



<b>1. Project Data :</b>
<b>OEDID:</b> L3020
<b>Project ID:</b> P008475
<b>Project Name:</b> Industrial Restructuring 3
<b>Country:</b> Hungary
<b>Sector:</b> Industrial Restructuring
<b>L/C Number:</b> L3020
<b>Partners involved :</b> none
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<b>Date Posted :</b> 03/30/1998

**2. Project Objectives, Financing, Costs and Components :**  
The project aimed to (i) redirect the industrial sector towards products suitable for convertible currency exports; (ii) improve enterprise management capabilities; (iii) stimulate the growth of SMEs; (iv) alleviate the adverse impact of restructuring; and (v) strengthen the capabilities in support of industrial restructuring. The Bank loan of US\$140 million equivalent was approved in February 1989 and closed in June 1997. The first four objectives were to be achieved with the use of a credit line and the last objective through technical assistance. A total of US\$ 82.7 million was disbursed and the remaining part canceled.

**3. Achievement of Relevant Objectives :**  
The original project objectives were conceived for a different economic and business environment, and when this environment changed, most of the objectives became obsolete . The project supported restructuring in a period when Hungary was in deep recession and going through major political and social changes . Economic activity was severely affected by (i) the collapse of the Council of Mutual Economic Assistance (CMEA) markets, (ii) major droughts in 1992-93, and (iii) UN sanctions on Yugoslavia . The Bank, in consultation with the Hungarian authorities amended the Loan Agreement twice. Project objectives related to the credit component were reformulated to facilitate onlending funds where restructuring could be achieved (SMEs) and canceling the areas where there was insufficient demand (large enterprises). These revised objectives were met . The technical assistance component successfully supported government services to redeploy labor, especially in backward regions where unemployment was severe .

**4. Significant Achievements :**  
The revised focus of the project enabled 985 loans to SMEs for working capital and investment financing . The enterprises cash flow situation improved after investment, and in some cases dramatically . In spite of the very adverse economic and financial environment, the collection ratios of the banks were around 87%. Newly created employment services institutions launched over 2,000 training courses and enrolled over 14,000 persons. For those who finished the courses successfully, 60% found a job within six months .

**5. Significant Shortcomings :**  
A macro framework conducive to efficient industrial restructuring was not in place until 1995 when the Government successfully introduced a stabilization program which paved the way to more fundamental reforms .

<b>6. Ratings :</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome :</b>	Satisfactory	Satisfactory	OED concurs that private sector development was substantial .
<b>Institutional Dev .:</b>	Partial	Modest	The partial and modest ratings are largely equivalent.
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**7. Lessons of Broad Applicability :**

1. The rapidly changing economic and social environment had a decisive impact on project performance . While it was hardly possible to anticipate such changes, the Bank and Borrower corrective actions could have been swifter .
2. Given the macro economic context calling for flexibility and adaptability, the original apex approach to sectoral credit appeared quickly too restrictive and too complicated . With insight, it would have been better to finance general lines of credit covering a large range of goods and services, including leasing, and to lend directly to selected banks .
3. Once the Bank appraises and accepts the lending procedures and credit guidelines of participating banks, the Bank should refrain from micro managing the credit lines .

**8. Audit Recommended?**  Yes  No

**9. Comments on Quality of ICR :**

The ICR is of very good quality . It is well anchored on facts . It makes candid assessments and carries valuable lessons for future financial intermediary lending .