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PROJECT PERFORMANCE ASSESSMENT REPORT

REPUBLIC OF LATVIA

AGRICULTURAL DEVELOPMENT PROJECT (LOAN 3695)

RURAL DEVELOPMENT PROJECT (LOAN 4380)

July 8, 2004

Sector, Thematic and Global Evaluation Group
Operations Evaluation Department

Currency Equivalents (annual averages)

Currency Unit = Lat

1993	US$1.00	0.6753 Lats
1994	US$1.00	0.5598 Lats
1995	US$1.00	0.5276 Lats
1996	US$1.00	0.5508 Lats
1997	US$1.00	0.5809 Lats
1998	US$1.00	0.5898 Lats
1999	US$1.00	0.5852 Lats
2000	US$1.00	0.6065 Lats
2001	US$1.00	0.6279 Lats
2002	US$1.00	0.6182 Lats

Abbreviations and Acronyms

ADP	Agricultural Development Project
AFC	Agricultural Finance Company
EU	European Union
FSU	Former Soviet Union
ICR	Implementation Completion Report
IDA	International Development Association
MOA	Minister of Agriculture
MOF	Minister of Finance
MLB	Mortgage and Land Bank
OED	Operations Evaluation Department
PFIs	Participating Financial Institutions
PHARE	Pologne, Hongrie assistance, reconstruction, economique
PMU	Project Management Unit
PPAR	Project Performance Assessment Report
RDP	Rural Development Project
SAPARD	Special Action Program for Agriculture and Rural Development
TU	Technical Unit

Fiscal Year

Government: January 1 – December 31

Director-General, Operations Evaluation	:	Mr. Gregory K. Ingram
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OED Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Operations Evaluation Department assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, OED annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, OED staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader OED studies.

Each PPAR is subject to a peer review process and OED management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: http://worldbank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Contents

This report was prepared by Hartley Furtan and Terry Scott (consultants) under the supervision of Christopher D. Gerrard (Task Manager), who assessed the project in September 2003. The report was edited by William Hurlbut, and Rose Gachina provided administrative support.

Principal Ratings

Agricultural Development Project (Loan 3695)

	*ICR**	*ICR Review**	*PPAR*
Outcome	Highly Satisfactory	Highly Satisfactory	Highly Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	Substantial	Substantial	Substantial
Bank Performance	Highly Satisfactory	Highly Satisfactory	Highly Satisfactory
Borrower Performance	Highly Satisfactory	Highly Satisfactory	Highly Satisfactory

Rural Development Project (Loan 4380)

	*ICR**	*ICR Review**	*PPAR*
Outcome	Highly Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	High	Substantial	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The Evaluation Summary (ES) is an intermediate OED product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Agricultural Development Project (Loan 3695)

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Hoonae Kim	Geoffrey Fox	Basil G. Kavalsky
Completion	Hoonae Kim	Laura Tuck	Basil G. Kavalsky

Rural Development Project (Loan 4380)

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Hoonae Kim	Laura Tuck	Basil G. Kavalsky
Completion	Hoonae Kim	Laura Tuck	Michael F. Carter

Preface

This is a Project Performance Assessment Report (PPAR) on two projects financed by the World Bank in the Republic of Latvia. The two projects were the Agricultural Development Project (ADP; Loan 3695) and the Rural Development Project (RDP; Loan 4380).

The Board of the World Bank approved the ADP on January 11, 1994, for an amount of US$ 25 million. This was a time when the Latvian economy was in transition from a centrally planned economy to a market economy and lacked the institutional and human resources to support the transition. The loan became effective on April 14, 1994, and was closed December 31, 1997. It was fully disbursed with the last disbursement taking place on November 11, 1997. EU-PHARE and Sweden provided parallel co-financing for the project.

The Board of the World Bank approved the RDP on July 30, 1998, for an amount of US$ 10.5 million. The loan became effective December 8, 1998 and closed December 31, 2001. Only US$ 9.1 million was disbursed because the Government of Latvia (GOL) was able to access funds through the European Union's Special Action Program for Agriculture and Rural Development (SAPARD) at a lower cost for some of the components of the RDP.

OED decided to assess these two projects in Latvia because previous reviews indicated a high level of success. Given the historical problems with many Bank loans that have provided credit to agricultural producers, the success of these two projects stands out in comparison. Thus the PPAR sought to answer what it was about these two projects that made them so successful.

This report was prepared by Hartley Furtan and Terry Scott (consultants) under the supervision of Chris Gerrard (OED task manager). It is based, among other things, upon the Implementation Completion Report (ICR), project appraisal documents, loan agreements, documents, project files, discussions with the World Bank staff in Washington, D.C., and a mission to Latvia in September 2003.

In Latvia the OED mission met with two Latvian Cabinet Ministers – Mr. Martins Roze, Minister of Agriculture, and Mr. Roberts Zile, Minister of Transport and Communications – other government officials, implementing agencies, both private sector and public sector bank officials, and project beneficiaries. They interviewed the staff who had set up and managed the Agricultural Finance Company (AFC) and visited a new rural branch of the Mortgage and Land Bank. They met with farmers and rural entrepreneurs who were recipients of credit provided by the two projects. They interviewed the government officials who had set up the cadastre and Land Book as well current users of the Land Book.

OED gratefully acknowledges the full cooperation of all government officials visited and consulted during the mission. Following standard OED procedures, the draft PPAR was sent to the Borrower for comments before it was finalized. The Borrower had no comments on the report.

Summary

This is a Project Performance Assessment Report (PPAR) on two projects financed by the World Bank in the Republic of Latvia: the Agricultural Development Project (ADP; Loan 3695) and the Rural Development Project (RDP; Loan 4380).

The principal objective of the Latvia Agricultural Development Project (ADP), approved in 1994, was to provide investment credit and operating loans to private farmers and to small and medium-scale agricultural and forest enterprises through a state-owned financial institution – the Agricultural Finance Company (AFC) – which was established for this purpose. After the country regained independence in 1991, there had been a complete absence of such credit available to Latvian farmers to help facilitate the purchase of land, machines, and other farm inputs such as fertilizer. The ADP also provided technical assistance to related activities, such as the creation of a cadastre and Land Book, and training for managers and credit officers, in order to enhance the viability of the project. Under the Soviet system, there had been no need for a cadastre and Land Book because there was no land market and land was not used as collateral for mortgages.

The Rural Development Project (RDP), approved in 1998, was a follow-on project which built upon the success of the ADP. This broadened the provision of credit from commercial farmers and agricultural enterprises to small-scale rural entrepreneurs not necessarily associated with agricultural production. The project provided credit through two separate but related credit lines – a *commercial credit line* at prevailing market interest rates and commercial terms, and a *special credit line* at subsidized rates to first-time borrowers. The RDP provided for the merger of the AFC, established under the ADP, with the Mortgage and Land Bank (MLB) and the eventual privatization of the MLB. It also included incentives for private banks to make loans to farmers and rural enterprises, since the private banks had not previously done so.

The overall outcome of the ADP was ***highly satisfactory***. Its objectives were highly appropriate at the time the loan was made to the Government of Latvia, since the farmers and rural businesses had no access to an organized credit market. By the end of the ADP, the AFC had made 3,866 sub-loans for a total amount of $49.9 million with a repayment rate of almost 95 percent, which allowed the AFC to re-lend the returned capital to expand the number of beneficiaries. The creation of the cadastre and Land Book was also started, but not completed under the ADP.

The overall outcome of the RDP is ***satisfactory***. The Land Book was completed and is now fully operational, and housed in the Department of Justice. The speed at which a title can be searched and a mortgage registered in the Latvian Land Book compares favorably with other developing and transition countries. The RDP oversaw the successful merger of the AFC and the Mortgage and Land Bank (MLB), although the MLB was not subsequently privatized as was originally intended. Private banks, such as PAREX Bank, have become involved in lending money to agricultural and rural entrepreneurs as a result of the RDP. The growth and development of the private banking sector has removed the need for a government-owned bank. Much of the success of the RDP lies with the design of the *special credit line*, which provided incentives both for banks to lend to rural enterprises and for small

rural enterprises to borrow money. The strong incentive to small rural enterprises was an interest rate subsidy paid by the government to borrowers only when the loan was fully repaid on the agreed schedule. It appears that this subsidy had no unintended consequences.

Experience with these two projects confirms a number of OED lessons:

(1) The success of a line of credit project is dependent not only upon its design but also on the institutional environment and human resource capacity of the country. Credit markets are intertemporal markets and therefore institutionally intensive. They require well-defined property rights, enforceable rules (such as foreclosure rules), and adequate human resource capacity to function well. A government must allow these institutional rules to operate unhindered for a credit market to operate in an efficient manner and for borrowers to understand that the loans must be repaid. The design of line of credit projects needs to take into account the institutional environment and the human resource capacity that exist in each country, and where these are not adequate, to invest resources in their improvement.

(2) It is important to pay close attention to the incentive structures that are built into financial instruments like lines of credit, since these can represent the major difference between success and failure. Both the ADP and RDP took great care in building the appropriate incentive structures into the sub-loans. Careful and thoughtful program design minimized moral hazard problems and resulted in very high rates of repayment. The s*pecial credit line* only paid a subsidy to borrowers (small-scale rural entrepreneurs) once the loan was fully repaid. This high-powered incentive had the desired effect on the behavior of the borrowers.

(3) When a government creates a new financial instrument such as publicly provided credit to enhance the efficient functioning of private markets, it is important to have an exit strategy to move this instrument to the private sector. In the case of Latvia, the government created the publicly owned AFC under the ADP and merged this with the publicly owned MLB under the RDP. While privatizing the MLB was an objective of the RDP, this did not occur in part because there was not a detailed plan for doing so. The government decided not to privatize the MLB because it was performing well under its current ownership structure, because the government had higher priorities, and because the government might want to use the MLB to subsidize credit in other credit markets (such as housing) in the future.

Gregory K. Ingram
Director-General
Operations Evaluation

1. Background and Overall Outcomes

BACKGROUND

1.1 The Republic of Latvia has 2.7 million people of whom one million live in the capital city of Riga. When Latvia was part of the Soviet Union, it had an average per capita income that was more than 30% higher than the rest of the Soviet Republics. This was based on a relatively skilled labor force and some sophisticated industries including machine building, chemicals, electronics, wood, paper, and food processing.

1.2 When Latvia regained independence in August 1991, a large number of economic problems became apparent as the Government of Latvia wanted to make the transition from a centrally planned economy to a market-driven economy. Three issues involved in the economic transition were of particular importance to the agricultural and rural sectors: (1) land reform, (2) liberalizing agricultural commodity prices, and (3) privatizing food and agro-processing firms. Under a November 1990 law, all holders of agricultural land as of July 21, 1940, or their heirs, were eligible to reclaim land that had been nationalized after that date. The law also included provisions for those with current use rights (i.e., those who were using the land in 1991). A total of more than 210,000 claims for land were made.[1] Then, in December 1991, the government liberalized all agricultural commodity prices. The privatization of food and agro-processing firms, particularly that of large-scale state owned entities, proceeded more slowly. However, by the time of the OED mission in 2003, the privatization of the milk industry, meat sector, grain sector, and other agro-processing plants had been completed.

1.3 One of the outcomes of the land restitution program has been the creation of many new small private farms, which had been part of larger collective farms. Many of these new small farms were just parcels of land while the required farming infrastructure, including machinery to actually farm them, was absent. At the same time, farmers in Latvia had no access to credit. Under the Soviet Union agricultural credit markets had not existed. Therefore, after 1991 farmers in Latvia had no access to organized credit as a means to purchase land, farm machinery, or other farm inputs. The lack of a credit market made it nearly impossible to farm in a profitable manner.

1.4 The World Bank and the Government of Latvia designed the Agricultural Development Project (ADP) to fill this agricultural credit void through the creation of a fully state-owned Agricultural Finance Company (AFC). Then, as the ADP was closing, the two parties designed the Rural Development Project (RDP) as a similar project with an expanded focus to follow up the ADP. The RDP aimed to provide credit both to small rural entrepreneurs as well as agricultural enterprises, among other things, through the merger of the AFC with a state-owned bank – the Mortgage and Land Bank (MLB).

1. Latvia Agricultural Development Project, *Staff Appraisal Report*, December 10, 1993, p. 2.

OVERALL OUTCOMES

ADP

1.5 The overall outcome of the ADP is rated ***highly satisfactory***. The objectives of the ADP were highly appropriate at the time the loan was made to the Government of Latvia, since the farmers and rural businesses had no access to an organized credit market. Also, there was no functioning land market. For the Latvian agricultural and rural economy to make the transition from a centrally planned to a market economy, these constraints needed to be removed as quickly as possible. The ADP provided a line of credit to be on-lent to farmers and to small and medium-scale agricultural and forest processing companies, technical assistance for the creation of a cadastre and Land Book, and training for AFC managers and credit officers.

1.6 The AFC was a fully owned state corporation, which on-lent World Bank funds to individual farmers. The AFC undertook a high level of due diligence on the loans made to farmers. Few loans ever went into default.

1.7 During its first two years of operation, the AFC experienced financial losses for at least two reasons. First, the AFC charged farmers an interest rate lower than the going market rate as a result of the high rate of inflation in Latvia at the time. Second, the initial start-up costs were fully booked in the years in which they occurred, instead of being amortized over a longer period of time. Because these start-up costs were concentrated in the first two-to-three years of operation, the revenues of the AFC were less than the costs to run the business. However, by the third year and for all subsequent years, the AFC was profitable.

1.8 Funds from the ADP were also made available for the cadastre and the creation of the Land Book, both necessary for the functioning of a private land market. By 2003 the mortgage market was operating smoothly as a result of the investment in the cadastre and Land Book. Much of the ADP success was a result of the human resource capacity that existed in Latvia when it regained its independence.

RDP

1.9 The overall outcome of the RDP is rated ***satisfactory***. The RDP built on the success of the ADP. The government wanted to create a rural economy based not only on agriculture, which could provide employment opportunities for rural people who were under employed. The RDP provided a line of credit to be on-lent to rural as well as agricultural enterprises, technical assistance to complete the cadastre and Land Book, continued training for bank managers and staff, and technical assistance to help develop a comprehensive rural strategy.

1.10 The Land Book was completed and is now fully operational, and housed in the Department of Justice. The RDP oversaw the successful merger of the AFC and the Mortgage and Land Bank (MLB). The RDP line of credit was on-lent to commercially viable agricultural and rural enterprises through a *commercial credit line* and to small-scale first-time borrowers through a *special credit line*. Private banks, such as PAREX Bank, have become involved in lending money to agricultural and rural entrepreneurs as a result of the RDP. The financial losses incurred by the MLB and PAREX Bank associated with the line of credit supplied through the RDP have been less than 5 percent, which represents outstanding financial management.

1.11 Much of the success of the RDP lies with the design of the *special credit line*, which provided incentives both for small rural enterprises to borrow money and for banks to lend to rural enterprises. The strong incentive for small rural enterprises was an interest rate subsidy paid by the government to borrowers only when the loan was fully repaid on the agreed schedule. It appears that this subsidy had no unintended consequences.

2. Project Objectives and Components

ADP

2.1 The objectives of the ADP were to help newly emerging private farmers in Latvia enhance their agricultural productivity, to enhance the ongoing privatization of food and agro-processing enterprises, and to assist in the development of a private land market. After regaining independence in 1991, there was a complete absence of credit available to Latvian farmers to help facilitate the purchase of land, machines, and other farm inputs such as fertilizer. Under the Soviet system, there was no need for an institutional framework that included a cadastre and Land Book because there was no land market and land was not used as collateral for mortgages. In a market economy, however, a cadastre and Land Book became essential for the operation of the land market. The three components of the ADP were the following:

- **Credit to farmers:** To provide investment credit and operating loans to private farmers through the Agricultural Finance Company (AFC), a state-owned financial institution established for this purpose.

- **Credit for agro- and forest industries:** To provide investment credit and operating loans for small and medium-scale private enterprises in agro- and forest industries.

- **Technical assistance:** To support priority technical assistance that would directly enhance the viability of the project, including the creation of a cadastre and Land Book, and training for managers and credit officers of the AFC to conduct the due diligence required to make sound financial loans.

2.2 The total cost of the project was US$ 45.1 million at appraisal and $55.0 million at completion. The farm credit component represented 42 percent at appraisal and 52 percent at completion; the agro- and forest industries component 45 percent at appraisal and 22 percent at completion; and the technical assistance component 13 percent at appraisal and 26 percent at completion.

RDP

2.3 The objective of the RDP was to "lay the groundwork for increasing income levels and improve living standards of the rural population by promoting diversification and growth of economic activities in rural areas."[2] The RDP was a follow-up to the completed ADP. It broadened the ADP objectives to include providing credit to rural non-agricultural enterprises and to encourage private banks to enter the rural lending market. The three RDP components were as follows:

- **Rural development policy:** To strengthen the institutional support needed to formulate a rural strategy and policy. The RDP provided funds to aid in the development of a national rural development strategy and the preparation of accompanying policies.

- **Rural finance:** To provide credit through two separate credit lines designed for distinctly different borrowers and to encourage private banks to lend to rural enterprises – the *commercial credit line* to provide investment loans and working capital at prevailing market interest rates and commercial terms to commercially viable rural enterprises, and the *special credit line* to provide small-scale loans at subsidized rates to first-time borrowers. The RDP provided for the merger of the Agricultural Finance Company, established under the ADP, with the Mortgage and Land Bank (MLB) and the eventual privatization of the MLB. The RDP also included incentive provisions to encourage private banks to make loans to farmers and rural enterprises, since the private banking sector had not previously done so (Box 1).

- **Technical assistance support for institutional development:** To complete the cadastre and Land Book (an official government land registry for use in mortgage markets) and continued training for management and staff of the MLB and private banks.

2.4 The total cost of the project was US$ 19.0 million at appraisal and $22.2 million at completion. Of this total the rural development policy component represented 5 percent at

Box 1. The Special Credit Line

The RDP created a *special credit line*, parallel to the *commercial credit line*, which included specific incentives both for small rural enterprises to borrow money and for banks to lend to rural enterprises.

On the borrower side, the money could be used to start small-scale businesses and create employment in rural areas. The maximum size of these loans was initially set at 2000 Lats. If the borrower paid the loan in full and on schedule, approximately 30 percent of the loan was refunded to the borrower after the loan was paid back. The Government of Latvia and not the World Bank provided this subsidy.

On the lender side, both the MLB and private banks had to make a number of loans using the *special credit line* in order to obtain access to project funds for the *commercial credit line*, which could be used to make loans to any farmers or rural enterprises. Initially, the banks had to make $1 of *special credit line* loans to get access to $3 for the *commercial credit line*. Later, this was increased to a ratio of 1:4.

2. Rural Development Project, *Project Appraisal Document*, June 30, 1998, p. 6. The RDP was originally conceived as a two-phase adjustable program loan (APL); this was the development objective of the first of these two phases. The government informed the Bank in early 2001 that it did not intend to implement the second phase of the RDP because it was able to generate sufficient resources from its own budget and because it was able to gain access to the European Union's Special Action Program for Agriculture and Rural Development (SAPARD).

appraisal and 17 percent at completion; the *commercial credit line* 53 percent at appraisal and 37 percent at completion; the *special credit line* 28 percent at appraisal and 27 percent at completion; and the technical assistance component 13 percent at appraisal and 19 percent at completion. However, only $9.1 million of the Bank's commitment of $10.5 million was disbursed, because the government was able to access funds for the first and third components at a lower cost from the European Union's SAPARD program.

3. Project Implementation

ADP

3.1 Implementation of the ADP was the responsibility of the Minister of Agriculture (MOA) through a Project Management Unit (PMU). A Project Commission chaired by the MOA and with representatives from the Ministry of Finance (MOF), the Ministry of Environment and Regional Development, the Ministry of Economy, and the Bank of Latvia provided policy guidelines and supervised the activities of the PMU.

3.2 The Bank line of credit, which was the largest component of the ADP, provided funds for the AFC to make sub-loans to farmers. The MOA would on-lend the World Bank funds to the AFC, which in turn extended sub-loans to the ultimate beneficiaries.

RDP

3.3 Implementation of the RDP was the responsibility of an Inter-Ministerial Working Group on rural policy. This group was chaired by a Deputy Prime Minister and consisted of representatives from the MOA, the Ministry of Environment and Regional Development, the Ministry of Economy, the Ministry of Finance, the Ministry of Justice, the State Treasury, the State Land Service, the MLB, and the State Employment Service. A PMU in the MOF coordinated the overall project and reported directly to the Inter-Ministerial Working Group.

3.4 The PMU created a Technical Unit (TU) which aided in the coordination of the large number of interested parties. The MOF would on-lend the credit line funds to Participating Financial Institutions (PFIs) which would then make sub-loans to farmers and rural entrepreneurs. The PMU had the responsibility for the monitoring and evaluation of the performance of the PFIs to be certain that the intended beneficiaries were receiving support.

3.5 As the RDP was being implemented, the government found it could access funds from the EU for some of the components of the RDP at a lower cost. Hence, the Rural Development Strategy and some of the technical assistance were supported under SAPARD. With the agreement of the World Bank, loan funds were reallocated from those components for which EU funds were received to the two credit lines, which resulted in larger credit lines available to the MLB and private banks.

4. Ratings: Overall Outcome

RELEVANCE: WERE THE PROJECTS' OBJECTIVES RIGHT IN THE LIGHT OF CURRENT PRIORITIES?

ADP

4.1 The relevance of the **ADP** is rated **high** in relation to the Government of Latvia's transition objectives at the time the loan was prepared and approved. The ADP was fully consistent with the objectives of the World Bank for transition economies.

4.2 In 1993, the World Bank produced a country study, *Latvia: The Transition to a Market Economy*, which spelled out the needs of the agricultural and rural economy as follows:

> The central task of the post-communist reform period is to permit the re-establishment of both the incentives and institutions necessary for rational economic decision making decentralized to the level of the producer and the market intermediary enterprise. These include secure, transparent, and tradable property rights, and competitive marketing and trading systems for inputs, outputs, and factors of production, particularly land, shares, and other instruments of enterprise or asset ownership. Reestablishing the competitiveness of markets is a particular priority for policymakers so that credible commodity and factor prices can emerge that reflect both trade opportunity costs and a consensus of the various agents in the domestic market as to actual and anticipated scarcities and values.[3]

The ADP was aimed precisely at these objectives, namely, the re-establishment of a competitive market and the creation of the necessary institutions to facilitate the workings of a competitive market.

RDP

4.3 The relevance of the **RDP** is rated as **high** in relation to the Government of Latvia's desire to see a broadening of the income base in rural Latvia. The RDP was relevant in terms of the need to encourage private Latvian banks to start making credit available to agricultural and rural entrepreneurs.

4.4 In 1998, the government had the objective of increasing income and reducing poverty in the rural sector by diversifying the rural economy. This meant the creation of jobs in the rural sector that were not only based on agricultural production. Also, there was the need to create employment opportunities in the rural areas to help absorb the labor being released from the agricultural sector. The RDP was aimed at providing credit to rural entrepreneurs who wanted to start or expand a small business and were not engaged in agricultural production.

3. *Latvia: The Transition to a Market Economy*, World Bank Country Study, March 31, 1993, p. 88.

EFFICACY: DID THE PROJECTS ACHIEVE THEIR STATED OBJECTIVES?

ADP

4.5 The objectives of the **ADP** were **fully achieved**. The principal objective was to aid the newly emerging private farmers by providing access to credit, which was needed to make the sector more productive.

4.6 The ADP line of credit was on-lent to the AFC. The success of the AFC in terms of making loans to farmers is illustrated in Table 1. By the end of the ADP, there were 3,866 sub-loans approved with a repayment rate of almost 95 percent. The high level of repayment allowed the AFC to re-lend the returned capital and thus expand the number of farmers which received benefits from the ADP. (No performance data exists on the AFC after 1998, since the AFC was merged with the MLB as part of the RDP.) Although on-lending in Latvian lats was introduced in late 1996 – which gave end-borrowers the choice of borrowing in U.S. dollars at a lower interest rate or borrowing in lats at slightly higher rates – only 4 percent of the portfolio was denominated in lats because most of the sub-borrowers preferred dollar-denominated sub-loans.

4.7 Since the MLB absorbed the AFC, it has been able to raise funds for its lending program from the European market at competitive market rates. The OED mission queried the management of the MLB if they had requested any special or additional treatment from the Latvian government after the takeover, since it was possible that the market might have regarded the takeover of the AFC as negative for the MLB. They responded that they had not requested any special treatment from the government, since the market for loanable funds saw the takeover as positive.

4.8 A second objective of the ADP was to support the institutional development of the agricultural and rural sectors. The actions taken to achieve this objective included the

Table 1. Credit Operation: AFC Lending Operations under ADP (US$ 000).

Indicator	As of September 30, 1997	As of December 31, 1997	As of March 31, 1998
Number of sub-borrowers	2,003	2,301	2,754
Number of sub-loans approved	2,859	3,250	3,866
Total amount of sub-loans approved	34,053	37,130	49,880
Total sub-loan disbursement	29,450	32,185	40,567
Of which for investment	14,104 (48%)	15,915 (49%)	23,813 (59%)
Of which for working capital	15,346 (52%)	16,270 (51%)	16,454 (41%)
Repayment rates	95.2%	92.0%	94.7%

Source: Latvia Agricultural Development Project, *Implementation Completion Report*, June 10, 1998, Appendix C.

privatization of agri-food industries, the training of managers for the public and private sectors, and the creation of a cadastre and Land Book to facilitate the operation of a private land market. Given that many of the small food and agro-processing firms had never operated in a market economy, there was a large need and demand for management support and training tools.

4.9 The objective of helping to privatize a number of food and agro-processing firms was completed. The ADP supported the development of training handbooks and provided training to the government and private firms. And the project aided in the development of the land registration system and cartographic material. A total of 113,001 land titles were registered.[4]

RDP

4.10 The objectives of the **RDP** were achieved **satisfactorily**, but one component experienced a shortcoming. While the merger of the AFC with the MLB was completed, the MLB was not privatized, as had been originally intended.

4.11 A major objective of the RDP was to encourage private banks in Latvia to make loans to both farmers and small rural-based enterprises. Prior to the RDP, private banks played virtually no role in providing credit to the rural entrepreneurs. This objective was achieved through the special incentive program built into the RDP line of credit called the *special credit line* (Box 1). The data on the number of loans made by both the MLB and the private banks under the *special credit line* are shown in Table 2. As of 2003, the MLB had approximately a 20 percent share of lending to the primary agriculture production market, down from the 40 percent which it had in 1999. This decline has resulted from the entry of other banks in this market and from the need for MLB to diversify its lending portfolio.

4.12 The RDP helped create the institutional foundation for the government to produce a long-term rural strategy and a set of policies to support the strategy. The strategy documents titled the *National Rural Development Plan* were completed and published. The OED mission was satisfied with the thoroughness and completeness of the *National Rural Development Plan*. This appropriately focused on, among other objectives, enhancing the productivity of the rural sector, the creation of jobs, and the delivery of services in the rural sector. Beyond this, the outcome of this component is difficult to assess, because the implementation of the rural strategy will take a number of years. Only after the strategy has been implemented can the outcomes and impacts of this component be fully evaluated.

4.13 The one objective, which was not achieved, was the privatization of the MLB. At the time of the OED mission to Latvia in September 2003, the AFC had been successfully merged with the MLB, the functions of the AFC were working well within the MLB, and the MLB was a licensed and regulated bank in a manner identical to private banks, except that it was fully owned by the government. While the MLB could have been privatized in terms of its current structure and performance, the government clearly indicated it had no inclination to do so at the present time.

4. Agricultural Development Project, *Implementation Completion Report*, June 10, 1998, Appendix D.

Table 2. Special Credit Line: Annual Approvals, 1998-2001, LVL.

	1998-1999	2000	2001	01/01/02-04/1/02
All PFIs				
Number of loans	530	435	417	38
Cumulative number of loans	530	965	1,382	1,420
Amount (Lats)	914,764	829,188	867,316	75,470
Cumulative amount of loans (Lats)	914,764	1,743,952	2,611,268	2,686,738
Individual PFIs				
MLB: Number of loans	278	210	182	29
MLB: Amount	503,698	398,086	356,456	56,970
Parex Bank: Number of loans	252	151	180	0
Parex Bank: Amount	411,066	333,769	426,537	0
Baltic Transit Bank: No of loans	0	74	55	9
Baltic Transit Bank: Amount	0	97,333	84,323	18,500

Source: Rural Development Project, *Implementation Completion Report*, June 25, 2002, Additional Annex 10.

Although the commercial credit line was denominated in German Deutch Marks and later converted into euros in early 2002, the special credit line sub-loans were made in Latvian lats (LVL).

4.14 There was no apparent concern by the private banks in Latvia over the public ownership of the MLB. As long as the MLB was under the supervision of the Bank of Latvia and was not favored in anyway by the government, public ownership was not seen as a problem. Private banks did not see themselves as being *crowded out* of the market, although this perception was based on a relatively short experience of time with a public bank. However, given the positive experience of private banks in Latvia providing loans to small rural entrepreneurs within the RDP, this still leaves open the question as to why the government needed to retain a publicly owned bank.

4.15 Two reasons that were given for not privatizing the MLB were that it was doing an excellent job at achieving its stated objectives under its current ownership structure, and that the government had too much on its plate at the present time. There had been a number of high-profile privatizations that had occurred in Latvia during the transition, not all of which had been successful. The government did not view the privatization of the MLB as a sufficiently high priority on which to expend political capital at the present time.

4.16 A third reason, given to the OED mission, for not privatizing the MLB was that the government might wish to use subsidized credit to intervene in other credit markets in Latvia in the future. The example that was shared with the OED mission was the housing market. The government might want to use the MLB to provide a subsidy in order to reduce the housing shortage in urban areas such as Riga. If the government provided such a subsidy through both public and private banks, on the same terms to each, and financed from the government's budget, in a manner similar to that used in the RDP *special credit line*, then this would not be much cause for concern as far as the stability of the banking system was concerned. But if the government ordered the MLB *by direct fiat* to take on risky loans in the housing sector that would otherwise be avoided, this could be a cause for concern by creating both an over-investment in the housing sector and risking the financial sustainability of the MLB. This has often happened with government-owned banks in other developing and industrialized countries. While this did not appear to be a concern in Latvia today, it might be at some time in the future.

EFFICIENCY: WERE THE PROJECTS COST-EFFECTIVE?

ADP

4.17 The overall efficiency of **ADP** is rated as **high**. The ADP loan was fully disbursed. Two components of the ADP were evaluated in terms of efficiency: first, the efficiency of the credit line, and second, the efficiency of the institutional development activities.

4.18 The line of credit provided to the AFC was fully lent out to sub-borrowers. The loans were made through a rigorous due diligence process put in place by the central staff of the AFC. A mobile credit officer would travel in a given district and visit potential borrowers. Once identified, the borrower and credit officer would prepare a loan application. This arrangement made it possible for the credit officer to visit a large number of potential borrowers at a lower cost than working from a stationary office. Another result was spending a minimum amount of money on such items as rent for office space, and more on the training of credit officers and on the development of the loan application forms. The World Bank has since used the loan application forms and processes developed by the AFC in other transition economies such as Kazakhstan.

4.19 The institutional development undertaken within the ADP was found to be efficient. The cadastre system was completed on budget. A cross-country comparison of the cost of creating and operating the Land Book is shown in Table 3. The speed by which a title can be searched and a mortgage registered in the Latvian Land Book compares well with other developing and transition countries. The cost of using the Land Book is competitive with other countries, but somewhat behind Thailand. And, as the last row in Table 3 shows, the revenue/expenditure ratio of 1.6 indicates that the Land Book is covering its expenses and that there is no subsidy to the users of the Land Book. The creation of the Land Book was started, but not completed under the ADP. The cadastre and the Land Book greatly aided the speed at which Latvia was able to develop a fully functioning land market.

4.20 The expenditures made on training were reported to the OED mission as having been done in an efficient manner. No data was available on the number of people trained per lat spent. Therefore no formal cost-benefit analysis could be carried out.

RDP

4.21 The objectives of the **RDP** which were achieved, were done so **efficiently**. The two objectives, which were met very efficiently, were the targeting of rural entrepreneurs through the *special credit line* and the involvement of the private banks in the rural credit market. The number of loans made by PFIs using the *special credit line* is shown in Table 2. The distribution between the commercial loans (primarily loans to agricultural producers for land, buildings, and equipment) and the *special credit line* (rural entrepreneurs not necessarily associated with production agriculture) is shown in Table 4.

4.22 The credit line provided by the RDP to the MLB (after merger with AFC) was disbursed to the targeted groups with very little loan loss. When the OED mission enquired, both the MLB and the private banks indicated that they were following a conservative lending policy in which they did not take on high-risk loans. The World Bank line of credit was never intended to be a social program to redistribute income. Rather, it was intended to facilitate an adjustment in the labor market – from the agricultural production sector to the rural non-agricultural sector – by providing funds for an organized credit system to current and new rural borrowers on commercial terms (i.e. requiring financial security and at market interest rates). Taking this approach contributed to the high level of financial efficiency.

Table 4. Summary of RDP Credit Component

Implementation	1998-1999	2000	2001	Total
Commercial Loans				
Number of borrowers	115	122	109	368
Average loan size (DEM)	39,409	48,684	65,390	46,107
Special Credit Line				
Number of borrowers	530	435	417	1,382
Average loan size (Lats)	1,864	2,033	2,037	1,876
Non-performing loans (% of total credit disbursed)	0.08	0.2	3.8	1.4

Source: Rural Development Project, *Implementation Completion Report*, June 25, 2002, Additional Annex 9.

5. Ratings: Institutional Development Impact and Sustainability

INSTITUTIONAL DEVELOPMENT IMPACT

ADP

5.1 The ADP supported two general areas of institutional development. The first general area was the development of a financial market, which could serve newly emerging private farmers and rural entrepreneurs. This required not only a line of credit but also technical and managerial expertise. The second area of institutional development was the creation of the human and institutional capacity essential for a well functioning market economy. The institutional development impact of the **ADP** is rated as **substantial**.

5.2 The ADP aided in fostering the development of the AFC, which was the vehicle used to on-lend the World Bank line of credit to Latvian farmers. Prior to the AFC there was no financial vehicle to help the newly emerging and generally smaller and resource-poor farmers access credit.

5.3 The AFC had two important institutional components which aided in its success. First, the AFC developed a rigorous loan application and approval process. This process was based on the collection of detailed farm cost and revenue data. The manner in which the AFC did business became institutionalized and has worked very well. Second, the AFC had mobile credit officers, who went to the customers (i.e., the farmers) rather than waiting for the farmers to come to them. The mobile credit officers maintained a close relationship with the farmers, visiting the farms a number of times each year when the loans were in place. This made it possible to identify and deal with many of the farm financial problems before these became a serious problem. The financial problems dealt with such issues as being certain to have cash on hand to be able to make loan payments when these came due. The records needed to monitor the farm business were kept up to date. (This emphasis on record keeping has also helped Latvian farmers prepare for joining the EU farm support system.) And, when the farm cash flow became tight, the credit officers were able to help the farmers get through such situations while still maintaining sound business management.

5.4 In the past, many World Bank projects which have supported a line of credit have not been very successful in achieving their desired objectives. As a result the use of credit lines has declined within the World Bank.[5] The ADP is one example where a line of credit has met its stated objectives.

5.5 The fact that the ADP was successful raises an important question with regard to the World Bank's position on the use of lines of credit. Credit markets are intertemporal markets that are characterized by high transactions costs, asymmetric information, and intertemporal risks of default, liquidity, and prices (i.e. inflation). They are institutionally intensive. They require well-defined property rights, enforceable rules (such as foreclosure rules), and adequate human resource capacity to function well. Not only the design, but also the institutional environment and the human resource capacity in Latvia contributed to the success of the ADP (and the RDP). One size does not fit all. The design of line of credit projects needs to take into account the institutional environment and the human resource capacity that exists in each country and where these are not adequate, to invest resources in their improvement. In the case of Latvia, the ADP and RDP met a definite need during its transition to a market economy. Not to have provided Latvian farmers with the opportunity to access credit, and by means of credit to make adjustments to their farm enterprises, would have slowed the transition to a market economy.

5. For a detailed discussion of credit lines see Jacob Yaron, "Evaluation of Bank Lines of Credit (LOC) operations in the 1993-2002 period," December 2003, background paper to OED's forthcoming Review of Lines of Credit.

5.6 The Latvian Agricultural Advisory Service helped to strengthen farm management practices and to teach farmers about the functioning of a free market. This helped the farmers make better planning and marketing decisions. Marketing and distribution support was provided through the Enterprise Support Centers in Latvia, which produced manuals on how to finance, to develop procurement strategies, and to restructure newly privatized firms.

5.7 Land reform was a major success. At the time the ADP was started there were approximately 193 cadastre titles and 10 legal ownership titles in the Land Book. By the close of the ADP the cadastre had grown to 157,000 titles and 104,000 ownership titles registered in the Land Book. This has provided a sound basis for the growing land and mortgage market in Latvia.

RDP

5.8 The institutional development of the **RDP** is rated as **substantial**. The RDP had two overarching institutional objectives: first, to see the development of a privately owned banking sector, which was actively providing services to farm and rural entrepreneurs, and second, to support the institutional development of a group in the government that could formulate a long-term rural development strategy and a set of companion policies for Latvia.

5.9 The AFC was successfully merged into the MLB. The management of the AFC was initially absorbed by the MLB, which helped the merger occur successfully. The MLB adopted the due diligence process developed by the AFC, and the MLB has expanded the number of rural branches as a result of the merger.

5.10 Private banks were given access to the project credit lines to encourage them to lend to rural customers. This strategy was successful as shown in Table 4. Representatives of private banks informed the OED mission that they have developed a rural investment portfolio as a result of the RDP and plan for this portfolio to grow. This is an important institutional development.

5.11 One of the institutional objectives which was not achieved was the privatization of the MLB. The government stated in very clear terms they had no intention of privatizing the MLB at this time for the reasons discussed earlier (paragraphs 4.14 and 4.15). We found no evidence that the MLB had been favored in any way in gaining access to the RDP line of credit. Private banks told the OED mission that they had been fairly treated in terms of how the RDP funds were administered by the GOL.

5.12 The government has developed a rural strategy called the *National Rural Development Plan*. This plan was put together by a number of government departments and agencies and lays out the future rural strategy for the government.

SUSTAINABILITY

ADP

5.13 The sustainability of the **ADP** is rated as **likely**. First, the government is very committed to sustaining the results of the project.

5.14 Second, from working with the mobile credit officers of the AFC and the MLB, the newly emerging private farmers have become skilled in maintaining complete financial statements. Latvian farmers are now using these management skills to get better access to SAPARD grants. The Special Action Program for Agriculture and Rural Development is a rural development program sponsored by the EU in which farmers can apply to recover part of the investment costs of a piece of equipment or the construction of a building.

5.15 Third, the training provided to managers of the newly privatized food and agro-processing firms is being sustained. The training of staff is now being paid for by the privatized firms themselves, and many of the manuals and instruction material developed with support from the ADP are still being used.

5.16 The reforms to the land market are permanent. Latvia is actively developing its agricultural land market. This is being aided by the development of the mortgage market, which is a direct result of the Land Book and cadastre. As shown in Table 5, the use of land mortgages continues to grow after the closure of the ADP. (The total value of the mortgages was not provided to the OED mission).

RDP

5.17 The sustainability of the benefits created from the **RDP** is rated as **likely**. The government is committed to all but one of the components of the RDP, which is the privatization of the MLB.

5.18 The private banks have started to develop an agricultural and rural loan portfolio. This is a strong indication that the private banks will stay in the rural lending market. Having become accustomed to lending to smaller businesses, they stated that they intend for this portfolio to grow.

5.19 Both the private banks and the MLB stated they intend to keep making loans to small start-up rural businesses. This was one of the major benefits conferred from the s*pecial credit line*, and it appears to be sustainable.

5.20 The RDP provided support for the completion of the Land Book. The Land Book is located in the Department of Justice and is used by those individuals who seek to place a mortgage on the land. The number of mortgages placed on farmland increased dramatically between 1998 and 2002 (Table 5).

Table 5. Number of Mortgages taken on Land, 1995-2002

Year	1995	1996	1997	1998	1999	2000	2001	2002
Number of mortgages	861	1,740	3,906	8,864	11,257	18,361	26,549	36,903

Source: Data provided to the OED mission by the Land Book registry.

6. Ratings: Bank and Borrower Performance

BANK PERFORMANCE

ADP

6.1 The World Bank performance on the **ADP** is rated as **highly satisfactory**.

6.2 The World Bank started the ADP at a time when the borrower needed assistance to help newly emerging private farmers and help privatize a number of small food and agro-processing firms. Even though the use of credit lines was declining in the World Bank at the time of the loan, this project was approved because of the obvious need for agricultural credit in Latvia.

6.3 The project was identified, developed, prepared, appraised and became effective in less than 12 months. This took place in the context of a new transition economy that was lacking many of the institutions required for a free market.

6.4 The objectives of the ADP were focused and totally consistent with the needs and wishes of the government so that all parties had the same desired outcome.

6.5 The Bank proved to be flexible in providing technical assistance to the government. When there was a problem with the technical assistance being given to the AFC, the Bank was able to locate another source for technical assistance which met the needs of the borrower.

6.6 The staff of the Bank was highly valued and their continuous efforts on behalf of the ADP were greatly appreciated. All participants in the ADP repeatedly told the OED mission that the performance of the Bank staff was exemplary.

RDP

6.7 The World Bank performance on the **RDP** is rated as **satisfactory**. Working with its Latvian counterparts, the Bank was able to prepare the RDP and get it approved by the Bank's Board relatively quickly (from May 1997 to July 30, 1998).

6.8 The strategy to encourage private banks to lend money to small rural entrepreneurs and farmers was simple to understand and manage. This was a major part of the success of the *special credit line*.

6.9 The Bank staff who prepared the project remained in place throughout its implementation, which contributed to its efficient and successful implementation.

BORROWER PERFORMANCE

ADP

6.10 The performance of the government and the implementing agencies with respect to the **ADP** is rated as **highly satisfactory**.

6.11 The government demonstrated strong and continuous support for the ADP. Even though the government changed several times, their commitment to the objectives of the project did not waiver. This enabled the specific programs developed under the ADP, such as the AFC, to receive the continuous attention and support needed to make them successful.

6.12 The quality of the PMU staff was very high. They had the necessary access to the political leaders to enable them to resolve any problems as these arose.

6.13 The staff and management of the AFC were excellent. They worked closely with the Bank staff and consultants, and were able to develop solutions to many of the institutional and management problems of developing sustainable rural banking systems in a transition economy.

6.14 There is no evidence the government interfered with the AFC in terms of who received or did not receive a loan. In addition, the government allowed the AFC to run a fully commercial operation and did not try to manipulate the program.

RDP

6.15 The borrower's performance with respect to the **RDP** is rated as **satisfactory**.

6.16 The government was committed to the objectives of the RDP. It met its financial commitments to the RDP, including providing the government funds required to carry out its share of the project, particularly the subsidies associated with the *special credit line*.

6.17 The government supported the merger of the AFC and the MLB. However, the government did not support the privatization of the MLB, this being the one area where the government did not meet its commitment at the time the RDP was signed.

6.18 The government placed sustainable rural development on its priority agenda. This required the input of some major government departments, such as the Ministries of Agriculture, Environment and Regional Development, Economy and Finance to put together a meaningful rural development strategy.

7. Lessons

7.1 Experience with these two projects confirms a number of OED lessons:

(1) ***The success of a line of credit project is dependent not only upon its design but also on the institutional environment and human resource capacity of the country.*** Credit markets are intertemporal markets and therefore institutionally intensive. They require well-defined property rights, enforceable rules (such as foreclosure rules), and adequate human resource capacity to function well. A government must allow these institutional rules to operate unhindered for a credit market to operate in an efficient manner and for borrowers to understand that the loans must be repaid. The design of line of credit projects needs to take into account the institutional environment and the human resource capacity that exists in each country, and where these are not adequate, to invest resources in their improvement.

(2) ***It is important to pay close attention to the incentive structures that are built into financial instruments like lines of credit, since these can represent the major difference between success and failure.*** Both the ADP and RDP took great care in building the appropriate incentive structures into the sub-loans. Careful and thoughtful program design minimized moral hazard problems and resulted in very high rates of repayment. The s*pecial credit line* only paid a subsidy to borrowers (small-scale rural entrepreneurs) once the loan was fully repaid. This high-powered incentive had the desired effect on the behavior of the borrowers.

(3) ***When a government creates a new financial instrument such as publicly provided credit to enhance the efficient functioning of private markets, it is important to have an exit strategy to move this instrument to the private sector.*** In the case of Latvia, the government created the publicly owned Agricultural Finance Corporation under the ADP and merged this with the publicly owned Mortgage and Land Bank under the RDP. While privatizing the MLB was an objective of the RDP, this did not occur in part because there was not a detailed plan for doing so. The government decided not to privatize the MLB because the MLB was performing well under its current ownership structure, because the government had higher priorities, and because the government might want to use the MLB to subsidize credit in other credit markets (such as housing) in the future.

Annex A. Basic Data Sheets

LATVIA: AGRICULTURAL DEVELOPMENT PROJECT (LOAN 3695)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Loan amount	25.0	25.0	100
Cofinancing	4.9	11.8	241
Financial intermediaries	4.5	8.0	178
Sub-borrowers	10.7	10.2	95
Total Project Costs	45.1	55.0	122

Cumulative Estimated and Actual Disbursements *(amounts in US$ million)*

	FY94	*FY95*	*FY96*	*FY97*	*FY98*
Appraisal estimate	2.0	10.0	20.0	25.0	25.0
Revised estimate June 1995 /1	2.0	6.5	14.0	25.0	25.0
Actual	2.0	6.6	11.9	22.7	25.0
Actual as % of estimate	100	102	85	91	100
Date of final disbursement:					11/11/1997

/1 Revised estimate was necessitated by Investment Bank of Latvia's (IBL) termination of participation. The IBL, which was expected to utilize 50 percent of the credit line, generated only six sub-loans totaling $1.43 million through July 1995 and requested to terminate its participation in the project.

Project Dates

	Original	*Actual*
Identification	April 21, 1993	April 21, 1993
Preparation	April 25, 1993	April 26, 1993
Appraisal	June 15, 1993	June 30, 1993
Negotiations	October 15, 1993	December 6, 1993
Board Presentation	November 25, 1993	January 11, 1994
Approval	January 5, 1994	February 16, 1994
Effectiveness	March 31, 1994	April 14, 1994
Mid-term review	May 1996	May 1996
Loan closing	December 31, 1997	December 31, 1997

Staff Inputs *(staff weeks)*

	Actual weeks	Actual US$000
Preparation to Appraisal	34.3	98.7
Negotiation to Board	42.9	127.6
Appraisal/Negotiation	15.0	45.6
Supervision	101.6	352.2
ICR	5.5	25.0
Total	201.3	622.9

Mission Data

	Date (month/ year)	No. of persons	Staff days in field	Specializations represented	Performance rating	
					Implementation status	Development objectives
Through Appraisal	May 1993	6	14	Economist, Forestry-Indus., Rural Credit, Privatization, Ag. Policy, Technical		
Appraisal through Board	July 1993	7	20	Economist, Forestry-Indus., Privatization, Rural Credit, Technical, Agro-Industrial, Enterprise Mgt		
Supervision 1	May 1994	3	12	Agro-Industrial, Economist, Ag. Credit	HS	HS
Supervision 2	August 1994	2	8	Economist, Ag. Credit	HS	HS
Supervision 3	May 1995	3	12	Economist, Rural Banking, Technical	S	HS
Mid Term Review	May 1996	7	35	Agro-Industrial, Rural Banking, Economist, Technical, Ag. Policy, Institutional Dev., Ag. Finance	HS	HS
Supervision 5	November 1996	5	15	Agro-Industrial, Rural Banking, Economist, Invest. Analyst, Banking	HS	HS
Supervision 6	May 1997	6	14	Agro-Industrial, Rural Banking, Economist, Extension, Technical, Invest. Analyst	HS	HS
ICR	November 1996	6	10	Technical, Rural Banking, Economist, Proj. Asst.	HS	HS

Key to Performance Ratings: HS = Highly Satisfactory, S = Satisfactory

LATVIA: RURAL DEVELOPMENT PROJECT (LOAN 4380)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Loan amount	10.50	9.10	87
Cofinancing /1	6.55	10.30	157
Government	1.95	3.00	154
Total Project Costs	19.00	22.40	118

/1 Cofinancing figures include contributions from private financial institutions and beneficiaries.

Cumulative Estimated and Actual Disbursements *(amounts in US$ million)*

	FY99	*FY00*	*FY01*	*FY02*
Appraisal estimate	1.5	6.5	10.5	10.5
Actual	1.0	4.2	6.7	9.0
Actual as % of estimate	67	65	64	86
Date of final disbursement:				

Project Dates

	Original	*Actual*
Identification/Preparation		June 28, 1996
Appraisal		March 17, 1998
Approval		July 30, 1998
Effectiveness	October 30, 1998	December 8, 1998
Mid-term review	June 30, 2000	May 29, 2000
Credit closing	June 30, 2001	December 31, 2001

Staff Inputs *(staff weeks)*

	Actual weeks	*Actual US$000*
Through appraisal	n/a	201.7
Negotiations to Board	n/a	112.0
Supervision	n/a	178.0
Completion	n/a	65.0
Total	n/a	556.7

Mission Data

	Date (month/year)	No. of persons	Specializations represented	Performance rating	
				Implementation status	Development objectives
Identification/ Preparation	May 1997	5	E, ATS, ES, BS, APS		
	September 1997	1	BS		
	November 1997	6	E, ATS, OA, BS, RDPS, CDS		
Appraisal/ Negotiation	March-April 1998	5	E, ATS, OA, BS, RDPS		
Supervision 1	December 1998	2	E, BS	S	S
Supervision 2	June 1999	4	E, ATS, OA, RDPS	S	S
Supervision 3	December 1999	3	E, FS, OA	S	HS
Supervision 4	March 2000	2	E, RBS	S	HS
Supervision 5	June 2000	4	E, SM, OA, BS	HS	HS
Supervision 6	December 2000	1	BS	HS	HS
Supervision 7	September 2001	1	BS	HS	HS
ICR	May 2002	5	E, OA, FA, BS, RDPS	HS	HS

Specializations represented: ATS: Agro-technical Specialist; BS: Banking Specialist; CDS: Community Development Specialist; E: Economist; ES: Extension Specialist; FS: Financial Specialist; OA: Operations Analyst; RDPS: Rural Development Policy Specialist; SM: Sector Manager.

Performance ratings: HS: Highly satisfactory; S: Satisfactory.