



1. Project Data :
OEDID: C2182
Project ID: P003554
Project Name: Rural Credit IV
Country: China
Sector: Agricultural Credit
L/C Number: L3265-0/C2182
Partners involved :
Prepared by: Anthony J. Blackwood, OEDST
Reviewed by: Alice C. Galenson
Group Manager: Roger H. Slade
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2. Project Objectives, Financing, Costs and Components :

Objectives : (a) stimulate growth and diversification of agriculture; (b) promote efficiency of rural financial intermediation, and (c) support the institutional development of the Agricultural Bank of China (ABC).

Components : The project was to (a) finance profitable investments by farmers, collectives, state farms, and enterprises (through 11 provincial branches of ABC); (b) introduce sound, market-oriented, policies, and (c) develop main institutions concerned with rural savings mobilization and lending . Enterprises to be financed were establishment and rehabilitation of orchards, citrus post-harvest facilities, rehabilitation of green tea production, silk production including mulberry planting, irrigation works, livestock production, fisheries, agroprocessing, slaughterhouses, cold storages, and miscellaneous other facilities supporting production, as approved by IDA . Institutional development comprised upgrading ABC's financial management and MIS, provision of OT and equipment to ABC, and training of ABC's senior staff and trainers, and of project entity staff . A rural investment and finance study was to review rural financial institutions, and credit and interest rate policies .

Costs and Financing : Total project cost was US\$550.0 million (22% FE), of which US\$547.0 million was for sub-loans and US\$3.0 million was for technical assistance. IBRD/IDA funds were expected to finance half of total costs, including all FE costs and 36% of local costs. The remaining costs were to be financed by ABC (20%) and sub-borrowers (30%).

3. Achievement of Relevant Objectives :

According to the key indicator table, fruit and fish production comfortably exceeded appraisal targets, while production of other crops and livestock fell short of targets . The onlending program funded 53% more (in devalued local currency) than planned and the sub-loan mix is largely in line with appraisal expectations, although agroprocessing took over half of funds compared with the third planned .

The project only partially achieved its sector policy and institutional objectives and there was negligible achievement of financial policy objectives .

4. Significant Achievements :

Fruit production exceeded targets by 36% and fish production was over 50% above targets. The ICR reports that analysis of a representative sample of sub-loans, when extrapolated to the whole project and including bad loans, suggest economic and financial rates of return of 24% and 22% respectively (slightly below appraisal estimates). ABC further improved its sub-loan approval procedures. Although not project effects, commercialisation of ABC was advanced by government initiatives, notably the separation of behest and policy activities into a new bank and removal of Rural Credit Co-operatives from ABC oversight.

5. Significant Shortcomings :

The project design was over-ambitious, and policy content had weak foundations, duplicated work under a parallel financial sector approach and outpaced the government's reform program . Consequently the policy study was reduced in scope when the subsequent project (Financial Sector Technical Assistance) took up a reform agenda for all financial institutions. Various financial covenants were ineffective, including that subsidized interest rates continued, resulting in negative real rates during 1993-95. Despite the separate commercialisation initiatives noted above, project proposals in support (re-capitalisation, market interest rates and adequate provisioning) were not

pursued. About 16% of project sub-loans by value are classified as either problems or have failed . This is an acceptable level, but reporting is inadequate and the true figure may be higher . Sub-loans to state enterprises (42% of total subloans) are in most acute difficulty and loans in some poorer areas (22% of total) especially suffer from weak technical support and supervision . Repayment problems continue to be caused by a mismatch between standard repayment periods and sub-project income flows. Project activities continued to be managed separately, in parallel to ABC's other business, rather than being integrated as intended, and staffing constraints, especially in remoter areas, continue to affect sub-project quality. The ICR and ABC's ICR note that TA was poorly coordinated between the Bank, ADB and IFAD, resulting in wasteful duplication .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Marginally Satisfactory	Despite failure on moot policy aspects, sound sub-loans were generally made in what was primarily a credit line with production objectives
Institutional Dev .:	Partial	Modest	Different terms used
Sustainability :	Uncertain	Likely	Strong FRRs for sub-projects, the prime objective, and increasing commercialisation of ABC
Bank Performance :	Satisfactory	Unsatisfactory	ICR notes over ambitious design, therefore unsat. Q at E, and deficient SPN
Borrower Perf .:	Deficient	Unsatisfactory	Different terms used
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

(a) It is not usually possible to achieve sector -wide reforms through a single investment project; (b) Financial sector reform requires especially broad stakeholder ownership and commitment; (c) The scope of project objectives and designs, and the location of project activities, should take into account borrower and Bank supervision capabilities; and (d) Explicit analysis of incrementality/substitution aspects is necessary in evaluation of credit lines to justify attribution of benefits.

8. Audit Recommended? ☒ Yes ☐ No

Why? Together with RC III, there is a significant experience to analyse in greater depth than in the ICR, especially exploring the issues of the substantial place in the lending program of rural credit, over many years, but without significant policy advances on important issues, and incrementality /substitution aspects of funding . The role of externally funded credit lines vis-a vis the national credit plans (whereby credit is allocated between provinces, sectors and subborrowers) should be reviewed.

9. Comments on Quality of ICR :

The ICR is satisfactory and presents a forthright account of the issues and failure to implement policy and institutional components . However, attribution of benefits is assumed rather than addressed and there is limited discussion of agricultural production impact (the prime objective). Bank/IDA funds were passed on to ABC in foreign exchange and were used for ABC's foreign exchange business, but the ICR does not reveal the nature of such business. Hence, the primary impact of the Bank/IDA resources is not known.