



1. Project Data:		Date Posted : 09/10/2004	
PROJ ID: P003591		Appraisal	Actual
Project Name: State Farms Commerci	Project Costs (US\$M)	300.0	204.27
Country: China	Loan/Credit (US\$M)	150.0	59.4
Sector(s): Board: RDV - Other industry (45%), Agro-industry (37%), Petrochemicals and fertilizers (10%), Banking (7%), Central government administration (1%)	Cofinancing (US\$M)		
L/C Number: L4309			
	Board Approval (FY)		98
Partners involved :	Closing Date	06/03/2004	12/31/2003
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
The basic objectives of the project were to :			
(a) support, accelerate, and catalyze enterprise reform within the state farm system (SFS) with a line of credit to be extended through an independent project financial intermediary (PFI) [the China Trust and Investment Corporation for Economic Development - CTICED] to state farm enterprises for technological modernization of existing production facilities or establishment of new commercial ventures; and			
(b) increase the capacity of CTICED to conduct long-term lending activities.			
b. Components			
The project had two components:			
<i>Line of Credit (US\$299.5 million - or 99.8 percent of total costs).</i> This was to			
(a) support policy and institutional reform, already in place and evolving, and technological modernization; and			
(b) provide sub-loans through CTICED, to finance investment sub-projects to expand the productive capacity of state farm enterprises.			
<i>Technical assistance for the CTICED (US\$0.5 million - or 0.2 percent of the total).</i> This component was designed to strengthen the CTICED through :			
(a) the provision of training programs for staff in project analysis, supervision and portfolio management;			
(b) the development and adoption of (i) a strategic plan for CTICED; (ii) a credit manual; (iii) standardized loan documentation and policies; and (iv) procedures for disbursements and external audits, and further development of a management information system;			
(c) the improvement of the organization in the areas of credit and internal audit operations; and			
(d) the provision of equipment required for these programs .			
c. Comments on Project Cost, Financing and Dates			
The project was approved in March, 1998 and became effective in September of that year . In June, 2000 the Chinese Ministry of Finance (MOF) requested the cancellation of US\$80.75 million of the Bank Loan of US\$ 150 million (about 54 percent) for two reasons: the rapid development of China's economy made domestic capital more accessible and with more favorable terms; and the market changes caused by the Asian financial crisis made some end-users change their investment strategy . In March 2003, the MOF requested that the undisbursed balance of the loan be canceled, and the loan was closed on 12/31/2003, six months in advance of the original closing date .			
3. Achievement of Relevant Objectives:			
The outcome of the project as a whole, in terms of its development objectives, was unsatisfactory :			
The objective of accelerating state farm enterprise reform and promoting technological modernization for state			

farms and enterprises was not satisfactorily achieved . However, the project did improve the productivity and commercialization of a small number of enterprises and accelerated the transition of the planned economy to the market economy of the participating state farms and enterprises .

Only limited achievement was made of the objective of increasing the capacity of the CTICED to conduct long-term lending activities for economic development because responsibility for project implementation was transferred to MOF in 2001 when CTICED was shut down and the activity was suspended at that point .

4. Significant Outcomes/Impacts:

Significant outcomes were few . Of the 26 enterprises assisted under the program four withdrew . Of the remaining 22, almost all undertook a full range of reform measures to prepare themselves for the market economy, transforming themselves into either limited liability companies, or limited liability share -holding companies, as specified under Chinese law . In addition almost all of them had completed a series of parallel reforms necessary to be able to operate commercially, separating off the social functions they had performed (including the provision of housing), and setting up medical and pension insurance programs for their employees . The technical quality of the work undertaken in modernizing the production operations was generally good . Two of the enterprises supported went bankrupt during the project period, but the remainder continue to operate, although the re -estimated rates of return to the investments made are generally below the appraisal estimates, presumably reflecting the increasing level of competitiveness in the Chinese economy .

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

The rationale for the project appears to have been weak from the start . At the time of appraisal the state farm system in China consisted of some 2,200 separate farms in 28 provinces (covering about 40 million ha), with about 40,000 subsidiary enterprises . The objective of the project was to accelerate and catalyze enterprise reform in this system, but this was to be achieved through a total of up to 35 sub-loans to entities that had demonstrated a commitment to reform their enterprises by reincorporating them, etc . [In fact, only 26 enterprises entered the program and four withdrew] The loans were to be made for expansion of already successful enterprises or a new endeavor that had been fully studied for its market potential, and its financial viability . The program was to be run by a financial intermediary, the CTICED, that would be assisted to raise its capacity to assist such enterprises improve their management and planning ability . Given the size of the sector it is difficult to understand that it was ever considered likely that, in a rapidly changing economy, such a relatively small number of operations would have a significant catalytic effect . Similarly, the level of assistance to CTICED under the project to provide resources necessary to increase its capacity, was relatively very small, US\$ 500,000 for a period of five years, or only 0.17 percent of the project cost . It does not seem reasonable to have assumed that a significant increase in capacity could have been achieved for such a low cost .

The ICR reports that preparation extended over 5 years, beginning in 1993, cost more than US\$900,000 and involved a large number of consultants . The ICR does not address problems in preparation, but the reviewer is left with an impression that preparation concentrated too much on micro -details and not enough on the overall environment in which the project was to be implemented, i .e., they did not "see the wood for the trees". The combination of this long preparation period and a rapidly changing economic environment clearly meant that the project may have lost its relevance by the time it was approved .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Modest	Negligible	The level of funding directed towards this objective was extremely small (section 5), and the implementing agency to be strengthened (CTICED) was abolished during the project period .
Sustainability :	Unlikely	Unlikely	
Bank Performance :	Unsatisfactory	Unsatisfactory	
Borrower Perf .:	Unsatisfactory	Unsatisfactory	
Quality of ICR :		Unsatisfactory	

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

7. Lessons of Broad Applicability:

The ICR cites some lessons, but most are more of the nature of conclusions rather than lessons .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR is unsatisfactory overall. It provides factual information on the implementation and outcome of the project, but does not effectively analyze why it failed. The ICR does not ask why it was ever approved, given the dramatic changes that had occurred in the Chinese economy during the long preparation period. For example, was it that, by that time the Bank had so much invested in it that it was unwilling to drop it, or did the Borrower (or particularly CTICED) press for the operation for reasons of its own, or were other factors involved? The result of these basic questions not being asked is that there are few lessons of general interest to be drawn from the ICR.