



1. Project Data:		Date Posted : 08/23/2000	
PROJ ID: P008373		Appraisal	Actual
Project Name : Industrial Financial Restructuring	Project Costs (US\$M)	42.8	18.0
Country: Cyprus	Loan/Credit (US\$M)	30.0	7.6
Sector(s): Business Environment	Cofinancing (US\$M)		
L/C Number: L3320			
	Board Approval (FY)		91
Partners involved :	Closing Date	06/30/1999	06/30/1999
Prepared by :	Reviewed by :	Group Manager :	Group:
2. Project Objectives and Components			
a. Objectives			
Project was designed to (1) assist the Government in undertaking substantial adjustment of its industrial sector in view of the expected country's integration with the EU; (2) assist in adjustments needed to meet new environmental standards; and (3) support selected reforms in the financial sector since efficient financial intermediation would be crucial to the success of adjustment.			
b. Components			
(1) <u>Policy/institutional development</u> : Support for (a) policies and programs to restructure the industrial sector, with appropriate attention to environmental considerations; (b) strengthened regulatory and supervisory regime for financial institutions; (c) program for strengthening Cyprus Development Bank (CDB); (2) <u>Investment</u> : Credit line for industrial enterprises; (3) <u>Technical Assistance</u> : (a) enterprise studies to enhance competitiveness and environmental capacity; (b) bolster quality control; (c) strengthen project appraisal techniques within participating banks; (d) capital markets action plan; (e) developing local environmental consulting capacity			
c. Comments on Project Cost, Financing and Dates			
Many project components, principally those relating to the financial sector, were dropped, including the credit line . This resulted in cancellation of \$22.4 million of the original loan (of \$30 million). The project was closed on schedule on June 30, 1999.			
3. Achievement of Relevant Objectives:			
Measures supportive of EU accession were achieved, including the strengthening of the country's quality standards and accreditation facilities, and some policy recommendations, including elimination of quantitative restrictions on imports. The Cyprus Institute of Technology was established as a center of technical advice for industry . However, during the course of the project, the availability of grant financing from European institutions greatly diminished the attractiveness of borrowing for technical assistance .			
Many of the project's key objectives, especially in the financial sector, were dropped when the project was restructured in 1997. The credit line, which had been expected to contribute substantially to sectoral restructuring, failed to disburse and was canceled. And some accomplishments, such as those of the Industrial and Technology Development Council and the reform of credit cooperatives, were achieved outside the purview of the project . For nearly all the remaining objectives, there was inadequate evidence to establish that they had, in fact, been achieved .			
4. Significant Outcomes/Impacts:			
Evidence of tangible and significant outcomes or impacts was insufficient .			
5. Significant Shortcomings (including non-compliance with safeguard policies):			
<ul style="list-style-type: none"> • Project components dealing with the financial sector were dropped in 1997 after donor funding from the EU became available. Little or no progress had apparently been made in the previous 5 years of project effectiveness. • Bank supervision of the project was inadequate --only 5 missions in 8 years--despite a major project restructuring and complex components . • The project's objectives were not well -specified, and no performance measures or indicators were provided . • Structure of credit line did not take adequate account of government interest rate ceiling, which made lending from Bank credit line uncompetitive 			

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Unsatisfactory	Much of the project was cancelled, because the project was poorly designed to begin with.
Institutional Dev .:	Substantial	Modest	Key ID objectives were either dropped from the project, or adequate evidence of their achievement was not available .
Sustainability :	Highly Likely	Highly Likely	
Bank Performance :	Unsatisfactory	Highly Unsatisfactory	There is a substantial question about the basic need for the project; design of the credit line, the largest component, failed to take into account prevailing market conditions; supervision and reporting were inadequate; no supervisory missions were undertaken in 1998 or 1999 despite DO ratings of unsatisfactory .
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Before undertaking a project to bolster the industrial sector, adequate economic and sector work should be performed to assure that the development benefits will be worthwhile
- A credit line should not be initiated in an environment in which there are significant distortions

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The quality of the ICR is satisfactory, though many assertions are made without supporting evidence or data .