



1. Project Data:		Date Posted : 03/24/2003	
PROJ ID: P043446		Appraisal	Actual
Project Name: Public Financial Management	Project Costs (US\$M)	10.7	10.39
Country: Hungary	Loan/Credit (US\$M)	7.75	7.26
Sector(s): Board: PS - Central government administration (100%)	Cofinancing (US\$M)		
L/C Number: L4113			
	Board Approval (FY)		97
Partners involved :	Closing Date	06/30/2001	06/30/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
Michael R. Lav	John H. Johnson	Kyle Peters	OEDCR
2. Project Objectives and Components			
a. Objectives			
(1) introduce improved methods, guidelines and systems for budget preparation, macroeconomic forecasting and preparation of forward estimates; (2) ensure smooth and timely execution of the budget, while minimizing costs; (3) optimize the management of public debt; and (4) design and implement coordinating mechanisms, policies, procedures and standards to ensure that the various components of the Government's public financial management (pfm) network can function as an integrated whole .			
b. Components			
(1) Budget Preparation (US\$1.58 million): assist in development and implementation of improved methods, guidelines, systems, processes, procedures and operating manuals for budget preparation, macroeconomic forecasting and preparation of forward estimates, and training MOF and agency staff for the implementation of the revised budget preparation system. (2) Treasury Operations (US\$6.62 million): (a) develop the full functional design of systems, process and procedures for budget implementation, expenditure control and treasury operations through the introduction of a Treasury Ledger System (TLS); (b) assist the Treasury in developing methodologies for effective cash management; and (c) design, develop and help implement a training strategy and plan for establishing the revised budget execution processes and the new treasury system . (3) Debt Management (US\$2.11 million): (a) development of improved methods, regulations, guidelines and information systems for the recording, reporting and issuance of government debt; and (b) design and development and implementation of a training strategy and plan for the implementation of the revised debt management system . (4) Develop a model to enable the Ministry of Finance to better use data bases for budget planning, control, and reporting (US\$0.13 million). This component was, in the event, fully financed by the Borrower, and was the remnant of a larger component at project approval to help develop an integrated data base for the government, bringing together social security, health, customs, etc . However, the Borrower pursued this broader objective with its own funds outside of the context of the project . Some of the funding related to this component was re-allocated to the Treasury component, while the remainder was cancelled . (5) Project Management (US\$0.14 million)			
c. Comments on Project Cost, Financing and Dates			
The project cost of US\$10.39 million was financed by an IBRD loan for US\$7.75 million, or US \$7.26 million, net of cancellations, and government counterpart financing of US\$ 3.13 equivalent. The project was appraised July, 1996, approved by the Board on December 5, 1996, made effective in February, 1997, and closed on June 30, 2002, one year behind schedule.			
3. Achievement of Relevant Objectives:			
(1) Budget preparation is now facilitated by a medium-term fiscal framework, a new data base, improved transparency of the budget (including direct and contingent liabilities and assets of the central and sub -national governments). (2) A new treasury organization, the State Treasury is now in place and exercises the accounting function for all government funds, while the new State Public Finance organization has responsibility for budget planning. The State Treasury: (i) records budget appropriations; (ii) tracks investment budget related contracts in excess of pre-specified limits, (iii) tracks, verifies, and if warranted, issues payment orders for expenditure transactions for all (about 1600) budget organizations funded from the central budget; and (iv) receives all tax and			

non-tax revenues in its Central Bank accounts. The Treasury provides up-to-date data to the Ministry of Finance which facilitates policy formulation. (3) A new autonomous Government Debt Management agency was established, which is a limited liability company owned by the Republic of Hungary, with improved management structures and hardware and software. (4) A model was developed by the Ministry of Finance to analyze relationships among data sets used in public finance.

4. Significant Outcomes/Impacts:

Expenditures and Revenues are now tracked more accurately, enabling improved policy formulation. Fiscal risks are now more fully understood by the government and the public, with reports analyzing the Government's performance on the budget and contingent liabilities made public through use of improved data (by the State Audit Office). Aided by EU accession and links to the euro, the improved debt management system has enabled Hungary to forego the issuance of foreign-currency-denominated debt since mid-2001. Improved debt management has also facilitated the issuance of longer maturity debt.

5. Significant Shortcomings (including non-compliance with safeguard policies):

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	This project enhanced Hungary's accession negotiations to the EU and acceptance for future membership.
Institutional Dev.:	Substantial	Substantial	
Sustainability:	Highly Likely	Highly Likely	Hungary's forthcoming admission to the EU further enhances the sustainability of this project.
Bank Performance:	Satisfactory	Satisfactory	
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:

1. Public Finance Management projects are most useful where there is a strong commitment to improved fiscal management. In this case, public opinion favored prudent fiscal management (as noted in the ICR) and the government was committed to this improvement. Hungary's accession negotiations to the EU also played an important role in this regard. 2. Technical assistance projects seem to turn into black boxes or slush funds more frequently than investment projects. It is therefore particularly important to clearly define a TA project's objectives, components, and implementation modalities. 3. Qualified staff, and staff continuity, are important for project formulation and implementation.

8. Assessment Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR:

The ICR covers the basics well and offers a good description of the components and outputs of the project. While EU accession and good fiscal management by Hungary are noted, the ICR could have better noted the central role of these developments, and the fact that this kind of project is much more useful with good management, and enables good management to be even better. The Borrower's comments are most helpful.