INDUSTRIAL RESTRUCTURING -
POLICY AND PRACTICE

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INDUSTRIAL RESTRUCTURING - POLICY AND PRACTICE

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EXECUTIVE SUMMARY AND INTRODUCTION

(i) Industrial restructuring involves actions by enterprises to bridge gaps between their current performance and what is required to become internationally competitive. These gaps emerge with global changes in technology, organization, marketing and factor prices. Firms are prompted by policy, regulatory and institutional changes to take actions to improve competitiveness. Restructuring is said to have occurred when a firm, a subsector or an industry has shifted to a product mix and cost structure that is competitive now--and that is positioned dynamically to remain competitive.

(ii) Experience shows that restructuring at the firm level will not take place automatically in response to macroeconomic policy changes or rapid shifts in global conditions. Governments need to establish policies that facilitate flexible resource movements in response to competition, promote institutions capable of filling information and capability gaps, and ensure that appropriate financing is available. Policies and institutional programs can help scale down uncompetitive industrial activities, reshape those which can be internationally competitive, and enlarge the share of promising new activities.

(iii) This paper examines the reasons for restructuring and outlines the policies and institutions needed to make it effective. The evolution of Bank lending for industrial restructuring is described, with lessons learned from past operations highlighted. The purpose of the paper is to provide guidance on the design and implementation of Bank-supported industrial restructuring programs. The paper identifies key industry and trade policies; outlines elements of successful approaches to subsector and enterprise restructuring; and describes the financial instruments and institutions required to promote industrial restructuring.

Policies as Preconditions for Effective Restructuring

(iv) The Bank has supported industrial restructuring programs since 1980, beginning with narrow physical rehabilitation projects targeting a few public enterprises, evolving into operations with increased attention to policy and institutional change at subsector and industry-wide levels. Experience demonstrates that industrial restructuring operations can be effective only as complements to policies that promote efficient, competitive supply responses by industrial enterprises. In addition to sound macroeconomic policies, the following measures need to take place prior to an industrial restructuring operation--at least in those subsectors covered by the operation:

- Removal, or significant reduction, of barriers to entry, exit and expansion of industrial enterprises.
- Elimination of policy-induced public or private sector industrial monopolies. When domestic competition is
inadequate to force efficiency in production, import
competition is required, particularly in key intermediates,
e.g., steel, fertilizers, petrochemicals, cement.

- Elimination or major reduction in subsidies, unilateral
  transfers, and "special deals" for certain enterprises.
- Institution of market-oriented pricing policies.

(v) These policy measures can be incorporated as preconditions
of an industrial restructuring operation, supported under parallel
adjustment operations, or undertaken independently as part of a govern-
ment's overall policy reform program. Experience indicates that
physical rehabilitation and financial restructuring of industrial
enterprises will not result in significant performance improvements
unless competitive pressures force firms to improve their organizational
and operational efficiency.

Industrial Subsector Restructuring

(vi) World Bank support for private enterprise restructuring
almost always is indirect. Credit is provided through the financial
system, and technical and marketing services through financial, commer-
cial or government agents. In many cases, a subsector focus in such
operations is useful. Subsector diagnoses help pinpoint key success
factors for global competitiveness in major product groups and identify
major gaps between domestic and international practice in technology,
organization and marketing. Also, since competitive requirements are
specific to different product-market segments, services to provide
market information and build capabilities often are best geared to
specific subsectors. Thus the objective is to dismantle subsector-
specific subsidies, while promoting functional services, beginning with
promising subsectors.

(vii) World Bank-supported industrial subsector restructuring
operations need to incorporate institutional programs that help firms
develop competence in critical functional areas. Such programs can
include:

- Measures to help individual firms devise export marketing
  strategies and productivity improvement programs;
- Human resource development programs aimed at creating a
  flexible, technical labor force and management;
- Funding for research and development, with a focus on
  applying technologies available internationally to domestic
  uses; and
- Mechanisms to help firms form strategic alliances with
  companies operating globally.
(viii) Given rapid changes in technology and markets and the increasing focus on exports, financial intermediaries need to develop product specific technical and marketing expertise in project evaluation. In some Bank-supported operations, subsector credit allocations have been justified on the grounds of providing this focus. However, such credit allocations can create distortions, rigidities and problems in attempting to predict future investment areas. Subsector credit allocations should be avoided. It is preferable to involve financial intermediaries in subsector diagnoses and to make them responsible for technical assistance components which provide direct exposure to technology and marketing issues in the major product groups.

Restructuring State-Owned Industrial Enterprises

(ix) Major debt, fiscal and financial sector problems being faced by many developing countries mean that they cannot afford to maintain insolvent, uncompetitive public industrial enterprises. Programs to close and downsize nonviable public enterprises--and deep restructuring of those that can be competitive--merit priority attention. In restructuring large and powerful public enterprises (PEs), overall competition policies need to be combined with explicit measures to remove or reduce the special benefits that public enterprises usually receive: subsidies, sales arrangements with other PEs, and monopolies on sourcing, production, and sales. Due to their monopoly status, soft financing constraints, and mixed mandates, many PEs have used their monopoly power to absorb related enterprises or have expanded into unrelated businesses. Tough decisions, based on solid subsector and enterprise analysis, are needed to unwind these PE-specific distortions.

(x) Physical rehabilitation and financial restructuring of public enterprises have not succeeded, unless they were accompanied by policies requiring competitive performance, and by enterprise-level changes in management, organization, technology, and marketing strategies and capabilities. Also, limited results have been achieved or can be expected through management information, performance evaluation, or performance contract systems. Improved transparency and information systems are useful only as complementary systems once real power and financial relationships (subsidies, transfers, special credit access) change.

(xi) Key Success Factors. The following approaches are basic to sound restructuring programs involving government-owned enterprises.

- Industrial firms should exist to provide goods and services at competitive prices and quality. The objective should be reduction and ultimate removal of producer and consumer subsidies. Public industrial enterprises should pay their own way--or have clearly demonstrated prospects for doing so after restructuring.

- Incremental investments in industrial enterprises should be supported only if international competitiveness in price and quality will be achieved or approached as a result of the
restructuring operation. This is particularly critical in basic intermediates—steel, petrochemicals, fertilizers—since inefficient public enterprises undermine prospects for competitiveness of downstream users. When a company is a domestic monopoly, competition from imports often is a primary mechanism for promoting efficiency.

- Means to increase participation of local and foreign private sector partners should be explored actively. Joint ventures or strong collaborative arrangements with successful foreign firms operating globally should be promoted, as these can provide funding, create external pressure for competitive performance, and introduce best international practices.

- For enterprises remaining in the public sector, power relationships need to change, with government becoming an arms-length shareholder in the firms it oversees. Holding companies—often seen as a mechanism for distancing the bureaucracy from the enterprises—are important only if they have budget responsibilities for public enterprises and are free to liquidate, privatize, or form joint ventures. Otherwise, holding companies are just another layer of controls.

- Public enterprise restructuring programs should address issues of labor redundancy; compensatory payments as incentives for voluntary redeployment; and retraining of management and labor.

- Given the extreme complexities, strong social and political dimensions, and tenuous nature of public enterprise restructuring programs, strong government commitment is critically important. This commitment needs to be evidenced by concrete actions that have been implemented and by a convincing program of measurable actions agreed to by all participants.

(xii) Privatization can be an important means to achieve competitiveness and to reduce political interference. However, the selling of public enterprises poses formidable problems. The number of potential buyers often is limited, and capital markets in developing countries often are inadequate for absorbing divestitures. Also, if not implemented properly, privatization may merely replace public with private monopolies.

(xiii) Other means to increase private participation in ownership and management of public industrial enterprises include employee buy-outs, leasing of assets, direct sales of all or part of the enterprise, off-loading of marginal activities, and formation of joint ventures with local or foreign partners. Potential benefits of such measures to increase private participation include more efficient use and reduced drains on scarce public sector resources; less crowding out of the private sector in domestic capital markets; and more transparency in the
industrial sector, increasing confidence of investors. Perhaps the most effective and pragmatic means to increase private participation is the downsizing of existing public enterprises, limiting future expansion to give room to private initiatives.

Financial Sector and Industrial Restructuring

(xiv) Removal of serious distortions in the financial sector is a prerequisite for industrial restructuring. In countries in deep financial distress, sound new investments can take place only after restructuring of the industrial portfolios of insolvent intermediaries, and only after dealing explicitly with nonperforming assets. Without restructuring of the financial system, banks will bail out unhealthy investments, thus pushing financial costs up and healthy new investments out. To improve the financial health and efficiency of the banking system, governments must introduce regulatory incentives and initiate financial restructuring of affected intermediaries, so that only financially sound intermediaries survive. These systemic reforms are best tackled with the support of financial sector adjustment operations.

(xv) In industrial restructuring projects which involve credit lines through financial intermediaries, care is needed to ensure that: only sound and solvent institutions are used; basic principles of corporate finance are employed; and appropriate instruments and eligible expenditures are incorporated.

(xvi) Financial assistance for industrial restructuring programs differs substantially from financing under traditional development finance operations. Under previous credit lines, the World Bank offered long-term loans for investments in equipment and as permanent working capital, relying primarily on government-owned development finance institutions (DFIs) to make loans to companies directly and through refinancing arrangements. In restructuring operations (and in new credit lines) the World Bank will need to be more selective in the use of financial intermediaries.

(xvii) Despite a theoretical capacity for project appraisal, a number of development banks have lent for unviable projects, have experienced related deterioration in portfolio quality, and have serious solvency problems. Many commercial banks have avoided these problems, and have shown that they are capable of handling corporate finance and equity investments. Successful commercial banks have strong market knowledge, financial engineering expertise, and regular relationships with industrial clients. The commercial banks—and the small but growing group of investment banks—could increasingly become important channels for the Bank's financial intermediation loans, especially in industrial restructuring programs.

(xviii) To the extent that competent, healthy financial intermediaries are used, Bank-supported industrial restructuring could finance a broader set of restructuring expenditures. Bank funds do not now finance acquisition of domestic companies because acquisitions involve transfer of ownership of existing assets rather than creation of
new assets. Mergers and acquisitions can be important means to increase the efficiency of industrial enterprises. The Legal Department, in cooperation with PPR and Operations, will examine this issue.

(xix) Along with investments in equipment and working capital, parallel financial restructuring of a company may be required. Restructuring of a company's liabilities can comprise: maturity extension, debt consolidation, and debt/equity conversion. While the Bank's policies do not allow direct financing of these instruments, financial intermediaries could be encouraged to support financial restructuring—to enable serious work-out programs.

World Bank Lending Experience

(xx) The World Bank has had a significant and growing role in industrial restructuring. From FY80 to FY88 the Bank provided about US$3.8 billion for over 50 industrial rehabilitation or restructuring projects. More than 70% of this lending was in the FY86 to FY88 period. These projects mark successive shifts from the industrial lending strategy of the 1960s and 1970s. During the earlier period, the Bank supported "greenfield" industrial projects geared to create new capacity, mainly in capital-intensive, government-owned enterprises. In the early 1980s, the Bank shifted its focus to physical rehabilitation projects, which dealt primarily with modernizing public sector enterprises. These rehabilitation operations reflected the hope that plant modernization and cost-plus pricing would be enough. The focus was on financial solvency of a few public enterprises. Insufficient attention was paid to organization, marketing, or management weaknesses. Market pricing, import and export competition, entry and exit barriers and government intervention were not concerns of most operations. The weak results of these narrow approaches and the economic costs of business-as-usual became apparent to Bank staff and many policymakers by the mid 1980s.

(xxii) Industrial restructuring loans in the second half of the 1980s have given more importance to policy, institutional, and management reform. The increased lending for subsector and sector-wide restructuring in the FY85 to FY88 period facilitated this enlarged scope.

(xxii) The FY89 to FY91 pipeline includes US$5.4 billion for 41 industrial subsector and restructuring loans. In addition, the bulk of the Bank's FY89 to FY91 lending through financial intermediaries is likely to fund existing industrial enterprises, which need to restructure their operations to respond to changing policies and competitive conditions.

(xxiii) This report reflects analysis of over 50 Bank-supported industrial restructuring operations in 29 countries, initiated in the FY80 to FY88 period. Narrow physical rehabilitation approaches, typifying FY80 to FY85 operations, have not proven to be effective. While it is still early to judge the effectiveness of broader subsector and industry-wide approaches, assessment of project documents and interviews
of task managers highlight important lessons for the next generation of industrial restructuring operations. The Annex provides a matrix of the basic features, objectives, and components of the 50 restructuring operations.

(xxiv) First, the most critical factor for success is the involvement in all phases of competent, committed local participants. Second, restructuring operations should be geared to promoting competitive responses to rapid global changes and policy shifts. Third, global subsector studies—which assess key success factors in cost, quality, technology and marketing—are important in judging whether enterprise restructuring will make firms internationally competitive.

(xxv) Fourth, Bank restructuring projects cannot succeed if they deal primarily with physical aspects—without giving adequate attention to regulatory policy issues, ownership, and organization. Fifth, in Bank lending operations supporting parastatals with monopoly status, at a minimum, competitive pressures should be created by removing entry barriers, liberalizing imports, and/or breaking up monopolies. Sixth, minimum regulatory, pricing, and public enterprise reforms should be agreed upon as part of restructuring operations or supported by parallel adjustment operations. Seventh, industrial restructuring requires a five to ten year commitment to change. Eighth, a coherent, sequenced restructuring program, over that period, phased as several back-to-back projects, is desirable. Ninth, being an ongoing process, restructuring operations need more than usual Bank supervision, and are therefore resource-intensive.

(xxvi) Tenth, solvent, competent financial intermediaries should be used, with appropriate financial instruments introduced to meet the distinct needs of industrial restructuring. Eleventh, finance for marketing, research and development, retraining, and production systems are important in restructuring and should be included in a wider definition of eligible expenditures. Twelfth, restructuring operations need to increase attention to labor aspects, making Bank funds available for worker retraining and encouraging counterpart funding for severance payments.
CHAPTER I
POLICIES FOR INDUSTRIAL RESTRUCTURING

A. Key Policy Dimensions

1.01 A business environment that rewards efficient performance is necessary if enterprises, subsectors, and industry overall are to restructure toward global competitiveness. Successful restructuring depends on a framework with the following critical elements:

(a) macroeconomic policies geared to providing a stable business environment, with exchange rates adjusted to maintain equilibrium between domestic and international prices, and with prudent public revenue and expenditure practices;

(b) effective competition policies combining: phased-in import liberalization; changes in regulations and incentives to reduce domestic barriers to entry, exit, and expansion; and export rivalry measures;

(c) liberalization of factor and final output prices; and

(d) institutional services and infrastructure to aid firm-level restructuring, e.g., effective market information/consulting extension services, human resource development, telecommunications, transport, power.

Table 1.1 provides a detailed breakdown of instruments in these main areas.

1.02 Some recent World Bank industrial sector reports have increased the analysis of the mix and phasing of macroeconomic, trade, and regulatory policy reforms. The Bank's 1988 Industrial Sector Study on Argentina, based on analyses of industrial structure and performance, recommended the phasing of domestic regulatory and price reforms, liberalization of import tariffs, and phasing out of special incentives. In India, sector work analyzed needed changes in entry, exit and expansion regulations, with the first set of reforms supported under the Industrial Export Project-Engineering Products, a restructuring operation.1/

Table 1.1: MAJOR COMPONENTS OF THE POLICY AND INSTITUTIONAL ENVIRONMENT

1. Macroeconomic Policies
   - Exchange-rate regime: means to increase competitive pressures and use external markets as the signal for resource allocation and use
   - Fiscal and credit policies: means to the problem of public expenditures squeezing out private restructuring and development financing

2. Competition Policies
   A. Import Liberalization: quantitative import restrictions, import tariffs, import taxes, administrative import controls, and other import restrictions
   B. Free Trade Regime for Exports: duty drawbacks and duty exemption schemes for imported inputs for export production; pre- and post-shipment credit and insurance for exports and related imports, production; and export-import administration, including customs
   C. Internal Regulations and Incentives
      - Licensing, subsidy and incentive barriers to entry, exit and expansion of industrial capacity. These regulations—including weaknesses in bankruptcy law, limits on enterprise size, licensing of new capacity—reduce the flexibility of the domestic productive base, and constrains the ability of existing and new enterprises to respond to new competitive challenges
      - Taxation, subsidies, incentives, discretionary access to foreign exchange and other measures reflecting mixed objectives, and reducing the focus on efficient, competitive performance
      - Constraints on foreign collaboration—including limitations on direct foreign investment, royalty payments, repatriation of profits, intellectual property rights—limit domestic firms' access to best practice production technology and marketing/distribution networks
      - Protection of state-owned enterprises—including public monopolies, special pricing and procurement arrangements, direct subsidies, and access to special budgetary or bank credit—insulates state-owned enterprises from domestic or external competitive pressures, thus limiting the incentives to restructure
      - Enterprise autonomy: freedom of entry or exit; operational autonomy
      - Price controls: represent a strong distortion in many developing economies, reducing the role of market pricing signals in guiding resource allocation and use

3. Domestic Factor Prices
   - Pricing: prices for inputs, utilities, transportation, and basic consumer goods; subsidies
   - Labor: minimum wage; ease of lay-offs by regulation or in practice; mobility; retraining; severance pay; hiring practices; unionization
   - Taxation: level and coverage of corporate taxation; concessions and exemptions; dividends; depreciation rules; carry over; profits of foreign investors

4. Infrastructure, Institutional, and Proactive Services
   - Information services: economic statistics; trade data; export market information
   - Physical infrastructure: power, transport, communication, water, ports
   - Development of human resources: education, vocational training; management development
   - Marketing: distribution/promotion; warehousing; trading
   - Technological development: standard institute; quality control and testing laboratories; technology; information system; R&D centers and support
   - Consulting Services: engineering; market/marketing; maintenance; legal; accounting (auditing and taxation)
   - Accounting: auditing standards.
1.03 Bank-supported restructuring projects increasingly recognize the importance of interrelated policy reforms. An integrated approach toward policy and institutional reform characterizes the Hungarian government's systematic, phased program, which has been supported by the Bank with a series of industrial restructuring operations.²/ Senegal's sectorwide restructuring effort includes comprehensive policy reforms supported by a series of prior structural adjustment loans (SALs).³/

Macroeconomic Policy

1.04 Industrial restructuring operations are not feasible in the midst of serious macroeconomic instability. The main macroeconomic issues affecting restructuring operations are the relative, trade-weighted exchange rate, and fiscal and credit policies. Developing countries often maintain overvalued, unrealistic exchange rates that make import substitution activities artificially profitable. Inflation, fueled mainly by public sector deficit spending, also represents a serious destabilizing element in many developing countries. Restructuring projects are not effective vehicles for supporting macro policy shifts; conditionality under adjustment loans will continue to be the appropriate means to support macroeconomic reforms.

Competition Policies

1.05 Industrial restructuring operations can be effective vehicles for supporting import liberalization, domestic regulatory and incentive reforms, and export rivalry measures—all geared to use competition as a tool for inducing competitive decisions by industrial firms. This mix of competition policies is treated fully in the companion paper, Competitive Policies for Industrializing Countries. This chapter focuses on those policies and practices which most often hinder competitive industrial restructuring.

1.06 An example of appropriate Bank support for policy change and industrial restructuring programs is Mexico. Mexico’s adherence to GATT in 1986, and the government’s decisions to remove most industrial QRs, reduce protection, and harmonize tariff classifications, were supported by two quick-disbursing Bank trade policy loans. Major barriers to entry, exit, and expansion of domestic and foreign firms were reviewed subsequently, with reforms to be supported under a proposed FY89 industrial sector loan. Simultaneously, industrial restructuring operations, with preparation initiated in 1986, will help public and private enterprises meet rapid changes in policy signals and global conditions. The Mexico case reflects serious commitment to trade reform and enterprise restructuring. It also reflects recognition of the


critical importance of internal regulatory and incentive reforms, to give domestic enterprises the needed flexibility to respond to competitive challenges.

1.07 **Regulatory Framework.** Industrial regulations cover an array of laws, rules, and regulations governing the commercial operation of firms. Of greatest relevance to restructuring are those that deter competition, generally defined as barriers to entry, exit, and expansion. Barriers to entry and expansion include licensing of new capacity, limits on the size of firms, and restrictions on ownership. Barriers to exit encompass laws on bankruptcy, liquidation, and downsizing of firms.

1.08 Typically, *entry barriers* protect dominant local enterprises. Policies designed to foster infant industries often ossify into protection for monopolies or oligopolistic firms. Such progressive rigidities can be byproducts of import substitution strategies, with governments and firms often cooperating to make domestic production capacity equal domestic demand. Entry barriers often have meant that incumbent enterprises in protected domestic markets are unchallenged by new domestic entrants. As a result, the gap in competitiveness between firms operating in the world market and enterprises operating in protected subsectors increases.

1.09 **Capacity and Import Licensing Procedures.** Complex licensing processes—which are long and costly—discriminate against small enterprises that cannot afford the costs or the time. Often several ministries are involved, each deploying different, opaque criteria. This complexity in procedures has led to the growth of a large informal sector in many developing countries, where firms operate outside the purview of regulations and taxes, and forego access to formal sector financing, incentives, and services.

1.10 **Reservation of Strategic and Priority Sectors.** Many developing countries reserve basic industries and services (steel, fertilizers, petrochemicals, oil and gas, and telecommunications) exclusively for state-owned enterprises. Arguments for parastatal monopolies refer to their strategic nature and large-scale financing requirements. Many of these concerns are no longer valid. The financial and economic costs of monopoly practices are high. Ownership regulations often preclude domestic firms' access to technology, organization, and marketing channels that foreign firms can provide. Privatization of monopolies can sort out mixed objectives, emphasizing those directly related to efficiency, provided that monopoly status is removed, since private monopolies generally have not demonstrated better performance than public monopolies.  

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1.11 Limits on firm size can result in major distortions. In India, reservation of certain products for exclusive production by small firms, and other targeted incentives, resulted in enterprise fragmentation, capital-intensive small industries, and low efficiency in industrial segments with clear returns to scale. In Poland, the limits on private enterprise size, combined with import protection and regulations that carve up product-markets among public firms, leave most markets in the hands of uncontested cartels.

1.12 Exit barriers include anticlosure regulations, inadequate bankruptcy and foreclosure legislation, government subsidies for failing enterprises, and low-cost loans to prop up bad investments. A loss-making government-owned enterprise that a government refuses to close often requires debt forgiveness, preferential credits, and other special arrangements. In these situations, government budgets and the financial system deploy scarce resources to bolster inefficient firms, squeezing credit access for competitive undertakings. Also, foreign exchange constraints can lead governments to make imported inputs available only to existing firms. Failing firms often make efforts to survive by engaging in predatory pricing and other short-term strategies to attract business, thus reducing overall industry margins and new investments in the subsector. Particularly in now prevalent situations of financial stringency, barriers to the exit of inefficient firms become barriers to entry of new companies.

1.13 Exit barriers tend to be major hurdles for industrial restructuring. If policies make it difficult for firms to get out of unsuccessful ventures, enterprise owners and managers will be risk-averse in undertaking new activities. Exit barriers often block decisive restructuring and investment approaches; managers choose to expand operations in increments, even if uneconomical, to avoid the risks of more significant investment decisions.

1.14 The links between entry and exit barriers and successful restructuring programs are fundamental. Laws that facilitate mergers, acquisitions, reorganization, and bankruptcy are vital tools for competitive industrial restructuring. Firms that have failed financially and economically must be allowed to fail legally, or the country's industry structure will remain stagnant and unproductive.

1.15 Direct Foreign Investment/Technology Transfer. Foreign collaboration can be an important ingredient of successful enterprise restructuring, particularly when competitive technologies are closely held, when export marketing links are crucial, or when the infusion of outside organizational methods and accountability is needed to alter the operations of an enterprise. Yet government policies often preclude or discourage direct foreign investment (DFI) through such laws and regulations as:

- preservation of "strategic" or "priority" subsectors for SOEs or domestic investors;
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- non-transparent licensing procedures, subject to case by case negotiations;
- limits on capital and profit repatriation; and
- nationalization or expropriation of private holdings.

1.16 Brazil's decision to limit the development of the computer industry to national companies, and India's decision not to allow IBM to enter its market as a 100% foreign-owned company, are clear examples of policy barriers to direct foreign investment. Mexico reversed its policy on DFI for the computer industry in 1985--allowing the entry of IBM as 100% foreign owned--and subsequently attracted many other major international manufacturers. As part of the agreement, IBM committed itself to exporting a large percentage of its microcomputer production from Mexico. In addition, the computer industry has spawned national companies that import components and assemble and sell IBM clones in the domestic market in competition with the major foreign producers. Still, until recently, Mexico's DFI policy remained subject to case by case approvals and lacked the transparency for easily attracting DFI. Also, Mexico and other developing countries have found that macroeconomic stability is more important than specific DFI regulations in regaining business confidence and attracting additional foreign investment.5/

Domestic Factor and Output Prices

1.17 Pricing. The link between pricing policies and restructuring operations is direct. Too often, firms--particularly state-owned enterprises--operate under controlled pricing policies which either guarantee a return regardless of efficiency, or preclude commercial viability. Governments bail out enterprises with budgetary transfers or subsidies. Increasingly, Bank-supported restructuring programs dealing with public enterprises emphasize pricing reforms, with the objective of allowing prices to move toward world market levels.6/ One issue concerns the transition period for price adjustments, given social and political constraints and inflationary impact. Should market prices be introduced immediately and across the board or in selected subsectors? Can this be done without new pricing distortions? These issues have


6/ Examples of restructuring projects that included measures to remove or reduce subsidies and price controls are the cement project in India; fertilizer and energy saving projects in China; the Bangchak Oil Refinery Restructuring Project in Thailand; steel and fertilizer restructuring projects in Mexico. However, Mexico has recently reintroduced price controls, under an overall stabilization program.
been particularly difficult for centrally planned economies such as China, Hungary and Poland, which are attempting more market-based approaches. New pricing policies in basic subsectors such as steel, fertilizer, and energy production have been difficult for large, heavily regulated economies such as India, Pakistan, and Argentina as well. Yet, introduction of market pricing is critical if industrial enterprises are to behave as commercial concerns.

1.18 **Labor Policies.** Labor policies may form a substantial barrier to restructuring, with unions representing a powerful political force in industry-labor-government relations. Layoffs may be restricted or prohibited under law. In other cases, regionally or ethnically concentrated layoffs may provoke political resistance. Worker retraining, retrenchment schemes, and employee buyouts are important to the success of restructuring programs. The Senegal Industrial Restructuring Project was one of the first to calculate the loss of jobs with and without restructuring, showing eventual job losses greater without restructuring. The Senegal project also incorporates components for vocational training and redeployment of the labor force.

1.19 **Taxation.** Taxation policies may be a major disincentive to restructuring investments. Policies encompass exemptions, corporate taxation, loss carryovers, depreciation and amortization allowances, deferrals and allowable deductions, treatment of dividends, and repatriation of profits by foreign investors. Poland is an example where frequent and erratic changes in tax policies since 1981 have frustrated the country's economic reform and have eroded enterprises' confidence in reform altogether.

B. **Positive vs. Defensive Restructuring**

1.20 A key judgement needs to be made about the size of the gap between local and globally competitive performance—in cost, design, quality control, delivery, and marketing. A critical point is when restructuring becomes a necessity versus the point at which no measure of restructuring will restore international competitiveness. In the second case, the options are to free up resources by drawing capacity down, eventually to zero, or to extend the life of an unviable entity through government and consumer transfers. Investment in subsectors that have reached the second stage is rarely a fruitful use of scarce resources. In many industrializing countries, some subsectors have reached the first threshold, with restructuring necessary and still viable, provided the competitive gap can be eliminated or reduced dramatically over a short period.

1.21 A key requirement in closing the gap is to use competition as a tool to promote industrial efficiency. Domestic, import, and export rivalry are three elements at the core of a competition policy for industrial restructuring. (The companion paper on Competition Policies for Industrializing Countries deals in detail with these dimensions.) Two aspects are critical in policy and regulatory change: consistency and appropriate sequencing of reforms; and continuity of
reforms over the medium term providing predictability in the incentive framework. Both are important in reducing business uncertainty, increasing confidence, and increasing the chances that the necessary supply response will occur. Hungary's industrial restructuring program has worked over a five-year timespan to implement a coherent of program economic policy, industrial regulatory, and financial reforms. Necessary adjustments and corrections have been made and, at times, second-best solutions adopted; nevertheless, the reforms have operated in a coherent, announced framework.

C. Infrastructure and Services

1.22 While the World Bank has funded extensive infrastructure investments, the problems of inadequate and high cost infrastructure undermining industrial competitiveness have not been dealt with adequately. The costs and efficiency of ports, roads, water, electricity, and telecommunications need to be linked more closely with industrial competitiveness. Some developing countries are exploring financing from the private sector for infrastructure investments. Private investment reduces the fiscal burden on government and facilitates private sector construction and efficient delivery of services.

1.23 Also crucial are other components of the service sector--information, marketing, technology transfer, and investment banking. Plans for competitive industrial restructuring should include organizational and technology process transfers. Developing countries need to reorient DFI policies, research and development, and education and vocational training institutions to take advantage of the new competitive challenges. Governments should devote substantial resources to: developing a flexible, technical labor poor; helping fill information and knowhow gaps on global technology and market developments; and upgrading infrastructure. Privatization, closure and downsizing public industrial enterprises make resources available for these vital new services.

7/ One method of private sector funding is through BOT (build, own/operate, and transfer) schemes. These have grown rapidly in developing countries, such as Malaysia and Turkey. BOT involves partnerships between public agencies providing infrastructure services and private investors who agree to take over such services. See Charles Vulstyke, Techniques of Privatization, World Bank Report, 1988.
CHAPTER II
RESTRUCTURING INDUSTRIAL SUBSECTORS

2.01 This chapter provides a framework for designing and implementing industrial subsector operations. It highlights criteria for selecting subsectors, the scope of diagnostic studies and projects, arrangements for government and private sector participation, and the role of the Bank.

A. What is Subsector Restructuring?

2.02 Under subsector restructuring, incentives and institutions are altered to force and facilitate structural change and competitive performance by enterprises in selected product groups.

2.03 Some recent subsector restructuring operations treat policy, subsector strategy, and enterprise dimensions systematically. The following examples of Bank-supported operations demonstrate how different the scope and content of such subsector restructuring operations can be:

- The Hungary industrial restructuring program involves phased trade, industrial, financial and labor policy reforms—cutting across subsectors. Industrial restructuring projects support these reforms and tackle restructuring in priority subsectors.

- The India Industrial Export Project-Engineering Products supported major reforms in domestic regulatory and incentive policies, and has provided innovative technical assistance and credit mechanisms for productivity improvement, export marketing, and restructuring of private industrial firms.

- In Mexico, three operations affect: (i) fertilizer, with one parastatal monopoly comprising the sector; (ii) steel, in which major public and private holdings are restructuring; and (iii) multiple subsector restructuring, which focuses on reforming policies and improving capabilities of private enterprises in textiles, auto parts, and agro-industry.

- The Senegal restructuring program, designed to complement macro reform, involved detailed analysis of restructuring needs in agroindustrial and textiles companies. The project incorporates a credit line and components for labor training and alternative employment generation.

These and other subsector restructuring operations are described in the Restructuring Project Matrix in the Annex.
2.04 As charted in Figure 2.1, subsector restructuring involves a dynamic interaction of factors, including policies and institutions, subsector structure and characteristics, enterprise strategies and performance, and human and financial resources.

Figure 2.1
SUBSECTOR RESTRUCTURING

Restructuring Program

- Policy Reform & Institutional Development (Sectoral & Subsectoral)
- Investment in Subsector (Public & Private)
- Social Adjustment Program

Restructuring Evolution of Industry Structure

- Policies & Institutions
  - Incentive System
    - Macro Policies
    - Regulatory System
    - Financial System
    - Institutional Framework
- Subsector Characteristics
  - Product & Process
  - Technologies, Product
  - Type (Commodity, Differentiated)
  - Material, Energy & Labor Inputs, Nature of Market, etc.
- Enterprise Strategy & Objectives
- Subsector Structures
  - Number of Firms
  - Competitive Scope
  - (Products, Vertical, Geographic)
  - Ownership Composition
  - Links Between Firms
- Subsector Behavior
  - Intensity of Competition
- Subsector Performance
  - Economic: Growth, Exports, Profitability
  - Social: Employment, Environment
B. When to Restructure Subsectors

2.05 A number of situations can motivate a concerted effort to restructure selected subsectors:

(a) **Dominant subsectors.** One or a few subsectors may dominate industrial output or exports, meaning that a focused subsector restructuring effort may have significant overall economic impact.

(b) **Loss-making subsectors.** One or a few subsectors may have a dramatically adverse effect on the public sector budget (due to heavy enterprise losses, subsidies or recapitalization outlays).

(c) **Downstream impact.** Many producers of basic industrial inputs--usually government-owned and protected enterprises--make high-cost, low-quality products, undermining prospects for downstream industries. Often, monopoly status and other special deals mute overall market signals.

(d) **Demonstration effect.** In countries characterized by severe policy-induced inefficiencies, a history of inward-orientation, and limited political will to reform, a major subsector-specific restructuring program can have a substantial demonstration effect. Deep reforms in competition policies in a major subsector can be combined with financial, technical, and marketing support for firm-level restructuring. If the result is improved competitiveness of output and exports, governments may be less reluctant to take similar steps in other subsectors or industry-wide.

(e) **Making room for winners.** East Asian programs directed at creating new areas of comparative advantage have been accompanied by substantial, explicit maneuvers to downsize older industries that had lost their attractiveness, e.g., the shipbuilding industry in Japan. This approach--downsizing the old to make room for the new, and filling functional gaps through focused technology adaptation and human resource development--can accelerate the restructuring of the industrial base toward more efficient resource allocation and more competitive performance.

C. Which Subsectors to Restructure?

2.06 Most subsectors selected for restructuring under Bank loans have been those dominated by public enterprises generating large economic and financial losses, or product groups in which Bank staff has expertise. Although no rigorous, scientific criteria exist, more useful criteria in selecting priority subsectors for restructuring projects include the following:
(a) **Major subsectors.** Improvements in subsectors with a major share of industrial output, exports, and employment could have significant overall economic impact. These subsectors often represent a major share of the "drain" on the economy-and will enable economies of scale in building subsector knowhow and functional services.

(b) **Promising subsectors.** Product groups characterized by relatively small gaps between performance levels of local firms and levels required for global competitiveness are strong candidates for restructuring. Effective protection, domestic resource cost, and total factor productivity tools are useful in determining potentially promising subsectors. These relatively static snapshots should be combined with knowledge of technology change and organizational and business dynamics in selecting potential candidates for restructuring.

(c) **Strong key players.** Successful industrial restructuring processes depend most critically on policymakers, bankers, and enterprises committed to a significant response to global competitive requirements. The Bank can reinforce such key players, but Bank programs cannot substitute for local commitment and capabilities. The assessment and reinforcement of this critical dimension—people—should be a fundamental element of subsector selection and project preparation.

2.07 In subsectors in which public enterprises dominate, the selection criteria should be similar. Yet it may be necessary to select chronically uncompetitive subsectors for attention, due to the need to cut heavy public sector losses. Here, care needs to be taken to ensure that chronically uncompetitive subsectors are downsized and that fresh investment in them is avoided.

2.08 In selecting subsectors for restructuring, it is important to assess their present and potential contribution to GDP, non-traditional exports, and employment. The present and potential efficiency of subsectors should be analyzed. The domestic structure of the industry—size, degree of concentration, and patterns of ownership—should be analyzed in relation to best practice. Structural analysis is needed to determine policy and institutional measures for competitive performance.

2.09 Policy analysis needs to be complemented with realistic diagnoses of commercial viability—of cost, quality, organization, technology, and marketing characteristics needed for subsector firms to become competitive.
### Table 2.1: POTENTIAL CRITERIA FOR SELECTING SUBSECTORS (ANALYSIS FOR MEXICO)

<table>
<thead>
<tr>
<th></th>
<th>Textile</th>
<th>Auto Parts</th>
<th>Chemicals</th>
<th>Agro-Industry</th>
<th>Pulp Paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Impact on Economy</td>
<td>XXX</td>
<td>XX</td>
<td>XXX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>2. Export Potential</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XXX</td>
<td>X</td>
</tr>
<tr>
<td>3. Sector Composition</td>
<td>XXX</td>
<td>XXX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>4. Import Substitution</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
<td>XX</td>
<td>XXX</td>
</tr>
<tr>
<td>5. Competitive Advantage</td>
<td>XX</td>
<td>XX</td>
<td>XXX</td>
<td>XXX</td>
<td>X</td>
</tr>
<tr>
<td>6. Policy Constraints</td>
<td>X</td>
<td>X</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>7. Issues Flow Across Sectors</td>
<td>X</td>
<td>X</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Overall Rating</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
<td>XX</td>
<td>XX</td>
</tr>
</tbody>
</table>

**Agenda:**
- HIGH
- XXX
- MEDIUM
- XX
- LOW
- X

### D. Subsector Diagnosis

2.10 Policies, institutions and enterprises need to change if developing country firms are going to compete successfully. This global market place increasingly comprises highly differentiated product-market niches. Analyses of subsectors at the global and domestic levels—and wide diffusion of these diagnoses—make it possible for managers, bankers, and policymakers to see:

- what it takes to compete in different niche markets;
- where the gaps are between best international practice and domestic firms' size, organization, and technologies;
- what the most binding policy and regulatory constraints are on firms moving toward competitive performance;
- what kinds of institutional services are needed to increase local capabilities, provide needed technical and marketing information, and facilitate collaborations; and
- what the magnitude of financing requirements for firm-level restructuring and related institutional support are.

2.11 In most recent subsector restructuring operations, detailed global and local subsector studies were used as the basis for project design and development. Increasingly, in-house Bank expertise is being complemented by major consulting firms, which bring current business expertise to these subsector diagnoses. Subsector studies provide the strategic, structural, technical and marketing information needed for
project design. These studies also can be used in consensus-building among policy-makers, bankers, and enterprise managers.

E. **Scope of Subsector Restructuring Operations**

2.12 With subsector analysis in hand—-and provided to enterprises and their bankers—a broader scope for industrial restructuring operations may be useful. Often, the actual operation needs to concentrate on:

- **Policy change** within and across subsectors: competition policy, price decontrol, direct foreign investment, and technology policy;

- **Functional components**: human resource capabilities, export marketing, and productivity improvements—which can focus on key subsectors, with coverage broadened in subsequent operations; and

- **Finance for competitive ventures**, with appropriate instruments and broad eligibility criteria, without allocations to specific subsectors.

2.13 **Policy Change Cutting Across Subsectors.** Subsector and enterprise analyses can be useful in uncovering policies that impede efficient industrial development. Special deals provided to some industrial subsectors—tax breaks, direct subsidies, regional incentives, pricing controls, import protection, domestic content regulations and special access to public procurement contracts—can severely distort resource allocation decisions and subsector development. Benefits normally accrue to established incumbents, effectively blocking new and potentially more competitive entrants. Bank-supported industrial adjustment and restructuring operations should unravel special deals and aim for a subsector-neutral incentive framework. With industrial licensing, capacity and ownership laws, bankruptcy constraints, and other competition barriers, the ideal is to eliminate special deals across the board. Yet, governments may be reluctant to make sweeping changes at one time. Deep policy changes in a major subsector can have substantial demonstration effects, making subsequent industry-wide change easier. It is important that industrial firms understand that industry-wide policy change is expected to follow; this undercuts the possibility of increased competitive pressures in one subsector forcing the shift of resources to protected subsectors.

2.14 **Functional Components of Subsector Restructuring.** Subsector-specific subsidies for firms should be avoided. At the same time, services are needed to help firms fill gaps between their operations and best international practices. Components geared to help firms fill functional gaps can include:
o institutional measures, including information dissemination, to help individual firms devise export marketing strategies and productivity improvement programs;

o human resource development programs, reflecting the need to develop flexible, technical labor pools and management capable of continual adaptation of their enterprises to changing global conditions;

o publicly and privately sponsored research and development, with a focus on adapting technology available internationally to indigenous conditions and requirements;

o retraining, outplacement and entrepreneurial development programs to facilitate reductions in the labor force in restructured firms; and

o infrastructure components, such as improvements in transportation, port facilities and communications, targeted at breaking overall or subsector bottlenecks.

2.15 The East Asian NICs have established successful targeted programs geared to fill competitiveness gaps, but many developing countries lack effective public sector institutions capable of providing such programs. The task of reforming such institutions as exist can undermine a program's direct assistance to private firms. In such cases, it is often more effective and efficient to provide leaner private or otherwise autonomous, commercially oriented arrangements to support marketing, productivity, and training/apprenticeship for individual firms. Industry associations and efficient banks are often the best agents for identifying and arranging appropriate technical assistance and training.

2.16 Avoiding Subsector Credit Allocations. Subsector approaches usually should stop short of subsector/product group credit allocations, to avoid moral hazard problems in picking winners. If subsector allocations are deemed necessary, the selected product groups should be broad enough to allow substantial flexibility and avoid forcing banks into artificial portfolio concentration. One argument for subsector credit allocations is that concentrated attention on one product group enables bankers to develop subsector expertise in project evaluation. This institutional development may be achieved better by supplying bankers with global subsector studies, involving them in country subsector diagnoses, and making participating credit institutions responsible for administering export marketing and productivity funds. Another argument used to justify subsector credit allocations is that the participating banks' overall financial and operating conditions would not justify a general credit line. This is not an acceptable argument; industrial restructuring operations using financial intermediaries should involve detailed appraisal of potential financial institutions and should only use those that are financially sound and competent.
F. Institutions for Implementation

2.17 Government policymakers, financial institutions, and business leaders need to develop a constructive dialogue on restructuring. During the diagnostic phase of a restructuring program, consultants' progress reports can serve as the basis for discussions. After the consultants submit recommendations, discussion among the active participants should cover necessary changes in policies and institutions: organization, steps, and timing for implementation of the program, and resource requirements for firm-level restructuring, institutional support, and technical assistance components. During implementation of the restructuring program, a temporary institutional structure that can provide technical assistance to restructuring enterprises may be necessary.8/

G. Role of the Bank in Subsector Restructuring

2.18 The Bank has accumulated subsector expertise and a global perspective, particularly in heavy industries dominated by public enterprises: steel, petrochemicals, fertilizers, mining. In light industrial subsectors--agroindustries, textiles and garments, metal manufacturing, consumer electronics--the Bank relies primarily on outside expertise to assess organizational, technological, and marketing requirements for competitive industrial restructuring.

2.19 Increasingly, Bank supported industrial subsector operations are preceded by subsector studies financed by project and trust funds. A major portion of these country-specific subsector studies is devoted to assessing the global market and best firm and industrial practices internationally. For example, 60% to 70% of the studies of textiles in Senegal, in Mexico and in Turkey were to determine international trade patterns and quality and price standards required to be competitive in major product-market segments. These studies evaluated technology choices, systems, and scale economies in production and distribution; identified key global players; and examined the most beneficial types of collaboration.

2.20 It would be cost-effective if, in those industrial subsectors where there is a requisite volume of Bank operations across a number of developing countries, mechanisms could be found to economize on resources devoted to global dimensions of subsector studies. If the development of such global subsector diagnoses could be coordinated by the Bank, country-specific subsector analyses could start from global points of comparison and focus on local situations. Such an approach

8/ Spain established an institution to support its restructuring programs during the early 1980s: reporting to the Ministry of Industry, it was composed of qualified technical experts from the private sector.
would reduce the duration and costs of country-specific subsector diagnostic exercises.

2.21 Expertise in business and policy would need to complement the technical knowhow of TD staff to enable comprehensive global subsector analyses. Rapid technological change, led by industrialized country firms, makes it difficult for Bank staff to keep up with best international practice. This is particularly true in light industry subsectors, which dominate output and exports of private industrial firms in developing countries.

2.22 Restructuring is intensive in its use of human capital. The Bank can play an important catalytic and technical role, by providing substantially more mission time for preparation and supervision. Well-designed technical assistance components can be key in supporting implementation.
CHAPTER III
ENTERPRISE RESTRUCTURING

A. A Focus on Enterprises

3.01 Enterprise restructuring refers to a set of actions carried out by a firm's owners and managers in response to major shifts in the underlying economics of a subsector or in the policy, regulatory, and institutional environment in which a firm operates. Table 3.1 highlights some typical enterprise restructuring actions.

<table>
<thead>
<tr>
<th>Table 3.1: TYPICAL ENTERPRISE RESTRUCTURING ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>o Changes in firm-level technology and organization can increase efficiency and competitiveness.</td>
</tr>
<tr>
<td>o Firms often need to change the products and markets in which they compete, and their internal strategies and organizations to enable competitive performance in niche markets.</td>
</tr>
<tr>
<td>o Companies can reorganize management and improve labor productivity through retraining, and eliminate redundant labor through employee retrenchment.</td>
</tr>
<tr>
<td>o Significant changes in power and financial relationships between public enterprises and governments alter the pressures and abilities of state-owned enterprises to invest and perform efficiently.</td>
</tr>
<tr>
<td>o Acquisitions and divestitures, leveraged buy-outs, recapitalization, and scaling down of operations are ways to restructure firms--their physical assets, finances, and operations.</td>
</tr>
</tbody>
</table>

3.02 This chapter deals mainly with the restructuring of state-owned industrial enterprises, since support by IBRD and IDA for private enterprise restructuring is almost always indirect, through financial intermediaries. In these operations, it is the local bankers who must appraise and assist enterprise-level restructuring proposals.

3.03 While the Bank does not normally provide direct finance for private enterprise restructuring, strong arguments exist for attention to enterprise-level issues during Bank preparation and supervision of all industrial restructuring operations.
3.04 First, Bank-supported industry-wide and subsector restructuring operations need to reflect how enterprises are likely to respond to policy and institutional change. Demonstrating links between policy distortions and poor performance at the enterprise level often can be an effective tool in Bank-government policy reform dialogue, moving the discussion beyond philosophical or theoretical differences. Such assessments of likely enterprise responses should become a major part of preparing policy reform programs. Often governments and the Bank are disappointed at the slow supply response in the wake of adjustment and restructuring programs. In fact, the glut of imports, remaining rigidities in financial and regulatory systems, and firms' wait-and-see response could have been predicted if the preparation of the policy package involved more systematic interviews of private entrepreneurs.

3.05 Second, an enterprise focus in subsector restructuring programs and in industrial sector studies is needed to understand where firms are versus where they need to be to meet competitive pressures. Firm-level interviews, combined with quantitative analysis, can help segment industrial subsectors by size, efficiency levels, and management practices.

3.06 A frequent assumption underlying many adjustment programs is that once policy changes occur, firms will respond automatically with efficient, competitive supply responses. This assumption neglects the fact that firms and their bankers--accustomed to catering to protected domestic markets--frequently are only vaguely aware of global changes in technology, organization, and markets. The World Bank can help build knowhow by coordinating global subsector diagnoses (paras 2.18 to 2.22).

B. Restructuring State-Owned Industrial Enterprises

3.07 In many developing countries, operations of public industrial enterprises involve heavy borrowing and subsidies, impenetrable barriers to internal and external competition, and large waste of financial, material, and human resources. Public debt and deficits have made such practices unsustainable. Most policymakers recognize the need for deep restructuring of public enterprises. In restructuring large and powerful PEs, overall competition policies normally will not be enough to offset the special deals that public enterprises usually receive: subsidies, sales arrangements with other PEs, and monopolies on sourcing, production, and sales. PEs often have mixed mandates: to employ more workers than needed, to report to several ministries, to operate under politically appointed managers, to produce for specified industry or consumer needs, and to provide these products at financially unsustainable prices. Due to their monopoly status, soft financing constraints, and mixed mandates, many PEs have expanded into unrelated businesses or have used their monopoly power to absorb related industries.

3.08 To unwind all these PE-specific distortions requires tough decisions, based on solid subsector and enterprise analysis. Such programs warrant support, since major public enterprises generating
heavy financial losses can hemorrhage the public budget, aggravating
debt and deficit problems. Also, large public enterprises producing
intermediate goods often undermine competitive prospects for user
industries. Governments may be unwilling to open the sector to imports
or local private competition if such competition would result in closure
of government-owned firms. Governments often are more willing to allow
competition if concomitant measures are taken to enable the core
businesses of public enterprise to become competitive—and to survive.
Given the potential pitfalls, the Bank should be rigorous in its
approach to such operations.

C. What Works and What Doesn't

3.09 Before discussing key elements for successful public
enterprise restructuring, it is important to note what has not worked
well:

- Limited results have been achieved or can be expected through
  management information, performance evaluation, or performance
  contract systems. Improved transparency and management informa-
  tion systems are usefully only as complementary systems once real
  power and financial arrangements (subsidies, transfers, special
  credits) change.

- Physical rehabilitation and financial restructuring of public
  enterprises have failed unless policies requiring competitive
  performance are introduced at the same time, and unless financial
  measures are combined with effective enterprise-level changes in
  management, organization, technology, and marketing strategies and
  capabilities.

3.10 Key Success Factors. The following approaches are basic to
sound restructuring programs involving government-owned enterprises.

3.11 Public ownership and monopolies of industrial enterprises
should not be viewed as strategic. Adopting this basic attitude enables
objective determinations of which enterprises should be closed, scaled
down, or privatized. Whether public or private, industrial firms should
exist to provide goods and services at competitive prices and quality.
Other objectives almost always are pursued poorly and at high cost. For
example, steel plants should be expected to make steel of world quality
and price. Steel plants should not be seen as employment generators,
sources of backward area development, or captive suppliers of downstream
industries. The cost of overemployment is extremely high: poor morale,
low productivity, poor product quality, and the high cost of basic
intermediate goods to domestic user industries.

3.12 The objective should be reduction and ultimate removal of
producer and consumer subsidies. They muddle decision-making and make
performance evaluation difficult. Industrial companies, regardless of
ownership, should pay their own way—or have clearly demonstrated
prospects for doing so after restructuring. If importing is advanta-
geous, governments should allow imports. If governments will not allow
competition, or if additional investments will not result in world class output, industrial restructuring programs do not warrant support.

3.13 Under public enterprise restructuring operations, it is critically important that investment not be used to create new capacity in a chronically uncompetitive subsector. The rationale for public enterprise restructuring often is to downsize and liquidate uncompetitive firms in uncompetitive subsectors—for "damage control." Such operations can be important in stopping a major drain on the fiscal budget and in reducing government resistance to liberalizing imports of basic industrial intermediates. Policymakers and their bankers need to be diligent in avoiding public enterprises restructuring operations that downsize particular segments but result in net additional investment in a basically uncompetitive subsector.

3.14 In most developing countries, more than 80% of assets, employment, and output in public industrial enterprises is accounted for by steel, fertilizers, petrochemicals, mining, and telecommunications. PE restructuring operations could support offloading all but the basic core capacities from public enterprises making these intermediate inputs. The practice of basing major adjustment or restructuring operations on liquidating or privatizing small, unimportant industrial PEs does not appear to be justified. Such measures need to be taken to clean up the public sector's portfolio, enabling more concentrated attention to major PE issues. In the main intermediate PE subsectors, incremental investments should be supported only if international competitiveness in organization, technology, price and output will be achieved or approached. Utilities usually are much more important than industrial enterprises in terms of debt, fiscal drain, assets, employment, and social impact. Thus public enterprise restructuring in water, electricity, railways, and other transport—not treated in this paper—is important. Restructuring these sectors takes place through major changes in management, operations, regulations, and privatization of certain functions. Liquidation is not an option, since these sectors provide basic, non-tradable services. In contrast, PEs in industry and other tradables may opt out of the industrial base—which greatly increases restructuring options.

3.15 For industrial enterprises remaining in the public sector, power relationships need to change, with government becoming an arms-length shareholder and firms behaving as commercial concerns. Governments need to tighten their levers on public enterprises in the areas of debt, major new investments, and operational results. Intervention in procurement, employment levels, and operating decisions needs to be reduced. It is crucial that the operating management and boards of directors of public enterprises consist of professional managers with relevant knowledge and experience.

3.16 Holding companies are important only if they break the pattern of public intervention and public subsidies. Holding companies must have budget responsibilities for PEs and be free to liquidate, privatize, or form joint ventures for all or part of public enterprises in the holding. They need to be free to make or delegate all ownership,
management, organization, and company strategy decisions. Without this level of autonomy, holding companies are just another layer in the controls and multiple objectives imposed on publicly-owned enterprises. They represent another layer of overheads as well.

3.17 Turnarounds of major public enterprises have never been achieved under Bank-supported operations that fund physical rehabilitation, which treatment of policy and organizational issues limited to diagnostic studies with open-ended action programs to be developed at later date. Public enterprise restructuring operations warrant support only if strong, concrete actions have been taken prior to loan negotiations, and if a concrete, convincing program of measurable action has been agreed to by enterprise managers and all key government officials.

3.18 Public or private sector industrial monopolies in tradables cannot be expected to develop competitive behavior. Breaking the monopoly status of local enterprises is crucial. If domestic markets are large enough for strong competition among multiple public and private enterprises, removing domestic entry barriers can provide a start in breaking up monopolies. However, for most developing countries, adequate competition in basic, intermediate industries will come from imports.

3.19 General trade and industrial policy measures may not provide enough stimulus. To create real competitive policies and capabilities, joint ventures or strong collaborative arrangements with successful foreign firms operating globally can be key. Such collaboration can provide domestic firms with funding; at least as important, collaborations can create external pressure for competitive performance, and provide needed technology and marketing knowhow.

3.20 Public enterprise restructuring programs need to deal explicitly with eliminating overemployment and reducing inflated wage bills. Attractive severance payments can be critical in getting voluntary redeployment of labor and have been successful in several restructuring exercises. Retraining of management and labor, once it is clear what an industry is restructuring toward, also can be critical for success.

3.21 Experience suggests that industrial restructuring operations focusing on one or a few specific public enterprises normally are poor vehicles for policy and institutional change, at the subsector or overall industrial level. Reshaping a few dominant enterprises can have major overall economic as well as demonstration effects, but usually it is important that PE restructuring operations be pursued under a subsector framework. This perspective helps to maximize overall economic welfare and competitiveness objectives, rather than support measures that serve the survival interests of a dominant enterprise.

3.22 The most critical element for successful public enterprise restructuring is commitment to and capacity for major change--by the main participants in the central government, relevant ministries, and affected enterprises. Given the extreme complexities, strong social and
political dimensions, and fragile nature of public enterprise restructuring programs, the Bank should limit its involvement to situations where it can provide technical and financial support to actual initiatives taken by a government—with strong leadership at the policy and enterprise management levels.

D. Privatization Redefined

3.23 Privatization, an important means to achieve competitiveness and to reduce political interference, should form part of comprehensive industrial restructuring packages. A major dilemma for a government trying to privatize a poorly performing public enterprise is whether restructuring should precede divestiture. Privatization without restructuring usually results in a low bid price for the enterprise. However, restructuring to gain a better purchase price is difficult. Most parameters that caused poor performance in the first place remain. It is difficult to motivate management and staff to improve performance if their jobs will be at risk from privatization. Restructuring measures pursued before privatization may differ markedly from the direction intended by the subsequent buyers.2/

3.24 Despite its merits, selling public enterprises poses formidable obstacles. The number of potential buyers often is limited. Governments may offer purchasers special privileges that result in private sector monopolies with distortions even larger than under government ownership. Further, political opposition may delay the sale. Finally, capital markets in developing countries often are inadequate for absorbing divestitures.

3.25 Means to increase private participation in ownership and management of public industrial enterprises include employee buy-outs, leasing of assets, direct sales of all or part of the enterprise, off-loading of marginal activities, and formation of joint ventures with local or foreign private partners.10/ Potential benefits of such privatization measures include more efficient use and reduced drains on scarce public sector resources; less crowding out of the private sector in domestic capital markets and greater depth and breadth of local capital markets through share flotations of privatized enterprises; and more transparency, disclosure, and accountability in the industrial sector, increasing confidence of investors.

2/ Bangladesh elected to reprivatize 15 textile mills that had been nationalized in the mid-1970s. Reprivatization has been difficult because of disagreements over the eventual purchase price and the cost of retrenchments.

E. Physical, Organizational and Financial Restructuring

3.26 Physical Restructuring. Physical restructuring encompasses upgrading or replacement of obsolete plant and equipment, introduction of new technological processes, and investments to improve overall capacity utilization and energy efficiency. Plant closure can be considered part of physical restructuring because it deletes fixed assets from an enterprise and subsector. A broader definition of physical restructuring could include relocation of production facilities to take advantage of lower wages, better skills, advantageous market access, supporting infrastructure, or manufacturing synergies. Restructuring through relocation has been significant for firms in industrial economies, particularly in East Asia.

3.27 Most of the Bank’s early restructuring operations, by focusing mainly on physical rehabilitation of public enterprises, did not support the needed changes in: the power relationships between the government bureaucracy and the enterprises; the fundamental management and organization of the enterprises; and production, marketing and financial strategies. These programs tended to apply physical, technical solutions to problems of public enterprises. Of the 40 projects reviewed for this exercise, at least 15 (38%) aimed primarily at plant rehabilitation. Bank projects focused on plant rehabilitation have included the Egypt Pulp and Paper Rehabilitation and HADISOLB Steel Rehabilitation Project; Bangladesh Textile and Jute Rehabilitation Projects; China Machine Tool Rehabilitation Project; Pakistan Fertilizer Rehabilitation Project; and Guyana Bauxite Rehabilitation.\(^\text{11/}\)

3.28 In most stand-alone rehabilitation projects, ex-post financial and economic rates of return on Bank-assisted rehabilitation projects tend to be similar to those prevailing in a country’s subsector as a whole. In most cases, problems in these operations did not arise from poorly conceived physical restructuring programs but from the isolated nature of these physical investments—without complementary changes in organization, management, and methods, without a strong marketing and product mix strategy, and without policy changes to induce competitiveness.

3.29 Recent Bank-supported enterprise restructuring operations give greater attention to these other dimensions. Most frequently, pricing policies have been modified to reflect world market prices and to eliminate subsidies. Increasingly, privatization, closures, mergers, joint ventures, and technology licensing have been means to galvanize

\(^{11/}\) A number of IFC restructuring projects have focused on plant rehabilitation as well, including investments in sugar and tea in Uganda.
enterprises into meeting competitive pressures.\textsuperscript{12/} India's Cement Industry Rehabilitation focused primarily on improvements in energy utilization but also dealt with pricing structures. Jamaica's Sugar Rehabilitation Project supported industry consolidation through closure of some plants and rehabilitation and modernization of others. In addition to substantial funding for plant rehabilitation, the Mexico Steel Sector program supports the government's decision to close a major steel facility and to divest itself of non-essential and non-related subsidiaries of the state-owned steel company.\textsuperscript{13/}

3.30 Managerial/organizational restructuring incorporates firm-level measures to revise organization, improve capacities, and adjust human resources for production, marketing, and financial gains. These changes often are more important for competitive performance than are improvements in capital stock.\textsuperscript{14/} Successful penetration of export markets requires not only productive efficiency but also attention to quality, service, innovation, product differentiation, and market segmentation. Analysis of Bank-supported restructuring projects indicates that unsatisfactory results most often relate to inadequate restructuring of these soft dimensions. Important elements in organizational restructuring are listed in Table 3.2.

3.31 A growing number of Bank-supported restructuring operations have included managerial and organizational dimensions of restructuring. The Bangchak Oil Refinery Restructuring Project in Thailand illustrates the benefits of public enterprise autonomy. It was removed from the control of the Ministry of Defense in 1984 and established as an autonomous commercial company. A second example is the Textile (SOGITEX) Rehabilitation Project in Tunisia. It demonstrated the benefits of an integrated approach to enterprise restructuring--SOGITEX's Subsidiary SITEX--through rehabilitation of physical plant and equipment, technology adaptation, and export marketing measures.

\textsuperscript{12/} A total of 21 projects (49\% of restructuring operations reviewed) dealt with privatization (12 projects), closure (11 projects) and spinning off production facilities (5 projects). These projects are mostly in Africa.

\textsuperscript{13/} Mexico's steel restructuring program provided a strategic marketing study focusing on the future steel market in Mexico, the required product mix that various plant units should produce, and SIDERMEX's marketing and distribution structure. A reorientation to market needs would represent an important change in SIDERMEX's operations. (See Case Study.)

\textsuperscript{14/} Taiwan China's Automation Center, which provides consulting services to thousands of firms, reports that in 40\% of its cases, substantial improvements in productivity have been made with no incremental investments in plant and machinery.
Table 3.2: ORGANIZATION AND MANAGEMENT ASPECTS OF ENTERPRISE RESTRUCTURING

**Product-market reorientation**, e.g., changes in product, market or customer mix; shifts from domestic market focus to export standards, sales, and distribution channels.

**Reorganization**, including decentralization, creation of profit and cost centers, development of strategic business units, establishment of international marketing and sales offices, and break-up of parastatal monopolies into competing enterprises.

**Staff reductions and redeployment** of redundant personnel, with training and enterprise development schemes.

**Management planning, information, and control systems** to provide more timely information for effective decision-making and improved enterprise accountability.

**Enterprise autonomy** (related to SOEs) through changes in the composition and powers of boards of directors, appointment of professionally qualified managers, and contractual arrangements with governments to increase managers' accountability while minimizing government political interference in enterprise operations.

**Management development and worker training programs** to build professional and technical skills and to introduce new organizational methods.

**Incentive compensation schemes** for management and hourly workers.

**Management contracts** for business operations lacking specific managerial or technical skills.

**Joint ventures**, marketing arrangements, or co-investment with overseas companies to tap foreign firms' expertise.

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3.32 **Financial Restructuring**. During the last decade, many large parastatal and private enterprises in developing countries acquired significant external debt in hard currencies, at variable interest rates, and with increasingly short maturities. Subsequent debt restructurings have allowed many of these enterprises to postpone repayment, while others have converted external debt into domestic debt under government-sponsored conversion schemes. Many such enterprises remain overly indebted and undercapitalized.
3.33 Additional objectives often exist in the financial restructuring of state-owned enterprises: (a) elimination of subsidies and government transfers of resources to the entity; (b) promotion of financial autonomy, including the ability to borrow from the commercial banking sector, to float shares and bonds, and to enter into joint ventures with domestic and foreign investors; and (c) creation of a heterogenous capital mix suited to the financing needs of the enterprise. Because capital markets are poor in many developing countries and many SOEs earn little or no profit, financial restructuring of public enterprises normally requires heavy debt restructuring or relief. Such financial restructuring involves write-downs of nonproductive assets, which rid SOEs of their bloated capital structures. These steps are particularly critical for privatization.

3.34 Other financial restructuring measures and instruments can have a significant effect on the operating and financial performance of SOEs. For example, sale of assets can downsize companies to more manageable core businesses. Debt-equity swaps and other joint venture equity arrangements can help infuse SOEs with technical and marketing knowhow, external commercial accountability, and additional financing. New instruments such as convertible debentures, convertible preferred shares, share and bond flotations can help diversify SOEs' funding sources and provide greater accountability for the results.15/ (See Chapter IV.)

F. Social Dimensions of Restructuring

3.35 Virtually all industrial restructuring programs displace workers. However, layoffs related to industrial restructuring normally do not affect the poorest of the poor. The affected groups often are unionized and politically active, or are members of the protected managerial elite. These groups can represent powerful vested interests, resisting proposed reductions in the work force, and seeking significant compensation. They often have the political power to block restructuring measures. Governments need to recognize and address this potential source of resistance to restructuring programs, by developing severance and retraining schemes and by providing analysis demonstrating that eventual job losses often are greater without than with restructuring.

3.36 Few Bank-supported industrial restructuring projects have dealt directly with labor consequences of industrial restructuring. One exception is the FY88 Senegal Industrial Restructuring Project.

15/ The Bank does not finance asset transfer or straight financial restructuring with project finance. The IFC has engaged in financial restructuring of industrial enterprises, primarily with enterprises in IFC's portfolio. In Tunisia, financial restructuring was part of a package designed to help private investors purchase part of a state-owned textile company. In Brazil, IFC has sponsored several debt/equity conversions and extensions of debt maturity for enterprises in the cement, textile, chemical, and agro-industry subsectors.
Preparation of this project involved an assessment of likely job losses with and without restructuring, and incorporated innovative solutions for labor retrenchment and retraining. The ongoing industrial restructuring projects in Hungary, begun in FY86, address the issue of layoffs, and the Mali Public Sector Enterprise Project calls for establishing a government fund for worker retrenchment.

3.37 Restructuring may result in layoffs affecting a particular geographic constituency or ethnic group: the regional concentration of layoffs in sectors such as mining creates major social and political problems. The skills required in new jobs may differ substantially from those of the displaced workers. In countries that lack a safety net to meet basic retrenchment needs, the government may have to take a direct role in retraining, relocation, and employment generating programs--if the restructuring programs are to be implemented.

3.38 Defusing the Political Problem. In surmounting political opposition to a restructuring project, it may be possible to identify vested interests and respond specifically to each. Consulting with opposing groups, such as unions, at an early stage of project preparation can give them a sense of participation. The most effective way to overcome opposition to layoffs is cost-effective assistance programs, showing that government is responding to worker needs.

3.39 Social assistance programs may vary, depending on the extent of the restructuring, the objectives of the government, and the size of the budget. Measures include severance payments for workers and assistance in finding new jobs, relocating, retraining, or developing small-scale enterprises. The savings generated by the programs often can justify the costs of such assistance. However, not all programs are effective. Job retraining is not useful, for example, if there are no related jobs available; in fact, it could result in unrealistic expectations for the trainees.

3.40 Severance Payments. Severance payments can be used to compensate workers for the loss of jobs. Relevant issues are the

16/ Calculation of the number of jobs likely to be lost in the absence of restructuring, and estimation of the long-term gain in employment with restructuring, can be crucial. The government can show the opposition that the net loss in jobs is likely to be lower than initially apparent. For the Senegal Industrial Restructuring Project, of the 5,000 estimated layoffs resulting from the project, approximately 3,000 would have taken place as a result of declining competitiveness. This information proved instrumental in overcoming opposition to the restructuring program.
appropriate level of payment and how to structure payment to retain qualified workers when voluntary departure schemes are also in effect. To prevent the loss of the best qualified workers, higher salaries and a merit-based incentive scheme may be offered. The World Bank assisted in the design of such measures in a project involving the Bolivian Central Bank, where the work force was reduced from over 1,000 to under 400. Reducing the labor force resulted in savings adequate to give attractive severance packages, and to pay increased salaries for those remaining with the Bank. Some qualified staff did leave, but the increased salary levels attracted new talent.

3.41 An issue of concern in layoffs is the potential loss of trained human capital, both managers and workers. Because investment and time have gone into developing specific skills, their loss is a waste of investment. Several steps to help workers re-enter the work force are outlined below.

3.42 Assistance in Finding New Jobs. The scope of this assistance can include support facilities for job searching, career counselling and advice, and even for relocation.

3.43 Retraining Programs. Based on expert, performance, ability, training, education, and ambition, retraining programs might focus on areas of immediate need or in which demand is expected in the future. Refresher or skills maintenance courses might assist those expected to fill vacancies in the short term.

3.44 Development of Entrepreneurship. For workers who want to go into business for themselves, programs could provide screening for entrepreneurship potential, help with project development, and training in key business, finance, and marketing skills. Professional assistance in project preparation and presentation could improve the likelihood of obtaining funding for new microenterprises. Special arrangements can be made to use severance pay as equity investments in new businesses.

In the Bank's experience, this issue has proved especially difficult in the case of public sector restructuring, which involves layoffs of civil servants who expect lifetime employment. Frequently the provisions of their termination are limited, without contractual arrangements for compensation. In lieu of any other methods, estimating how long the worker will be out of the civil service serves as a benchmark. This procedure yields an approximate calculation of the savings to be achieved by laying the worker off. A severance payment exceeding this amount would not be beneficial to the economy.

An important consideration in all retraining programs is what happens at the end. The Bank's experience in certain African countries has been that retrained workers frequently expect the government to find them jobs, which often are not available after the training.
Employee Buy-Outs. Programs to facilitate employee buy-outs could give workers assistance in basic finance, management and marketing techniques. Programs could provide help for the transition to new ownership and for management of the enterprise during the early stages.

Related issues that surface frequently in Bank-supported restructuring operations concern who should finance different aspects of a government's assistance program and what is the appropriate role for the World Bank. Bank funds can be used to cover the costs of retraining, entrepreneurial development, and other assistance programs. In the case of severance payments, the Bank can encourage allocation of counterpart funds to cover severance pay.
CHAPTER IV
THE FINANCIAL SECTOR AND INDUSTRIAL RESTRUCTURING

4.01 The industrial restructuring process can succeed only if adequate financial resources, supplied by an efficient financial intermediation system, are available at reasonable cost. The World Bank can play an important role in improving the capabilities of the financial system. When the financial system is in deep distress, and when most banks in the system are unsound, financial sector adjustment operations are the appropriate vehicles, since further lending through financial intermediaries would only worsen the problem.

4.02 Industrial restructuring and other loans through financial intermediaries may help with incremental institutional improvements, provided that such operations involve sound and solvent banks. Industrial restructuring operations could be particularly useful in: building knowhow among good bankers on what it takes for industrial firms to be internationally competitive; and in introducing new financial instruments and eligible expenditures consistent with sound corporate restructuring. Through industrial restructuring operations, the Bank needs to assist governments in:

- working directly with competent, financially sound banks, with increased use of commercial and investment banks;
- introducing basic principles of corporate finance into financial intermediation projects; and
- expanding the range of financial instruments and eligible expenditures available to industrial firms engaged in restructuring.

4.03 Section A of this chapter deals with reforming financial sector policies, improving banking regulation and supervision, and restructuring financial intermediaries and their portfolios. In an increasing number of developing countries, these financial sector reforms are preconditions of successful industrial restructuring--or any prudent lending through financial intermediaries. The Bank can be helpful through financial sector adjustment loans which support strong, measurable actions in each of these areas. Section B of this chapter deals with the type of financial intermediaries, instruments, and expenditures needed for successful restructuring of industrial firms. These--and not broad systemic reforms--are the dimensions best tackled under industrial restructuring operations which finance firms through financial intermediaries.

A. Restructuring the Financial System and Intermediaries

Adjusting Financial Sector Policies

4.04 In many developing countries, excessive market regulation and government intervention in the financial system are prime obstacles
to efficient, sounder financial markets and intermediation systems. At the same time, tight interest rates and extensive directed credit schemes seriously distort resource allocation and limit competition among intermediaries.

4.05 As a consequence, market deregulation is a key element in financial sector reform. Reduction of forced reserve requirements and mandated investments, accompanied by contraction of public sector borrowing (or publicly-financed directed credit schemes), would help lower interest rates and halt the crowding-out of private sector borrowers. Interest rate deregulation is particularly important in ensuring an adequate risk-return profile for commercial bank lending and in fostering competition among intermediaries.

Restructuring the Intermediaries

4.06 The impact of economic and financial crises is reflected in the low operating returns and high gearing ratios evident in the income statements of many intermediaries. These published data in fact often underestimate the problems: they do not reflect banks' insufficient loan loss provisions, and they include accrued but unpaid interest on doubtful loans. Many banks' financial problems are due mainly to difficulties with loan recovery, a situation that persists despite various refinancing attempts (e.g., in Uruguay) and debt dilution schemes (e.g., in Argentina). In addition, overvalued fixed assets, revalued on the basis of general price indices, misrepresent the real financial situation.

4.07 Despite the troubled financial condition of many banks, the shake-out process, whereby the system adjusts to the demand for intermediation, takes place slowly, largely because orderly exit of intermediaries and clients is difficult. The threat of bankruptcy is the ultimate incentive to improve product value and production efficiency. However, in many developing countries, government regulation and reluctance to let large banks and enterprises fail have impeded the liquidation or serious restructuring of inefficient market participants.

4.08 A special problem is the poor discipline and performance of many public banks. In these institutions, the political pressure to make heavy investments in capital-intensive but non-viable SOEs has impeded sound analysis of creditworthiness and decision-making. Adequate supervision, financial and operational restructuring, and redefinition of public banks' roles and their relation to commercial banks are issues of prime importance in financial sector reform.

Strengthening Banking Supervision

4.09 Traditionally, supervision and control have focused on compliance with central bank rules governing reserve requirements and interest rates. Portfolio analysis and operating efficiency have received less attention. Inadequate systems for assessing the quality of portfolios is the more serious problem. Current systems typically confuse loan arrears (which may or may not result in losses) and risky loans (which may or may not be in arrears). Information on the perfor-
mance of individual banks is severely limited—balance sheets and income statements appear infrequently, if at all, and do not address portfolio quality. The practice of allowing loans in arrears to accrue interest until the borrower is liquidated distorts banks’ income statements. Unclear liquidation procedures, especially regarding loan and asset recovery, are problematic. Loan loss provisions often become obligatory only when the borrower goes bankrupt.

4.10 Banking supervisors are reluctant to intervene in a bank situation before portfolio difficulties cause financial collapse. As a first step in strengthening supervision and control, bank supervisory agencies should introduce portfolio classification systems that focus on the probability of default rather than on analysis of arrears in evaluating portfolio quality and exposure to risks.

B. Industrial Restructuring through Financial Intermediaries

Introducing Corporate Finance Principles

4.11 Financial assistance for industrial restructuring programs differs substantially from financing for traditional development bank operations. Under previous credit lines, the World Bank offered long-term loans for investments in equipment and as permanent working capital, relying primarily on government-owned development banks to make loans to companies directly and through refinancing arrangements. These arrangements are not sufficient for financing industrial restructuring. It is recommended that the World Bank be more selective in the use of financial intermediaries. In those cases in which strong financial intermediaries have been selected, using rigorous criteria, the definition of eligible expenditures could be broadened. Such operations should incorporate a range of financial instruments, on market-oriented terms and conditions.

Defining Eligible Expenditures Broadly

4.12 Bank policies and practices in determining eligible expenditures for Bank finance often do not adequately reflect the range of activities needed for effective firm level restructuring. These practices also do not recognize adequately that funds are fungible, meaning that excessive attention to defining eligible categories can be self-defeating. As the Bank increases reliance on strong commercial banks, which are positioned to offer the range of fixed and working capital financing, it would be useful if the Bank could broaden and simplify its approach to determining eligible expenditures.

4.13 Working Capital. Recently, supplying working capital has gained increasing importance in a number of Bank-supported projects, as working capital accompanying investments in fixed assets and as free-standing working capital unrelated to investment in equipment. However, Bank financing for working capital has been restricted to increasing raw material and spare part inventories. Eligible expenditures preclude financing for other working capital expenses such as labor, receivables, and short-term sales financing, to prevent borrowers from substituting working capital subloans for a company’s equity. The Bank enforces this...
restriction by requiring that executing agencies submit a list of goods to be financed, as part of subproject documentation. The restriction is difficult to enforce, however, and does not reflect firms' working capital realities.

4.14 It would be useful if Bank eligibility criteria for working capital loans could be modified with all production inputs certified as eligible expenditures. The working capital loan amount could be based on a company's production cycle, taking into account inventories, finished products, and receivables. To prevent the substitution of equity through excessive working capital loans, the Bank could require that the amount of the working capital loan not exceed a certain proportion of sales and/or equity.

4.15 It also would be useful if eligible expenditures could include investments in research and development, particularly related to the commercialization of new products. Other key expenditures include incremental marketing and distribution expenses, including investments in the distribution system, start-up and initial financing of a sales force in new export markets, and financing promotion campaigns in foreign markets. The inclusion of items outlined above as eligible expenditures would require changes in Bank practice, not in basic policies.

4.16 Mergers and acquisitions of companies can be important restructuring measures, in improving management, reducing overcapacity, and consolidating fragmented firms. Under present policy, Bank funds cannot be used to finance acquisition of companies since such acquisitions involve transfer of the ownership of existing assets rather than creation of new assets. The Legal Department, in cooperation with PPR and Operations, will examine this issue. At the minimum, the Bank could ensure that domestic funds are available to encourage strategic mergers and acquisitions.

4.17 Shifts in marketing strategies or improved production processes are likely to affect the size and the composition of the workforce. Retraining will be important to protect existing, use new machinery, or take advantage of new technologies. Restructuring projects could make financing of training expenses at the level of individual companies eligible for reimbursement under Bank loans. While Bank funds cannot be used to finance severance payments, the Bank can encourage the provision of counterpart funds for this purpose.

Assisting Financial Restructuring

4.18 Investments in equipment and working capital may require parallel financial restructuring of a company. In situations of massive instability and devaluation, financial restructuring can be an essential part of the work-out plan. Restructuring of a company's liabilities can comprise the following three main elements:

- **Maturity Extension.** In many cases, the financial structure of a company would improve if the maturity of its liabilities could be extended and the negative cash-flow
impact of high nominal interest (front-loading of early maturities) avoided;

- **Debt Consolidation.** Debt consolidation is of particular importance if the number of creditors is larger and the size of loans is varied. Consolidation of the debt with a smaller number of creditors may be essential to achieve the necessary agreements concerning debt write-off, debt-equity conversions, maturity extensions, and additional funds for future growth; and

- **Debt/Equity Conversion.** Partial conversion of debt into some form of equity is likely to be a key element of many financial restructuring plans. Although the average debt/equity ratio of the industrial sector in many developing countries has improved over the last few years, compared to levels of the early 1980s, many companies are still overleveraged. Their high debt level and the associated financial costs are causing substantial liquidity problems that prevent generation of resources for new investments.

4.19 The Bank's guidelines currently do not allow direct financing of these instruments because, as with the acquisition of used domestic assets, they involve transfer and not creation of domestic financial assets and liabilities. The Bank could promote these instruments, however, by introducing maturity swaps and by more flexible application of its financing percentage. Normally the Bank finances only a percentage of eligible expenditures, which, in many cases, correspond to the foreign exchange portion. Traditionally, the Bank has applied this percentage to each subproject. Under an industrial restructuring project, the Bank could apply the percentage to the project as a whole, financing more than the average percentage in some subprojects and less in others.

**F. Providing a Comprehensive Package of Financial Instruments**

4.20 **Flexible Subloan Maturities.** As noted, Bank funds can finance permanent working capital, corresponding to the long-term nature of Bank funds. Short-term and seasonal working capital are not eligible expenditures; loan agreements typically impose a minimum maturity (e.g., three years) on working capital subloans financed with Bank funds. Yet sharp lines between long- and short-term working capital requirements are artificial. Many companies roll working capital loans over to finance permanent requirements—but with the advantage of matching credit to their actual, fluctuating working capital needs. In many cases, financing requirements are seasonal and could be serviced through short-term loans.

4.21 **Long-term credit lines could allow variable usage.** The maturity requirement for restructuring loans could be modified. While insisting on a maximum maturity for subloans, the Bank explicitly could allow penalty-free prepayments and credit lines for working capital, on which the borrower could draw as required. Innovative repayment systems
that alleviate the negative cash flow impact of high nominal interest rates also are important.19/

4.22 **Equity Investments.** Equity investments are vital for highly-leverage companies in developing countries and for risky restructuring investments. The recent rise in international debt equity swaps will likely make an increased supply of foreign equity available. Restructuring projects could help mobilize additional equity by providing long-term resources for intermediaries' direct foreign investment.

4.23 **Quasi-Equity Investment.** Quasi-equity investments offer investors and recipients flexibility with respect to liquidity, profit sharing, and distribution of risk:

- **Conditional loans,** recently introduced in Bank operations, can be a useful instrument for risk-sharing among final borrowers, participating intermediaries, and executing agency. Moreover, convertible loans are highly flexible in their design. Conditional payments by the borrower can refer to interest payments, principal, or both. The yield of a conditional loan can be based on an interest rate, a revenue-sharing scheme, or a profit-sharing scheme, but its price should be commensurate with its increased risk.

- **Convertible loans,** not yet used in Bank operations, offer flexibility and the prospect of better returns than do traditional loans or equity investments.

- **Subordinated debt,** compensated through a higher interest rate, could be useful for companies that do not have sufficient collateral to back overall funding requirements.

**Working Directly with Sound Banks**

4.24 The Bank continues to rely heavily on state-owned development banks as major channels for direct credit or refinancing for long-term lending to the industrial sector. The assumption has been that commercial banks were not interested in long-term financing and did not have the capacity to appraise large, lumpy investment projects.

4.25 Yet, some development banks have demonstrated poor performance and competitive weakness while commercial banks have gained attractiveness as intermediaries. Despite ostensibly superior capacity

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19/ The Sistema de Pagos Variables al Valor Presente (PVP) scheme in Mexico, first introduced in a Bank-supported operation in 1985. By capitalizing interest payments at current market rates (rather than indexing the subloan principal to the inflation rate), the cash drain on borrowers is greatly reduced during the early part of the maturities. This facility is likely to induce borrowers to undertake investment projects in the normally unfavorable climate of high nominal interest rates.
for project appraisal, development banks have lent large sums for non-viable projects, have experienced related deterioration in portfolio quality, and have serious solvency problems. Continued government equity infusion and other subsidies are preventing bankruptcy for many.

4.26 Major commercial banks in many countries are capable of handling corporate finance and equity investments. Most successful commercial banks demonstrate strong market knowledge, financial engineering expertise, and longstanding relationships with industrial clients. In some apex operations in which commercial banks are the main channel for lending, the banks have demonstrated an interest in, and superior capacity for, financing investment projects. The commercial banks—and the small but growing group of investment banks—could increasingly become primary channels for the Bank’s financial intermediation loans, especially in industrial restructuring programs.

4.27 Under most industrial credit lines, the Bank requires that subloans above an agreed limit be subject to prior Bank inspection, while subloans below the limit can be approved by the apex or retail intermediary in the borrowing country. This system has shortcomings. Because the Bank does not deal directly with the industrial client, the Bank usually examines only the consistency of the client’s loan application rather than the substance of the credit decision by the intermediary. Because of the lack of substantive analysis of most sub-projects by the Bank, the present system causes long delays in decision-making. The Bank should introduce methods that stress the capacity of the intermediary to evaluate loans rather than have World Bank staff analyze a large number of individual subprojects. The Bank should exclude intermediaries from participating in a loan when they do not meet performance standards. Acceptable performance would become a precondition for participation in Bank loans—not a long term goal. A change in the conditions for participation also would allow reform of subloan approval procedures, to give intermediaries more independence and to concentrate scarce Bank supervisory resources on institutional performance.
CHAPTER V

WORLD BANK EXPERIENCE WITH INDUSTRIAL RESTRUCTURING

A. Lending Patterns

5.01 Chart 5.1, which provides annual industrial restructuring operations by number and amount over the FY88 period, shows a sharp increase in the number of operations in FY87 and a major jump in lending volume in FY88. Lending for industrial restructuring overall increased from about US$550 million in the FY83 to FY85 period to US$3.3 billion in FY86 to FY88. The FY89 to FY91 pipeline reflects a further acceleration, with a projected US$5.4 billion in industrial restructuring loans. The average size of Bank restructuring loans also increased, from US$43.3 million in FY80 to FY85 to US$121.7 million from FY86 to FY88.

![Chart 5.1: Industrial Restructuring Projects by Year and Loan Amount](image)

This section is based on a sample of 50 rehabilitation and restructuring projects in 29 countries approved in the FY80 to FY88 period. Seventeen of these restructuring operations were appraised between FY80 and FY84 and 33 between FY85 and FY89. (See Annex, Matrix of Projects). The information on the 50 industrial restructuring projects was culled from project documents and interviews of past and present World Bank task managers. (The sample excludes public sector enterprise reform programs in Africa that do not have an industrial restructuring focus. It also does not include relatively minor restructuring efforts under SALs and sectoral adjustment programs.)
5.02 The primary focus of restructuring projects in the FY80 to FY88 period is shown in Chart 5.2. The focus of earlier operations was rehabilitation of specific enterprises, with all projects dealing primarily with physical restructuring. The policy or institutional environment received little attention. Recent Bank operations reflect a shift from narrow rehabilitation efforts to operations with policy, institutional, and enterprise measures. Beginning in FY86, industrial restructuring operations increasingly were vehicles for liquidating obsolete or uncompetitive production facilities and for increasing private sector participation. In some operations, policy emphasis increased, with more attention to pricing, entry/exit, regulatory, investment, promotion, and technology. This broader scope has been facilitated by the move from an enterprise focus to subsector and sector-wide industrial restructuring operations in the FY86 to FY88 period.

CHART 5.2
PRIMARY SCOPE OF INDUSTRIAL RESTRUCTURING PROJECTS

OTHERS (6.0%)
Technical Assistance

SECTOR WIDE (16.0%)

SUBSECTOR (10.0%)

PUBLIC SECTOR (20.0%)

ENTERPRISE (48.0%)

Chart 5.3 presents a list of industrial restructuring activities and their frequency in restructuring projects. Physical restructuring components encompass capacity expansion, modernization of plant and equipment—all plant improvements. Management systems elements include changes in management composition, information systems and practices—sometimes supported by technical assistance. In addition to physical and managerial restructuring, some operations dealt with privatization or closure (primarily in Africa), market reorientation, and financial restructuring.
5.04 Chart 5.4 shows the subsector focus of selected industrial restructuring operations. Textiles, fertilizer, cement, and steel have been the most frequent targets of Bank-supported restructuring operations. Lending has been large in heavy, commodity-based industries, often in public sector enterprises. The focus on restructuring heavy industries reflects both the concentration of public ownership and traditional areas of World Bank expertise. World demand for the basic commodities declined in the seventies and eighties at the same time that developing countries were unable to make the huge capital investments needed to become competitive globally.
Regional distribution of industrial restructuring loans and lending amounts, provided in Charts 5.5 and 5.6, was relatively even over the FY80 to FY88 period. Africa has had the largest number of loans (primarily public enterprise adjustment operations) but the smallest aggregate loan amount. Latin America has accounted for the smallest number of loans but mainly in large operations.

**Chart 5.5**
Regional Distribution of Industrial Restructuring Projects FY80-FY88

**Chart 5.6**
Number of Loans by Region and Year

*Source: IENH - Industrial Restructuring Database.*
B. Lessons from Industrial Restructuring

5.06 Since the Bank's experience with industrial restructuring is relatively new, with few projects completed, definitive conclusions about effectiveness are not possible. Yet the Bank does have enough experience to provide a basis for designing the next generation of industrial restructuring operations.

5.07 A number of important points emerge from the review of Bank industrial restructuring operations. First, restructuring is a dynamic, ongoing, often highly politicized process. The prospects for successful implementation can be enhanced greatly if the main participants are committed to the project's objectives, are involved in all its phases, and feel that the restructuring program fits local conditions. The Bank can help build consensus for restructuring by identifying players who have the power and competence to mobilize the political will locally. Involvement by the government--and dissemination of information on the restructuring program to government, private enterprise, and financial leaders--are critically important. Institutional arrangements to ensure broad participation in preparing and supervising industrial restructuring operations are essential to the success of restructuring operations. Appraisal reports should assess and address these political commitment and institutional elements explicitly.

5.08 Second, industrial restructuring operations should respond explicitly to rapid changes in global markets and technology and to sharp shifts in macro and sectoral policies. Due to the uncertainties and difficulties inherent in change, the timing and dimensions of the supply response from restructuring are difficult to predict, making restructuring an inherently risky business, requiring continuous adjustment. These requirements further reinforce the need for continued Bank staff involvement during the implementation phase.

5.09 Third, global subsector studies can help systematic industrial subproject evaluation. Studies that cover the international business environment provide the parameters for judging whether restructuring moves by enterprises are consistent with internationally competitive performance. Projects must be grounded in real-life conditions. Analysis of comparative advantage based largely on cost comparisons, an approach used in a number of Bank-supported evaluations, is necessary but insufficient in judging the ability of firms to compete in world markets. To measure competitiveness in a dynamic setting, a firm's ability to compete in world markets is key. Increasingly, this ability depends not only on factor prices and scale economies, but also on firms' flexibility and organizational, technological, and marketing strengths. Restructuring studies on the textile industry in Turkey, the rubber industry in Hungary, and the auto parts industry in Mexico compared these enterprises with leading competitors worldwide. The Bank will coordinate global studies that assess key cost and quality dimensions; analyze major production, marketing, and management methods used by successful enterprises; and dissect key factors for success of emerging firms.
5.10 **Fourth**, initial Bank restructuring projects had limited impact mainly because they dealt primarily with physical aspects—without giving adequate attention to regulatory policy issues, ownership, and organization. In recent years, the Bank has placed more emphasis on trade liberalization measures to increase economic competitiveness. It now is important for the Bank also to address other constraints to restructuring, such as protection of monopoly public enterprises, restrictions on direct foreign investment, and major barriers to entry, exit, and expansion. Improvements in management, new product development, marketing and export capabilities, product quality and service, and applied research and development are likely to yield higher returns to developing country enterprises than increased investment in plant and equipment.

5.11 **Fifth**, industrial restructuring operations should reinforce competitive pressures. In the past, Bank lending operations have supported programs to improve performance of parastatal monopolies controlling a basic subsector, e.g., steel, mining, petrochemicals, fertilizers. These subsectors are critical input sources to other downstream enterprises; their monopoly status often has serious adverse effects on the competitiveness of user industries. Most monopoly parastatals are a significant drain on government budgets, and in most cases are grossly uncompetitive. Ideally, grossly inefficient basic industries should be dismantled. At a minimum, barriers to competition should be removed by liberalizing imports, breaking up monopolies, and encouraging private sector entry. If possible, efficient private producers should be lured into the market while competitive pressures are being created. It is highly questionable whether the Bank should support restructuring of parastatals without prior action by governments to promote competitive markets.

5.12 **Sixth**, minimum policies for competitive restructuring must be assessed prior to project appraisal. Most recent industrial restructuring operations reflect recognition of the need for regulatory, pricing, and public enterprise reform. Reform programs should be agreed upon as part of restructuring operations or supported by parallel adjustment operations. The Mexico Industrial Restructuring Project complements major import liberalization, and an industrial adjustment operation to dismantle regulatory barriers to competition is under preparation. The restructuring project supports clear policy reform measures affecting autoparts and textiles subsector. When adequate policy measures could not be agreed upon for a segment of agroindustry (e.g., shrimp aquaculture), this component was omitted from the Bank-supported industrial restructuring project.

5.13 **Seventh**, industrial restructuring requires a five to ten year commitment to change. For example, the Government of Hungary, with Bank assistance, is in the midst of a five-year restructuring program, which includes phased policy reforms and subsector-specific actions, supported by a series of industrial restructuring and adjustment operations.
5.14 **Eighth**, a risk in complex programs—such as public sector reform—is that the industrial restructuring component will not get adequate attention. A coherent, sequenced restructuring program, phased as several back-to-back projects is more workable,\(^{21/}\) such as that in Hungary. It can take into account the need for continuous adjustment of the programs in response to a changing environment.

5.15 **Ninth**, restructuring operations need more than usual Bank supervision. On average, about 30 staff weeks of supervision are required in the first year of operations, dropping to 20 staff weeks in the second year, settling to the more normal 10 weeks by the third year. Interviews with Bank staff reveal that current supervision time is inadequate. Appraisal reports should incorporate explicit supervision commitments—recognizing that the requirements for supporting implementation have been underestimated consistently. Restructuring is a process of change, not a discrete operation such as building a physical plant. Bank staff need to assist client governments in monitoring the process, supervising the consultants, and in providing direct technical assistance.

5.16 **Tenth**, the quality of financial intermediation is critical to the success of private sector restructuring projects, particularly in countries suffering from severely distorted fiscal policies and banking insolvency. In situations of severe financial sector distress, financial sector restructuring normally needs to precede restructuring of the industrial sector. Also, firms accustomed to operating in protected suppliers’ markets—and their bankers—often do not have information on organization, technology, and marketing strategy needed for an effective outward-oriented supply response. Also, the Bank needs to broaden and refine financial instruments to meet the distinct needs of industrial restructuring, supporting maturity swaps, convertible debentures, and debt equity conversions.

5.17 **Eleventh**, Bank criteria for determining eligible expenditures frequently do not reflect the range of financing needed for effective restructuring. Marketing, research and development, retraining, and production system financing are important in restructuring and should be included in eligible working capital financing.

5.18 **Twelfth**, most Bank-supported restructuring projects do not address political and social aspects adequately. Too often preparation is overly elaborate, creating major delays and missing windows of opportunity for decisive government action. Also, restructuring almost always has adverse short-term employment consequences. It may be appropriate to make Bank financing available for worker retraining and to encourage counterpart funding for severance payments.

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\(^{21/}\) The Hungary Industrial Restructuring Program established an agenda for reforms over a defined period, with phased policy changes concurrent with a series of industrial restructuring operations.
## REVIEW OF INDUSTRIAL RESTRUCTURING PROJECTS, 1980-1988

<table>
<thead>
<tr>
<th>Country</th>
<th>Project Name</th>
<th>Loan Type</th>
<th>Loan Amount</th>
<th>Sectors</th>
<th>Objectives</th>
<th>Background/Restructuring Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>Public Enterprise Sector Rehabilitation Project</td>
<td>Implementation</td>
<td>$15.0 million</td>
<td>SOE sector and selected public enterprises</td>
<td>Assist Benin in rehabilitating its public enterprises.</td>
<td>Technical assistance to help preparation and execution of agreed sector policy reforms, enterprise diagnostic studies, liquidation plans or rehabilitation studies; Credit to finance IDA-approved agency and full rehabilitation programs for selected enterprises; Assistance in training and redeployment of staff laid off.</td>
</tr>
<tr>
<td>Congo</td>
<td>Public Enterprise Institutional Development Project</td>
<td>Implementation</td>
<td>$15.2 million</td>
<td>SOE sector</td>
<td>Facilitate the Government’s Structural Adjustment Program, with special focus on PEs: rehabilitation, rationalization, financial restructuring, strengthened monitoring, autonomy and accountability of PEs; and help elaborate further necessary macroeconomic and sectoral reforms. Liberalization of PE environment to promote efficiency and competition.</td>
<td>Comprehensive PE reform: support for implementation and monitoring of reform measures (privatization, liquidations, banking system reform); management training program for financial management, management information systems and personnel administration; auditing and accounting assistance, technical assistance to key PEs; studies for medium-term policies and sectoral strategies; technical units.</td>
</tr>
<tr>
<td>Ghana</td>
<td>Public Enterprise Project</td>
<td>Implementation</td>
<td>$10.5 million</td>
<td>SOE sector</td>
<td>Strengthen the State Enterprise Commission (SEC) to manage the SOE reform program; Improve management and performance in priority SOEs; Reduce the burden of the sector on Government through divestiture.</td>
<td>Advisory/consulting services for strengthening the SEC and for implementing the first phase of the divestiture program.</td>
</tr>
<tr>
<td>Country</td>
<td>Project Description</td>
<td>Loan Type</td>
<td>Loan Amount</td>
<td>Units Restructured</td>
<td>Background/ Objectives</td>
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</tr>
<tr>
<td>Guinea</td>
<td>Industrial Rehabilitation and Promotion Project CD-1234-QU</td>
<td>DFC</td>
<td>US$19.0 million</td>
<td>Four PEs in floor tiles, soft drinks, perfumes, granite quarrying and the whole industry sector</td>
<td>Increase the scope of the private sector and improve the performance of public enterprises. Complete rehabilitation of four PEs through provision of equipment, technical assistance and training; Promotion of private sector enterprises through the provision of long term credit and the expansion of the role of the Ministry of Small and Medium Size Enterprises; Provision of TA and training to ONCH (major industrial bank) to enable it to act as the local financial intermediary; TA to OOG to improve formulation of industrial policy and strategy.</td>
<td></td>
</tr>
<tr>
<td>Malawi</td>
<td>Wood Industries Project L4-2486-MAI</td>
<td>IDB</td>
<td>US$6.4 million</td>
<td>The newly-formed Wood Industries Corp. (WICO)</td>
<td>Assist Malawi in meeting its demand for wood products, encourage privatization and develop institutions in the sector. Technical assistance to WICO to organize and operate as a private company; Rehabilitation of three mills and purchase of critical spare parts and equipment; Technical assistance to the Government for developing alternative uses for forest resources.</td>
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</tr>
<tr>
<td>Country</td>
<td>Project Details</td>
<td>Loan Amount</td>
<td>Restructuring Objectives</td>
<td>Background/</td>
<td>Restructuring Components</td>
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<tr>
<td>Mali</td>
<td>Public Enterprise Sector Adjustment Credit (N.A.)</td>
<td>1988, Implementation</td>
<td>N/A</td>
<td>Public Sector as a whole</td>
<td>Reform of key economic policies concerning public resource management and the structure of economic incentives;</td>
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<tr>
<td></td>
<td></td>
<td>Non</td>
<td>USD40.0 million</td>
<td>Loan Type</td>
<td>Financial sector reform;</td>
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<tr>
<td></td>
<td></td>
<td>SAR Date</td>
<td>Loan Type</td>
<td>Units Restructured</td>
<td>Institutional and legal reforms redefining relations between Government and PEs;</td>
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<tr>
<td></td>
<td></td>
<td>Current Stage</td>
<td>Loan Amount</td>
<td>Public Sector</td>
<td>Rationalization of the sector through liquidation, privatization or restructuring of the 35 PEs.</td>
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<td></td>
<td></td>
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<td>as a whole</td>
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| Mauritania | PE TA Rehabilitation Project (CR1-367-MAU) | 1985, Implementation | Non | Public Sector Reform with direct support to SONELEC (Société Nationale d'Eau et d'Electricité), BNM (Bâtiments Maritimes de Nouakchott) and OPT (Office des Postes et Télécommunications). | Studies and institutional reform on basic issues facing the PE sector, TA to "Parapublic Rehabilitation Unit," development of a medium-term rehabilitation program, external audit of the three participating PEs; |
|           |               | USD16.4 million |              | The effective operation of Mauritania's Public Enterprise Sector is hampered by financial, legal, political, organizational and human resources constraints. The project is therefore designed to assist the Government in articulating an appropriate medium-term plan for the sector and in gradually implementing this plan, starting with a few selected enterprises. | Support to SONELEC and BNM: Physical rehabilitation, organizational and institutional changes, TA and training; |
|           |               |               |              | | TA to OPT to improve its financial management and prepare a detailed medium-term rehabilitation plan. |

| Mauritania | SNIM Rehabilitation Project (CR2-2643-MAU) | 1986, Expected closing date: 12/31/88 | DID | Société Nationale Industrielle et Minerale (SNIM), the parastatal company in charge of iron ore mining in Mauritania | Purchase of equipment and supplies and provision of training and TA for the rehabilitation of SNIM; |
|           |               | USD20.0 million |              | Ensure the medium-term financial and economic viability of SNIM, one of the most valuable assets of the Mauritanian economy. | Assisting the financial restructuring of SNIM by transforming part of its short term debt/draft into long term debt. |
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<tbody>
<tr>
<td>Niger</td>
<td>Public Enterprise Institutional Development CR-1833-MTR</td>
<td>1988</td>
<td>Implementation</td>
<td>US$5.5 million</td>
<td>SOE sector, including Radio and TV enterprise</td>
<td>Institutional and legal changes undertaken to increase PE efficiency; improve general policy environment and incentive systems; divestiture program, private sector encouragement; price and trade liberalization. Major goal is to strengthen PE management capabilities—currently weak and with limited comprehension for the reforms—to respond to the changed policy environment.</td>
<td>Establishment strengthening and building: support for Government, implementation and monitoring of reforms, development for additional measures; development of management tools of enterprises, improvement of procurement practices, comprehensive training program; restructuring of OKMN, the Radio and TV PE; organization and accounting strengthening; rehabilitation; financial restructuring.</td>
</tr>
<tr>
<td>Niger</td>
<td>Public Enterprise Sector Adjustment CR-1833-MTR</td>
<td>1987</td>
<td>Implementation</td>
<td>US$90.0 million</td>
<td>SOE sector, including Radio and TV enterprise</td>
<td>As part of SAL, comprehensive reform of SOE sector, including revision of incentive policies (price liberalization, reduction of public monopolies) improvements in legal and institutional framework (autonomy, control and monitoring, procurement), and rationalization (rehabilitation, privatization, liquidation) of SOEs.</td>
<td>PE Sector Adjustment Program (PESAP) to deepen these reforms, focusing on financial restructuring of SOEs (analysis of cross-debt, financial discipline and self-sufficiency) and public resource management, including training and technical assistance, selected physical rehabilitation, and improvements in personnel and procurement practices, organization and operations.</td>
</tr>
<tr>
<td>Senegal</td>
<td>Industrial Sector Restructuring Project CR-1868-SE</td>
<td>1988</td>
<td>Implementation</td>
<td>US$30.0 million</td>
<td>Sector-wide, with a major emphasis on agro-industry and textile. In order to &quot;guide&quot; the restructuring process, a thorough study assessed the concrete impact of the policy reform on the industrial sector.</td>
<td>SAL II and III initiated important reform of the protection system, export incentives and labor regulations that are expected to go a long way towards improving the industrial policy environment and promoting competitiveness. The Industrial Restructuring Project would support the Government in its effort to adjust the sector, and to help individual enterprises implement restructuring programs to adapt their operations to the new policy environment.</td>
<td>Line of credit to finance restructuring (through modernization of equipment, rationalization of production processes and introduction of new technologies); Technical assistance to strengthen the institutions: reinforcement of the Ministry of Industry, familiarization of the staff of the Central Bank and participating banks with lending procedures and appraisal techniques, restructuring of the Export Credit Insurance Agency and the Center for External Trade; Program of assistance to displaced workers through a retraining scheme and an entrepreneurship development program.</td>
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# REVIEW OF INDUSTRIAL RESTRUCTURING PROJECTS, 1980-1988

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<tr>
<td>Tanzania</td>
<td>Multisector Rehabilitation Credit</td>
<td>1987</td>
<td>Implementation</td>
<td>US$96.2 million</td>
<td>Sector-wide, especially agriculture and transport and parastatals in general</td>
<td>Economic Recovery Program (ERP) targeted to increase capacity utilization (supply response) in the industrial sector and free resources for most efficient firms. External sector, fiscal and monetary policies changes: foreign exchange screening process, exchange rate and trade liberalization, positive interest rates, cut in subsidies and transfers. As macro environment improves, need for reforms in parastatals to make them responsive to price signals.</td>
<td>Foreign exchange for imports needed for rehabilitation; assistance for agenda-setting of future policy changes; improvement of management and operation of parastatals, rehabilitation rather than expansion, increase quality of public expenditures; improve marketing, incentives, debohlewedding in agriculture.</td>
</tr>
<tr>
<td>Togo</td>
<td>Private Enterprise Development Project</td>
<td>1988</td>
<td>Implementation</td>
<td>US$11.5 million</td>
<td>Private industrial firms especially small and medium scale enterprises.</td>
<td>A structural adjustment program is underway to address reforms in the industrial policy such as price controls, tariffs and duties. The project is designed to put in place appropriate support measures to help achieve the expected response from private industry and especially from the SME sector.</td>
<td>Assistance to the new private sector-oriented investment promotion/extension system; Support to the Government's ongoing parastatal privatization program; Pilot program to lead to the establishment of a credit delivery system for micro-enterprises; A line of credit to finance existing enterprises as well as new projects in the private sector supplemented by trading the banks in project economic analysis.</td>
</tr>
<tr>
<td>Togo and Ghana</td>
<td>Restructuring Project for CDMO</td>
<td>1983</td>
<td>SSE</td>
<td>US$15 million</td>
<td>The company started production in 1980. The objective of the project was to set the company on a sound operational and financial footing.</td>
<td>Management and technical assistance to help CDMO. The company started production in 1980. The objective of the project was to set the company on a sound operational and financial footing.</td>
<td>Additional quarry equipment to prevent quarry operations from becoming a bottleneck; Restoration of working capital to a healthy level through provision of equity from shareholder Governments.</td>
</tr>
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<tbody>
<tr>
<td>Uganda</td>
<td>Public Enterprises Project</td>
<td>1988</td>
<td>Implementation</td>
<td>US$15.0 million</td>
<td>SOE sector with emphasis on selected parastatals and industrial enterprises.</td>
<td>Strengthen the capacity to sustain economic recovery by increasing economic efficiency, productivity and output and reducing financial losses in the public enterprise sector.</td>
<td>Strengthen capacity for implementing the Government’s rehabilitation, divestiture and liquidation program for industrial parastatals and companies held by the Uganda Development Corporation, including the provision of consultancy services. Define the institutional arrangements for administering public enterprises and develop action program to improve performance of remaining public enterprises. Undertake diagnostic studies and management audits for selected parastatals and enterprises.</td>
</tr>
<tr>
<td>Zambia</td>
<td>Export Rehabilitation and Diversification</td>
<td>1986</td>
<td>Implementation</td>
<td>US$75.0 million</td>
<td>One main SOE in subsector copper mining with strong linkages to rest of economy.</td>
<td>Improve operations and competitiveness of company.</td>
<td>Replacement and physical rehabilitation; spare parts; extensive training program, and building of managerial skills; technical studies for rationalization of operations and strategy (including mine closure).</td>
</tr>
</tbody>
</table>

### 2. ASIA

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<tr>
<th>Country</th>
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<tr>
<td>Bangladesh</td>
<td>Second Textile Industry Rehabilitation</td>
<td>1984</td>
<td>Implementation</td>
<td>US$45.0 million</td>
<td>Seven public and 15 recently privatized mills in textile sector</td>
<td>The Government has denationalized a total of 22 mills. 1982: New Industrial Policy to encourage private sector participation. Need for higher capacity utilization, efficiency and price deregulation.</td>
<td>Balancing, modernization and rehabilitation, spares; institutional mechanisms to strengthen strategy for changing markets; training for managerial and technical staff.</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Textile Industry Rehabilitation</td>
<td>1982</td>
<td>Cancelled</td>
<td>US$30.0 million</td>
<td>One SOE (holding) in the textile sector</td>
<td>Expand output and quality, and operational and financial performance of mills.</td>
<td>Rehabilitation through balancing, modernization and replacement of equipment of 15 mills; technical assistance to strengthen management system of holding and its mills; project implementation cell; quality controls.</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Fertilizer Industry Rehabilitation</td>
<td>1980</td>
<td>Completed</td>
<td>US$29.0 million</td>
<td>Three plants of the SOE</td>
<td>Improve production and performance (increase capacity utilization). To support this: price deregulation, foreign exchange availability, skilled work force.</td>
<td>Debottlenecking, physical rehabilitation, replacement, improvements in instrumentation, training center, imported plant spares, corporate and organizational restructuring (subsector-wide holding).</td>
</tr>
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## REVIEW OF INDUSTRIAL RESTRUCTURING PROJECTS, 1980–1988

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<tbody>
<tr>
<td>Bangladesh</td>
<td>Jute Industry Rehabilitation CR-1032-BD</td>
<td>1980</td>
<td>SSE</td>
<td>US$20.0 million</td>
<td>One SOE in the subsector Jute</td>
<td>Increase production efficiency in the jute industry, Bangladesh’s most important in terms of employment, value added and total exports. A major goal is to stay competitive with polypropylene fabrics producers. Physical rehabilitation, maintenance, balancing, internal transfer of machinery, spares for maintenance; training centers; incentive systems; management information and accounting systems; regionalization of authority; third shift; industry reorganization; government debt to equity conversions and cash infusions.</td>
</tr>
<tr>
<td>Burma</td>
<td>Wood Industries I Project CR-1114-BA</td>
<td>1981</td>
<td>AGR</td>
<td>US$32.0 million</td>
<td>The publicly-owned Timber Corporation, a monopoly in the wood processing activity</td>
<td>The project forms part of the Government’s development strategy which emphasizes higher export earnings through better capacity utilization and efficiency in Burma’s sawmills and plywood operations. Reconstruction and modernization of two sawmills, rehabilitation of two plywood and veneer mills and of the existing furniture factory, improvement of logs storage and handling, construction of a central workshop, strengthening of administrative, marketing, monitoring and construction facilities, training and technical assistance.</td>
</tr>
<tr>
<td>Burma</td>
<td>Textile Finishing Plant Project CR-1425-BA</td>
<td>1984</td>
<td>IND</td>
<td>US$29.7 million</td>
<td>Construction of a textile finishing plant to be operated under the Textile Industries Corporation (TIC, a State economic enterprise)</td>
<td>Expand Burma’s limited fabric finishing capacity to match grey fabric output and partially replace the obsolete and uneconomical finishing facilities in some of the small weaving plants. Construction of a new textile finishing plant</td>
</tr>
<tr>
<td>China</td>
<td>Shanghai Machine Tool Project 1N-2704-CHA</td>
<td>1987</td>
<td>IND</td>
<td>US$100.0 million</td>
<td>SMT and SMC, two machine tool enterprises which account for 80% of the Shanghai province machine tool output</td>
<td>In order to quantitatively increase the industrial output and improve its quality, the modernization of the machine tool industry has been assigned high priority by the Government. The restructuring of two large enterprises is expected to create a demonstration effect. Plant modernization rehabilitation/ mergers/closures; Technology transfer; Introduction of a comprehensive management system with the assistance of foreign consultants; Training program to improve management and design capabilities.</td>
</tr>
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<tbody>
<tr>
<td>China</td>
<td>Fertilizer Rationalization</td>
<td>1987</td>
<td>IND</td>
<td>US$97.4 million</td>
<td>Five SOEs and</td>
<td>Ongoing economic reforms have led to changes in fertilizer and allocation policy. A</td>
<td>Five plants: conversion to high nutrient fertilizer, improved operations, energy saving,</td>
</tr>
<tr>
<td></td>
<td>UN-2838-CIA</td>
<td></td>
<td></td>
<td></td>
<td>subsector as a</td>
<td>two-tier pricing system has emerged: controlled (state quota) and market determined</td>
<td>modernization, rationalization, expansion, organization changes, management information</td>
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<td></td>
<td></td>
<td></td>
<td>Implementation</td>
<td></td>
<td>whole</td>
<td>(partial liberalization). Increased management autonomy under the reforms to help</td>
<td>system, quality improvements. Subsector: training, management efficiency study to</td>
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<td>plants &quot;grow out of state plan.&quot; Also, marketing decentralization: plants market</td>
<td>strengthen sector wide institutional efficiency by introducing improved enterprise-level</td>
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<td></td>
<td>directly.</td>
<td>systems for organizational structure and effective management.</td>
</tr>
<tr>
<td>China</td>
<td>Fertilizer Rehabilitation and</td>
<td>1985</td>
<td>IND</td>
<td>US$97.0 million</td>
<td>Five SOE plants</td>
<td>Price reforms: increase role of market forces in determining product prices.</td>
<td>Physical rehabilitation, modernization, energy saving measures; financial management and</td>
</tr>
<tr>
<td></td>
<td>Energy Saving</td>
<td></td>
<td>Implementation</td>
<td></td>
<td>in fertilizer</td>
<td>Demonstration effect to prepare industrial enterprises for the new incentive</td>
<td>implementation capacity; staff training, technology development and research, studies for</td>
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<td></td>
<td>UN-2541-CIA</td>
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<td>subsector</td>
<td>regime of the price structure by improving energy efficiency and reducing</td>
<td>modernization strategies; assistance for international procurement.</td>
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<td>production costs.</td>
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<tr>
<td>India</td>
<td>Cement Industry Project</td>
<td>1985</td>
<td>IND</td>
<td>US$200.0 million</td>
<td>One SOE and six</td>
<td>Help enterprises cope with an environment without price controls (dual pricing will</td>
<td>Modernization: technical conversion (set to dry process), assistance and training for the</td>
</tr>
<tr>
<td></td>
<td>UN-2660/1-IN</td>
<td></td>
<td>Implementation</td>
<td></td>
<td>private sector</td>
<td>be phased out); efficiency and quality improvements; demonstration effect.</td>
<td>seven companies; credit line for minor modernizations of others; strategy and management</td>
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<td></td>
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<td></td>
<td></td>
<td>plants</td>
<td></td>
<td>development for subsector.</td>
</tr>
<tr>
<td>India</td>
<td>Industrial Export Project—Engineering Products</td>
<td>1986</td>
<td>DFC</td>
<td>US$250 million</td>
<td>Engineering products, subsector and ancillaries, and export-oriented activities</td>
<td>Significant changes in regulatory policies to reduce barriers to entry and expansion</td>
<td>Term lending by ICTCL to medium and large enterprises, with 60% earmarked for export-oriented</td>
</tr>
<tr>
<td></td>
<td>UN-2629-IN</td>
<td></td>
<td>Implementation</td>
<td></td>
<td></td>
<td>made prior to the loan.</td>
<td>investments by firms manufacturing engineering products;</td>
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<td></td>
<td>Line of credit made available to engineering ancillaries through selected commercial</td>
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<td>Establishment of a Productivity Fund and an Export Marketing Fund.</td>
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<tr>
<td>Philippines</td>
<td>Textile Sector Restructuring Project, LA-2127-PH</td>
<td>1982</td>
<td>IND</td>
<td>US$157.4 million</td>
<td>Private industries in the textile subsector</td>
<td>Physical rehabilitation, modernization and expansion of the various industries in the textile subsector;</td>
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<td>Training and TA to individual firms to improve operations and management;</td>
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<td>Setting up of training facilities/programs;</td>
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<td>Consulting services to assist the Government.</td>
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<tr>
<td>Thailand</td>
<td>Bangchak Oil Refinery Restructuring Project, LA-2546-Th</td>
<td>1985</td>
<td>Implementation</td>
<td>US$85.0 million</td>
<td>Bangchak refinery, which had been run in the past as a Government dependency under the Ministry of Defense and was established as a fully autonomous and commercial company (Bangchak Petroleum Company).</td>
<td>Physical, legal, organizational and financial restructuring of Bangchak Oil Refinery;</td>
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<td>Provision of engineering and management assistance;</td>
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<td>Carrying out of a technical and economic study to determine further modifications required to insure that the yield pattern of refineries in Thailand be in balance with the demand profile for petroleum products in the country.</td>
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<tr>
<td>Egypt</td>
<td>HADISOLS Steel Rehabilitation Project</td>
<td>1987</td>
<td>IND</td>
<td>US$64.0 million</td>
<td>The Egyptian Iron and Steel Company (HADISOLS), the only integrated steel plant and the largest steel producer in Egypt. Removal of production bottlenecks through introduction of improved operating and maintenance practices, improved process control and instrumentation; assure reliable transportation between the mine and the steel plant; agreement with the Egyptian Electrical Authorities to assure that its expanding needs for electric power will be met efficiently. Technical assistance for improvement in operations and management. In-plant training and retraining of the surplus manpower.</td>
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<tr>
<td>Egypt</td>
<td>Pulp and Paper Project</td>
<td>1980</td>
<td>IND</td>
<td>US$50.0 million</td>
<td>The largest two pulp and paper companies (National and RAKTA, both publicly-owned), whose output accounts for 70% of domestic paper production. Increase capacity to lessen the country's requirements for imported paper and improve product quality to be better able to compete with imports. Much machinery revamping. Technical assistance program to improve maintenance and operating practices. Agreement with the Government to let the two companies operate under Law 43, which frees the companies from the restrictive regulations of the public sector, particularly those related to product pricing or compensation of skilled workers, engineers and management.</td>
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### REVIEW OF INDUSTRIAL RESTRUCTURING PROJECTS 1980–1988

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<tr>
<td>Hungary</td>
<td>Industrial Restructuring Project 1</td>
<td>1986</td>
<td>IND</td>
<td>USD100.0 million</td>
<td>&quot;Hybrid&quot; project: provides support to both the industrial policy reform program and the specific restructuring strategy for the plastic subsector.</td>
<td>Starting in 1985, the Hungarian government began to introduce a reform program affecting the entire economic management system of Hungary. This policy reform needed to be reinforced by specific actions and measures to ensure an accelerated supply response in the short-term, by developing further the requisite institutions to support market mechanisms, by restructuring enterprises and subsectors and by creating a demonstration effect on the rest of the sector.</td>
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<tr>
<td>Hungary</td>
<td>Second Industrial Restructuring Project</td>
<td>1987</td>
<td>IND</td>
<td>USD150.0 million</td>
<td>Four subsectors (rubber processing, agricultural machinery, food processing machinery and plastic processing), feeder industries and industry sector.</td>
<td>Industry-wide restructuring component: specific support for industry-wide restructuring (USD60 million), support for feeder industries (USD50 million), T.A. to support the reform program, to restructure the banking system and to formulate strategies for restructuring.</td>
<td></td>
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<tr>
<td>Hungary</td>
<td>Industrial Adjustment Loan Project N.A.</td>
<td>1980</td>
<td>-</td>
<td>USD200.0 million</td>
<td>-</td>
<td>Accelerate the reform process while further strengthening the macroeconomic and sector policy content of lending policy.</td>
<td>Major policy reforms: further reduce budgetary support to inefficient enterprises and stringent application of the liquidation framework, strengthened incentives for convertible currency exports, facilitate entry of new enterprises and private entrepreneurship, further reform taxation, pricing and wage systems and reduction of producer and consumer subsidies.</td>
</tr>
<tr>
<td>Hungary</td>
<td>Third Industrial Restructuring Project N.A.</td>
<td>1989</td>
<td>-</td>
<td>-</td>
<td>Sector-wide with an emphasis on export-oriented firms, feeder industries and SMEs.</td>
<td>Complement the Bank’s support under the ISAL and help accelerate the managerial, technological and financial restructuring of Hungarian industrial enterprises and the development of small businesses.</td>
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Industry-wide restructuring: provides finance to meet incremental working capital requirements of eligible enterprises, provide T.A. and training to institutions, strengthen the role of innovation finance institutions, introduce training programs for executive management and provide support to the banking system to help implement the separation of NBI into a central bank and two competing commercial banks.

Specific subsector restructuring component: line of credit for the restructuring of specific enterprises and facilities established at NBI to finance the restructuring of non-selected enterprises.

Subsector restructuring component: development of technical infrastructure (establishment of quality control, standardization and marketing and information centers), restructuring of enterprises in the selected subsector and technical assistance for the preparation of restructuring programs.

The loan would finance all goods to be imported into Hungary except a specific list of excluded goods.

T.A. component: T.A. to participating banks to strengthen their operations, carrying out of enterprise restructuring studies by NBI, strengthening of the analytical framework for the small business sector.
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<tr>
<td>Jordan</td>
<td>Second Arab Potash</td>
<td>1987</td>
<td>IND</td>
<td>US$12.0 million</td>
<td>One large, state-owned export company.</td>
<td>Raise production and expand design capacity.</td>
<td>Refinery modifications, technological improvements; physical debottlenecking; plant expansion; technical assistance for studies on market prospects and business growth; training; financial restructuring.</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Fertilizer Industry Rehabilitation Project</td>
<td>1982</td>
<td>IND</td>
<td>US$38.5 million</td>
<td>The National Fertilizer Corporation of Pakistan Ltd., the State-owned holding company of several production and marketing companies.</td>
<td>Help assure the continued availability and increase the supply of domestically produced fertilizers, thereby contributing to satisfy a growing demand which otherwise would have been met by imports.</td>
<td>Physical rehabilitation, rationalization and expansion of production facilities. Improve the NFC Groups' capability to operate and manage these facilities and assist GDP in undertaking a study for the establishment of additional fertilizer production capacity.</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Cement Industry Modernization</td>
<td>1988</td>
<td>IND</td>
<td>US$96.0 million</td>
<td>Public holding company in cement subsector, and whole subsector.</td>
<td>Price and import liberalization; reentry of private sector to subsector. Hence, need for modernization, scale, location and commercial practices improvements, particularly in public plants (private plants at full capacity), in the wake of increasingly competitive market environment.</td>
<td>Physical rehabilitation and wet-to-dry conversion of one public plant; physical rehabilitation, balancing and modernization of five other plants; corporate strategy and planning; management information system; operations improvements; training and technical assistance, and research institute with private sector participation.</td>
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<tr>
<td>Country</td>
<td>Project Description</td>
<td>Project (I and II)</td>
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<tr>
<td>Tunisia</td>
<td>Electrical and Mechanical Industries Projects (I and II)</td>
<td>1983 (EMI I)</td>
<td>IDB</td>
<td>US$80.0 million</td>
<td>The electrical and mechanical subsector, with a major emphasis on private sector enterprises.</td>
<td>Substantial opportunities have been identified in the EMI subsector for both import-substitution and export, for job creation and the achievement of sound industrial linkages.</td>
<td>Financing of new and modernization/rehabilitation projects in the EMI subsector. Institutional building: establishment of an institute for standardization and quality control (INDORPI) and creation of a technical center (OCTIME) to increase the delivery of technical assistance to EMI plants.</td>
</tr>
<tr>
<td>Tunisia</td>
<td>SOCTEX Textile Rehabilitation - SITEX Subsidiary</td>
<td>1981</td>
<td>IDB</td>
<td>US$18.6 million</td>
<td>Largest textile group, publicly-owned.</td>
<td>Improve quality and increase export capacity to boost competitiveness in EEC market.</td>
<td>Help implement changes in incentives specific to EMI plants in the areas of protection, export and financing.</td>
</tr>
<tr>
<td>Turkey</td>
<td>Fertilizer Rationalization and Energy Saving Project</td>
<td>1981</td>
<td>IDB</td>
<td>US$110.0 million</td>
<td>Three fertilizer complexes—the Karsahya II and Samsun complexes of TUGSAS and the Yarimca Complex of GUBRE</td>
<td>Increase fertilizer production.</td>
<td>Rehabilitation of the three selected enterprises. Expansion of training facilities of AGET and IGSAS. Technical/management services to improve corporate and plant level management. Consulting services for a fertilizer marketing and pricing study.</td>
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<tr>
<td>Turkey</td>
<td>Second Fertilizer Industry Rationalization and Energy Saving Project</td>
<td>1982</td>
<td>INDO</td>
<td>US$44.1 million</td>
<td>1 public, 2 private companies in the fertilizer subsector (GUBRE, KUBRE, and BSE) and 1 public company in the copper subsector (KBI)</td>
<td>Increase fertilizer production.</td>
<td>Rehabilitation of 4 complexes. Preparation of fertilizer raw material resource study.</td>
</tr>
<tr>
<td>Chile</td>
<td>Industrial Finance Restructuring</td>
<td>1985</td>
<td>IFC</td>
<td>US$100.0 million</td>
<td>Industrial corporations, particularly large ones.</td>
<td>Previous banks-firms incestuousness. Provide fresh resources to indebted firms to expand production.</td>
<td>Financial restructuring (banks and companies); institutional framework; working capital and equipment.</td>
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<tr>
<td>Ecuador</td>
<td>Public Sector Management</td>
<td>1985</td>
<td>TAL</td>
<td>US$8.0 million</td>
<td>SOE sector, including monopolies in telecommunications, mining and petro-industry.</td>
<td>Improve efficiency and management of the public sector; gain control over budget process and execution of capital investments; promote private sector participation in economy.</td>
<td>Improvements in national budget process: including strengthening macroeconomic framework and investments monitoring, pilot financial information system, training of professionals. Comprehensive SOE management and organization reforms, particularly in three public monopolies, with expenditures monitoring systems, decentralization, streamlining of procurement and administrative practices; and incentive system to attract private participation to mining sector.</td>
</tr>
<tr>
<td>Guyana</td>
<td>TA Project for the Baobite Industry</td>
<td>1987</td>
<td>INDO</td>
<td>US$7.0 million</td>
<td>Guymine, the baobite mining/marketing company</td>
<td>Strengthen the baobite industry's management and marketing capabilities as well as provide a framework for assessing the potential benefits to be derived from new product development.</td>
<td>Product development program which would include a market study for new products and a pilot plant for new refractory products; Cost control program; Marketing support, TA, and training; Alternative fuel study.</td>
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<tr>
<td>Jamaica</td>
<td>Second Sugar Rehabilitation Project</td>
<td>1987</td>
<td>AGR</td>
<td>US$34.0 million</td>
<td>Jamaican Sugar Holding, regrouping two public enterprises: Prone and Mombush.</td>
<td>Rehabilitation and modernize factory equipment, purchase new agricultural equipment for the cane estates, restore the estate irrigation and road infrastructure. Technical and managerial assistance under a ten-year contract with Tate and Lyle. Rehabilitation of the public irrigation system. Upgrading of the capacities of SIRI (research institute).</td>
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<td></td>
<td></td>
<td>Implementation</td>
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<td>Reconstruction and infrastructure modernization and efficiency improvement.</td>
<td>Support the Government's aim of reducing the size of the public sector in the economy via sale or lease of assets. Improve the legal framework to enhance supervision, monitoring and control of public enterprises by the central government. Strengthen the financial performance of selected public enterprises.</td>
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<tr>
<td>Jamaica</td>
<td>Public Enterprise Sector Adjustment</td>
<td>1987</td>
<td>Non</td>
<td>US$20.0 million</td>
<td>SOE Sector</td>
<td>Rehabilitate the SOE Sector.</td>
<td>Support the Government's aim of reducing the size of the public sector in the economy via sale or lease of assets. Improve the legal framework to enhance supervision, monitoring and control of public enterprises by the central government. Strengthen the financial performance of selected public enterprises.</td>
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<tr>
<td>Mexico</td>
<td>Fertilizer Sector Adjustment Loan</td>
<td>1988</td>
<td>IND</td>
<td>US$265.0 million</td>
<td>PERTIMEX, parastatal which has the monopoly of producing and marketing fertilizer products.</td>
<td>Part of the overall objective of structural adjustment through increased efficiency of Mexican industry and enhanced reliance on market forces.</td>
<td>Rationalization of existing viable production plants, organizational and financial restructuring, closure of inefficient plants, construction of new plants which can economically replace closed-down plants.</td>
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<td>Rationalization of the fertilizer distribution system and of the distribution infrastructure.</td>
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<td>Improving coordination between PEMEX (ammonia producer) and PERTIMEX.</td>
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<td>Progressively increase fertilizer prices to reach import parity or financial independence.</td>
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<td>Free fertilizer imports of restrictions and tariffs.</td>
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<tr>
<td>Mexico</td>
<td>Steel Sector Restructuring Project</td>
<td>1988</td>
<td>IND</td>
<td>US$400.0 million</td>
<td>Steel subsector, focusing on three large SOEs and two major private firms.</td>
<td>Improve quality and shift in product mix required to meet demand of downstream users; help cope with international competition and policy reforms: trade and pricing liberalization, elimination of distorting regulations and practices. PMSA (SOE) closed with 8000 lay-offs. All SOEs in the sector supervised by SIDERMEX, which undertook subsidiary spin-offs, liquidations and transfer. The major private company, HYLS, to negotiate financial restructuring concurrently with project.</td>
<td>Steel-related import financing; management improvements; restructuring of operations financially, organizationally and administratively, shift to flat products, rehabilitation, rationalization, enhancement of systems and training, maintenance, de-bottlenecking, increase in quality, increase productivity, technical assistance; investments in cost reduction and modernization; technical studies for sector strategy, and marketing study to evaluate long-term demand for diverse steel products.</td>
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<tr>
<td>Mexico</td>
<td>Industrial Restructuring Project N/A</td>
<td>1988</td>
<td>N/A</td>
<td>N/A</td>
<td>Three subsectors</td>
<td>Trade and price liberalization and other macroeconomic reforms (exchange rate, fiscal incentives, tax system, capital financing); project would help subsectors—heavily protected in the past—to adjust to new policy environment that has increased competition and outward-looking opportunities. Government has restructured or divested of a number of para federal industries and has made deregulation efforts.</td>
<td>Physical and financial restructuring, and technical assistance (subsector restructuring studies, computer equipment and software for project monitoring, training); subsector-specific investments and financial assistance for working capital and consultants, policy adjustments, as well as infrastructure (e.g., training, technical, information, strategy centers); industry-wide financial and institutional framework the development and implementation of company-specific restructuring plans; improvements in management, distribution and marketing (including commercial promotion programs), quality, capacity and productivity; policy coordinating committee.</td>
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<td>Negotiations.</td>
<td>US$250.0 million</td>
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