expected to increase strongly in the later 1970's.

The project was not implemented and its main objective was not achieved. Only a study by consultants to improve Shilat Jonoub's operation and management efficiency was carried out as planned; however, there is no evidence that recommendations of the study have been implemented. The project suffered from poor organizational design, lack of commitment and internal conflicts between executing agencies, little control exercised by the Borrower and rather passive early supervision. Of the total loan for US\$12.5 million, only US\$0.6 (for the management study) was disbursed; the balance was cancelled.

Other points of interest are:

- Bank was slow to act following an extended period of project inactivity (PPAM paras. 13 - 14 and PCR para. 34);
- it appears that an inconsistent interest rate policy was followed by the Bank with respect to the Fisheries Project and the Third Agricultural Credit Project (Loan 1046-IRN).

Project Performance Audit Memorandum

IRAN FISHERIES PROJECT

(Loan 1047-IRN)

I. SUMMARY

The Project

1. The potential for a fishing project was identified by an IBRD sector mission that visited Iran in April-May 1970. Identification and preparation missions were carried out in February and April 1973, respectively, and the project was appraised in November 1973. Negotiations were not completed until August 1974. The Loan Agreement was signed in October 14, 1974 and became effective in April 30, 1975.

2. The objectives of the project were: to improve the organizational structure, operating policies, marketing activities and regulatory functions of Shilat Jonoub^{1/}, to train traditional fishermen in improved fishing techniques and to assist commercial and traditional fishermen by providing credits for fishing boats and equipment. At full development the project was expected to increase annual production of fish and shrimp by over 18,000 tons per year. The total loan amount was US\$12.5 million, with US\$600,000 allocated for consultant services, US\$400,000 for the training of fishermen, US\$600,000 to support investment credits to small-scale fishermen and their cooperatives and the balance of US\$10.9 million, to support investment credits for commercial fishermen. Total project cost was estimated at US\$18.0 million.

3. The Agricultural Development Bank of Iran (ADBI)^{2/} and Shilat Jonoub were to be responsible for implementing the project. ADBI was to act as a channel for all funds including those for consultants to Shilat and those going through Shilat to small-scale fishermen and for Shilat's training program. Shilat was to be responsible for selecting its management consultants, implementing the fishermen training program and approving loans to small-scale fishermen. In addition, Shilat was expected to promote all commercial and traditional fishing activities along the southern coast of Iran. ADBI was to supervise Shilat procurement, sales and credit activities and to collect Shilat payments on Government loans.

^{1/} The Southern Fisheries Company which was responsible for development, regulation and licensing of commercial fishing along the southern coast of Iran - the Persian Gulf and the Oman Sea areas.

^{2/} The Agricultural Development Bank was the executing agency of three loans for agricultural credit (Loans 662, 821 and 1046).

Implementation and Project Results

4. The project achieved little in terms of its overall objectives. Only US\$600,000 was disbursed for the employment of management consultants by Shilat Jonoub. Although these consultants performed well according to supervision reports, there is no available evidence of any impact on Shilat Jonoub's operating efficiency. The total cost of these services were about US\$2.1 million of which the Bank financed US\$600,000. The contract with the consultants was only signed in September 1975, about a year after Shilat Jonoub initiated action to hire a consultant team. The delay was due to extensive correspondence between Shilat Jonoub and the Bank on resolving terms-of-reference and contract issues.

5. From the onset of the project, supervision missions noted lack of progress in making subloans to commercial fishermen, citing lack of demand for loans and refusal by Shilat to grant licenses to some sub-borrowers who had already been approved by ADBI. Furthermore, in 1975 the Borrower requested that, due to lack of demand for loans by fishermen, funds be reallocated to finance construction of cold storage facilities. The Bank turned down this request because cold storage facilities were already adequate. One request was sent to the Bank for approval of a US\$6.8 million subloan to a commercial fishing enterprise. The Bank raised several objections to the proposed conditions of the subloan, which were not in compliance with the loan agreement. Eventually, ADBI financed the subloan out of its own resources.

6. Several attempts were made by Shilat to implement the training program for traditional fishermen, but they got nowhere because training experts could not be hired, needed equipment could not be purchased or student requests for the training were lacking.

7. No requests were received by the Bank to disburse for subloans made to traditional fishermen under the project. After the project commenced, Shilat, according to supervision reports, focused its efforts on setting up cooperatives of small-scale (traditional) fishermen. If any loans were made to cooperatives they were financed entirely out of Shilat's own resources.

8. The Bank's position throughout implementation was that both Shilat and ADBI were not making sufficient efforts to solicit loans and to educate commercial and traditional fishermen in the benefits of such loans. Finally, in mid-1978 the Bank agreed to support financing of fish cold storage facilities and also of used fishing vessels, which had become plentiful due to overbuilding and the decline in world marine catch. Shortly thereafter, the Bank approved several subloans for fishing vessels and for cold storage. However, with the change in Government no requests to disburse against these subloans were received by the Bank. At the same time, the Bank approved the cancellation of US\$5.0 million (US\$4.4 million of Category III -- fishing vessels and equipment for commercial fishermen and the total of US\$600,000 in Category IV -- fishing gear and equipment for traditional fishermen). In May 1979, at the request of the new Government, the Bank agreed to cancel the remaining US\$6.9 million.

II. MAIN ISSUES

A. Project Organization and Management

9. Shilat Jonoub expressed little interest in the project from its inception, being more interested in the Bank's technical support than in its financial aid. Moreover, Shilat Jonoub was displeased with the proposed management structure of the project. It would have preferred to have full responsibility for executing the project. Its second choice would have been for the Agricultural Cooperative Bank to be responsible for managing the credit part of the project. Shilat Jonoub and ADBI were involved in a power struggle at the time and therefore they could not have been expected to work together harmoniously. Further, ADBI was only mildly interested in the project because of its small size and because it involved fishing, with which it had no experience. At appraisal the Bank was aware of the inherent conflict in the project organization but was confident that high officials in the Government who favored the project would be able to control Shilat Jonoub so that the project would go forward as planned. The Bank was insistent that all credit funds be managed by ADBI and that it be given major responsibility for executing the project.

10. The dissatisfaction with the appraised project -- although it is not clear if this extended beyond Shilat Jonoub and included ADBI and the Ministry of Finance -- is evidenced by the changes requested by the Government in early 1974. Either by Shilat or some other initiative, a new program was designed to develop fisheries along the southern coast. This program included setting up of three joint-venture companies with shares to be held by Shilat Jonoub, ADBI and the Industrial and Mining Development Bank (IMDB). Under this plan Shilat Jonoub also was to establish ten large cooperatives of traditional fishermen. Because of these program changes the Government requested that half of the funds allocated to commercial fishermen should be shifted to support cooperatives of traditional fishermen, the interest rate paid by traditional fishermen should be reduced from the agreed level of 9% to around 6% and the maturity of loans for traditional fishermen should be increased from two to five years.

11. These developments put the Bank into a dilemma. There was general agreement that a fisheries project was needed to fully exploit resources in the Persian Gulf and Sea of Oman and it was anticipated that added supplies of fish resulting from the project would help to lower cost of food for low income people in Iran. But given the existing structure, staffing and functions of Shilat Jonoub the Bank could not design a project without involving this organization. It was thought that participation of ADBI together with expected strong pressure from the Central Government would insure the success of the project. So far as the audit has been able to ascertain, the pressure was only effective in getting Shilat Jonoub to go along with the project. Even so, Shilat did not attend negotiations; perhaps a harbinger of future developments.

12. On hindsight, with so many organizational and management problems unresolved, and without any satisfactory action taken toward resolving them, it appears that the project involved considerable risk. However, loan negotiations for this project took place only after the Bank had obtained reaffirmation from all parties (including Shilat Jonoub and ADBI) of their interest and agreement with the project concept and objectives (see PCR para. 9). In endorsing the project (with final approval of negotiated documents), Government had also committed itself to make every effort to implement it and iron out any difficulties such as inter-agency frictions.

B. Supervision and Cancellation

13. Although the only tangible progress that was ever made toward achieving the objectives of the project was the work of management consultants for Shilat, Bank supervision missions remained optimistic about the future progress of the project. The first three supervision missions extending through May 1976 noted only moderate management problems. Not until December of the same year did a supervision mission report that the project was experiencing serious political and managerial problems; it then appeared on the problem projects list in early 1977. Finally, in May 1978 the Bank suggested that the Borrower consider cancelling part of the project due to lack of on-lending (see PCR, para. 34). The project might have had a greater chance of being implemented if the Bank had taken positive action such as recommending restructuring the management of the project in 1977. It was known to supervision staff and recorded in their reports that the executing agencies were not promoting the project and that there was little cooperation between the executing agencies -- ADBI and Shilat Jonoub. In fact, the supervision mission of mid-1977 recommended that if no substantial progress was found by the time of the next mission, the Government should be asked to request cancellation of the unutilized loan proceeds. Subsequently, the Bank wrote to the Borrower recommending identification of new fishery related activities which could be proposed for inclusion in the project description. Shilat cabled the Bank in November that fishermen and industry were not yet willing to take credit and "credit" was not likely to be utilized. The Bank then cabled Shilat that it might want to discontinue part C (credit to commercial and traditional fishermen) of the loan altogether but further pointed out the Bank's willingness to consider changes in the project description and reallocation of loan proceeds to economically viable fisheries-related activities not presently covered under the project. It was further stated that if Shilat agreed, the Bank would appreciate receiving concrete suggestions of possible alternative uses of the loan as soon as possible so that a strengthened supervision mission could be mounted to investigate such possibilities in detail.

14. Shilat did not respond to this request but ADBI did. It suggested financing of fish cold storage, older fishing vessels and a plant to manufacture cans for certain fishery products. The Bank then sent a supervision mission (somewhat delayed by this correspondence) to investigate these possibilities and the mission recommended financing fish cold storage facilities and used fishing boats up to eight years old. The Bank agreed with the recommendation and informed the Borrower of its decision in May 1978. Because it was anticipated that sub-loans for these new activities would not utilize the full undisbursed amount of the credit (US\$11.9 million) the Bank, at the same time, suggested that the Government consider requesting cancellation of US\$5 million. An amended credit was submitted to the Borrower in September 1978 and a signed copy was received by the Bank in October.

15. In November, the Bank received a request to cancel US\$5.0 million of the loan and to postpone the original closing date from December 31, 1978 to June 30, 1979. During the interim period the Bank had approved sub-loans for cold storage facilities, several shrimp vessels and other fishing boats amounting to a total commitment of US\$4.1 million. However, with the change in Government no requests for further disbursements were received and as noted, PPAM para. 8, the new Government requested cancellation of the remaining US\$6.9 million in May, 1979.

C. Interest Rate

17. The Bank's position on the interest rate issue in Iran has been inconsistent. At the time of appraisal the Bank insisted that loans to traditional fishermen carry an interest rate of 10%. Because Shilat Jonoub strongly objected to this rate on grounds that traditional fishermen needed some incentive to apply for loans, stating that a more reasonable rate would be between 5% - 6%, the Bank agreed to reduce the rate to 9%. There is no explanation available of why at the same time the Bank was making another loan, for which ADBI was the Borrower and Executing Agency - the Third Agricultural Credit Project (Loan 1046-IRN) - with an on-lending interest rate of only 8%. It was proposed at the issues meeting for the Fisheries Project that the loan carry the same interest rate for on-lending specified for the Agricultural Credit Project. In the end, that was not the case. To require two different rates of interest on grounds that different rates (real) are needed to efficiently allocate capital is only justified when two different sectors with different rates of inflation are involved. Nothing has been found in project documents to support this position. Finally, the rate of inflation (wholesale or retail) in Iran from the time the loan was appraised was above 10%. Thus the rates of interest that were agreed to were negative in real terms.

PROJECT COMPLETION REPORT

IRAN FISHERIES PROJECT

(Loan 1047-IRN)

IRAN

FISHERIES PROJECT (Loan 1047-IRN)

Project Completion Report 1/

I. INTRODUCTION

1. The Iran Fisheries Project was appraised in November 1973, and the Executive Directors approved a loan of US\$12.5 million for the project on September 12, 1974. The loan was signed on October 14, 1974--a Loan Agreement with the Government and Project Agreements with the Agricultural Development Bank of Iran (ADBI) and the Southern Fisheries Company (Shilat Jonoub). The loan became effective on April 30, 1975, after one postponement. The original closing date of December 31, 1978 was postponed to June 30, 1979. Only \$0.6 million (for management consultancy services to Shilat Jonoub) of the \$12.5 million loan had been disbursed when it was cancelled, at the request of the Government, in May 1979. This was the only loan that the Bank made to Iran for fisheries development.

2. The project aimed to bring about improvements in Iran's fishing industry along the Persian Gulf and Oman Sea coasts through strengthening the organization of Shilat Jonoub (the main governmental institution responsible for southern fisheries), improving and modernizing fishing techniques through training, and providing credit to private fishermen and fishing cooperatives to purchase vessels, engines, refrigerated trucks, and fishing gear. The project formed part of the Government's attempts to remedy the comparative neglect of the agricultural and fisheries sectors that had occurred from the mid-sixties onwards. The Government attached great importance to the fisheries sector, since it was obvious that meat production could not keep pace with the rapidly rising demand for animal protein.

3. The Persian Gulf and Oman Sea contained some of the country's main undeveloped fishery resources. In 1965, Shilat Jonoub had been established, with joint ownership by the Armed Forces Consumers' Cooperative Organization and the Iranian Lion and Sun, to carry out commercial fishing operations off Iran's southern coasts and to regulate the fishing industry in the region. The early years of operation of this semi-public organization were marked by little progress in achieving its objectives. Its own commercial operations had a poor record. It was not fulfilling its regulatory functions and it lacked adequate staff and expertise to remedy the situation. Both commercial and traditional fishermen received little institutional support and continued to use outdated vessels and gear. Fish marketing facilities were badly in need of improvement. The project was specifically aimed at addressing these weaknesses in Iran's fisheries sector.

1/ Information for this report was obtained from EMENA files and various Bank staff involved in the project. In view of present political circumstances in Iran, it was not possible to mount a field mission.

II. PROJECT IDENTIFICATION, PREPARATION AND APPRAISAL

4. A Bank Agriculture Sector mission to Iran in 1970 identified the potential for fisheries projects in the Persian Gulf and Oman Sea, and proposed a test fishing program, financing of shore facilities, vessels, gear and cold stores, and technical assistance. The Bank sent a mission to Iran in February 1973 to help identify and prepare a project as a first phase in fisheries development of the Gulf area. A follow-up mission in April 1973 assisted in firming ideas for a project.

5. Given Shilat Jonoub's organizational weaknesses and poor performance, the Bank initially considered channelling project funds directly through a credit institution to the private sector. Shilat Jonoub seemed mainly interested in undertaking a fisheries resource survey at this stage. However, the April 1973 preparation mission stressed that a project could be developed without waiting for the results of test fishing. It concluded that the Bank would have to continue to work through Shilat Jonoub, since, in light of this organization's predominant commercial and regulatory roles in southern coast fisheries, no real production increases could be achieved without improving Shilat's efficiency. Strengthening of Shilat Jonoub's organization and operational effectiveness thus emerged as a key project objective. In June 1973, Shilat Jonoub's board of directors was changed and a former Minister of Agriculture was put in charge. By September 1973, Shilat had agreed to Bank appraisal of the project which was carried out in November 1973.

6. The appraisal mission had agreed with Iranian authorities on the general outline and scope of the project and the role of various institutions involved. However, there was apparently some rethinking on the Iranian side of the structural relationships and goals in the sector, as a result of which three issues surfaced between the time of appraisal and negotiations. These issues were to emerge again as major problems during project implementation. First, the Bank was proposing ADBI as the lending channel for commercial fisheries, both because it had been built up as a relatively efficient institution under three Bank-financed agricultural credit projects, and because it was believed that Shilat's association with ADBI would assist institution-building of the former organization under the fisheries project. Between project appraisal and negotiations, Shilat Jonoub apparently decided that it wanted control over the entire project, and suggested that it should be the channel for lending to commercial fishermen also. The distrust and lack of cooperation between Shilat and ADBI which emerged at that time would continue to haunt the project throughout its implementation period.

7. Second, the Iranians declared their intention to establish new fishing companies (with ADBI and Shilat Jonoub as major shareholders), and suggested that, as a consequence, demand for credit from commercial fishermen would not be as strong as originally anticipated. The Bank's response was that, in the absence of further evidence, this should not pose a problem, since the project provided for less than half the expected demand from commercial fishermen and, in any case, there was no reason why the new joint-venture companies could not also be eligible for sub-loans under the project.

8. Third, the Iranians raised objections to the credit terms proposed for traditional fishermen, who were already receiving and would continue to receive subsidies and low-interest loans from various Government sources. They suggested increasing the subloan repayment period from two to five years, lowering the on-lending rate from 9 percent to 5-6 percent, and substantially increasing the total allocation to the loan category for traditional fishermen (and cooperatives). The Bank responded that the proposed sublending terms were justified by the nature, economic life and likely profitability of investments in fishing gear, and that reallocation among loan categories could always be approved if found necessary during project implementation. Besides, the larger traditional fishermen and cooperatives could also apply for loans under the category for commercial fishermen.

9. The above issues were discussed in a continuing dialogue (via telex, letter, etc.) between the Bank and Iranian authorities in the first half of 1974. At one point, it even appeared that the Iranians might be willing to risk losing Bank finance for the project if these issues remained unresolved. Eventually, however, all parties (including Shilat Jonoub and ADBI) reaffirmed their interest and agreement with the project concept and objectives. Negotiations started on July 29, 1974 and were concluded rapidly, with Iranian acceptance of virtually all conditions proposed by the Bank. Shilat Jonoub was represented by ADBI at the negotiations; no one from Shilat's own organization attended. It was agreed that the project would provide for:

- (i) employment of management consultants to assist Shilat Jonoub in carrying out a structural reorganization and general upgrading of its policies, procedures and staffing with the aim of improving its operational effectiveness (Loan Category I: \$0.6 million);
- (ii) establishment of two fishermen training centers, equipped with appropriate training aids and staffed with qualified instructors (Loan Category II: \$0.4 million); and
- (iii) provision of loans: (a) by ADBI to commercial fishermen for purchase of fishing vessels, marine engines and refrigerated trucks (Loan Category III: \$10.9 million), and (b) by Shilat Jonoub (with ADBI) to traditional fishermen for fishing gear to improve production and post-catch handling (Loan Category IV: \$0.6 million).

III. IMPLEMENTATION

10. Strengthening of Shilat's Organization. Shilat Jonoub selected a local firm as management consultants in January 1975 and, after considerable correspondence with the Bank on the terms, the contract was signed in September 1975. Over the thirty-month period ending April 1978, the consultants carried out detailed technical and economic analyses of Shilat's operations and devised appropriate recommendations to help overcome some

of the problems identified at appraisal. Most noteworthy was their work on Shilat's organization structure, personnel regulations, financial/accounting and budgetary systems, and fish catch, processing and distribution procedures. In line with a major aim of the project, the consultants recommended functional reorganization of Shilat Jonoub aimed at focussing its activities on commercial operations (fish catching, processing and marketing) and reassigning fisheries research, licensing and regulations enforcement to other agencies. These proposals were approved by Shilat's Board of Directors in June-July 1977, when it also reportedly recommended legislative changes to the Government to create a Fisheries Office which could relieve Shilat of its licensing and regulatory responsibilities. It appears, however, that no action was ever taken on these recommendations.

11. Shilat's management took the position with subsequent Bank missions that only gradually could the necessary legislative changes be introduced and a new organization established, and in the meantime Shilat Jonoub would perforce continue to have both commercial and regulatory functions. One major result of this attitude was continuing confusion over Shilat's goals and institutional purpose, which was reflected, for example, in the preference accorded to loyalty over efficiency in recruiting Shilat's staff, and in its management's reluctance to pay competitive salaries to attract qualified personnel. Shilat's management also persistently refused to implement the consultants' recommendation for regional decentralization of decision-making authority to offices on the coast (away from Tehran). As a consequence of lack of such incentives, Shilat Jonoub continued to experience great difficulties in recruiting qualified staff and suffered from high turnover of its existing trained managers throughout the project implementation period. The consultants justifiably claimed some success in improving Shilat's accounting procedures and helping it with procurement and marketing practices. However, in the absence of strong backup staff in Shilat to take over at the end of the consultancy assignment, it is doubtful if these improvements could have been of much lasting effect. Many of the consultants' recommendations, of course, were never even tested in implementation. Hence, although the entire \$600,000 allocated to this loan category was disbursed, the whole purpose of technical assistance to Shilat Jonoub may ultimately have been defeated.

12. Training Program. The fishermen training program got off to several false starts during project implementation, but none of these initiatives reached fruition. Initially, there was some concern whether the funds allocated for training would be needed at all. A Bank supervision mission in September 1975 noted that Shilat Jonoub had signed an agreement with the Korean Government and a Korean company which not only granted them fishing privileges in the Persian Gulf area but also provided for training by Koreans of Iranian fishermen. However, exactly a year later (September 1976), Shilat's management reaffirmed its interest in implementing the project's training component. Subsequently, Shilat Jonoub devised an acceptable program for enrollment, curriculum, equipment and staffing at one of the two proposed training centers (Bandar Abbas). The list of experts and equipment specifications were finalized, and proposals and quotations invited. However, the fall 1977 fishing season passed without the training program getting off the ground.

13. At the time of the Bank's last supervision mission (March 1978), Shilat Jonoub was planning to acquire the services of Arsham Foundation (a non-profit organization experienced in vocational education) to manage the project's training program. Despite substantial efforts by Shilat's staff and offers of good daily stipends, recruitment of student-fishermen continued to be a particularly intractable problem (especially with acute manpower shortage caused by employment of labor on large construction projects). In March 1978, Shilat asked ten fishermen cooperatives to nominate their own representatives for training. Equipment for training had been ordered, and Shilat was planning demonstrations in several fishing villages to excite interest in both the training and credit programs. Last-minute cancellation (due to political conditions in Iran) of the supervision mission scheduled for September 1978 prevented our ascertaining if the training program was launched in time for the fall 1978 fishing season. However, no withdrawal application was ever received by the Bank on this account.

14. Credit Programs. In September 1975, the Bank began to show some concern at the fact that no subloans had been made so far, and asked ADBI for clarification. A supervision mission at the time noted that: (i) lack of subloans to commercial fishermen was due to insufficient collateral or inexperience of some potential applicants, and Shilat's refusal to approve others for reasons of national security; and (ii) Shilat Jonoub was preoccupied with the problem of organizing cooperatives of small fisherman and intended to channel all credits to the traditional sector through these cooperatives. By May 1976, several months after the first show of concern, no substantive reasons had been obtained from either ADBI or Shilat Jonoub for the lack of subloans. A supervision mission in the spring of 1976 suggested that ADBI was not focussing on this project because: (i) it did not feel this was basically its own project; and (ii) ADBI's overall lending to agriculture had substantially and continually expanded between 1974 and 1976, so that the fisheries project now potentially accounted for an insignificant part of its total credit operations.

15. At the end of May 1976, ADBI submitted a commercial fisheries subproject (total cost \$6.8 million) to the Bank for approval. The Bank requested further details and suggested that the lending conditions and procurement requirements were not in line with the loan agreement. The subborrower then lost interest in using Bank funds, supposedly because he was not prepared to follow the procurement conditions, and ADBI financed the subproject from its own resources (outside the fisheries project). A Bank supervision report in December 1976 again pointed out the lack of on-lending and, nineteen months after loan effectiveness, rated the project 3/2. The report attributed the lack of commercial subborrower interest to: (i) aversion to the loan's procurement requirements; (ii) easier finance available from alternative Government and private credit sources; (iii) lack of credit-worthiness of most potential subborrowers; and (iv) ADBI's failure to promote subloans, since it lacked both expertise in fisheries and commitment to the project.

16. No progress in starting the credit programs to commercial fishermen was reported by the two supervision missions in 1977 (March and July). During

a visit to Washington in fall 1977, ADBI reaffirmed its interest in the project but indicated that stringent specifications for boats and engines had excluded many potential customers under the credit program. In December 1977, with still no sign of progress, the Bank suggested that the Iranians might want to discontinue Part C of the project (credit programs) altogether, and, in any case, called for drastic re-examination of the entire project concept and the respective roles of various organizations involved. Apparently, there was considerable sentiment within Shilat Jonoub in favor of cancelling project Part C. However, in January 1978 ADBI finally accepted full responsibility for trying to initiate the credit program for commercial fishermen, and set up a special task force for this purpose. The March 1978 supervision mission was specifically charged with finding possible alternative uses of project funds by identifying and evaluating other investments in the fisheries sector for which there was a legitimate demand for financing. The mission concluded that changed circumstances in the sector since the time of appraisal (particularly the growing world surpluses of fishing vessels, and increasing business activity and incomes in Iran) warranted: (i) expanding the project description to include cold storage facilities, and (ii) relaxing procurement requirements to allow purchase of used boats (up to eight years old) through normal commercial channels, and local competitive bidding for refrigerated trucks. The mission also recommended cancellation of \$5.0 million of the loan amount (the entire \$0.6 million for traditional fisheries and \$4.4 million for commercial fisheries).

17. Amendments to the legal agreements to provide more flexibility along the above lines were forwarded to Iran in September and signed in October 1978. Cancellation of \$5.0 million was requested and granted with effect from November 26, 1978. Following the modified legal agreements, the processing of applications for credit was far more active in the last year than at any previous time in the project. ADBI put up several subprojects to the Bank for financing in the second half of 1978. After further information was requested and furnished, the Bank gave its approval to one vessel (shrimp trawler) in September and four more in November. Including one cold storage facility, ADBI had by then committed nearly \$4.1 million out of the \$6.5 million remaining in Loan Category III. Prospects for expeditious utilization of the remaining loan funds by the extended closing date of June 30, 1979 seemed reasonably bright. However, no withdrawal application against this loan category had been received by the beginning of 1979 when the revolutionary Government came to power (presumably bringing some high-level management changes in the concerned agencies). After some break in communications, this Government informed the Bank that it would no longer require the loan. The Bank cancelled the undisbursed loan balance of \$6.9 million on May 5, 1979.

18. As regards traditional fishermen, Bank supervision missions continued to confirm the appraisal report's conclusions about the need for and interest in credits for fishing gear, and that access to such credits was more important to fishermen than their cost. In particular, scope existed for lending through cooperatives. But the administrative and legal framework was lacking, and no mechanism existed within Shilat Jonoub for lending. In October 1976, a Bank supervision mission recommended that Shilat set up a pilot program and that a Project Committee be established to provide for coordination between

Shilat's and ADBI's staff. A further mission in March 1977 found that the Committee had been formed and that both Shilat and ADBI seemed to be moving in the right direction. Detailed action steps and responsibilities were laid down by the mission. However, despite field visits and other sporadic efforts by Shilat's and ADBI's staff, not a single subloan was ever made to a traditional fisherman under this project.

19. The basic problem seems to have been Shilat Jonoub's patronizing attitude towards traditional fishermen, combined perhaps with the fishermen's own distrust of government organizations like Shilat, as well as opportunities of buying equipment under more competitive conditions in other countries around the Gulf. Shilat's efforts from the beginning were focused on organizing the traditional fishermen into cooperatives, as a vehicle for Government-supplied financial assistance on a welfare program basis. This attitude was reinforced by the existence of credit programs from the Ministry of Cooperatives (at 4 percent interest) and the Agricultural Cooperative Bank of Iran (at 6 percent). Despite these factors, successive Bank supervision missions remained optimistic about utilizing the loan proceeds, since funds from competing programs were limited and the fishermen could still get the fishing gear at a relatively low price if Shilat imported it in bulk and free of duty charges, for distribution through cooperatives. However, Shilat never really seems to have made the effort to promote the project among traditional fishermen, by pointing out, for example, the true cost of alternative credit sources such as middlemen. Its management continued to insist that it was opposed, as a matter of principle, to charging interest on loans to "poor" fishermen. The March 1978 supervision mission noted that Shilat management's position was absolutely "inflexible" on the interest rate issue, and that it had, in fact, submitted a proposal to the Government for a large program of interest-free credits to traditional fishermen (about Rls 2.5 billion, or \$35 million, over five years). The mission consequently concluded that there was no chance of Loan Category IV being utilized before the closing date. The entire \$0.6 million in this category was cancelled in November 1978.

IV. OPERATING PERFORMANCE

20. Of the original objectives of providing technical assistance to Shilat Jonoub and training and credit to fishermen, only technical assistance to Shilat was achieved after four years of project life. Lending to the commercial fisheries sector would also certainly have taken place on a limited scale eventually, but for the revolution. Various reasons for the failure of this project are recorded in supervision reports. All missions agreed that the consultants' performance was excellent and in no way contributed to failure. The causes for lack of success seem to have been more fundamental, and were mainly political and institutional in nature.

A. Changes in International Environment

21. Early in the life of the project, Iran began to accumulate surplus funds (with massive oil price increases) and became an exporter of capital.

As a result, the demand for Bank money dropped, and the Bank had little leverage to achieve the objectives set forth in the legal agreements. Both ADBI and Shilat Jonoub began to regard the Bank loan simply as a source of funds with certain rather burdensome requirements. Increased oil revenues encouraged the Government to embark on an ambitious policy of income redistribution through heavy subsidies to all sectors. A Government with surplus funds is generally not interested in a policy of promoting real interest rates. Bank-Iran relations were further complicated by cessation of new Bank lending to Iran in 1975 and the closing of the Agricultural Task Force offices in 1976.

22. Another important factor in the changed international environment was that maritime nations began to strictly enforce the extension of their fishing zones to the 200 mile limit. This, combined with rising operating costs due to oil price increases, had two effects. First, a huge surplus of used fishing vessels in good condition began to develop around the world, often accompanied by suppliers' credits on soft terms. Second, the availability of idle fishing boats and crews induced countries like Korea to seek fishing privileges in the Persian Gulf and Oman Sea, thus essentially driving out any remaining Iranian commercial fishermen through sheer force of competition.

B. Domestic Political Environment

23. It is useful to bear in mind that the project was being implemented in a politically volatile and militarily sensitive area, where the Government was anxious to do something for the well-being of important ethnic minorities in a climate of some distrust and suspicion. This accounts, at least partly, for Shilat management's adamant insistence on providing low-cost credits to traditional fishermen, and for Shilat Jonoub's continued dominance by military personnel and reluctance to divest itself of its regulatory and licensing functions. Iran's growing importance as an economic and military power in the region further strengthened these attitudes. The project's credit program for traditional fishermen suffered by default.

C. Institutional Constraints

24. Despite repeated assurances that the Government remained interested in pursuing the objectives of the project, both ADBI and Shilat Jonoub displayed little wholehearted identification with or commitment to the project's overall development goals. Lack of cooperation between the two organizations remained a major issue. The legal agreements gave ADBI virtually full control over lending to commercial fishermen, and also empowered it to act as "coordinator" in implementation of the rest of the project (Project Agreement, Section 2.01(b)). However, ADBI was also required to, at all times, "protect the interests of the Bank, the Borrower and Shilat." Since ADBI had no expertise or experience in lending to the fisheries sector, it thus ended up seeking Shilat's approval of all its subloan applications. This might have been a natural (and perhaps even welcome) development, given Shilat's responsibility to provide overall policy guidance and directions for investment in the sector. However, it actually proved counterproductive, since: (i) Shilat had no competence in loan appraisal and was more often influenced by extraneous

factors (considerations of national security, antipathy towards commercial fishermen) than by the technical and economic viability of proposed investments; and (ii) there are indications that Shilat had initially wanted full control over the entire project and, in the beginning, vetoing subloan applications was one way of illustrating the point.

25. A major element in the failure of the credit programs seems to have been Shilat management's rejection of the project philosophy of increasing fish supplies by helping commercial fishermen. This manifested itself in several ways. Since the commercial fishermen were more efficient and direct competitors of Shilat in its commercial role (and resented attempts to restrict their prices or profits), Shilat in its regulatory role decided to cut them out of the business by refusing to give them long-term licences, purchasing more trawlers itself, establishing new joint-venture fishing companies under its own control, encouraging cooperatives of traditional fishermen, and allowing the Koreans into the Gulf area. As a result, particularly with lack of knowledge of fishing grounds, there were indications of overfishing and depletion of fish resources in some parts of the Persian Gulf. The commercial fishermen began to find it more profitable to act as middlemen for catch from other boats than to engage in actual fishing operations themselves. They also found that they could easily get finance out of ADBI's own funds and other sources for second-hand fishing vessels, without going through the procurement and other requirements of the fisheries project.

26. It is important to bear in mind that the project was being implemented with a ground-up overhaul of a weak technical agency, Shilat Jonoub. The organization did improve in some areas, but only through day-to-day involvement by the consultants in management of Shilat's commercial operations. The consultants' input was worthwhile, if only because they helped to straighten out and strengthen Shilat's commercial activities. However, Shilat never put into practice the broad reorganization plans recommended by the consultants, which would have established a skilled, well-paid cadre, concentrating on commercial fishing and marketing and leaving the regulatory functions to another body. As a result, Shilat was only marginally more effective at the end of the project compared to the beginning. The cause of this failure must be directed towards Government policy which, by inadequate compensation/recruitment policies and confusion over Shilat's role in the Persian Gulf, allowed inept leadership and staffing and lack of commercial orientation of the organization to continue.

D. Legal Requirements

27. It was obvious before negotiations that the Government had strong objections to certain aspects of the project. It maintained that the lending terms for loans to traditional fishermen should be relaxed (interest rates lowered and repayment period extended) and predicted that credit requirements for commercial fisheries would be lower than the Bank anticipated. The Bank successfully argued against these proposals but promised to consider interest rate subsidies and reallocation of loan proceeds, if approached later. Agreement on procurement included some concessions and liberalization compared to ICB. During implementation, the Bank apparently retained a fairly rigid stance

on sublending terms for traditional fishermen, even in the light of more and easier money being available from Government as oil revenues increased. There were several reasons for this. First, supervision missions continued to discover during their field visits that interest rates were less of a problem for potential subborrowers than with Shilat Jonoub, which was essentially not performing its task of promoting the project and educating the fishermen. Second, several suggestions by supervision missions to incorporate the interest cost in the purchase price of fishing gear, for example, were rejected by Shilat Jonoub. It soon became apparent that Shilat's management was not arguing about how much interest to charge but was really interested only in giveaway programs (without imposing any credit discipline), which would have the greatest political impact. Finally, the entire question of interest rate and other subsidies and price controls in agriculture had become an issue between the Bank and ADBI, and the Bank was urging an overall review of the whole system by the Government. It would have been inadvisable to make piecemeal changes under individual projects. Sublending terms thus remained a continuing issue in the fisheries project.

28. On procurement, the Bank had agreed during negotiations to procedures using "international competition" rather than strict ICB. However, the term "international competition" subsequently led to some confusion since it was not defined in any detail in the appraisal report or other official documents. Apparently, it was agreed that "international competition" would involve advertisement in local newspapers or a shipbuilding trade magazine, or even direct contacts with shipbrokers who are customarily aware of international shipbuilding capacities. Nevertheless, the term and its nuances were unfamiliar to Bank staff and almost all missions interpreted "international competition" as ICB. It is possible that potential subborrowers may not have been put off by the procurement conditions if these had been interpreted in line with the original concept. However, there was no question that "international competition" would have required solicitation of several quotations to meet Bank approval. Also, the project specifically provided for only one second-hand vessel, i.e., a 1,200 ton stern trawler up to five years old. It is only when procurement conditions were relaxed in 1978 to allow purchase of second-hand vessels (up to eight years old) through normal commercial channels that some activity occurred in the credit program for commercial fisheries. But, since these changes were essentially justified by a different international environment from that prevailing at appraisal (i.e., with surplus boats in several countries), it is difficult to fault the original project design on this account.

V. FINANCIAL PERFORMANCE

29. Six hundred thousand dollars (the entire amount in loan category I) was disbursed for the consultant contract. Of the remaining \$11.9 million, \$5.0 million was cancelled in November 1978 at the request of the Iranian Government, due to poor prospects for further utilization. The rest of the loan (\$6.9 million) was cancelled in May 1979 at the request of the new Iranian Government, which indicated that it no longer wished to utilize the loan.

Benefits due to the consultants' efforts cannot be determined in financial terms, though they apparently had some effect on production and efficiency of Shilat's vessels, at least for a time. No re-calculation of the economic rate of return has been attempted for this project.

VI. BANK PERFORMANCE

30. In view of the high potential for commercial fishing in the Persian Gulf and Oman Sea (subsequently borne out by successful and expanding operations by the Koreans), the need for further protein consumption in Iran, and the poor state of the local fishing industry, the Bank was justified in financing a project to assist an increase in fish production. The Government, too, seemed genuinely interested in developing fisheries resources for the benefit of fishermen in the Gulf area and consumers in large cities, but later essentially neglected the project in the wake of accelerated economic development following the surge in Iranian oil revenues.

31. Following the first supervision mission in March 1975 (10 mandays in the country on the project), the Bank sent two supervision missions in each of the three subsequent fiscal years. Time spent in the field on the project was recorded as follows ^{1/}: 7 mandays in FY76, 24 mandays in FY77, and 24 mandays in FY78. A greater supervision effort between March 1975 and October 1976 would have been desirable, though in retrospect it appears doubtful that this would have had much of an impact on the end result. A final supervision mission scheduled for September 1978 had to be cancelled at the last minute, due to changing political situation in Iran.

32. In searching for ways in which the Bank might have designed the project differently to ensure its success, four issues immediately spring into focus: marketing, organizational arrangements, sublending terms for traditional fishermen, and procurement requirements. The latter two have been discussed in some detail in paras. 27 and 28 above. To reiterate, the Bank's conditions and requirements appear to have been reasonable--their reasons for becoming major issues during implementation lay instead in changes in the international and domestic political situations that occurred after the project got on-stream. The project had recognized weaknesses in the fish marketing system (including some problems with consumer acceptance of fish products), but expected to introduce improvements mainly through technical assistance to Shilat Jonoub. In hindsight, it appears that the project might usefully have incorporated a more substantial marketing component, including studies and investments which could have had a more direct impact on the situation.

33. As regards organizational arrangements, the lack of cooperation between ADBI and Shilat Jonoub (highlighted in para. 24 above) suggests

^{1/} It should be noted that the project was supervised in conjunction with the Third ADBI Agricultural Credit Project (Loan 1046-IRN). Supervision effort recorded under ADBI III also benefited the Fisheries Project.

that it might have been better to exclude one of these agencies completely and make the other solely responsible for the entire project. However, it is difficult to see which one of the two could have performed satisfactorily on its own. Shilat Jonoub was certainly too weak and ineffective for this role. ADBI would have been a more natural candidate, and was indeed envisioned as the lead agency in the project. However, it would have found it difficult, if not impossible, to ignore Shilat Jonoub in project implementation, both because ADBI had no competence or confidence in the fisheries sector and because Shilat was essentially the "Ministry of Fisheries" responsible for the Persian Gulf. Under the circumstances, the project correctly saw the amalgamation of commercial and regulatory functions in Shilat as a major problem and explicitly attempted to remedy this. (It did not foresee, however, that the political will to separate these two functions would be lacking.) In hindsight, it also appears that the project could have provided for a more formal coordinating mechanism between ADBI, Shilat Jonoub and other concerned Ministries (such as the Project Committee later established on the suggestion of a supervision mission).

34. Perhaps the major problem in supervision was that, while recognizing the more serious constraints to progress, the Bank was somewhat late in acting positively. When it did act positively, the response was almost immediate but by then the revolution had occurred and the new Government withdrew its support from the project. The project could have gained from greater intensity and continuity of the Bank's supervision effort in the first two years of implementation. All supervision missions recognized the problem of lack of on-lending, but it was not until the October 1976 mission when a committee was formed to look at the problem, followed by the March 1977 mission when action steps were set out, that any hope of progress appeared. The March 1978 mission finally recommended modifications to the legal agreements--and prospects for on-lending improved immediately. Because of initial lack of progress, the question of cancellation was first brought up by the Bank in March 1977 and repeated in internal correspondence several times during 1977. Iran was initially reluctant to request cancellation, in case the action adversely affected its image on world capital markets. However, on the Bank's recommendation, it eventually requested cancellation of \$5.0 million in 1978. The remaining funds were cancelled in 1979.

35. In the final analysis, however, there is no guarantee that the project's performance would have been much different if the original legal agreements had been worded differently in regard to procurement conditions and/or project description, or if the Bank had acted sooner to modify these agreements. Government policies on general credit terms in the economy, on proper staffing of public organizations and on the Bank's role, gave the Bank little leverage to influence the outcome of projects in Iran. This project was no exception.

VII. CONCLUSIONS AND LESSONS

36. By not being implemented, the project failed to achieve its main objective of increasing fish production from the Persian Gulf by providing training, as well as funds for boats and equipment in the commercial sector and fishing gear in the traditional sector. Failure was due to a host of political and institutional factors, including lack of commitment in the early stages by management of the two government agencies involved (ADBI and Shilat Jonoub) and, when some commitment did appear in the later stages, to the onset of the Iranian Revolution. Other factors, such as availability of cheaper finance from other sources and difficult procurement conditions, also played a role in effecting a poor result, but could have been overcome if Government had shown stronger commitment to the project during implementation.

37. The efforts made to introduce efficient organization and management methods into Shilat Jonoub's operations were partly successful. Aspects of personnel management, cost accounting, storage and marketing techniques and efficient fishing operations were absorbed and acted upon by some Shilat staff at middle management levels. If these staff have remained in an organization dealing with fisheries development, then this effort would have been worthwhile. However, the Bank has no information on their activities under the present disturbed conditions in Iran.

38. Two major lessons emerge from this project which might be usefully applied to similar projects with other Bank borrowers.

- (i) Loan cancellation should not be a lingering process once it is apparent that a reasonably flexible approach has not worked and the Bank has become convinced that the Government is no longer committed to the project objectives or willing to adhere to major provisions in the legal agreements. However, deciding when this point has been reached and risking the Bank's overall relations with a country that might soon become a net lender to the Bank remain moot questions.
- (ii) Consumption of fish may be as much of a problem as its catch, particularly in countries where consumer acceptance of fish products is still uncertain and where rising incomes are also expanding demand for other meat products. Project design should explicitly take these marketing elements into account.

