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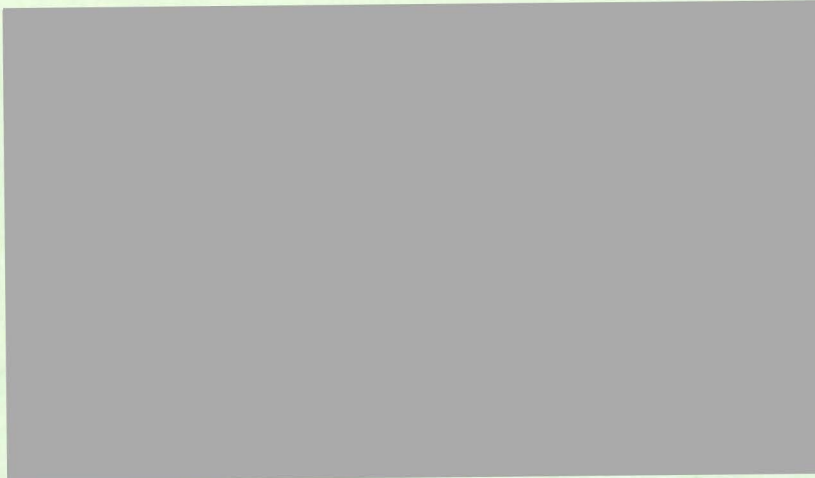
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Telephone: 202-473-1000

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EVALUATION CAPABILITY DEV. PROGRAM  
China - Vol. 3



  
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**CLOSE-OUT SHEET**

This File Covers The Period From 1989 To 1990  
For Further Correspondence, See Vol. 4

# OFFICE MEMORANDUM

DATE: December 28, 1990

TO: Mr. Yves Rovani, DGO

FROM: Henry B. Thomas, OEDD2

EXTENSION: 31665

SUBJECT: CHINA: China Investment Bank - Ex Post Evaluation and PCR Preparation

1. During my mission to audit the first three projects involving CIB, I anticipated devoting half a day or so to discussing, with appropriate CIB staff and others, the theory and practice of ex post evaluation. When I raised the subject, however, I was informed that CIB is already preparing PCRs (called Post Appraisal Reports) as part of its normal activities. This is done at the end of its supervision of a project which, surprisingly, is continued until the loan is completely repaid. Until that time, CIB's Head Office said that quarterly supervision reports (following visits to the project) are prepared on each project. So far, between 70 and 80 PCRs have been prepared within CIB, according to the Head Office.

2. The local branches have supervision responsibility and prepare the PCRs as well as the supervision reports. They follow guidelines prepared in 1983 as part of CIB's Supervision Manual (which the Bank helped draft). The Head Office feels that the present guidelines for PCR preparation are too general and need to be rewritten. It admits that not enough attention is being paid to PCR preparation and review at the moment, that more needs to be done to draw out the lessons of experience. The Head Office claims that it has been too busy dealing with implementation problems to review PCRs closely. In fact, only PCRs on the largest projects are now being sent to the Head Office for review.

3. The Head Office admits that there has been no circulation of PCRs between branches, but agreed that this would be a good idea. It does claim that its review of the PCRs it does receive from the branches has been useful in discussions with planning authorities in terms of illuminating potential problems. The Investigation and Research Office in the Head Office prepares a periodic (monthly?) newsletter for circulation to the branches with articles on various subjects, and sometimes includes in it a summary of lessons learned and other information from the PCRs received in Head Office. At least one branch I visited indicated that this information has been helpful to it. I was given a sample edition, but consultation with a Bank translator indicated that it did not include such an article.<sup>1</sup>

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<sup>1</sup> A translation, done in Washington, of the cover page and Editor's Note, indicating the contents of this edition, is attached. I have requested that another edition with an article on PCRs be sent to me.

4. Discussions with several branch offices on PCR preparation basically confirmed what the Head Office had told me, with some variations. Generally, PCRs are prepared only for larger projects; two or more smaller ones might be covered in one PCR. (Also, supervision visits and written reports are not always made and prepared quarterly; visits can be more frequent, but written reports are often prepared only if the branch needs the views of Head Office. Periodic written reports are made to Head Office, but the frequency depends on the size of the loan.)

5. One branch noted that 19 of its 43 projects had repaid their loans, but that only ten PCRs had so far been prepared. Another branch had 13 totally repaid loans and had prepared "more than ten" PCRs; in this case, I was told, PCRs go to the Head Office only if the Head Office had approved the project. These PCRs are circulated among the branch's appraisal staff so that they can learn from the experiences. In a third branch, 36 projects had been completed, but only five PCRs had been prepared; summary reports had been written on the others. All five PCRs were submitted to Head Office for review, and were circulated within the branch and its subbranches.

5. Attached is a translation, done in Washington, of a Post Appraisal Report on a project (the Beijing Great Wall Weather Garment Company), prepared by the Beijing Branch and submitted to Head Office, apparently its first PCR. As CIB has not translated any PCRs, the selection of this sample PCR was left up to the Head Office and so it may not be typical. Its coverage of the implementation experience is quite complete, fully meeting the accountability function of PCRs. The IRR, which had been calculated as part of the appraisal, was recalculated upon completion (and found to be somewhat higher). Though the ERR per se was not calculated, an index referred to as the National Income Net Present Value (NINPV) was calculated ex post, both with the actual results and with the original appraisal figures (it was not calculated at the time of appraisal); I will leave it to my more learned colleagues to decide how this index compares with the Bank's standard ERR calculation.

6. The sample PCR does not explicitly draw any lessons or provide any actionable recommendations. However, the importance for the success of this project of solid project management and of supportive and flexible supervision by the financing institution comes through quite clearly, and would be considered the principal lessons of this project experience.

7. In sum, CIB has in place an ex post evaluation system, based on the Bank's practice, which, by comparison with other DFIs, is quite developed and sophisticated. (In fact, few DFIs in my experience attempt any ex post evaluation, the Development Bank of Zambia being one exception--if it

has continued its effort, begun in 1987, to establish such a unit.) While there are obvious areas for improvement and refinement, a solid foundation has been laid.

cc: Messrs. Kopp  
Buky  
Donaldson  
de Weille  
Song, Kyung Soon (AS3IE)  
van der Lugt (Beijing)  
Ms. Johnston

Research and Study Newsletter

No. 25  
(General No. 63)

China Investment Bank  
Research and Study Office

August 20, 1989

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Attach Importance to Enterprise Quality and Promote Bank Work

Analysis and Evaluation of Enterprise Quality

Measures for the Evaluation of the Quality of Investment Bank  
Enterprises (Draft for Discussion)

Grading Criteria for Quality Indicators for Investment Bank  
Enterprises (Draft for Discussion)

Editor's Note

In order to improve the investment banks' efficiency in funds application, ensure funds safety and reduce investment risks, the Research and Study Office of the Head Office has made some exploratory studies of how to examine the quality of enterprises. The three articles, "Attach Importance to Enterprise Quality and Promote Bank Work," "Analysis and Evaluation of Enterprise Quality" and "Measures for the Evaluation of the Quality of Investment Bank Enterprises," together with the grading criteria for quality indicators for investment bank enterprises, present the Research and Study Office's preliminary views on how to evaluate enterprise quality. We hope the publication of these articles would push forward work in this aspect and hope our readers would participate in the discussion by submitting written articles or sending their views and suggestions to the Research and Study Office of the Head Office.



Post Appraisal Report  
for the Production Building Construction Project  
of the Beijing Great Wall Weather Garment Company

China Investment Bank Beijing Branch

January 1989

## I. Foreword

Significance of the Evaluation and Post Appraisal of the Completed Project on the Construction of Production Building by the Beijing Great Wall Weather Garment Company

1.1 The project to construct a production building by the Beijing Great Wall Weather Garment Company (formerly the Beijing Metropolitan No. 3 Garment Factory) is one of our first onlending projects using World Bank loans, also one of the first three projects of the Beijing Branch of the China Investment Bank (CIB). While the project's foreign exchange loan amount was below free limit, the Beijing Branch nevertheless made a careful project appraisal according to the procedures and regulations set forth by CIB Head Office. The appraisal received approval from the Head Office and the World Bank. Construction of the project began in 1985 and was completed in 1987 and, as of the end of 1988, had been in operation for a year. All categories of benefit are satisfactory and the social impact has been deep and far-reaching. The loan project can be considered a success.

### 1.2 Evaluation and Post-Appraisal of the Project

According to CIB Head Office requirements, after a loan project has been completed and begun operation and the loan has been repaid, a sum-up evaluation should be conducted on the project's technical proficiency and financial/economic benefit in order to examine the work results of CIB. During our evaluation work, we came to see that the sum-up evaluation of a project was not the end of our work but a new starting point in assessing the loan project, that we should make a re-appraisal, or post-appraisal, of the project, so as not only to assess the results and problems of the original appraisal report but also to have a firmer basis of follow-up observations. The work would help us do a better job of the projects we handle and obtain greater results.

1.3 Post-appraisal has helped improve the functions and management mechanisms of our bank, enabled us to develop a closer relationship with the production entity, and given us an in-depth view of the entire process of project management. What we did was greatly welcomed by the entity, whose leaders called us "a trustworthy and reliable bank." After the loan was repaid in full, the entity made a deposit in our bank, expressing its wish to continue receiving support from our bank.

## II. Project Evaluation

2.1 Enterprise development -- The plant began as a small collectively-owned factory making cotton garments. It has made rapid progress in the last few years. Its weather coats, jackets and winter coats have continued to improve in quality and have

secured a foothold in international markets. These products are also much sought after in domestic markets and are fast sellers. For this the plant's late director Zhang Jieshi had been cited a national advanced enterprise reformer. To further raise output and quality, he organized the project to construct a new production building. In the early 1980s, the plant was only making an annual profit of a million RMB yuan and faced many difficulties and risks in putting the project to work. The country was then in the early days of economic reform and things were in great flux. The project site was located in a busy shopping area which would make construction difficult in many ways. The plant's leading group demonstrated strong capabilities and, by strengthening management, was able to mobilize the employees for the task, turning pressures into driving forces. The plant not only improved product quality but, with cooperation from relevant agencies, boosted production while completing the construction.

2.2 The table below shows the production development of the Beijing Great Wall Weather Garment Company over the years.

Indicator	1982	1983	1984	1985	1986	1987	1988
Sales revenue	20000	2493	2585	4366	5279	7898	10050
Profit	1661	222	352	362	493	892	1090
For. Ex. earnings				657	589	719	744

The table shows that while the annual growth rate was uneven, the general trend was an upward one and particularly fast for 1984 and 1985, the early years both of the nation's economic reform and of project construction. The year 1988, in particular, was a time when raw material supplies and prices fluctuated sharply, but the completion of the new production building provided extremely favorable conditions for institutional reform, production layout adjustment and output expansion. As a result, the year's sales revenue topped 100 million yuan, in the words of the plant leader, "ranking first in the city's garment industry." The year's profit also reached 10 million yuan, per capita profit reached 10,000 yuan, and foreign exchange earnings was US\$7.44 million, 103% of the previous year. The company believed that the newly completed production building was a crucial factor in these outstanding achievements.

2.2 The new production building not only contributed to the current financial and economic benefit but, more importantly, serves as the anchor for future production development.

In a discussion between our bank officials and the company leaders, the latter expressed the belief that the completion of the production building marked the beginning of a new takeoff, specifically:

First, expansion of the plant building has made it possible to reorganize production layout in a more rational manner. The second through eighth floors are devoted entirely to sewing, with two new stand-alone shops. The use of the old shops for cut-out has more than doubled the work space for cutting from several hundred square meters to 1,500 m<sup>2</sup>, thus expanding cutting capacities. Greater production space and enhancement of technical capabilities have provided improved operating conditions all round.

Second, the completion of the production building has made it possible to add new dimensions to production. To meet the needs of export and improve domestic market competitiveness, in 1988 the company set up three centers. The technological process center makes full use of the imported U.S. CAM5 computer designing and CAP cutting system, so that while one generation of garments are being produced, another generation is being designed, still another generation is under preparation, and still another generation is being conceived. The four "generations" has enabled the company to constantly put new products and styles on the market.

Management center -- Through various forms of lateral associations, the company formed some 15 associated enterprises, putting the company's superior managerial expertise to use in planning, capital turnaround, quality control and technological matters. The company also set up a sales service center to advertise its products and offer a wide range of sales services.

Third, the company set up an intermediate test shop in the new production building for designing and small-batch production of new styles. The first and second floors house sales operations, where products of the intermediate test shops are sold experimentally and the feedback information on salable products and styles are promptly transmitted to the designing department for assessment and alteration and mass production, thus improving economic returns. The location of the production building on Xuan Wu Men Street close to the busy Xidan Shopping District has enabled the company to become better known faster. The company's 1988 net external sales profit exceeded 600,000 yuan.

### 2.3 Project Implementation Results

(1) Cost estimate -- Cost estimate in the original appraisal was 3,310,000 yuan, the actual final account was 9,034,000 yuan (see Table 1), showing large overspending. The reason: the reconstruction of Xuan Wu Men Street caused major changes in the original building design -- from 7 storeys to 11 storeys, with 2,700 m<sup>2</sup> of floor space added to the original 4,700 m<sup>2</sup>. The original investment included US\$282,000 in foreign exchange. Importation of Japanese equipment and exchange rate adjustments increased foreign exchange expenditure. Price adjustments in domestic equipment and building materials and other costs during construction all led to cost increases.

(2) Construction period -- Changes in designs caused the construction period to be extended by one year. Completion was planned for 1986 but actually took place at the end of 1987. (See Table 2)

(3) Loan -- The foreign exchange loan approved at the time of appraisal was US\$282,000. It was increased to US\$332,000 due to exchange rate adjustments. CIB Head Office approved a RMB loan of 1,116,000 yuan. The Beijing Branch raised the remaining 6,274,000 yuan. (See Tables 3 & 4).

(4) Product cost and profit -- After the production building was completed, as a result of adjustments in production organization, the use of the old and new shops were rearranged under a unified plan so that independent accounting cannot be practiced for the new shops. During post-appraisal we tried to separate the accounting. Computation after project completion shows that the production capacity of the new shops has reached 100% in the first year and is expected to increase by 23% over the planned capacity in the second year (output of over 370,000 pieces). Changes in raw material and wage costs have all been adjusted accordingly in post-appraisal computations.

Post-appraisal computation shows that the actual sales revenue of a normal year was 84% higher than shown in the original appraisal, cost was 67% higher, and sales profit 199% higher. The new 10-year appraisal computation [of sales profit] shows 26,784,000 yuan, 12,864,000 yuan or 92% higher than the original appraisal figure. (See Tables 5 & 6)

(5) Net Present Value (NPV) and Internal Rate of Return (IRR)

The original appraisal of the 10-year NPV was 3,934,000 yuan, the IRR 31%. Post-appraisal computation shows NPV to be 11,836,000 yuan, an increase of 7,902,000 yuan or 200%, and IRR to be 37.52%, an increase of 6.54%. (See Tables 7 & 8).

(6) National Income (NI) and National Income Net Present

Value (NINPV) comparison -- The original appraisal report did not compute this figure. On the basis of available data, post-appraisal computation finds the original 10-year NINPV to be 16,686,000 yuan, and the post-appraisal figure to be 35,140,000 yuan (12% discount rate), an increase of 18,454,000 yuan or 111%. This shows that not only enterprise receipts but the income of the individual workers and the nation as well as social benefit are all favorable. (See Table 9).

### (7) Loan Repayment Period

According to the original appraisal, loan repayment would begin in 1984 and be completed in 1990. Actual circumstances: the company adopted the contract system during the reform and agreed on the amount of profit remittance to the municipal treasury during the new building's repayment period. This amount was exceeded in 1987 but remittance was still made according to the original agreement, and the surplus was used for loan repayment. The company was thus able to repay in full both the foreign exchange loan and the RMB loan in 1988, two years ahead of the time projected in the pre-appraisal report. (See Table 10)

Actual computation of investment recovery period shows that all investment would be recovered one year ahead of schedule. (See Table 11) *[not attached to original]*

### 3. The Role of CIB Beijing Branch in Project Management

The favorable investment results of the production building project of the Great Wall Weather Garment Company were mainly due to the hard work of the company and the support from all sides. CIB Beijing Branch also did a great deal of work during project construction.

3.1 From the time the project appraisal report was approved and project implementation began, our branch has consistently managed the project in the manner due a key project. Engineer Chang Xianxu of our Branch's Project Management Department spent a great deal of time at the project site, participating in project management, and was able to discover problems in works progress and help solve them in a timely manner.

3.2 Due to changes in the engineering designs of the works, investment had to be increased time and again. Aside from the stipulated foreign exchange loans and RMB loans approved by CIB Head Office, additional funds were needed, and the Beijing Branch worked hard to secure three more RMB loans totaling more than 6.27 million yuan, thus ensuring that the project entity was supplied with the funds it needed throughout. During construction, we reviewed the construction budget proposed by the construction enterprise and were able to reduce cost by 645,800

yuan, or 16.6% of the works' final settlement price, achieving savings on construction capital. Through consultation with the project entity and the construction unit, Beijing Branch's project manager was able to secure the latter's agreement to adopt a "soft" review and acceptance procedure, i.e., successively deliver portions of the works as they are completed for installation and operation. As a result, construction was completed and operation actually began ahead of schedule at the end of 1967 [sic] [should read 1987?]. Without adopting the abovementioned measure, operation could not have begun until 1988.

3.3 After project implementation began, at the suggestion of the Beijing Branch, the project entity strengthened its capital construction and financial personnel. We also helped the entity establish accounts and strengthened supervision of their funds application, so that funds were used in a rational and thrifty manner.

3.4 Since the project began operation, our Branch has continued to monitor its progress. The project entity repaid its loans in full one year after starting operation. Because it has developed trust in our Branch, the project entity has since on its own deposited a sum of money in our bank and expressed the wish to enlist our assistance in future needs of funds. In the interest of good relations between the enterprise and our bank, we gladly agreed. We have maintained a close relationship ever since.

## VI. Conclusion

4.1 Evaluation and post-appraisal of the project show that all indicators have been fulfilled satisfactorily, proving that the appraisal and relevant decisions had been correct and that the project is a success.

4.2 Significance of the success of the project -- Success of the project is not limited to the favorable results already achieved and the future benefit projected by post-appraisal. As pointed out by the company vice president, this project has made it possible for the company to further rationalize production layout, improve technological processes, and increase output and sales, and the benefit under improved conditions would exceed the indicators in the pre-appraisal report. This will enhance the reputation of both the Beijing Great Wall Weather Garment Company and CIB Beijing Branch.

4.3 We believe that supervision of project implementation is another crucial factor in ensuring that the project was completed in good time and is now bringing in results as planned, and to this end the Beijing Branch has also done a great deal of work.

4.4 We believe that conducting post-appraisal of a project is necessary and suggest that Head Office add this requirement in its management work. Post-appraisal is effective in further assessing the accuracy of appraisal and decisions and the performance of managerial personnel. This should also apply to above free limit projects.

China Investment Bank Beijing Branch  
January 1, 1989



TABLE 1. POST-APPRAISAL OF INVESTMENT ESTIMATE (BUDGET)

UNIT: Y1000 DATE:

ITEMIZED WORKS	ESTIMATE	TOTAL COST			CIVIL WORKS				EQUIPMENT				INSTALLATION				OTHER					
		FINAL ACCTS	DIFFERENTIAL + OR -	+ OR - Y	REASON	ESTIMATE	FINAL ACCTS	DIFFERENTIAL + OR -	+ OR - Y	REASON	ESTIMATE	FINAL ACCTS	DIFFERENTIAL + OR -	+ OR - Y	REASON	ESTIMATE	FINAL ACCTS	DIFFERENTIAL + OR -	+ OR - Y	REASON		
MAIN PROJECTS	3110	6560	1250	+98		2359	4480	2121	+89.9		951	2080	1129	+118								
AUXILIARY PROJECTS																						
RESIDENTIAL AREA																						
OTHER		2674	2674																			
TOTAL	1310	9034	5724	+173		2359	4480	2121	+89.9		951	2080	1129	+118							2674	
																						2674

Notes:

1. Due to urban planning requirements, the production building was expanded from 6 storeys to 11 storeys, so that civil works building area was increased from 4,700 m<sup>2</sup> to 7,410 m<sup>2</sup>, a net increase of 2,710 m<sup>2</sup>, and cost of construction was increased by 1,623,000 yuan.
2. Adjustment of exchange rate from 2.8 yuan/1 US\$ to 3.72 yuan/1 US\$ increased cost by 187,000 yuan.
3. Price adjustments of building materials resulted in an increase of 347,000 yuan in cost.
4. Because adding storeys to the building would affect the lighting of residential buildings, approval was secured from the municipal government to move the residents, adding 1,820,000 yuan in resettlement expenditure.
5. The original appraisal method did not include interest for the construction period, so 307,000 had to be added.
6. Construction cost had to be increased because the construction contractor increased its fees.

TABLE 2. POST - APPRAISAL OF IMPLEMENTATION SCHEDULE

DATE:

TIME PERIOD		CONSTRUCTION PERIOD																																																																																															
		1983												1984												1985												1986												1987																																															
YEAR	MONTH	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12																																				
PRELIMINARY DESIGN	PLANNED	_____																																																																																															
	ACTUAL	_____																																																																																															
	TIME DIFF	BASICALLY SAME																																																																																															
DESIGNING OF ENGINEERING DRAWINGS	PLANNED													_____																																																																																			
	ACTUAL													_____												_____																																																																							
	TIME DIFF	EXTENDED BY ONE YEAR DUE TO DESIGN CHANGES																																																																																															
CIVIL WORKS	PLANNED													_____												_____																																																																							
	ACTUAL																									_____												_____																																																											
	TIME DIFF	DELAYED BY ONE YEAR																																																																																															
PROCUREMENT OF EQUIPMENT	PLANNED													_____												_____																																																																							
	ACTUAL																									_____												_____																																																											
	TIME DIFF	PROCUREMENT LATE BY 6 MO DUE TO DESIGN CHANGES																																																																																															
INSTALLATION OF EQUIPMENT	PLANNED																									_____												_____																																																											
	ACTUAL																																					_____												_____																																															
	TIME DIFF	INSTALLATION DELAYED, OVERLAPPING CIVIL WORKS																																																																																															
TEST RUNS	PLANNED																																					_____												_____																																															
	ACTUAL																																																	_____												_____																																			
	TIME DIFF	TEST RUNS CONDUCTED SIMULTANEOUSLY W/INSTALLATION																																																																																															
COMPLETION & ACCEPTANCE	PLANNED																																					_____												_____																																															
	ACTUAL																																																	_____												_____																																			
	TIME DIFF	COMPLETION DELAYED BY ONE YEAR																																																																																															

TABLE 3 POST - APPRAISAL OF INVESTMENT PLAN &amp; LOAN EXPENDITURE

UNIT = 1,000 YUAN DATE:

TIME PERIOD		PLANNED CONSTRUCTION PERIOD																			
YEAR		1985				1986				1987				1988							
COMPARISON		PLAN	ACTUAL	DIFFERENCE		REASON	PLAN	ACTUAL	DIFFERENCE		REASON	PLAN	ACTUAL	DIFFERENCE		REASON	PLAN	ACTUAL	DIFFERENCE		REASON
				+OR-	+OR- $\pm$				+OR-	+OR- $\pm$				+OR-	+OR- $\pm$				+OR-	+OR- $\pm$	
INVESTMENT SOURCES	BANK LOANS	799	1907	1108	139		2241	3009	768	34		130	1502	1372	1055		2207				
	RAISED BY ENTERPRISE ITSELF						70	330	260	371		70	330	260	371						
INVESTMENT EXPENDITURE	MAIN WORK	799	1907	1108	139		2311	3079	768	34		200	1832	1632	816		2207				
	AUX. WORK																				

TABLE 3-2. POST - APPRAISAL OF LOAN REPAYMENT

UNIT = 1,000 YUAN DATE:

TIME PERIOD		REPAYMENT PERIOD																			
YEAR		1987				1988				1989				1990							
COMPARISON		PLAN	ACTUAL	DIFFERENCE		REASON	PLAN	ACTUAL	DIFFERENCE		REASON	PLAN	ACTUAL	DIFFERENCE		REASON	PLAN	ACTUAL	DIFFERENCE		REASON
				+OR-	+OR- $\pm$				+OR-	+OR- $\pm$				+OR-	+OR- $\pm$				+OR-	+OR- $\pm$	
REPAYMENT OF BANK LOANS		451	3256	2805	622		1204	6567	5363	445		1859.6					609				
REPAYMENT SOURCES	1. PROFIT	40					205	3264	3059	1492		252									
	2. TAX	241	-3256	3015			779	-3303	445			856.6					609				
	3. DEPRECIATION AND USE FEE	176					256					251									

1987 actual repayment was paid out of the surplus of contracted quota.

1988 repayment was made in part from contracted quota surplus and in part by the new project.





TABLE 6. POST - APPRAISAL OF PROFIT

UNIT - 1,000 YUAN

YEAR	1988				1989 - 1997				TOTAL (10 YRS)			
	EST.	ACTUAL	DIFFERENCE +OR- +OR-%	REASON	EST.	NEW ES TIMATE	DIFFERENCE +OR- +OR-%	REASON	EST.	NEW ES TIMATE	DIFFERENCE +OR- +OR-%	REASON
% OF DESIGN CAPACITY REACHED	100	100			100	123						
1. PRODUCT SALES REVENUE	9851	12792	2941	29.8	9851	18130	8279	84	98510	175962	77452	78
LESS:												
SALES TAX	679	639	-40	58	679	907	228	34	6790	8802	2012	38
SALES COST	7780	8889	1109	14	7780	13063	5283	64	77800	126456	48656	63
TECHNICAL TRANSFER												
RESOURCE TAX												
2. PRODUCT SALES PROFIT	1892	3246	1872	135	1392	4160	2768	199	13920	26784	12864	92
3. DISTRIBUTION	515	-5549			515	12080	1565	304	5150	13171	8021	155
OF WHICH:												
REMITTANCE TO STATE	515	-5549				2080			5150	13171	8121	157
RETAINED BY ENTERPRISE						2080			14168	13614		

TABLE 7. POST - APPRAISAL COMPUTATION OF FLOW OF FUNDS

UNIT = 1,000 YUAN

ITEM	PRE-APPRAISAL			POST APPRAISAL														
	CONST. PERIOD	NORMAL OP. YR.	TOTAL	CONST. PERIOD	OPERATIONAL PERIOD													
					1988	1989	1990	1991	1992	1993	1994	1995	1996	1997				
FUNDS IN FLOW   1	4500	2315	25974	9285	5550	5814	5545	5545	5545	5545	5545	5545	5545	5545	5545	65009		
SALES PROFIT   2		1383	13186		3264	4160	4160	4160	4160	4160	4160	4160	4160	4160	4160	40704		
SALES TAX   3		679.57	5861		639	907	907	907	907	907	907	907	907	907	907	8802		
DEPRECIATION   4	160	1608			371	371	371	371	371	371	371	371	371	371	371	3710		
WORKING CAP. INT.   5	86	864		86	86	107	107	107	107	107	107	107	107	107	107	1028		
SELF-RAISED FUNDS   6	140		140	660												660		
INVESTMENT LOANS   7	3170		3170	8625												8625		
WORKING CAP. LOANS   8	1190		1190	1190	290											1480		
FUNDS OUT FLOW   9	4500	86	6213	12541	7834	397	107	107	107	107	107	107	107	107	7055	14573		
INVESTMENT EXPEND.   10	3310		1725	9285												-5575	3710	
INCREMENTAL WORK   11	1190				1190	290										-1480		
REPAYMT. OF INV. LOANS   12			3623	3256	6567												9823	
INT. OF WORKING CAP.   13		86	864		86	107	107	107	107	107	107	107	107	107	107		1049	
BALANCE   14		2229	19760	-3256	-2293	5417	5438	5438	5438	5438	5438	5438	5438	5438	5438	-5549	43372	
REMITTANCE OF INCTAX   15		1138.9	11389			2708.5	2719	2719	2719	2719	2719	2719	2719	2719	2719		24460	
ENTERPRISE PROFIT   16		520	4224	-3256	-2293	2523	2533.5	2533.5	2533.5	2533.5	2533.5	2533.5	2533.5	2533.5	2533.5		17242	
DEPRECIATION   17		160	1868			185.5	185.5	185.5	185.5	185.5	185.5	185.5	185.5	185.5	185.5		1669.5	
DEPRECIATED VALUE   18			2783														7055	
FLOW OF FUNDS   19			22543	-3256	-2293	5417	5438	5438	5438	5438	5438	5438	5438	5438	5438		48372	
DISCOUNT FACTOR   20				0.797	0.712	0.636	0.567	0.587	0.452	0.440	0.001	0.022	0.287	0.257				
NET PRESENT VALUE   21				-2595	-1633	3445	3083	2757	2458	2332	1963	1751	1560	1897			16578	

TABLE 8. POST - APPRAISAL COMPARISON

	ORIGINAL APPRAISAL			POST-APPRAISAL		
1	-788	0.893	-713			
2	-2311	0.797	-1841	-8625	0.797	-687.4
3	-784	0.712	-523	-972	0.712	692
4	1572	0.636	999	4163	0.636	2648
5	1822	0.567	1033	4163	0.567	2360
6	1689	0.507	856	4163	0.507	2110
7	1635	0.452	789	4163	0.452	1882
8	1635	0.404	660	4163	0.404	1682
9	1635	0.361	590	4163	0.361	1503
10	1635	0.322	526	4163	0.287	1340
11	1635	0.287	469	4163	0.287	1194
12	4418	0.257	1135	4163	0.257	1070
13				9733	0.229	2229
14	DEPRECIATED VALUE -2783		3934		DEPRECIATED VALUE -5575	11836
	IRR	31%		IRR	37.52%	



BLE 9. POST - APPRAISAL OF NATIONAL INC. (NI) & NATIONAL INCOME PRESENT VALUE

UNIT = 1,000 YUAN

YEAR	1988				1989				1990-1997				TOTAL			
	ORIG EST.	POST EST.	DIFFERENCE +OR- +OR-1	REASON	ORIG EST.	POST EST.	DIFFERENCE +OR- +OR-1	REASON	ORIG EST.	POST EST.	DIFFERENCE +OR- +OR-1	REASON	ORIG EST.	POST EST.	DIFFERENCE +OR- +OR-1	REASON
1. SALES TAX	878	699	-40	-5	679	907	228	84	5432	7256	1824	84	8790	8802	2012	80
2. RESOURCE TAX	86				44	185	141	320	352	1480	1128	320	1560	1665	105	6.7
3. TOTAL SALES PROFITS	1385	3264	1899	139	1567	4160	2584	164	12608	33280	20672	164	15540	40784	25164	162
4. WAGES	184	266	132	98	148	392	244	165	1184	3136	1952	145	1466	3784	2848	162
5. WORKERS BENEFITS	120				148	835	687	464	1184	6680	5496	464	1452	7515	6063	418
6. WORKING CAPITAL INT. EXPEND.	83	83			83	107	24	29	864	856	192	29	838	1040	216	26
7. NATIONAL INCOME	2417	4252	1835	76	2678	6586	3908	146	21424	52688	31264	146	26519	63526	37007	139
8. DISCOUNT RATE	12	12			12	12	12	12	12	12			12	12		
9. DISCOUNT FACTOR	0.797	0.797			0.712	0.712										
10. NINPV																
11. ACCUMULATED NI PRESENT VAL.													16686	35140	18454	111

TABLE 10. POST - APPRAISAL OF REPAYMENT PERIOD

UNIT = 1,000 YUAN

TIME PERIOD		REPAYMENT PERIOD																
		1985				1986				1987				1988				
YEAR	COMPARISON	EST.	ACTUAL	DIFFERENCE		REASON	EST.	ACTUAL	DIFFERENCE		REASON	EST.	ACTUAL	DIFFERENCE		REASON		
				+OR-	+OR-1				+OR-	+OR-1				+OR-	+OR-1			
1. LOAN	ACCUMULATED LOAN PRIN & INT. @ BEGINNING OF YEAR						813	1987	5363	445		1859.6				2992.6	3576	
2. PRIN.	CURRENT YEAR LOAN EXPENDITURE	40					205	3264	3059	1492		252				2267	-1116	
3. INT.	CURRENT YEAR ACCRUED INTEREST	241	-3256	3015			779	-3303	445			856.6			116.8	784		
4.	TAX	176					256					251			1124	3303	-5859	4454
5. REPYMT	DEPREC. FUND THAT MAY BE USED FOR REPAYMENT	451	3256	2805	622		1204	6567	5363	445		1859.6			80	3264		
6.	ENTERPRISE PROFIT	40					205	3264	3059	1492		252						
7.	TOTAL	241	-3256	3015			779	-3303	445			856.6						
	BAL. AT YEAR	176					256					251						
8. END	AFTER REPYMT	176					256					251			1905.4	0		



File CHINA  
ECDP

The World Bank/IFC/MIGA  
OFFICE MEMORANDUM

DATE: 16-Nov-1990 11:52am

TO: See Distribution Below

FROM: Visitor Three, ITFCT ( VISITOR THREE )

EXT.:

SUBJECT: Ex-Post Evaluation in China & SAA

Selina and Pablo,

Thanks for having me kept up to date with regards to more recent developments in relation to SAA's request for project performance audit training and discussions on ex-post evaluation in China.

This is a personal note, with some of my initial thinking with regard to these issues. As such it does not present a view from the China department or RMC, but rather I hope it will stimulate further thinking, both here and in China, on what to do next with regard to ex-post evaluation, PCR preparation etc. As such it can build on earlier debate, more recent discussions at the annual meetings and lead to more detailed coverage of these issues during the upcoming CIR.

In the meantime, in addition to the long term development issue with regard to ex-post evaluation in China, there is a short term issue related to the SAA request for ex-post evaluation training in OED.

With regard to the SAA request, I don't think there is any need to go into many of the historical details. The record, I think is very clear. There have been preliminary contacts between OED and SAA at around 1988. At the time the suggestion was made that further follow-up could be desirable. I think, however, that it is important to remember the context within which these suggestions were made. This were the early days of OED exploring what should be done for Evaluation Capability Development (ECDP) in the Bank's member countries and how that would improve the preparation of PCRs more in particular. At that time, there were intensive contacts with inter alia the Auditor General of Pakistan to explore project performance auditing as an instrument for ex-post evaluation. Over time, I think that it has become clear that a distinction can be made between ex-post evaluation as we define it in the Bank and performance auditing as defined in general by Audit Agencies. And certainly it has become clear that the latter has little, if any, linkages with PCR preparation by Borrowers.

Hence, however, relevant the dialogue between OED and SAA at the

time, ideas have evolved since, and I think that SAA's request for training should be reviewed in light of these developments. In this context it is unfortunate that OED evaluations are called project performance audits, as for Auditor Generals this means something different from the actual ex-post evaluations that are done by OED under this label.

As to ex-post evaluation in China, there is no doubt that SAA has a legally defined independent statute (I don't want to comment on the difference between legal and actual organizations in China). As such it is responsible for the audit of all Bank projects, and as such it is perfectly legitimate for SAA to want to upgrade their audit work towards project performance auditing. We used to argue in OED that there were two elements in ex-post evaluation: independence (for accountability) and lesson learning. There is no doubt that for the former SAA is well placed. There is also no doubt that for lesson learning - and I have the feeling that in evaluation capability development this aspect has become more dominant - they are too far removed from decision making. For the latter SPC (State Planning Commission) and/or MOF would be the logical agencies. But while SAA has shown that it is interested in promoting project performance auditing, I think it is fair to say that neither SPC and/or MOF have shown great interest in promoting ex-post evaluation as a separate institutional arrangement.

In fact, it will be very difficult in my opinion to envisage in China the creation of anything remotely familiar to the ex-post evaluation function that we are familiar with. I think it is something that could ultimately be done (real long term), but it will require a lot of convincing and a lot of development of demand from the bottom up. In the meantime, however, PCRs are being prepared in China by executing agencies and umbrella agencies/ministries and many of them are quite reasonable, if I understand correctly. Also recent OED missions have favorably commented to me about this process of PCR preparation.

To me therefore it seems that we have a logical institutional arrangement here: PCRs are being prepared, and this is after all, especially for central agencies, that are at least one step removed from executing levels, is ex-post evaluation. So one could build on that. The Ministry of Communications has an interest in evaluation. CIB (China Investment Bank) is doing a good job in PCR preparation I am told. Etc. My idea would therefore be to build on these efforts towards the creation maybe of some network of evaluators in China central agencies. Over time this might generate the demand for specific extra institutional arrangements at the center for a specific independent evaluation function. As an aside, one should consider of course the size of China. A good evaluation unit in for example the Ministry of Communications, will deal with more evaluation work, certainly in size if not in numbers, than the combined evaluation units of many countries in Africa. In that context of course one could think about possible decentralization

to provincial levels, but I think that is a topic we should avoid for the time being.

Most of the OED missions that have come to China so far have at my request taken the opportunity of their visits to talk about the benefits of ex-post evaluation and the lessons that can be learned from such work. I am grateful that we have received such support and hope that this can continue. Especially I think it is important and of interest to the Chinese to learn from such evaluation activity. One good example tells more about ex-post evaluation than ten lectures on its theory. In addition, a few years ago, OED and EDI have also been active in organizing a seminar in China on evaluation, while the Chinese have also participated in a number of EDI sponsored regional seminars on M&E. Ex-post evaluation also is part of the curriculum of EDI training in China on M&E. Maybe the time has come to approach this a little more systematically. In order to promote ex-post evaluation I think there are a number of activities that can be helpful: (i) include it in training activities of EDI and the Bank with regard to M&E, project cycle, and start up project launch workshops; (ii) make ex-post evaluation, especially the lessons learned, a specific part of the TOR of PCR and OED missions; (iii) consider special seminars/dissemination of major ex-post evaluation findings; (iv) if a critical mass has been achieved, consider a special OED seminar on Chinese evaluation findings; (v) discussions with Chinese leaders and major agencies about experiences with and impact of ex-post evaluation elsewhere; etc.

However, there is a major issue here in relation to the PCR process, given the fact that on the one hand this strategy builds heavily on the borrower prepared PCR, but on the other hand the Bank requirements for PCR preparation have changed dramatically. In fact, for good reasons, we have gone back from a borrower prepared PCR, to a structured borrower comment to the PCR. While the former was useful for the Borrower in terms of its own evaluation function, the latter is not. Hence I think that we need to discuss future PCR preparation in China at two levels. First, we need to convince the Chinese to continue to prepare full PCRs, despite changed Bank requirements. These PCRs could follow and build upon the earlier PCR formats and could remain largely in Chinese. Second, these PCRs would then provide all the necessary information (in addition to proper evaluation by Chinese agencies) for the preparation in the required format and in English of the Part II of the Bank PCR. I don't think there is duplication between these two levels of PCR preparation. What is important however that we accept this as a sensible approach and as China department promote this consistently. As a first step we could dwell upon this at the CIR if an opportunity arose at that time (we talked about PCR preparation a little at the last CIR, but did not have the benefit of a wider ex-post evaluation framework at the time).

So far with regard to ideas that are relevant for our approach to

long term evaluation development, which obviously will need more discussion to be developed into a consistent strategy.

That leaves the short term problem of an appropriate answer to SAA. In discussions in Beijing some time ago, I have been trying to explore if they could not use alternative training, but large numbers of SAA staff have already been to the Auditor General training institutes in Pakistan and Canada. So that is no easy way out. On the other hand it seems to me that six month training in ex-post evaluation in the Bank does not make sense. I think that diplomatically, but firmly we have to spell that out to SAA. We have to explain to them that whatever they want in terms of project performance auditing is not what OED is doing and that that type of training should be obtained at professional audit training institutes. We should also I think tell them a little more about our experience with ECDP and explain that training for countries in that context has to fit a pattern, which should follow some form of understanding about ex-post evaluation in the country and should involve the relevant agencies. We can add to that by telling a little more about OED experience to date in China and how that could evolve for ex-post evaluation development and what has been our experience elsewhere in the world.

What all this adds up to however is no to this training request, which might pose certain diplomatic problems, given that a long time ago we gave them to understand that the answer might well be yes. I have been thinking if there is anything we can do to soften this reply. As there is some money for a study trip, we could suggest maybe either one of two things: a trip, including the Bank and some auditor generals to discuss performance auditing. Somehow, however, this looks a little thin. Or a trip to discuss ex-post evaluation, including performance auditing, with a number of agencies, including the Bank. However, we would have to insist that in such a case the delegation would have to include participants of other ministries. Mr. Chen Junshou of MOF would be very good, but maybe relatively too high level. In any case we can think about staffing details a little more; at this stage it is the principle that counts. The trip could include ADB, CIDA, Congressional evaluation Office (USA) and the Bank, both the auditing/financial advisor, but mainly OED. OED has experience in organizing two week plus seminars with country delegation to: (i) explain the Bank's ex-post evaluation system; (ii) explore the implications for the country concerned; and (iii) obtain insights in the evaluation institutional arrangements in the country concerned. If such a trip were successful it could be followed by further discussions in China, including a seminar about the benefits of ex-post evaluation (largely based on practical experience and lessons learned elsewhere).

Sorry it has taken some time to get my thoughts on paper, but in summary I think that we should;

(i) give SAA a definite answer, preferably a sugar coated No to their request (another telex came in to the Bank 11/6);

(ii) continue to discuss ex-post evaluation in the framework of OED missions;

(iii) further elaborate on PCR preparation by the Borrower in a systematic way in the framework of project implementation discussion and especially during the next CIR;

(iv) envisage a special evaluation seminar in China that would illustrate for Chinese senior staff the Benefits and lessons from ex-post evaluation.

I would be happy to receive your reactions and to than further explore these questions with our counterpart agencies in China.

Regards,

Robert van der Lugt

DISTRIBUTION:

TO: Selina Shum	( SELINA SHUM )
TO: Pablo Guerrero	( PABLO GUERRERO )
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CC: MOHAMMAD ASHRAF	( MOHAMMAD ASHRAF @A1@CHINA )



*PG*

The World Bank/IFC/MIGA  
OFFICE MEMORANDUM

DATE: 05-Nov-1990 03:26am

TO: YVES ROVANI ( YVES ROVANI @A1@VAX12 )

FROM: Robert van der Lugt, AS3CH ( ROBERT VAN DER LUGT AT A1 AT CHINA )

EXT.: 86-1-831-2227

SUBJECT: Visit to Washington

Yves,

Long time no see, but I have met a few of the OED missions that have been coming to town. I am now finalizing plans for a mission to Washington (Guusje will join me) and hope to be at Headquarters November 10-29. I would certainly appreciate if we could meet to discuss matters of mutual interest, not limited of course to ECDP. I will ask Pablo Ao make arrangements and get in touch with Betty my "temporary" secretary while in Washington. Maybe there is time for lunch as well, but I would like to keep the first few days of my stay focused on the China Department. You will get a separate not on the State Audit Administration.

See you, regards.

*Mr Rovani -  
Robert wants to have  
lunch w/ you on  
Friday Nov. 16 at  
La Mease - is this  
OK w/ you?*

The World Bank  
Washington, D.C. 20433  
U.S.A.

*Ple note  
(to try to meet in  
China trip)  
& any  
Chen file*

Executive Director

October 31, 1990

Mr. Yves Rovani  
Director-General  
Operations Evaluation  
H-6001

Dear Mr. Rovani:

After serving almost four years on the Executive Board of the World Bank, it is time for me to bid you farewell.

I have greatly enjoyed working with you and would like to take this opportunity to express my sincere gratitude for your cooperation and assistance that I have received during my stay in the Bank.

I shall be leaving Washington around mid-November. Should you have a chance to visit China, my wife and I would be delighted to hear from you. Please do not hesitate to contact me at either:

Home: 112 Xi Kang Road, Room #8  
Shanghai 200040  
Tel: (86-21) 2586797

or

Office: The President's Office  
Shanghai University of Finance & Economics  
777 Guoding Road, Shanghai 200081  
Tel: (86-21) 5485861

Best regards.

Sincerely yours,

*Zhang Junyi*  
Zhang Junyi

*M. Guerrero*  
*16*

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION  
**OFFICE MEMORANDUM**

DATE: October 10, 1990

TO: Mr. Graham Donaldson, Chief, OEDD1

FROM: A.J. Blackwood, OEDD1

EXTENSION: 32895

SUBJECT: CHINA - (First) Rural Credit Project (Cr. 1462-CHA)  
KOREA - Agricultural Wholesale Marketing Project (Ln. 2111-KO)  
- Agricultural Products Processing Project (Ln. 1851-KO)  
- Fourth Agricultural Credit Project (Ln. 2549-KO)  
INDONESIA - Yogyakarta Rural Development Project (Cr. 946-IND)  
- Rural Credit Project (Cr. 827-IND)  
Project Performance Audits  
Back-to-Office Report

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1. In accordance with my terms of reference dated August 14, 1990, I visited the captioned projects between August 24 and October 3. I was in China from August 24 to September 8, then in South Korea until September 21 and in Indonesia until October 4.

2. In China I visited branches of ABC\* /Guangxi, state farms, processing businesses, collective farms and (regrettably few) individual entrepreneurs around Guillin, Yuling, Chiang Zhou and Nanning. In Beijing I had final discussions at ABC headquarters, but could not follow up on earlier messages from RMC as Robert van der Lugt was away on leave.

3. The first Rural Credit Project in China was clearly an institutional success at the provincial level as intended. There are questions to be explored further in the audit report, however, about the great expansion of the lending program following devaluation (which overstretched project staff and reduced lending quality), the concentration of investments and the Bank's light supervision. There were also some problems with consultant performance. The lack of a follow-on project for Guangxi, as the Bank turned its attention elsewhere, was a source of some surprise and concern in the province and there was talk of approaching the Bank again for another project. Supervision by the Bank of this first operation in the subsector with a new borrower was remarkably light (to the disappointment of the Chinese) and may have contributed to the Bank apparently not being on top of some of the emerging issues. I was aware, however, that I (like supervision staff) was carefully shielded from problem subloans. The project design was weak on technology transfer objectives (a major need), with project staff regretting that the procurement process, or some other means, did not promote improved technology.

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\* Agricultural Bank of China.

4. In Korea, after discussions with the project agencies, I visited the Karak municipal market, processing projects around Seoul and Nonsan, and subborrower farms around Pusan and Kyung Ju in the South. As expected, based on advice from regional staff, the audits in Korea were unusually difficult to pursue in detail because of the language problem, apparent reticence about even minor issues, and what appeared to be a general lack of interest in evaluation. Meetings sometimes ended startlingly soon after opening pleasantries were over, even at the working level. Staff at the Seoul wholesale market were surprised that I wanted to visit the market rather than rely on their slide show and annual report, and then allowed barely enough time for the purpose. Similarly staff of the processing project seemed mystified by my desire to visit subborrowers.

5. The Wholesale Marketing Project in Korea has been very successful, but there are broad lending program and financial questions about the other two. An additional iota of investment in polythene greenhouses, orchards or cold stores in a buoyant economy moving towards graduation from Bank borrowing probably warrants stronger justification than I have seen. In the processing project, the FE risk issue seems to have been handled weakly by the Bank, at least to begin with.

6. In Indonesia, field work was limited to Yogyakarta province, since most of the time was needed on the RD project. However, BRI's regional office for central Java is there, with a very active lending program, and this provided insights into the credit project. In RSI I spent useful time with Mr. Wiranto who participated in YRDP supervision.

7. The reception from BRI (the "Farmer's Bank") was much warmer and more enthusiastic than I had expected in the context of the tiny contribution made by this old Rural Credit Project (one percent of their portfolio in the early 1980s). BRI is a more professional and earnest business than it was ten years ago. The project clearly had a significant initial role in moving BRI away from its old charitable function as government's channel for dealing with poor farmers. Good consultants under the project, but at high cost, can take some of the early credit for this result. Many other Bank operations and other agencies have subsequently helped BRI's transformation, including with a strong long-term body of technical assistance. However, the main objective of the project of moving BRI into sound long-term lending was undermined by 75 percent of the loan amounts being insured by a government agency.

8. The Yogyakarta Rural Development Project was a classic integrated rural development project. The inherent favorable factors of the local situation suggest that if the RD strategy couldn't work there, it couldn't work anywhere. Even so there were and are problems, despite physical implementation greatly exceeding targets. These problems are typical of the "pilot" and "project" approaches. Continuity, intensity, replicability, sustainability and impact are all issues. Consultant performance was generally poor, although very good in one case, but was not an issue picked up during intensive supervision by the Bank. With respect to results, attribution is a

problem since M&E did not develop adequately. The project is a text-book example of the drawbacks of the stop/go, capital intensive, project packaged approach to RD traditionally favored in the past by many donor agencies. As such the project is worth keeping in mind for a more detailed study (than is appropriate for an audit), on how to organize, manage and finance rural development.

cc: Messrs. Köpp (OEDDR), Guerrero (DGO), Duane (OEDD1) (o/r)

Ministry of Finance People's Republic of China

**XIANG HUAICHENG**

Vice Minister

Sanlihe, Beijing, China      Tlx, 222308 MOFFD CN  
Fax, 8013428

中華人民共和國財政部副部長

*Met in connection with 1990  
Annual meeting - you raised by  
us: before considering a condition  
of State Audit Staff what  
are the objectives of China*

中國·北京·三里河

電 傳, 222308 MOFFD CN

圖文傳真, 8013428

*no report ever*

China - ECOP

The World Bank/IFC/MIGA  
OFFICE MEMORANDUM

DATE: 09-Oct-1990 10:12am

TO: See Distribution Below

FROM: Selina Shum, AS3IE ( SELINA SHUM )

EXT.: 72192

SUBJECT: China -- Ex-post evaluation -- SAA training

As you are aware, subject matter has been discussed on and off between SAA and the Bank over the past few years. This subject was revisited recently when SAA sent us a proposal for 2 candidates to be trained with our OED in Washington (a copy of which will be faxed to you).

During Ertan Project negotiations in June, we arranged for Mr. Chen Junshou (MOF) to meet with Mr. Rovani in order to initiate a dialogue with our borrower on the need for setting up a systematic and effective institutional mechanism for ex-post evaluation rather than merely providing piece-meal training to SAA. It was noted that it is unclear to us whether SAA has the mandate to be in charge of ex-post evaluation of Bank projects. Indeed, it is not clear as to whether SAA should be solely in charge of project performance audits in view of the fact that the core agencies (MOF/SPC) are in charge of project approval and may well benefit from the lessons learned from ex-post evaluation. Further, the Foreign Investments Audit Department of SAA is currently understaffed and it has been difficult just to cope with the work load associated with financial audits of foreign funded projects. Mr. Rovani suggested that the institutional arrangements be reviewed by the Chinese authorities and a task manager be appointed for the ex-post evaluation function.

\* Prior to the Annual Meeting in September, Messrs. Ahmad and Kimura and I met with Mr. Rovani and, in consultation with Mr. Burki, it was agreed that subject matter be raised to the attention of the Chinese delegation. As expected, the Chinese delegation did not appear to have been briefed about the subject but agreed to study the matter further and inform the Bank of the outcome in due course. In this connection, grateful if you could assist in following up on this matter. Mr. Daud Ahmad also intends to follow up with MOF during his October mission for CIR.

DISTRIBUTION:

TO: ROBERT VAN DER LUGT  
CC: Daud Ahmad  
CC: Yo Kimura

( ROBERT VAN DER LUGT @A1@CH  
( DAUD AHMAD )  
( YO KIMURA )

CC: Shahid Javed Burki  
CC: Yves Rovani  
CC: Pablo Guerrero  
CC: ATTILA SONMEZ

( SHAHID JAVED BURKI )  
( YVES ROVANI )  
( PABLO GUERRERO )  
( ATTILA SONMEZ @A1@CHINA )



The World Bank/IFC/MIGA  
OFFICE MEMORANDUM

DATE: 10-Sep-1990 10:36am

TO: ROBERT VAN DER LUGT ( ROBERT VAN DER LUGT @A1@CHINA )

FROM: Pablo Guerrero, DGO ( PABLO GUERRERO )

EXT.: 32888

SUBJECT: China-ECDF

Dear Robert:

I know from Jan de Weille that you are comfortably settled in in your new quarters and enjoying your work. Hopefully, as you mentioned to me a while back, you will be able to visit Washington this year. It would be nice to see you.

As you know, we have been trying to learn from S. Shum, and from a recent meeting with Mr. Chen, of the World Bank office of the Ministry of Finance, about the state of decision making regarding ex-post evaluation in China. During our talks it has become quite evident that the three central agents in this regard, namely, the State Planning Commission, the Ministry of Finance, and the State Audit Administration, need to pay some thought about how they want to organize and conduct ex-post evaluation. Certainly, it seems warranted that there be some coordination among them and, to ensure some degree of efficiency and effectiveness, that a "task manager" be appointed to guide evaluation efforts.

The SAA is continuing to propose a piecemeal approach to evaluation via the training of two of their staff in QED. In our view, this approach will not be very successful. On the other hand, we understand that Daud Ahmad would like to undertake a comprehensive look at the evaluation business in China, apropos of the forthcoming country implementation review, to be initiated this Fall. This seems to be an appropriate way of proceeding at this stage. If in the meantime the SAA is interested in short term training in monitoring and evaluation techniques they may wish to follow up on EDI sponsored programs, such as the one done periodically in Malaysia.

As you know this business, I would like to benefit from your perspective. Any observations and insight from you would help me provide more solid advice to the DGO on the present SAA request.

Best regards.

ROUTING SLIP		DATE: 9/10/90
NAME		ROOM NO.
Mr. Pablo Guerrero		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	<del>NOTE AND SEND ON</del>	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS: Dable - We talked about ex-port evaluation in China. Hereby, for your info, copy of my correspondence.		
FROM: Jon d Weill	ROOM NO.:	EXTENSION:

**The World Bank**  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 477-1234  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS

China - ECDA  
DW

September 7, 1990

Mr. Cao Zhengtian  
Planning Department  
Ministry of Communications  
10 Fuxing Road  
Beijing, China


Dear Mr. Cao:

It was a pleasure making your acquaintance during my recent visit to China and I would like to thank you once again for the fine organization of my visit.

I have sent Ms. Xia and Mr. Yan, as promised, some literature on ex-post evaluation and attach, for your information, a copy of my letters to them.

My best regards,

Yours sincerely,

  
Jan de Wille  
Principal Evaluation Officer  
Agriculture, Infrastructure, and  
Human Resources Division  
Operations Evaluation Department

Attachment

**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 477-1234  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS

September 7, 1990

Mr. Yan Qing Bin  
Vice Chief Economist  
Planning Department  
Ministry of Communications  
10 Fuxing Road  
Beijing, CHINA

Dear Mr. Yan:

It was a real pleasure for me meeting you during my recent visit to China and participating in the discussion of Ex-Post project evaluation in Beijing on August 8.

I am sending you hereby, as promised, some literature (two copies each) on Monitoring and Evaluation of projects, see attached list.

I also sent Ms. Xia, as promised, a copy of


- (i) the Bank's Guidelines on Preparation of Project Completion Reports as well as
- (ii) the Operations Evaluation Department's internal procedural guidelines

In addition, I am sending you a copy of Bennathan and Walters, Port Pricing and Investment Policy for Developing Countries (one copy) plus Adler, Economic Appraisal of Transport Projects (four copies). If you think it useful you might like to pass copies of Adler's book on to the Planning Departments of the three ports I visited.

Many thanks for the kite Mrs. Xia gave me on your behalf. I have not yet flown it but from the looks of it I am sure it will not disappoint me.

My very best regards,

Yours sincerely,

  
Jan de Weille  
Principal Evaluation Officer  
Agriculture, Infrastructure and  
Human Resources Division  
Operations Evaluation Department

cc: Mr. Cao Zhengtian

Encl:

Attachment: 2

September 7, 1990

Project Monitoring and Evaluation  
Enclosed Literature

1. OECD, Evaluation in Developing Countries, Paris, 1988.
2. OECD, Road Monitoring for Maintenance Management, Vol. 1 and 2. Paris, 1990.
3. World Bank, Casley and Kumar, (i) Project Monitoring and Evaluation in Agriculture, and (ii) The collection, Analysis, and Use of Monitoring and Evaluation Data, Baltimore, 1987 and 1988.
4. World Bank, Economic Development Institute, Monitoring and Evaluating Urban Development Programs, Washington, D.C. 1978.
5. World Bank, Economic Development Institute, Ex-Post Evaluation of Projects, Washington, D.C. 1979.
6. World Bank, Economic Development Institute, Central Monitoring and Evaluation, Washington, D.C. 1980.
7. World Bank, Economic Development Institute, Ahmed and Bamberger, Monitoring and Evaluating Development Projects, The South Asian Experience, Washington, D. C. 1989.
8. World Bank, Operations Evaluation Department, van der Lugt, The World Bank Operations Evaluation System, and Operations Evaluation - The Bank's Experience, Washington, D. C. 1986.
9. World Bank, OED, Rovani, Presentation for the Brazilian Government's Seminar on a National System of Integrated Evaluation, 1989.
10. World Bank, OED, Annual Review, Project Performance Results for 1988 and for 1989, Transport, Washington, D. C. 1989 and 1990.
11. World Bank, OED, Evaluation Results for 1988, and Annual Review of Evaluation Results: 1989, Washington, D. C. 1989 and 1990.

**The World Bank**  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W. (202) 477-1234  
Washington, D.C. 20433 Cable Address: INTBAFRAD  
U.S.A. Cable Address: INDEVAS

September 5, 1990

Ms. Xia Hong  
Section Chief  
Planning Department  
Ministry of Communications  
10 Fuxing Road  
Beijing, China

Dear Ms. Xia

I enclose as promised, a copy of:

- Guideline for Preparing Project Completion Reports (June 1989) and
- Procedural Guidelines for Operations Evaluation Staff (May 1990).

As I mentioned to you both documents are internal Bank documents for use by Bank staff. I hope that they are useful to you.

In addition, I am preparing a package for Mr. Yan with literature on monitoring and evaluation as well as on transport planning which may be of interest to the Ministry.

I would like to thank you again for your kindness during the recent visit of myself and my wife. We have appreciated that very much indeed.

My best regards

Yours sincerely,



Jan de Weille

Principal Evaluation Officer  
Agriculture, Infrastructure and  
Human Resources Division  
Operations Evaluation Department

cc. Mr. Yan Qing Bin, Ministry of Communications

Encl:

THE WORLD BANK / IFC / M.I.G.A.  
Headquarters: Washington, D.C. 20433

Tel. No. (202) 477-1234 / Fax No. (202) 477-6391 / Telex No. RCA 248423

FACSIMILE COVER SHEET AND MESSAGE

---

DATE: September 7, 1990      NO. OF PAGES: 7      MESSAGE NO. :  
(incl. this sheet)

TO:  
Name: Mr. Pablo Guerrero, DGO      Fax Tel. No.: 7-1952  
Company/Organization: DGO  
City/Country: Washington, DC


FROM:  
Name: Selina Shum, Sr. Financial Analyst      Fax Tel. No.: 7-1273  
Dept/Div. Name: AS3IE      Room No.: A-8077  
Dept/Div. No.: 255/30      Phone No.: 72192

SUBJECT: CHINA: Ex-Post Evaluation Training

---

MESSAGE:

Per our conversation, please find attached the proposal from the State Audit Administration of China.

  
Transmission authorized by: Selina Shum, AS3IE

---

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax number listed above.

Mr. Ramoqz

中华人民共和国审计署  
Audit Administration of the People's Republic of China

July 17, 1990

Operation Evaluation Division and  
China Country Department

A copy of Reference Notes for Sending Auditors to WB to study Post-evaluation Audit of Accomplished Projects and the curriculum vitae of the selected auditors are enclosed herewith for your approval.

Wity best regards,

sincerely yours

Foreign Capital Utilization Bureau

AAPRC



Reference Notes for Sending Auditors To The World Bank  
to Study Post-evaluation Audit Of Accomplished Projects

Background:

1.<<Audit Regulations of the People's Republic of China>> stipulates that, the Audit Administration of the People's Republic of China shall conduct audit supervision on authenticity, legality and efficiency of the financial revenues and expenditures of various departments of the people's governments at all levels, state banking institutions, enterprises, undertakings and capital construction units under the ownership of the whole people and other units with state assets as well as units using foreign capital to finance their projects. The execution of the power involves audit of the financial revenues and expenditures of projects financed from foreign capital and relevant economic activities of projects financed from foreign capital not only during the implementation but also after the accomplishment of the projects.

2.Since the implementation of the policy of reform and opening to the outside world, projects financed from WB loans increase year by year. Many projects have been accomplished one after another. Have the accomplished projects funded from WB loans achieved anticipated results? What about their economic benefits? What experience and lessons should be learned for determining new projects? The Chinese government and people from all walks of life are much concerned with these issues. It is imperative to conduct post-evaluation audit of accomplished projects funded from WB loans.

#### Contents of training

7. The training course is to cover the following main aspects:

- (1). Basic principles of post-evaluation audit;
- (2). Procedures and techniques of post-evaluation;
- (3). Methods of writing working papers and audit reports of post-evaluation audit;
- (4). Characteristics and requirements of post-evaluation audit of profitable projects;
- (5). Characteristics and requirements of post-evaluation audits of non-profitable projects.

#### Time and place:

8. We suggest that this training programme be conducted not later than the latter half of this year under the direction of the Operation Evaluation Division of the World Bank for a period of about six months.

#### Trainees:

We have selected the following two auditors as candidates of trainees who are qualified professionals and have long practical experience of auditing projects funded from WB loans.

Appendix: Curriculum Vitae of the candidates of the trainees

3. The post-evaluation audit of accomplished projects funded from WB loans involves a wide range of aspects and requires sophisticated techniques. Chinese audit institutions lack advanced experiences and qualified personnel.

4. In 1988 the Evaluation Division of WB suggested that it train two Chinese auditors in post-evaluation Audit in order to learn from the advanced experience of WB in post-evaluation of accomplished projects and train some professionals for post-evaluation audit. The former Director of Foreign Capital Utilization Bureau went to the WB to discuss the training with representatives of WB and obtained their promise. Since 1989, relevant leaders of Foreign Capital Utilization Bureau have conducted negotiations for several times with officials of China Industry and Energy Division of WB, and WB considers it necessary to carry out this training programme and has asked AAPRC to put forward training suggestions and candidates of trainees as soon as possible.

5. We have drafted these notes against the above circumstances. We are looking forward to your opinions.

Purpose:

6. The training course is aimed at enabling the trainees to understand and master basic principles and techniques of post-evaluation audit of accomplished projects funded from WB loans and put forward proposals on how to carry out post-evaluation audit and direct and carry out post-evaluation audit in China.



# Record Removal Notice



<b>File Title</b> China - Evaluation Capability Development Program - Volume 3		<b>Barcode No.</b>  30291370		
<b>Document Date</b> [undated]	<b>Document Type</b> CV / Resumé			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> Sun Baohou; Yang Yongjun				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
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<b>Withdrawn by</b> Shiri Alon	<b>Date</b> December 18, 2023			

File  
China - ECDP

THE WORLD BANK / IFC / MIGA

# OFFICE MEMORANDUM

DATE: September 5, 1990

TO: Mr. Graham Donaldson, Chief, OEDD1

FROM: Jan de Weille, OEDD1

EXTENSION: 32900

SUBJECT: PAKISTAN - Field Audit Tenth Railway Project (Cr. 684-PAK, Ln. 1372-PAK)  
 Field Audit Eleventh Railway Project (Cr. 1278-PAK)  
 CHINA - Field Audit Three Ports Project (Ln. 2207-CHA)  
 - Ex-Post Project Evaluation Discussion  
Back-to-Office Report

1. In accordance with my terms of reference (May 30) I visited Pakistan and China to audit the above projects. In addition, in China I participated in a one day discussion of ex-post project evaluation with Chinese officials.

### Pakistan Audit

Railways X and XI, the focus of my mission, were disappointing projects as was their predecessor, Railways IX.

2. A number of factors account for the disappointing outcome of the Bank's past involvement in Pakistan Railways and they are well discussed in the Staff Appraisal Report of the recently approved Transport Project which has an important railway component.

3. Looking back on Railways IX, X and XI my principal conclusion is that the prospects for the Bank's recently started railway operation are bleak.

4. My principal recommendation is likely to be that the Pakistan Government (i) undertake a study of the various aspects of privatizing the railways' Karachi-Lahore container transport operation (incl. the Lahore container freight station operation) and (ii) on the basis of this study discuss and reach a decision as to the privatization of this operation.

### China Audit

5. The Three Ports project was a good project: well prepared and well implemented.

6. The Audit will focus on (i) the Bank's "transport dialogue" with China which was and is disappointing, (ii) procurement of some inadequate locally produced equipment in spite of repeated and well documented warnings, (iii) some relatively minor "blemishes" in the project's design (shortage of coal terminal storage capacity, lack of anchorage for barges), and (iv) some minor issues on the optimal number of cranes per container berth, the optimal length of a container berth, and the SAR's and PCR's calculation of container berth capacity/occupancy.

China: Ex-Post Project Evaluation Discussion

7. Towards the end of my stay in China (August 8) I participated in a one-day discussion of ex-post project evaluation with some 20 staff members of the Ministry of Communications, the Highway Department, the Ports, Railways, and Water Supply.

8. The initiative for this meeting was taken by the Bank's Beijing office and responded to the Ministry of Communications' desire to exchange ideas with the Bank on ex-post evaluation particularly because MOC had recently started to do its own ex-post evaluation.

9. A few days before the meeting took place I discussed, at my request, with Mr. Cao Zhengtian (MOC) what MOC's precise objectives were for this meeting, what they hoped to get out of it, and the format for the meeting.

10. In the morning of August 8 I made a one hour presentation on ex-post project evaluation with emphasis on objectives, methodology, lessons learned, dissemination, link with planning process, and practical examples. In addition, I covered in some detail OED's role.

11. This was followed by a presentation by Mr. Yan Qing Bin, Vice Chief Economist, Planning Department, MOC. He described how MOC's Planning Department was doing its audits with emphasis on the administrative aspects.

12. After lunch there was a three hour discussion first with questions on my morning presentation to which I responded followed by my questions and comments on Mr. Yan's presentation, and finally a broader discussion of ex-post and ex-ante project issues.

13. My feeling is that MOC appreciated the discussion and found it useful. Messrs. Yan and Cao indicated that they would like to have similar discussions in the future.

14. As discussed in China I am sending Mr. Yan some literature on monitoring and evaluation as well as to him and the Planning Departments of the three ports some transport planning books.

Liaison with Resident Missions

15. Both in Islamabad and Beijing I fully informed the Bank's Missions about the purpose and outcome of my visit. Both missions were extremely helpful in arranging appointments and providing advice.

cc: Messrs. Rovani, DGO (see para. 7ff)  
Köpp, Director, OED  
Guerrero, DGO

ROUTING SLIP		DATE: 6-15-90
NAME		ROOM NO.
Mr. Guerrero		H6013
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS: Met with Selina and Mr. Chen 6/22/90.		
FROM: Selina Shum	ROOM NO.: A8077	EXTENSION: 72192

Mr. Li Jianmin,  
Director,  
Foreign Investment Audit Department,  
State Audit Administration,  
12 Cai-Shi Road,  
Beijing, China.

No ACTION!  
File China

Dear Mr. Li,

On behalf of Ms. Selina Shum and myself, I would like to thank you for the hospitality and cooperation extended to us during our separate visits to Beijing. We appreciate the useful discussions held with you and your staff regarding audit report requirements/improvements as well as technical assistance and training for SAA.

Audit Report Requirements

Auditor's criteria. The auditing requirements of the Bank call for the appointment of auditors who are independent of the control of the entity to be audited, and the auditors must employ adequate staff with appropriate professional qualifications and experience. We understand that in the case of China, under SAA's overall supervision, auditing is essentially conducted by the provincial audit bureaus. For most of the Bank-financed projects in China, we believe that the aforementioned criteria for auditors have been met. However, we are concerned that some projects may not comply with the above criteria, particularly for projects with the provincial governments being the beneficiaries and/or the staffing of the concerned provincial audit bureau is weak.

This issue has been discussed with SAA during various Bank missions. We are pleased to learn that, starting from the 1989 reports, the Foreign Investment Audit Bureau (FIAB) of SAA will review and sign off on selected audit reports, including but not limited to provincial lending, to ensure compliance with the aforementioned criteria for auditors. However, we share your concern that the staffing of FIAB is inadequate and SAA's staff recruitment efforts need to be further strengthened.

Audit report language and scope. We regret to inform you that the proposal to furnish the Bank with audit reports in Chinese would not be acceptable. We would also like to emphasize that the scope of auditing is not confined to project units only but normally covers the overall operations of the project entities.

Audit duration. The usual Bank requirement is that by the time of project appraisal, the project entity would have furnished the Bank with an auditor's opinion and financial reports for the most recent three years of its operations. In the case of China, it is recognized that auditing is still at an early stage of development. Taking into account SAA's staff constraints, we have agreed with SAA that, as an interim measure, the Bank's auditing requirements for projects in China would generally commence after loan effectiveness. As such, this is a reduction in the normal duration of auditing requirements for Bank-financed project. In order not



to compromise the objective of our auditing requirements, including an independent review of the accounts and project/entity's accounting systems, it is not acceptable to reduce the duration of auditing even further. Thus, irrespective of the amounts of Bank loan disbursed during the first and last year of project implementation, auditing should be carried out and annual audit reports are required to be furnished to the Bank during the entire project implementation period.

#### Audit Report Improvements

We have reviewed in detail the 1988 audit reports for nineteen projects in China and found them largely satisfactory. In particular, we are pleased to note that most of our earlier suggestions for audit report improvements have been substantially incorporated. Nevertheless, we believe that there is scope for further improvements. Our general recommendations for all audit reports as well as specific suggestions for the nineteen audit reports reviewed are enclosed for your reference. We are sending copies of these recommendations to the relevant project entities. Moreover, our supervision missions will follow-up with you and the project entities on this matter.

#### Project Performance Evaluation

As discussed, the Bank is prepared to consider specific proposals regarding on-the-job training of two SAA staff in our Operations Evaluation Department. In this connection, the proposals should include, inter alia, the curriculum vitae of the proposed candidates; for obvious reasons, proficiency in the English language is a prerequisite.

We look forward to the continued collaboration between SAA and the Bank. In view of their interest in these matters, we are forwarding copies of this letter to Messrs. Wang Liansheng (MOF, World Bank Department) and Long Yungan (Accounting Division, MOF).

With best regards.

Sincerely,

Daud Ahmad  
Project Advisor  
China Department

cw and cc Messrs. Salman, Guerrero

cc CMG, Mr. Rovani

WORLDBANK TMSS

ZCZC DERP0626 RCA8218

DGO

.TCP MT

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\* DGO \*

\*\*\*\*\*

DGO

.IBRIDBI

INTBAFRAD. BEIJING. CHINA. MAY 14. 1990

ATTN:PABLO GUERRERO

FRIMD EYE WILL BE IN WASHINGTON JUNE 4-15 CAN WE MEET AND ALSO WITH MR ROVANI TO DISCUSS ECDF ISSUES AND EVALUATION WORK PROGRAM IN CHINA. EYE HAVE SOME IDEAS ESPECIALLY ON RURAL DEVELOPMENT, CLUSTERING, AND TRAINING. TIMING COULD CONFLICT WITH THE DAC MEETING. LET ME KNOW PLEASE. SECUNDO EYE JUST RETURNED FROM BANGKOK WHERE EYE ATTENDED THE REGIONAL RETREAT FOR FIELD OFFICES IN

ASIA. YOU WILL BE GRATIFIED TO KNOW THAT WE WERE BRIEFED AT LENGTH BY THE ASIA FRONT OFFICE ON THE LATEST OED ANNUAL REVIEW (OCTOBER 1989). I WAS TOLD THIS WAS ONE OF THE BEST EVER. HOWEVER, I DO NOT

HAVE COPIES. SINCE THIS REPORT IS IMPORTANT FOR ALL OF US, CAN WE HAVE 10 COPIES. IN ADDITION I WOULD APPRECIATE IF YOU COULD POUCH ME ONE COPY OF THE LATEST ANNUAL REPORT, LATEST DIRECTORY AND ANY 'BLUE' STUDIES THAT HAVE BEEN ISSUED SINCE BEGINNING 1989. SEE YOU. THANKS AND REGARDS, ROBERT VAN DER LUGT

=900514 13.02

=05140702

NNNN

WORLDBANK TMSS

[

DISCONNECTED

*Sent  
5-15-90  
ams - \**

THE WORLD BANK/IFC  
REQUEST FOR SHIPMENT AND MAILING OF PACKAGES

NOTE: Please type or print. This form is available in the Stockroom.

DEPARTMENT: <i>Operations Evaluation</i>	DIVISION: <i>DGO</i>	DATE: <i>May 15, 1990</i>
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MATERIAL TO BE DISPATCHED

QUANTITY	DESCRIPTION
10	Annual Review of Evaluation Results - Report No. 8164
1	Annual Report on Operations Evaluation (FY89) - Report No. 8131
1	Evaluation Results for 1988

Sent  
5-15-90  
2000

SEND TO:  <i>Robert van der Lugt World Bank Field Office Beijing, China</i>	SPECIAL INSTRUCTIONS:  <i>By pouch</i>
---	--

VALUE OF CONTENTS:	NAME OF SENDER: <i>(Please type or print.)</i> <i>Pablo Guerrero</i>	AUTHORIZED SIGNATURE: <i>[Signature]</i>
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The World Bank/IFC/MIGA  
OFFICE MEMORANDUM

DATE: 12-Apr-1990 09:48am

TO: Robert van der Lugt ( ROBERT VAN DER LUGT )

FROM: Pablo Guerrero, DGO ( PABLO GUERRERO )

EXT.: 32888

SUBJECT: REED MISSIONS TO CHINA

Further to my EM of April 9, Alec Nowicki has indicated that Henry Thomas is tentatively scheduling a mission to audit CIB I (Loan 2226, Credit 1313) in September/October 1990. Regard

Alexander Nowicki ( ALEXANDER NOWICKI )

The World Bank/IFC/MIGA  
OFFICE MEMORANDUM

DATE: 09-Apr-1990 11:08am

TO: See Distribution Below

FROM: Pablo Guerrero, DGO ( PABLO GUERRERO )

EXT.: 32888

SUBJECT: OED MISSION TO CHINA

Sorry for the delay in answering your memo of February 24.

By now you know that I have met with Daud Ahmad and Selina Schum on assistance to China via ECDP. The understanding is that Ms. Schum will try to define and assess the situation in situ.

Regarding prospective OED missions to China, I am informed by G. Donaldson that the audit program includes the three ports projects (Loan 2207). De Weille would probably initiate arrangements for a trip next month. From A. Nowicki's side, he is expecting to receive PCRs soon but to date it would be premature to confirm a mission.

I hope this is of some use to you. Keep in touch.  
Regards.

DISTRIBUTION:

TO: Robert van der Lugt	( ROBERT VAN DER LUGT )
CC: Yves Rovani	( YVES ROVANI )
CC: Ram K. Chopra	( RAM K. CHOPRA )
CC: Graham Donaldson	( GRAHAM DONALDSON )
CC: Alexander Nowicki	( ALEXANDER NOWICKI )
CC: Jan de Weille	( PAPER MAIL )

*Mr. Henry Thomas*  
*Henry: You have*  
*one credit. Anything*  
*more?*  
*Alce - I am*  
*voluntarily scheduling*  
*a mission to do*  
*CIB I audit*  
*in Sep/Oct. 1990.*  
*Pablo*  
*4/9*  
*Pl. note*  
*Thanks*  
*Alce*

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: 09-Apr-1990 11:08am

TO: See Distribution Below

FROM: Pablo Guerrero, DGO ( PABLO GUERRERO )

EXT.: 32888

SUBJECT: OED MISSION TO CHINA

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I hope this is of some use to you. Keep in touch.  
Regards.

DISTRIBUTION:

TO: Robert van der Lugt	( ROBERT VAN DER LUGT )
CC: Yves Rovani	( YVES ROVANI )
CC: Ram K. Chopra	( RAM K. CHOPRA )
CC: Graham Donaldson	( GRAHAM DONALDSON )
CC: Alexander Nowicki	( ALEXANDER NOWICKI )
CC: Jan de Weille	( PAPER MAIL )

# OFFICE MEMORANDUM

DATE: March 22, 1990

TO: Messrs. Graham Donaldson, OEDD1, and Alexander Nowicki, OEDD2

FROM: Pablo Guerrero, DGO *P.G.*

EXTENSION: 32888

SUBJECT: OED Mission to China

Nearly a month ago, while I was on mission, Robert van der Lugt wrote me to ask for "a rough idea about audits OED plans to undertake in China in calendar 1990" and their tentative timing. He explained that, while fully aware of the need to respect OED's independence, he could "possibly help facilitate" the process with respect to obtaining an agreement (or not) from the Chinese Government.

He further indicated that the Ministry of Finance was already inquiring about prospective missions. In addition to the official Government concurrence needed for such missions, there are visa formalities which require planning ahead.

Please let me know what course of action we should follow.

cc: Messrs. Rovani, DGO  
Chopra, OEDDR

*Pablo*

1. For the time being we have only a Development Bank project to evaluate
2. However, we may have other PCR's soon. In which case we could mount a mission of two-three contractors, which could go there.
3. Also, the DGO may like to go then, if we are to re-establish relations with their facilitation complex.
4. However, the Bank's relations with China are still frosty and we should be cautious. Before answering Robert's query we would advise to get in touch with China Dept of the Bank

*PAG*

de weide 3 parts projects - China - CHAZ 2207  
May 190.



# OFFICE MEMORANDUM

DATE: March 22, 1990

TO: Messrs. Graham Donaldson, OEDD1, and Alexander Nowicki, OEDD2

FROM: Pablo Guerrero, DGO

P.G.

EXTENSION: 32888

SUBJECT: OED Mission to China

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He further indicated that the Ministry of Finance was already inquiring about prospective missions. In addition to the official Government concurrence needed for such missions, there are visa formalities which require planning ahead.

Please let me know what course of action we should follow.

cc: Messrs. Rovani, DGO  
Chopra, OEDDR

2250

**WORLD BANK RESIDENT MISSION IN CHINA  
Facsimile Transmission**

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Beijing  
People's Republic of China

Fax No. 831-5902  
Tlx.No. 22934 IBRD CN  
Tel.No. 831-2227

**DATE:** March 18, 1990

Page 1 of 1

Approved: Edwin Lim

**TO:** Mr. Burki, AS3DR

**COPY TO:** China Management Group

**FAX NO.:** 202-477-5930 (AS3DR)

**FROM:** Mr. Ed Lim, AS3CH

**SUBJECT:** Mission Planning -- Asian Games in China

The Asian games are scheduled to take place in Beijing in the fall as you know and the dates are September 22 to October 7. During that time it will be very difficult if not impossible to obtain hotel spaces in Beijing, and it will be difficult to arrange the logistics of missions during that time as many of the Chinese staff who normally make these arrangements will be diverted to the Asian games not only in Beijing but from the provinces as well. We have already been told that many conferences and workshops here in Beijing but also elsewhere in China are being postponed so as not to coincide with the games.

Now is the time that many in the China Department have begun to think about their fall mission programs. Our recommendation is that mission travel to China should be avoided wherever possible from mid-September to mid-October. We know that this is normally a heavy travel period but we should be realistic about what is possible: mission should either take place before or after the games.

We would appreciate if this information could be made widely available in the China Department and shared with other relevant managers in the Asia regions. Also it might be good to notify Mr. van der Berg and others in the Bank's travel office about these timing constraints.

APR 04 REC'D

WORLD BANK RESIDENT MISSION IN CHINA  
Facsimile Transmission

Xiyuan Hotel Building No. 3  
Beijing  
People's Republic of China

Fax No. 831-5902  
Tlx.No. 22934 IBRO CN  
Tel.No. 831-2227

DATE: February 24, 1990

Page 1 of 1

TO: Mr. Pablo Guerrero (DGO)

Approved: RvdL *R1*

FAX NO.: 202-477-1952

FROM: Robert van der Lugt (AS3CH) *Robert van der Lugt*

SUBJECT: OED Missions to China

Let me clarify the last para of my letter of 1990-2-22, as I do not want to create any misunderstanding or touch sensitivities in relation to OED's independence.

First and foremost OED has its own workprogram and plans its own missions. The Government of China agrees (or not) to such proposals. My suggestion was merely that I could possibly help facilitate this process.

Second, when I last discussed workprogram with the Ministry of Finance World Bank Department they queried whether any other mission were planned for completed projects. While I of course could tell them about PCR missions and the Bank's evaluation system, I could not give them any further details except noting that ex-post evaluation by OED for many of the completed projects were likely.

Third, on the visa side, processing of these require time -- at the embassy (1 week to 10 days) but also here in Beijing. MOF World Bank Department approves visa requests for all World Bank missions and instructs the embassy to issue them. However, it has been agreed that only requests signed by Mr. Pearce (Chief AS3CO) will be entertained. Normally what happens in the China Department is that staff send mission proposals to the concerned agencies copy to others including Finance, Planning and Resident Mission. Upon agreement or a week or so later this is followed by the formal visa request.

Hope this clarifies my request for insight into OED's China mission plans. Are you still working hard on ECDP? and does China play a role in it? I am sure that the Chinese would appreciate each OED mission to talk/teach about ex-post evaluation and share OED sector/subsector experiences. Again, in order to organize such workshops we need time.

With kind regards. Also to you and Ram, who I have to congratulate on his return to operations although the rumors here have not indicated where my guess would be EMENA.

WORLD BANK RESIDENT MISSION IN CHINA

Beijing

FACSIMILE TRANSMITTAL FORM

20981,

DATE: ~~February 22, 1990~~

PAGE 1 OF 9

FROM: Robert van der Lugt (AS3CH)

TO: Pablo Guerrero (DGO)

FAX NO.: 202-477-1952

SUBJECT:

*[Handwritten signature: R. van der Lugt]*

Please see the attached.

*[Handwritten initials: R]*

FAX AUTHORIZED BY: Robert van der Lugt, ACTING CHIEF, AS3CH

XIYUAN HOTEL BUILDING NO. 3  
BEIJING  
PEOPLE'S REPUBLIC OF CHINA

FAX NO. 831-5902  
TLX NO. 22924 1880  
TEL NO. 831-2227

20/8/2



The World Bank  
Resident Mission in China

世界银行驻中国代表处

February 22, 1990

Mr. Pablo Guerrero  
Special Advisor and Assistant  
to the Director General  
Operations Evaluation  
World Bank  
Washington

Dear Pablo,

Ever since my departure, I have wondered if you would end up in the Operations Evaluation Department. Now that Selina Shum has send me SAA's telex and OED's reponse requesting me to help bridge the gap in the Bank's institutional memory regarding the Bank's alleged agreement to train SAA staff, I have noted your signature. Congratulations. I hope you will find "my" job as rewarding and interesting as I did.

As to the matter at hank, the files are clear, as Mr. Rovani's letter of September 16, 1988, indicated (attached for easy reference). However, ~~we are not sure that SAA's telex refers to ex-post evaluation training, as they talk about learning advance audit experience and refer to an agreement in 1987.~~

There has been similar correspondence with the Research Institute for Standards and Norms. I hope this training will not materialize. Once you start with one institute, the sky is the limit in China. I also think that SAA, Finance and Planning ministries should first focus on the role of ex-post evaluation - this will be a nice institutional debate -- before training progresses. ~~In the meantime, all OED missions could discuss EODP with these three agencies and provide additional training here.~~ Jan de Weille could for example talk about ex-post evaluation to the Ministry of Construction if he undertakes an audit here.

By the way, in order to facilitate logistics, etc., ~~could you give me a rough idea about the audits (and their tentative timing) OED plans to undertake in China in calendar 1990.~~

Thank.

With kind regards,

Robert van der Lugt

2098/3

DATE: April 18, 1988  
TO: Files  
FROM: Yves Rovani  
SUBJECT: Visit of Mr. Lu Xian (and Mr. Yu Hua)

file  
china

*for Lu Xian Yu Hua*

This records the conclusions of the visit to OED of Messrs. Lu Xian, Director, and Yu Hua, Deputy Division Chief, Foreign Investment Bureau Audit Administration, People's Republic of China (AAPRC).

They had asked for a presentation of OED evaluation activities which was arranged over 1-1/2 days (April 15 and 18), and for OED to take two AAPRC staff on secondment to OED for six months. We explained that ~~the secondment approach would be inefficient given that staff of AAPRC had at this point no project analysis or sector experience.~~ We proposed instead that:

- AAPRC make arrangements for ~~training several of their staff through EDI sponsored courses~~ in China; Bob Li, China Program Coordinator in EDI, was present and will follow up;
- ~~two English speaking staff be selected among the above to spend subsequently one or two months with OED for indoctrination in ex-post evaluation,~~
- AAPRC apply to the Ministry of Finance for financing travel and other expenses under an existing UNDP program;

20/8/10

AAPRC staff also benefit from EDI courses on monitoring and evaluation (including ex-post) such as the proposed course in Kuala Lumpur next December.

We also offered to have OED evaluators traveling to China visit with AAPRC and hold a workshop on experience in their sector, beginning with Mr. This soon.

All of the above was accepted. Mr. Lu Xian summed up the visit by stating that as an evaluator he would give high marks to both the presentations made to him and the arrangements above.

7098/5

OFFICIAL FILE COPY

September 16, 1988

Mr. Lu Xian  
Director  
Foreign Investment Auditing Bureau  
Audit Administration of the People's  
Republic of China  
10 Taiping Road  
Beijing, People's Republic of China

Dear Mr. Lu:

It was a great pleasure to meet you and Mr. Yu Hua during your short visit to Washington April 15-18. I enjoyed our discussions regarding the Bank's experience with ex-post evaluation, and would like to reconfirm our willingness to help you in strengthening your evaluation function.

We also discussed mechanisms for sharing evaluation experience between our respective organizations. First, it was agreed arrangements would be made for the training of several of your staff through EDI sponsored courses in China (undoubtedly Bob Li, EDI, China Program Coordinator, has followed up with you when he visited China recently). Second, we agreed that subsequently two English speaking members of your staff would be selected from among those trained, who would spend one or two months with OED for further training in ex-post evaluation. To support this activity an application could be made to the Ministry of Finance for financing travel and other expenses for these staff under an existing UNDP program. Your staff would also benefit from EDI courses on monitoring and evaluation (including ex-post), such as the course to be held in Kuala Lumpur next December. We will ask them to keep you informed of this and other similar courses.

In addition, I have given instructions that all OED evaluators traveling to China should visit you and your staff and, where relevant, hold workshops on evaluation experience in particular sectors. Mr. Hans Thias, Senior Evaluation Officer, was the first to do this, during his April 1988 audit mission for the University Development Project. I trust that you found your meetings with Mr. Thias useful.

I would now like to advise that a further OED mission is proposed for October 1988 to audit the North China Plain Irrigation Project. Those involved will be Mr. Graham Donaldson, Division Chief, OED, and Mr. Christian Polti, Principal Evaluation Officer. They expect to be in China from about October 10 to October 22, 1988, and would be pleased to visit you for discussions and an exchange of views.



70-98/7

- 2 -

If you wish, I would be glad if you selected one or two of your staff preferably with agriculture sector experience to join Messrs. Donaldson and Polti on their visit to the field to review the project works.

We expect over the next few years to conduct a growing number of performance audits in China as operations are completed in major sectors such as energy, agriculture, and industry. It would seem efficient, if you wish to have our continuing support in developing performance evaluation in your Audit Administration and other agencies, to build our cooperation around sets of operations under audits as well as impact evaluations and studies which we might undertake to draw lessons across subsectors. I would appreciate if you would discuss this also in a preliminary way with Messrs. Donaldson and Polti and see whether this approach could begin to be tested in connection with the North China Plain Irrigation Project. I shall be glad to come myself to China at a later time should you wish to expand the scope of our cooperation as I certainly am prepared to do.

On a more personal note, you may be interested to know that Mr. Keith Thomas, who was kind enough to put us in touch several months ago, has joined our evaluation staff in the International Finance Corporation (IFC).

Sincerely yours,

(sgd.)

Yves Rovani  
Director-General  
Operations Evaluation

cc: Mr. Karasmanoglu, AS1VP  
Mr. Donaldson, OEDDI  
Mr. Polti, OEDDI

2098/8

# 中华人民共和国审计署

Audit Administration of the People's Republic of China

November 22, 1988

Dear Mr. Yves Rovani,

Thank you and your colleagues for the help and support in strengthening our evaluation function.

We are ready to send a staff to Kuala Lumpur for the EDI course on monitoring and evaluation. We believe that our office would benefit from the course. We will be very pleased if you ask EDI to keep us informed of other similar courses.

We have talked with the officials of Ministry of Finance regarding the training of several of our staffs through EDI sponsored courses in China, subsequently two English speaking members of our staffs would be selected from among those trained, who would spend two or more months with OED for further training in ex-post evaluation.

We warmly welcome you to visit our country and wish to expand the scope of our cooperation.

I am looking forward to seeing you in China.

Sincerely yours,



Lu Xian

DEC 05 REC'D

The World Bank  
Washington, D.C. 20433  
U.S.A.

2092/4

KOVANI  
General  
Evaluation

November 30, 1988

Mr. Yu Shan Fa  
Deputy Head  
Research Institute for Standards and Norms  
Ministry of Construction  
Beijing, People's Republic of China

Dear Mr. Yu:

It was a great pleasure to meet you during your visit to Washington in February 1988 and I was pleased to receive your letter of September 25, 1988. Since then Mr. Graham Donaldson, Division Chief, and Mr. Christian Polti, Principal Evaluation Officer, have met with some of your colleagues in Beijing. They enjoyed their discussions and have conveyed a favorable impression of your Institute.

I would like to reconfirm our willingness to help you in your research into how to establish a system of post-evaluation in China. As in other countries our first contact in China has been with the Foreign Investment Auditing Bureau. They are also interested in sending some of their staff to OED to gather experience in evaluation.

With the Audit Bureau we have agreed on the following mechanism. First, it was agreed that arrangements would be made for the training of several of their staff through attendance at courses sponsored in China by the Economic Development Institute (EDI), which is the Bank's training institute. Second, it was agreed that Bureau staff would interact with OED staff when they were visiting China for evaluation purposes. This could involve seminar discussions in Beijing and your staff participation in field missions as observers. This has been done for Audit Bureau staff during the visit of Messrs. Donaldson and Polti. Third, it has also been agreed that subsequently two English speaking Bureau staff would be selected to come to Washington for further research and training at OED.

May I suggest that we follow a similar three-stage program in our collaboration. This would enable members of your Institute to become familiar with some of our evaluation concepts, procedures and language prior to sending a team to Washington. This would, in turn, enhance the usefulness of their visit.

If you agree, we could arrange for the participation of your staff in EDI sponsored monitoring and evaluation courses by asking Mr. Bob Li, EDI China Program Coordinator, to be in touch with you when he is next in China. Some of these courses may be in China, others will be in nearby countries.

209/8/0

- 2 -

To facilitate the interaction of your staff with OED staff I can arrange for you to be advised whenever OED staff are proposing visits to China so that you can arrange seminars or staff participation in field work. In this regard my Special Advisor and Personal Assistant, Mr. Robert van der Lugt, is expected to become Deputy Resident Representative in the World Bank office in Beijing early in 1989, and I believe he would be most willing to provide background information and to present seminars if you were interested.

To support the visit of some of your staff to OED I understand that an application can be made to the Ministry of Finance for funds to cover travel and other expenses, for these staff, under an existing UNDP program.

We expect to conduct a growing number of performance audits in China over the next few years as lending operations are completed in major sectors such as infrastructure, agriculture and energy. It would seem efficient, if you wish to have our continuing support in developing performance evaluation in your Institute and other agencies, to build our cooperation around sets of operations, including audits, impact evaluations and studies which we might undertake in China. In this way we might gradually expand the scope of our collaboration in support of establishing evaluation systems in all Provinces and sectors in China.

Yours Sincerely,



WORLD BANK RESIDENT MISSION IN CHINA

Beijing

FACSIMILE TRANSMITTAL FORM

2105

DATE: February 22, 1990

FROM: Robert van der Lugt (AS3CH)

TO: Ms Selina Shum (AS3IE)

FAX NO.: 202-477-5930 (AS3DR)

SUBJECT: China: SAA Training

PAGE 1 OF 6

*[Handwritten signature: R. van der Lugt]*

Thanks. Your regard for my memory is much higher than I think is warranted. Nevertheless, the attached should largely clarify the situation.

The chronology is as follows:

- EDI/OED Project Monitoring and Evaluation Seminar in Beijing, December 2-13, 1985 sponsored by SPC.
- Visit SAA Delegation to Washington, April 5-18, 1988 (see conclusions regarding training in the attached).
- China also participated in a regional EDI M&E Seminar (organized by Mike Bamberger) in December 1988.
- Two OED audit missions in 1988.
- There might have been further correspondence with SAA in early 1989 but that was after my departure, and I don't have copies.

Let me, however, point out that I am not sure at all that SAA refers to ex-post evaluation training. Their telex talks about 1987 (not 1988) and refers to learning advanced audit experience which sounds different from ex-post evaluation.

Hope this is helpful.

CHINA - Industry, Trade and Finance Operations Division

Date Rec'd 02/22/90

Date Ack'd \_\_\_\_\_

Assigned to S. SHUM

Control No. 588

FAX AUTHORIZED BY: Robert van der Lugt, ACTING CHIEF, AS3CH

WDIAL  
.AS3IF  
OINFO

transmitted # 995  
2/21/90 9:45

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-SUBJECT: AUDIT  
-FILENAME: C:\MASS11\SELINA\SAA2  
-DATE: SS 58 EXT: 72192  
-AUTHORIZED BY: SELINA SHUM, SR. FINANCIAL ANALYST, AS3IE  
-CW AND CC: MR. DESHPANDE (AS3)  
-CC: MESSRS. AHMAD, GOLDBERG (AS3) Guerrero (DGO)  
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716 222206 =

-MS. YU WEIPING  
-STATE AUDITING ADMINISTRATION  
-BEIJING, CHINA  
IBRDBEI  
-MR. EDWIN LIM  
-COPIES TO MESSRS. VAN DER LUGT, CADARIO  
-INTBAFRAD  
-BEIJING, CHINA

BT  
WASHINGTON, DC - 21-FEB-90

TO: MS. YU WEIPING, SAA. COPIES TO: MESSRS. EDWIN LIM, VAN DER LUGT AND PAUL CADARIO, RESIDENT MISSION, BEIJING, CHINA.

RE: AUDITING--T.A. MANY THANKS FOR URTLX AND LETTER.

(AAA) FIELD WORK CONSULTANCY FOR AUDITING OF THIRD RURAL CREDIT PROJECT--WE ARE PLEASED TO RECEIVE THE PLANNED WORK PROGRAM. OUR COMMENTS WILL BE CONVEYED TO YOU SHORTLY AFTER OUR REVIEW. WITH RESPECT TO THE DUE DATE FOR THE 1989 AUDIT REPORT FOR THIS PROJECT, WE HAVE NO OBJECTION TO EXTENDING IT FROM JUNE 30 TO AUGUST 30. WE WILL SEND TO YOU, THROUGH OUR RESIDENT MISSION IN BEIJING, COPIES OF SAR FOR SECOND AND THIRD RURAL CREDIT PROJECTS.

(BBB) EDP AUDITING--WE HAVE SERIOUS RESERVATIONS ABOUT THE PROPOSED STUDY TOUR WHICH DOES NOT APPEAR TO BE COST EFFECTIVE. IT IS STRONGLY RECOMMENDED THAT A DIAGNOSTIC STUDY BE UNDERTAKEN WITH THE ASSISTANCE OF AN INTERNATIONAL CONSULTANT.

(CCC) AUDIT LEGISLATION--AS DISCUSSED, A TWO-STEP APPROACH WILL BE TAKEN VIZ THE FIRST STEP WOULD BE TRAINING SEMINAR IN CHINA. THEREAFTER, TAKING ACCOUNT OF THE EXPERIENCE OF THE SEMINAR, THE SECOND STEP WOULD BE STUDY TOUR. THUS, THE TERMS OF REFERENCE FOR TRAINING IN AUDIT LEGISLATION SHOULD REFER ONLY TO THE TRAINING SEMINAR. OUR COMMENTS ON SUBJECT DRAFT TERMS OF REFERENCE WILL BE FORWARDED TO YOU THROUGH OUR RESIDENT MISSION IN BEIJING.

(DDD) I HAVE CONVEYED YOUR REQUEST FOR TRAINING AT THE BANK TO OUR OPERATION EVALUATION DEPARTMENT AND WILL KEEP YOU APPRISED OF THE OUTCOME OF OUR INTERNAL DISCUSSIONS.

(EEE) I WILL BE VISITING BEIJING IN APRIL AND WILL ARRANGE TO MEET WITH YOU AND YOUR COLLEAGUES IN SAA TO FOLLOW UP ON THE TA AND TRAINING PROGRAM FOR SAA. BEST REGARDS, SELINA SHUM, SENIOR FINANCIAL ANALYST, CHINA INDUSTRY AND ENERGY DEPARTMENT, WORLD BANK.

# OFFICE MEMORANDUM

DATE: February 13, 1990

TO: Miss Selina Shum, AS3IF

FROM: Pablo Guerrero, DGO

EXTENSION: 32888

SUBJECT: CHINA - Cable from AAPRC remitted to OED

Given the substantial OED commitment that the proposed "internships" would entail, it is unclear to us what are the basis which underlie such a request at this time. The referred cable makes a reference to an agreement between the Bank and AAPRC that dates back to 1987. We have no record of such an agreement in OED.

Nevertheless, a number of questions require attention before a reply is warranted. For example,

- A program such as the one proposed should have the full support of the China Department and it should be discussed directly with OED.
- If AAPRC is interested in OED's assistance, the request should address its readiness to meet basic OED criteria: these include requirements regarding both the professional expertise and English language proficiency of the prospective candidates.

As you may now, OED has been willing to provide support to interested Governments in the performance audit area, yet in this instance we are uncertain there are basis for proceeding.

Attachment: Cable from AAPRC

01  
WORLDBANK TMS8

AS3TE A7061 LA  
WORLDBANK TMS8

2CZC S3TP0918 RCA9407

AS3TE  
.TCP MT  
\*\*\*\*\*  
\* AS3TE \*  
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BANK

WWWWPY AAPRC UNDEAR MME. SELINA

DEAR MME. ~~SELINA SHUM~~ *Senior Financial Analyst*

PLEASE ALLOW ME TO WISH YOU A HAPPY NEW YEAR IN CHINESE TRADITION. I'VE RECEIVED YOUR AMENDMENT SUGGESTION REGARDING EDF AUDITING CONSULTATION AND VERY APPRECIATE YOUR CONSCIENTIOUS AND DETAILED ARRANGEMENTS. HOWEVER, THE EDF OFFICE OF AAPRC STILL INSIST ON SENDING A TEAM TO ADVANCED COUNTRIES ON A TOUR OF PROFESSIONAL INVESTIGATION, SO WE HOPE TO TALK IT OVER WITH YOU AGAIN IF IT IS POSSIBLE. I LOOK FORWARD TO YOUR COMING TO CHINA SOON. IN ADDITION I'D LIKE TO KNOW WETHER IT IS POSSIBLE FOR OUR ADMINIS-  
~~TRATION TO ASSIGN TWO AUDITORS IN CHARGE OF AUDITING PROJECTS FUNDED BY WORLD BANK LOANS, TO LEARN ADVANCED AUDIT EXPERIENCE AND PRACTICE IN WORLD BANK FOR THREE MONTHS THIS YEAR. THIS MATTER WA~~

oED

~~AS WAS DISCUSSED BETWEEN WORLD BANK AND AAPRC, AND AGREED BY BOTH SIDES IN 1987, BUT THE AGREEMENT WAS NOT PUT INTO EFFECT, OWING TO THE LACK OF FUNDS. THE WORK PLAN FOR AUDITING CONSULTATION ON THE SPOT AND THE REFERENCE NOTES FOR THE SEMINAR ON COMPARISON BETWEEN ACCOUNTING AND AUDITING SYSTEMS OF CHINA AND OTHER COUNTRIES WILL BE SENT TO YOU SOON.~~

WITH BEST REGARDS.

YUWEIPING

AAPRC

248423 WORLDBANKKKKKK

=02070122

=02070532

NNNN

**A6013**

*Ms Alexandra Valminto*

*Audit Administration of  
- PRC -*

AS3TE A7061 LA  
WORLDBANK TMS8



Audit Administration Of  
The People's Republic of China  
12 Caishi Rd., Beijing  
100039, China

*Office Chengde Beijing  
Telecom  
Chengde de*

*H 6001*



To: Mr. Yves Rovani  
Director of OED  
The World Bank  
1818 H Street, N.W.  
Washington, D.C. 20433 U.S.A.

*美国*

Zhong Guangquan  
Deputy Director  
Foreign Funds Application  
Audit Bureau of AAPRC

# International Bank for Reconstruction and Development

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JUL 21 2023

WBIG ARCHIVES

*File*

SecM89-1532

FROM: Vice President and Secretary

December 1, 1989

## CHINA: Recent Economic Developments and Future Prospects

1. Attached is an assessment prepared by Bank staff of China's economic situation and future prospects and an evaluation of the economic policy decisions of the 5th Plenum of the Chinese Communist Party's Central Committee.
2. Please address any questions on this document to Mr. Shahid Javed Burki, Director - China Country Department (ext. 72571) or Ms. Christine Wallich, Senior Economist - China Country Operations Division (ext. 73670).

### Distribution:

Executive Directors and Alternates  
President  
Senior Vice Presidents  
Senior Management Council  
Vice Presidents, IFC  
Directors and Department Heads, Bank and IFC

## CHINA: Recent Economic Developments and Future Prospects

### Introduction

1. Since the events of June 3-4, 1989 in Beijing, there has been a significant degree of uncertainty, within China and outside, about their possible impact - in both the short- and medium-term - on the country's economic position. Questions have also been raised about their potential consequences for China's ambitious economic reform policies.

2. As far as recent economic disequilibria and problems are concerned, the symptoms underlying them have been apparent for well over a year. These, and the government's initial response, were documented in some detail in the last Country Economic Memorandum (CEM). <sup>1/</sup> The most important economic developments since then relate to the effects of the austerity measures carried out by the government. The 5th Plenum of the Chinese Communist Party's Central Committee in Beijing ending November 9, undertook a review of economic policies which endorsed a number of important measures designed to guide China's economic policy and reform strategy during the next 2-3 years.

3. The main purpose of this memorandum is to inform Executive Directors of the outcome of this meeting, against the background of recent economic trends, and to attempt a preliminary assessment of the measures proposed. It is structured as follows:

- (a) a brief background overview of recent economic trends;
- (b) a summary of the economic policy decisions endorsed by the 5th Plenum earlier this month;
- (c) a preliminary assessment of these policies; and
- (d) an evaluation of future economic and reform prospects.

#### A. Background Overview

4. Among socialist countries that have introduced market-oriented reforms, China's economic achievements are noteworthy, notwithstanding recent events. From the start of the reform era in 1978 through 1988, GNP growth has averaged nearly 10% annually, real per capita incomes have increased by 6%-7% each year in the urban areas and those of the rural population have more than doubled. Farm labor made redundant by rural reforms has been largely absorbed by growth of rural industries (township and village enterprises), organized mostly as collective and private enterprises, and currently employing about 87 million workers. China has thus largely avoided the social problems experienced by many rapidly growing countries of uncontrollable urban growth. China's high savings rate has permitted correspondingly high levels of

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<sup>1/</sup> China: Macroeconomic Stability and Industrial Growth under Decentralized Socialism, Report No. 7483-CHA dated June 12, 1989, and distributed to Executive Directors on June 22, 1989.

investment to be financed largely through domestic savings and, until 1986, the economy was close to resource equilibrium. Since then, investment has on average exceeded savings by about 1.3% of GNP each year, and the country has borrowed moderately in international markets. Throughout the 1980s, there has been a progressive opening of the economy, a diversification of exports and an inflow of direct foreign investment. In 1975, for example, total merchandise trade (exports plus imports) amounted to \$15 billion, or about 9.4% of GNP; by 1988, it was over \$100 billion and about 30% respectively. In 1980, manufactures accounted for half of all exports; by 1988, they had increased their share to 70%. In part, this is linked to the rising volume of foreign investment. Total commitments reached \$32 billion last year, with \$14 billion already disbursed.

5. So long as macroeconomic policies remained relatively conservative, high growth coexisted with stable prices. However, industrial decentralization, accompanied by decentralized implementation of credit and revenue policy beginning in the mid-1980s, weakened the center's ability to control monetary aggregates and began eroding the government's revenue base. In the absence of new fiscal instruments to offset the decline in traditional revenue sources, revenues as a percentage of GNP fell over the 1985-88 period, and the budget deficit gradually widened from 0.5% of GNP in 1985 to 2.3% in 1987. Starting in 1984, monetary policy became highly expansionary; broad money increased by 28% p.a. between 1984-87. <sup>2/</sup> Inflation flared briefly in 1985 (8.7%), slowed during 1986/87, but by the latter half of 1987, free market prices and urban living costs began again to climb rapidly, serving to prime expectations regarding inflation. When, in May 1988, the government announced its intention to embark on major price reforms, households drew down their large accumulated savings balances and embarked on a spending spree that lasted through August 1988. Panic buying and runs on banks were experienced in most major cities. Urban consumer prices, having risen by 15% in the first two quarters of 1988, soared at annual rates of over 60% in the third quarter. These developments forced the authorities to rescind the proposed price reforms and initiate a stabilization program.

6. With hindsight, it is not difficult to explain why inflation gathered such momentum in a matter of months. Driven by the investment hunger of enterprises, capital spending averaged nearly 39% of GNP annually between 1985 and 1988. From 1987, aggregate demand was reinforced by consumer spending, fueled by rising wages, bonuses and payments in-kind. The budgetary and credit situations have been eroding since the mid-1980s, as a result of tax policy and administrative changes which transferred responsibility for revenue generation, as well as credit policy implementation, to lower-level governments. Monetary policy, responding to provincial demands for credit, exacerbated these trends and helped finance the widening budget deficit. The accelerating economy also began to strain the capacity of the energy, transport and basic raw materials sectors, giving rise to shortages that intensified pressures on a broad range of industrial prices. When poor harvests in 1988 reduced the supply of daily necessities, households, faced with negative real interest rates, the absence of financial instruments which protected purchasing power and the prospect of price reform, stampeded from rapidly depreciating cash balances into real goods.

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<sup>2/</sup> Broad money is defined as the sum of money (currency; household enterprise and other demand deposits) plus quasi-money (term deposits).

7. China thus ended 1988 with GNP having grown by 11.2%, retail price inflation for the year of 18.5%, and a current account deficit of \$3.8 billion (a little over 1% of GNP). The main elements of a medium-term stabilization strategy began in the fall of 1988 and policies were being translated into actions by early 1989.

8. The approach to stabilization taken by the Chinese authorities since September 1988 called for coordinated use of several instruments: administrative action to restrict capital spending and reduce investment demand; slower money supply growth and increased nominal interest rates on deposits to revive savings, and on loans to discourage borrowers; more strictly enforced guidelines on wages and bonuses as well as the collection of taxes on excessive bonus payments; a narrowing of the budget deficit through increased taxes and reduced subsidies; and flexible use of imports to enhance local supplies. These policies are consistent with the Bank's recent Country Economic Memorandum, which emphasized the need for a credible stabilization policy but cautioned against a hard and prolonged application of austerity measures that, in the Chinese context, would be likely to result in much dislocation and large production losses, threaten economic vitality and risk stagflation.

9. Since early 1989, administrative measures have been deployed to eliminate some 5% of projects under implementation, amounting to Renminbi (Rmb) 80 billion, and to cut capital spending by some 9.5% from Rmb 449 billion in 1988 to Rmb 410 billion. Broad money, growing by 21% in December 1988, had slowed to a rate approaching 13% by September 1989, following the application of credit ceilings in late-1988. Further, credit has been tightly restricted by a hierarchy of quotas affecting every bank outlet and locality. For 1989, the credit plan called for a 15% increase (Rmb 160 billion) but only Rmb 60 billion was allocated in the first three quarters so as to maximize the deflationary effect. The balance will be disbursed in the last quarter, in line with seasonal patterns. In addition to tightening credit, the government has issued Rmb 12 billion worth of bonds to enterprises and individuals, which will help absorb purchasing power if not financed by additional bank credit.

10. Wages policy has also been tightened. Wages rose by 10% in the third quarter of 1989 and bonuses by 8%, compared with 20% and 10% respectively in the third quarter of last year. Side by side with stricter wage norms, the government has stepped up the monitoring of price controls on daily necessities and used subsidies to hold down the costs of wage goods.

11. Rising subsidies, which already account for nearly one third of government expenditures, have complicated the task of expenditure control and a weakening economy has adversely affected certain revenue streams. However, improved tax administration and the extraction of an additional Rmb 8 billion through levies on extrabudgetary revenues are expected to prevent the budget deficit as a share of GNP from significantly exceeding the 2.3% of last year. Moreover, the authorities will seek to minimize its inflationary consequences through the extensive use of bond financing.

12. Imports grew by over 25% during 1988 and this trend was maintained in the first half of 1989, easing the supplies of raw materials, grain and consumer goods. A slowing of exports through the diversion of goods to the domestic market also augmented supplies. For the first six months of 1989, the

merchandise trade deficit reached \$6.6 billion and, at that stage, the authorities moved to tighten import restrictions and provide export industries with extra credit to encourage overseas sales. A softening of internal demand also induced producers to search for foreign buyers. For the month of August 1989, China's trade balance was in surplus, helped by falling investment and restrained domestic demand.

13. Currently, merchandise exports are growing at a rate of over 10% from the \$47.6 billion base achieved last year. By the year's end, a current account deficit not significantly exceeding \$6.0 billion is projected, with the trade deficit being slightly less. This reflects a sharp drop in earnings from services since mid-1989. The impact of the events of June 1989 are indeed most noteworthy in the external sector, where direct investment inflows, and in particular tourism, among service inflows have been sharply affected. With respect to the overall balance of payments, when changes in the capital account are factored in, including the decline in net direct foreign investment to \$1.4 billion, this will be approximately \$4 billion in deficit. Most of this will be covered through a drawdown in reserves. Official statistics put China's reserves at \$18.5 billion as of December, 1988. They fell to \$14.0 billion in June, 1989 and are projected to end the year at \$14.4 billion, equal to a little under three months' merchandise imports compared to over four months' at end-1988. The government estimates that external debt outstanding at the year's close will be about \$42-\$43 billion as against \$40.2 billion in 1988, equivalent to just over 11% of GDP. <sup>3/</sup> Interest and amortization payments on medium- and long-term debt, plus interest on short-term borrowing, yield a debt service ratio in the 8-10% range.

#### B. Fifth Plenum: Economic Policy Decisions

14. According to the official communique, the recently completed 5th plenary session of the Chinese Communist Party's Central Committee decided "to continue unswerving efforts to rectify the economy and deepen the reform so as to ensure a sustained, stable and harmonious development." Against this background, it endorsed a three-year program (including the current year) of macroeconomic stabilization measures, the principal goals of which are as follows:

- (a) to gradually reduce the rate of retail price inflation to below 10% p.a.;
- (b) to limit money growth to levels consonant with the desired rate of economic growth and inflation;
- (c) to gradually reduce and eliminate the budget deficit:

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<sup>3/</sup> The OECD's estimate for China's total debt in 1988 was \$49.6 billion. This may substantially overstate the true amount because it includes (i) 90-day deferred payments; (ii) some nonresident borrowing; (iii) debt for which an agreement has been signed but has still to be disbursed; and (iv) contingent liabilities. Bank staff expect that the divergences in estimates will be ironed out shortly through itemized accounting. Data in statistical attachment are from the World Debt Tables.

- (d) to achieve a 5-6% p.a. growth in GNP, relying more on improvements in efficiency than was the case in the past;
- (e) to rationalize the industrial structure so as to reduce shortages of basic materials, energy and transport services, and to increase the supply of major agricultural products; and
- (f) to develop a system of macroeconomic control appropriate to the needs of an economy in transition.

15. A combination of macro and industrial policies will be employed to meet the above targets. Tight credit, wage controls, cuts in social spending, limits on enterprise consumption funds and administrative restraints on investment are the measures proposed to contain aggregate demand and combat inflation over the next two years. At the same time, changes in the composition of capital outlays, together with price adjustments, will be used to promote the development of "bottleneck sectors" such as energy, transport, steel, cement and grain.

16. Apart from stimulating supplies, the planned redirection of capital spending is also designed to moderate the expansion of processing activities, the machinery subsector and the production of consumer durables, all of which are important consumers of energy and scarce raw materials and are believed to have acquired too much capacity. Light manufacturing has been singled out for special attention, not least because inventories of some consumer durables have been piling up.

17. Continued firm credit management is to be one element of macro policy, with total credit growth constrained to 16% for the year. Nominal interest rates have also been raised. In addition, the Central Committee reaffirmed the government's intention of putting fiscal policy on a solid footing by reversing the steady erosion of the tax base, closing the budget deficit, and redressing the balance of revenues in favor of the provinces. This is consistent with the Bank's recent report on tax policy and revenue mobilization. <sup>4/</sup> China has lacked effective fiscal instruments and it is widely felt that this has compromised both stabilization and industrial policies. Although the Central Committee decided in principle that fiscal reforms should be high on the agenda, details are still being negotiated between the various levels of government.

18. Another strand in the planned stabilization program concerns economic efficiency. The wasteful use of resources by industry and the corruption associated with the distorted pricing and distribution system are two of China's most serious problems. They have worsened supply shortages and prevented the country from realizing the full productivity bonus of modernization. In this connection, the Central Committee agreed that an adjustment of raw material, energy and transport prices was necessary to encourage efficiency in utilization, raise the growth rate of supplies and reduce the government's expenditure on subsidies. Specific price adjustments.

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<sup>4/</sup> China: Revenue Mobilization and Tax Policy, Report No. 7605-CHA, dated June 15, 1989.

planned for 1989/90 include the following: coal +50%; crude oil +30%; freight and passenger transport +20% and +112%; grain procurement prices +10%; cotton and edible oils +18%; and power price increases in line with fuel price increases. As regards distribution, the statement issued after the meeting calls for "great effort in screening and rectifying various kinds of companies ... so as to overcome the serious confusion in the realms of production, construction, circulation and distribution."

19. To summarize, macroeconomic stability and the consolidation of past reforms are the main policy guidelines approved by the Central Committee. After a period of rapid economic growth, China, in the view of its leaders, must tackle the imbalances that have accumulated, strengthen its macroeconomic management capacity, further develop the new institutions created during the decade of reforms and begin introducing some of the price changes that are sorely needed.

20. By focusing on the imperatives of stabilization and adjustment, the 5th Plenum focussed to a lesser degree on long-run growth. Growth issues were, however, implicitly addressed in two aspects of the program:

- (a) Although credit is assumed to grow by 16% under the credit plan for 1990, as was the case this year, credit increases will be used flexibly depending on how growth and price trends evolve. If demand remains depressed and inflation continues sliding, the injection of credit may be larger.
- (b) Rationalization of the industrial structure, including the use of directed lending, through which the government will increase outlays on the "bottleneck" sectors, will enlarge supplies of energy, food and basic materials apart from having a multiplier effect on demand.

21. In sum, the program approved by the 5th Plenum is intended to allow the government to regulate demand while having the flexibility to direct resources and credit. Structural and allocative questions were not directly addressed.

### C. A Preliminary Assessment

22. The stabilization measures underway since early 1989 have produced short-term results. The economy has been slowed to an annual growth rate of around 4%. Grain output nonetheless is expected to increase to about 400 million tons in 1989, compared to 394 million tons last year. The urban CPI declined from 27% in January (over the previous year) to 10% in October (also over the previous year). Domestic demand has been checked through the concerted application of administrative controls on investment, wages and prices. Household savings have recovered from their low mid-1988 levels, with the introduction of indexed interest rates on households' long-term deposits. And the current account deficit for the year as a whole, while considerably larger than the \$3.8 billion deficit of 1988, is not expected to significantly exceed \$6 billion (-1.8% of GDP).



23. The authorities appear to be rapidly regaining macroeconomic control but the intensive reliance on administrative controls, there being relatively little room for fine tuning in the Chinese system, runs the risk of a hard landing. The growth of industrial production was already negative for October (-2.1%) and, without an increase in consumption or investment, it is difficult to identify the sources of growth in the coming years. With a 16% credit growth and a sharp decline in industrial output, China risks the possibility of stagflation.

24. The second troubling aspect of the approach being followed and endorsed by the 5th Plenum is the degree to which the government has used direct controls instead of supplementing them with indirect instruments (e.g., fiscal levers and interest rates). The Bank's last economic report recognized the efficacy of administrative controls in the short run, but also noted their shortcomings. One is the danger of a "hard landing." The other, perhaps more important, worry is that by reintroducing extensive administrative measures, the government detracts from the progress made towards the use of market mechanisms to regulate the economy. It would be advisable to begin displacing direct controls with indirect fiscal and monetary policies which can regulate demand almost as effectively, with the added benefit that they work through the market and not against it. A stabilized environment provides opportunities for introducing the institutional changes required to promote market efficiency with the least risk. It is also an appropriate occasion for pressing ahead with plans for refining and strengthening macroeconomic policy making so as to avoid sharp fluctuations in economic activity in the future.

25. Slower growth may help rid the economy of inflation and permit supplies of energy and key materials to catch up with demand, but stagnation and any large-scale transfer of resources to priority sectors could have damaging consequences. At the same time, the capital intensity and long gestation periods of heavy industry and infrastructure projects will limit the effects they have on growth or on employment. The township and village enterprise sector will be adversely affected, causing substantial rural unemployment. There is, in addition, a regional dimension to the problem of stagnation. Township and village enterprises are clustered in a few coastal provinces (60% are in just four provinces (Jiangsu, Zhejiang, Fujian and Guangdong) plus Shanghai) which have spearheaded China's development as well as the export push. Austerity, targeting of investment to basic industries and infrastructure and industrial restructuring so as to reduce the share of processing, will cause a disproportionate amount of damage in the most dynamic parts of China's economy.

26. Under the rubric of efficiency gains, the Central Committee has announced that the upward adjustment of prices of energy, transport, grain and cash crops will take place during 1990. Such adjustments fall short of price liberalization but constitute an advance in the long-drawn battle to bring relative prices in line with scarcity values, reduce subsidies and promote resource conservation. The announced price changes would bring the prices closer to international levels. The authorities' concern that significant price liberalization could lead to a resumption of the price spiral has led them to postpone further decontrol of prices until after 1991. However, because of the importance of changing relative prices, price reform, accompanied by appropriate monetary restraint, is an issue which the government should reconsider next year. An economy with abundant slack presents

opportunities for freeing prices with the minimum of side effects. By the time another year of austerity is over, the economy may be ready for a major reform in prices.

27. The Central Committee voted to maintain, but refine, the enterprise contract management system which is seen as one of the pillars of industrial reform. Although no decision has yet been taken, the authorities are considering fiscal reforms that impose a flat-rate profits tax on firms and remove tax payments by enterprises from the realm of negotiation. Such reforms have been stoutly resisted by companies as well as by provincial authorities, and the central authorities may settle for a consensus on stabilization for the moment. But it is to be hoped that the tax reform experiments now ongoing will gradually be extended to enterprises throughout the country in the early 1990s.

28. Another area deserving more attention than was given by the 5th Plenum relates to township and village enterprises (TVEs). Tight credit and government concerns over inefficiency and duplication in this sector - underlined by the Central Committee's view on processing industries - have begun constraining its expansion. Although some regulation is needed, it must be carefully handled so as to sustain the dynamism of these enterprises. Rationalizing of industrial and credit policies towards small-scale TVEs that supply 8-9% of total exports could improve China's foreign exchange earnings over the medium run. Ideally, TVE development should be made an integral part of overall industrial and trade strategy during the austerity period and beyond.

#### D. Economic and Reform Prospects and Issues

29. Macro-economic Stabilization. China is tackling a serious macroeconomic crisis, checking inflation in a matter of months and moving to reverse a balance of payments deficit that was a drain on reserves. Stabilization policy has been a qualified success. Inflation for 1989 as a whole should fall below 15% and demand pressures appear to be subsiding; they should be lower still in 1990, although inflation may still be in the 13-15% range because of the planned price reforms. Whether inflation is being temporarily repressed and will therefore become a threat when the economy revives in the post-austerity period depends very much on how far the authorities are prepared to go in developing indirect monetary instruments and engaging in fiscal, enterprise and price reforms. The environment of austerity and restrained demand during 1990-91, as projected by the 5th Plenum, should make price reform easier to implement. However, other reforms in the real sector, such as enterprise reforms, which are necessary to ease supply constraints, are also necessary. These may be more difficult to introduce if the overall size of the pie is shrinking.

30. Increased investment in energy, transport and agriculture should enable China to sustain growth rates of 7% or more through much of the 1990s. However, it will require sustained, cautious macro-management to pull the economy out of the trough it is entering without stimulating inflationary pressures. As time passes, demands from provincial governments to accelerate growth, expand credit and loosen fiscal policy will become more insistent, and the central authorities will need to resist these pressures in managing the transition from austerity to a more normal level of activity.

31. Balance of Payments and Indebtedness. Trends in the external sector during the past year deserve special mention because, although not specifically addressed by the Central Committee, they will determine China's creditworthiness over the medium run. In spite of the initial worsening of the balance of payments in the first half of 1989, China's external accounts appear to have stabilized. Demand restraint and import controls will continue to underpin this improvement.

32. The authorities have taken steps that may improve the external situation. For example, domestic austerity, by strengthening the savings performance and restraining the growth of investment, could narrow the resource gap, diminish the current account deficit and slow down external borrowing needs. Having increased the share of manufactures in merchandise exports, China can also raise exports by shifting resources previously engaged in production for the local market. Export performance should also benefit from measures that have been approved to solve problems arising from an expansion of the number of foreign trading companies, and the additional measured decentralization of the trading system that took place in 1988. Quality standards that have given rise to friction with trading partners will be more closely monitored. Furthermore, of the more than 5,000 foreign trade corporations and enterprises engaged in trade, those lacking the financial and organizational ability to conduct overseas business will have their privileges revoked. Import growth has been trimmed, and at least over the near run, can be constrained by administrative means to rise at low rates - as was done in 1986. It should, therefore, be possible to maintain the current account deficit at a tolerable rate of under 1% of GNP.

33. At the rates of new borrowing implied by this level of current account deficit, the debt service ratio is projected to remain below the 15% ceiling fixed by the Chinese authorities throughout the nineties. Recent political events and economic developments have affected China's credit rating, and have raised borrowing margins. The country's debt indicators are, however, not likely to be significantly affected. Long-term debt-to-exports ratios are projected to remain at or below the 60% level, and debt-to-GDP below the 11-12% level over the next few years. Short-term debt remains a relatively low 2% of GDP. Debt service ratios, as noted earlier, are expected to be in the 8-10% of exports range through the early 1990s. On economic grounds, China remains creditworthy for Bank-group lending.

34. To replace the administrative controls on which it has relied for near-term results, China will need to reexamine its exchange rate policy. Currently, a dual rate structure prevails; a free market rate offered by Foreign Exchange Adjustment Centers at which enterprises traded in 1988 some \$6 billion in retained foreign exchange earnings, and the official rate at which all other transactions are conducted. While the official rate has remained at \$1 : Rmb 3.7 since July 1986, the market rate was \$1 : Rmb 5.5 in November 1989. Although the depreciation of the dollar during 1987/88 reduced the real effective exchange rate of the Rmb, the relatively high inflation of the past two years has resulted in substantial overvaluation, which could threaten to dampen exports.

## Reforms

35. It is widely recognized that China's rapid growth over the past decade is attributable largely to the economic reform policies initiated in 1979. There is also consensus that its future prospects will depend critically on continued reform and opening to the outside world. Chinese leaders have repeatedly reaffirmed, most recently in the 5th Plenum, that these policies remain the core of China's long-term development strategy. However, partly because the success of the stabilization program so far, achieved largely through administrative means, may breed confidence in their efficacy, and partly because of the political events of June 1989, there is now a risk that new reform initiatives may be postponed until after the end of the current stabilization program in 1991/1992.

36. The rapid growth of the past decade together with the stabilized economy have created a more favorable environment for price reform. The price adjustments for key materials planned for 1989/90 should be followed by a gradual decontrol of prices and continued enlargement of the share of total output allocated by markets rather than by administrative measures. In this way, the two-tier pricing and allocation system - a major source of corruption and distortion in the economy - could be eliminated. Special attention should be paid to ensure that the key variables of interest rates and exchange rates are constantly kept in line with market conditions. The expected economic environment over the next two years is also conducive to continued experiments with enterprise reforms which the Government has been planning, including modifications of the management contracting system and alternative forms of public ownership such as shareholding. This would allow major reform to be introduced when most of the present enterprise contracts expire in 1991 and 1992. These reforms should improve the environment for increasing output by relying more on productivity increase rather than on capital accumulation.

37. Reform means not only economic decentralization but also improved macro-management, regulation and stronger institutions. An important component of reform in the coming years should be to continue present efforts to strengthen the central bank (the People's Bank) and monetary policy and to develop planning instruments based on policies and market variables rather than administrative measures. The continued development of financial institutions is necessary to enable the financial sector to play its role as an efficient allocator of funds. This must be accompanied by the creation of an appropriate supervision and regulatory framework under the guidance of the central bank. Wide-ranging reforms of the tax and fiscal systems are also needed if the Government is to achieve its important objectives of increasing the share of government revenues in GNP and the share of the central government in total revenues. The next few years will provide an opportunity for the careful design of a tax reform program. In both areas, the reforms will need to strengthen the key macroeconomic institutions at the central level as a counter-balance to provincial pressures for aggregate demand and credit expansion, and public expenditure growth. Finally, enterprise reform, which allows for the exit of non-viable enterprises, is necessary if the budget and credit policies are not to be overwhelmed by demands emanating from this sector.

38. The transition from centralized planning to an effective integration of plan and market is a difficult process, for which there is no successful

international precedent or experience. Expectations, both within China and abroad, were probably pitched too high and will have to be moderated in the next few years while the country attempts to develop appropriate monetary and fiscal policies, and implement the reform program.

Attachment: Summary Economic Indicators

CHINA: Summary Economic Indicators

Population: 1,096 million (1988)  
 GNP Per Capita: \$320 (1988)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989 est.</u>
GNP Growth Rate (%)	8.3	10.4	11.2	6.0
Exports incl. NFS (\$ billion)	33.9	42.9	51.9	52.7
Imports incl. NFS (\$ billion)	42.9	43.2	55.2	57.0
Current account bal. (\$ billion)	-8.6	-0.2	-3.8	-6.0
(% GDP)	-3.0	-0.1	-1.0	-1.8
Resource Balance (\$ billion)	-9.0	-0.3	-3.3	-4.3
Reserves (\$ billion) excl. gold	11.5	16.3	18.5	14.0
(months imports)	4.1	5.6	5.0	3.0
Debt outstanding (\$ billion) <u>a/</u>	23.7	35.4	42.0	43.0 <u>a/</u>
Debt Service Ratio				
(% Exports)	8.4	8.6	8.1	9.8
Budget Deficit (% GDP)	-1.9	-2.3	-2.3	-2.3
Saving (% GDP)	36.1	37.1	36.7	35.0
Investment (% GDP)	39.3	37.2	37.6	36.0
Inflation (retail price index) <u>b/</u>	6.0	7.3	18.6	15.0

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a/ As per World Debt Tables

b/ CEM

Source: [Standard Tables]

# Beijing Is Reasserting Centralized Control

## New Guidelines Mark 'Undoing' of Economic Reforms

By JULIA LEUNG

Staff Reporter of THE WALL STREET JOURNAL

CANTON, China—Beijing will reassert central control over major segments of the Chinese economy, according to details now emerging from a plenum of the Communist Party's Central Committee earlier this month.

Details haven't been made public, but the Central Committee's new economic guidelines, which chart the country's austerity program through at least 1991, are circulating among provincial officials.

"A single theme prevails in the documents—centralization, politically and economically," says a Chinese economist who has seen them. "The plenum officially marks the beginning of the undoing of China's decade-long economic reform."

Beginning in the late 1970s, with the return of Deng Xiaoping as supreme leader, China had moved away from strict Marxism and toward a "whatever-works" economic model that has been widely copied in the Communist world. Now, beset by economic dislocations and political dissent that culminated in the June massacre at Tiananmen Square, Beijing appears to be backtracking on domestic reform, though it says its doors remain wide open to foreign investment and trade.

Chinese officials say the party resolutions drew heavily upon proposals prepared by orthodox Marxists within the State Planning Council who favor central planning rather than the free market.

Perhaps the biggest retreat on market reform is the plan to scrap the dual-pricing structure. Under the current system, so-called profiteers and corrupt officials have thrived by buying goods sold at low, state prices and reselling them for much higher prices on the free market.

Many Chinese economists have urged Beijing to phase out subsidized pricing in order to rationalize the price structure and reduce corruption. Indeed, Chinese officials say that Premier Li Peng told the plenum that "the dual-pricing structure is a hotbed for corruption. . . . a single-track pricing structure should prevail over a period of time." But the premier didn't say whether a single-track structure meant subsidized pricing or market pricing.

"We aren't sure what he meant," says a Chinese official charged with implement-

ing the policy. Many other officials are convinced that China is eroding its price reforms.

Under former reform policies led by Zhao Ziyang, ousted Communist Party chief, provinces signed contracts with the state government that allowed them to keep all of their revenues after they turned over a specified amount to the state. The state's profit-sharing arrangements with the great majority of factories are similar.

But Beijing hard-liners believe the contract system has impoverished the state and encouraged regionalism because the provinces don't any longer have to look to Beijing for most of their funds. Factories have spent huge sums on bonuses that have contributed to inflation, or on projects viewed by Beijing as wasteful. At the same time, the nation's central planners have been losing control over the economy and lack money for major infrastructural projects.

"Recentralization is necessary," says Lei Yu, a deputy mayor of Canton. But, he adds, "If too much control is concentrated in the central government, the provinces will suffer. But if the central government has too little control, it will lose its ability to lead."

Guangdong, which is home to one-third of the country's foreign investment, has prospered from Mr. Zhao's decentralization policy more than any other province. It now stands to lose the most. A March 1988 decree by the State Council, the Chinese cabinet, gave Guangdong sweeping control over its pricing policies, wages and foreign trade. Now, "I'm afraid few items on the list of preferential policies Guangdong was granted are still valid," a provincial official says.

Beijing also aims to buttress its central plan by reclaiming more of the foreign exchange taken in by the provinces, factories and the country's five special economic zones. Mr. Li also endorsed preferential treatment for such basic industries as energy and transport. The policy also will "support the large and medium-sized state-owned enterprises that are the backbone of socialist economy," Mr. Li said, according to the officials. Unlike the more flexible collectively owned factories, large

and medium-sized factories in China rely on central allocation for raw materials, and their output is largely in accordance with the central plan.

The industrial policy represents a fundamental shift in the country's economic strategy, which previously favored development in Guangdong and other coastal provinces. The plenum's communique declared continued support for coastal development and the special economic zones, but officials say these areas will be de-emphasized.

Under the austerity program, essentially no new investments will be allowed—including those involving foreign businesses—except those that are encouraged under the new industrial policy, says Liang Wanxiang, an official of Guangdong's Planning Committee.

Previously, Guangdong's government was permitted to approve infrastructural investments of less than 200 million yuan (\$53.7 million). Now, all projects that cost more than 100,000 yuan need approval from Beijing.

"You're talking about an amount that's hardly enough to build a toilet," says Mr. Liang. "The message Beijing is trying to get across is: 'No more investment.'"

The Central Committee is also trying to get a rein on foreign trade. Wu Ruiming, an official of the Commission of Foreign Economic Relations and Trade, estimates that 40% of the 1,512 companies in Guangdong engaged in foreign trading will be closed or merged. The companies that survive will be severely restricted in what they can trade.

The crackdown will return China to the system of the early 1980s, when a few specialized state-owned trading companies handled the nation's trade.

Mr. Guerrero

World Bank/IFC/MIGA  
OFFICE MEMORANDUM

DATE: 16-Nov-1989 05:52pm

TO: See Distribution Below

FROM: Paul M. Cadario, AS3CO ( PAUL M. CADARIO )

EXT.: 72059

SUBJECT: CHINA: Special Studies Credit -- SAA subproject

Selina,

I was very pleased to see that you found time to discuss SAA's audit work program under Special Studies during your recent mission (para. 17 of your October 25 memo on petroleum/power auditing).

I am not sure, however, that SAA was ever intended to be China's OED, and before encouraging them further in this direction (and seeking grant funding for it) we should discuss in the Department.

Paul

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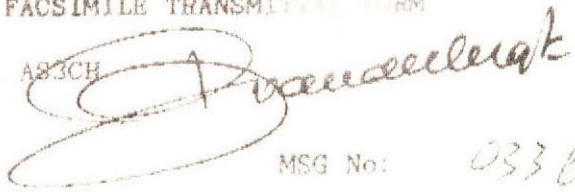
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WORLD BANK RESIDENT MISSION IN CHINA  
Beijing

FACSIMILE TRANSMISSION FORM

FROM: Robert van der Lugt, AS3CH



DATE: September 15, 1989

MSG No:

0336/1

# OF PAGES: 1

Duration of Call:

mins

TO: COMPANY/ORGANIZATION: World Bank  
CITY/COUNTRY: Washington D.C.  
FOR ATTENTION OF: Mr. Yves Rovani, DGO

TEL. NO. 202-477-6391

SUBJECT: China Connection

Please see attached.

RECEIVED  
1989 SEP 15 AM 9:08  
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Transmission Authorized by: Robert van der Lugt, Acting Chief, AS3CH



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Telex No. 22934 IBRD  
Telephone: 831-2227

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

## OFFICE MEMORANDUM

0336/2

DATE September 15, 1989

TO Mr. Yves Rovani, DGO

FROM Robert Jan E.M. van der Lugt, AS/CH

EXTENSION

SUBJECT China Connection



1. It is good to know that OED's management group still meets on Mondays. I am sorry that I can not find your August 16 telefax among my papers. But that is not the issue. I have been reminded at earlier dates.
2. For a long time I had a file on my desk with the beginnings of a letter to you, including ideas for evaluation (He Longjiang State farms, a must in July/August before the grain harvest) and regarding the State Audit Administration (contacts with Bank and related TA support have largely been audit (financial) oriented). But I have been so busy (nothing new) that I did not get around finalizing my thoughts.
3. You know of course what happened and is happening here, but that is no excuse either. We are looking forward to some positive action in the Board after the annual meetings.
4. I have tried to do a new and an old job together once before, it did not work and now I am trying it again and again it does not work. Nevermind, I have the papers, I will look at them in depth over the weekend and send you the results, by fax and pouch (I might charge my subsequent long holiday weekend to Hong Kong to OEDDR).
5. In the meantime I have seen a couple of PCR's pass my desk (ports, agricultural research). That proves that the full pass-through process has been implemented. But, we can still exchange ideas about what we can usefully do next in China.
6. I should have known better, but apologize for the delays and more for having left you in the dark for so long.

# OFFICE MEMORANDUM

DATE: May 9, 1989

TO: Files

FROM: Selina Shum, Sr. Financial Analyst, AS3TE

EXTENSION: 72192

SUBJECT: CHINA: Meeting with the State Audit Administration

1. During my recent visit to Beijing, I met with Messrs. Fei Wenzhong (Director, Foreign Investment Audit Department, SAA) and Yu Hua (Chief, SAA) on April 15, 1989. Our discussion is briefly summarized below.

### Enhancement of Audit Reports

2. Mr. Fei acknowledged receipt of the Bank's letters on specific suggestions for enhancement of auditing and financial reporting for five projects (Mr. Ahmad's 1/10/89 letter on CIB, fertilizer and Shuikou Hydro projects; Mr. Goldberg's letters dated 2/13/89 and 3/13/89 on rural credit and forestry projects). These letters have already been translated into Chinese and distributed to the provincial audit bureaus. Mr. Fei indicated that SAA places much importance in the Bank's suggestions on enhancement of audit reports. However, many of the Bank's suggestions are related to financial reporting, for which the primary responsibility lies with the project entities. Accordingly, effective implementation of the Bank's suggestions would require full support and cooperation from the relevant sector ministries and project entities. Toward this end, Mr. Fei had convened a meeting which was attended by representatives from MOF (Mr. Luo Qing) and the ministries/state investment corporations of the five sectors concerned. It is understood that the above meeting confirmed support of the proposed efforts to enhance auditing and financial reporting.

3. The audit reports for 1988 would be sent to the Bank by mid-1989. Mr. Fei indicated that SAA is looking forward to receiving the Bank's comments on the reports for the five projects selected to be the "pilots" for the efforts to enhance audit reports. These five reports, along with the Bank's comments, would then be used as "models" for audited financial reports for the five sectors concerned (viz industrial and agricultural financial intermediaries, fertilizer industry, electric power and forestry sectors). It was agreed that, starting from the audit reports for 1989, the Bank's suggestions for improvements would be incorporated in the reports for all the Bank-financed projects in the above five sectors.

### Technical Assistance and Training

4. In response to my query on the status of proposal for T.A. for auditing to be financed under the Special Credit, Mr. Fei indicated that the Bank's comments on the draft proposal, conveyed by Mr. Cadario, had been duly noted and that the revised proposal is now in the process of clearance by MOF. It is understood that MOF did not approve the provision

MAY 10 REC'D

*Chin*

May 9, 1989

for joint audit, mainly because of budget constraints. As joint audit is an excellent vehicle for SAA staff to receive on-the-job training, including preparation of audit working papers, it is recommended that we revisit the proposal of joint audit in due course.

#### Ex-Post Evaluation

5. Mr. Fei acknowledged receipt of Mr. Rovani's letter, which indicated that SAA staff could spend some time with OED in order to be familiarized with the Bank's work in ex-post evaluation. However, in view of budget constraints, Mr. Fei noted that SAA would not be able to send its staff to Washington for such purposes. He expressed his wish that the Bank could help finance such overseas training through grants. I indicated that such a proposition is not likely to be viable but promised to pass the request on to Mr. Rovani.

#### Proposed Auditors for Shanghai Industrial Development Project

6. Per request of the mission, I brought up this issue with SAA in a low-key manner (Mr. S. Krishnan's 3/31/89 memo). Mr. Fei was courteous but firm in his negative response to the proposed use of Shanghai Certified Public Accountants (SCPA) for one of the five financial institutions under the Shanghai Industrial Development Project. State Council and MOF had allegedly agreed to SAA being responsible for all the Bank-financed projects in China and Mr. Fei remained unconvinced regarding the proposed use of non-SAA controlled auditor, SCPA, for the above project. As requested by the mission, I asked SAA to communicate its position to MOF and this issue could be discussed during the upcoming negotiations for the project.

cc: Messrs. Rovani/Polti (OED); Krishnan (AS3IF); Vorkink (LEG);  
Burki, Ahmad, Tidrick (AS3DR);  
Montfort, Pearce, Goldberg, Ecevit, Stern, Cadario (AS3)  
Lim (Resident Mission, Beijing)

SShum:dps



The World Bank  
Resident Mission in China

世界银行 驻中国代表处

*China Department  
Manoche  
China File*

April 27, 1989

Mr. Rovani  
Director-General Operation Evaluation  
World Bank  
1818 H Street N.W.  
Washington D.C., 20433

Dear Yves,

You might be interested to know that the PCR program for this and next year includes the following:

For completion in this fiscal year (FY89)

- Three Ports (Ln 2207)
- China Investment Bank I (Ln 2226/Cr1313)
- Technical Cooperation Credit I (Cr 1412)
- Agricultural Education and Research (Cr 1297)

For completion next fiscal year (FY90)

- Heilongjiang Land Reclamation (Ln 2261/Cr 1347)
- Railway I (Ln 2394)
- Rural Credit I (Cr 1462)
- Poly-technic and TV University (Cr 1441)
- Daqing Oilfield - Gaotaizi Reservoir (Ln 2231)

Daud Ahmad, the project advisor in the China Department will be here in Bijing and talk about PCR preparation. I will participate in that seminar to the extent feasible as I am presently fully absorbed in language training - eight weeks morning classes and afternoon homework. China is nice, Chinese is not. Travel in China is also becoming more difficult. Mr. Burki during his recent trip was stuck for three days before he could make an onward connection. Nevermind, both Guusje and myself are enjoying Beijing. The spring is beautiful and everybody is very nice.

As to PCRs, I will have to discuss with Daud in more detail the implications of the new format. The new format has reduced the input of borrowers. However the question in my mind is how we should advise borrowers about ex - post evaluation. My inclination is to argue that borrowers like China should be encouraged to make full PCRs for their own use, which would subsequently provide the basis for their producing part II of the Bank's PCR.

Guusje also send her regards to you and Evelyn.

All the best



Robert Jan van der Lugt

MAY 03 REC'D

# OFFICE MEMORANDUM

*China file*

DATE **April 11, 1989**

TO **Mr. Rovani, DGO**

FROM **Robert van der Lugt, AS3CH**

*[Handwritten signature: R. van der Lugt]*

EXTENSION

SUBJECT **CHINA - Foreign Investment Audit Bureau**

The attached article taken from the China Business Weekly (89/04/09) might be of interest.

**RvanderLugt: lbb**



## Auditors roam out to foreign ventures

by our staff reporter  
Zhou Hongqi

The eyes of the State auditors are to probe over even wider horizons this year in checking Sino-foreign joint ventures and the administration of foreign loans.

But no-one involved should have the least fear if they are abiding by the laws of China, least of all the foreign investors. "We feel we are helping protect their legitimate rights and interests and ensuring that enterprises develop healthily," said Fei Wenzhong, director of the administration's foreign department.

This department began auditing foreign loans in 1984, a year after

the administration was established.

By the end of last year, it had checked some \$8 billion worth of foreign loans, \$7 billion of which was from the World Bank, accounting for about 20 per cent of the country's total foreign debt.

But only a small proportion of the more than 15,000 enterprises with foreign investment in the country have received the attention of the auditors. These have been mainly in the coastal provinces and Beijing.

Although the administration has about 50,000 auditors across the country, there are no foreign departments at the prefecture and county levels, and even some provinces are without them.

But the ever increasing amount of foreign investment has brought greater pressure on the auditors to strengthen their supervision of Sino-foreign joint ventures.

The administration this year will first check the capital, tax, profits, production costs and other financial activities of those with Chinese investment. These account for about half the total.

Fei said the auditors will try to ensure that foreign investment is used rationally and legally, to protect the State's interests and reputation and to defend the interests of both the Chinese and foreign partners.

"We will help domestic enterprises avoid being cheated by some dishonest foreign businessmen," he said.

Auditing will assure the fulfilment of contracts and help joint ventures discover management problems and ways to higher profits.

"All operations of enterprises with foreign investment must be in accordance with China's laws and regulations, and it is an important task for us to audit their financial revenue and expenditure," Fei said.

"According to our investigations, some joint ventures are inefficiently managed and there are even cases of financial irregularities," he concluded.

**The World Bank**  
Washington, D.C. 20433  
U.S.A.

YVES ROVANI  
Director-General  
Operations Evaluation

March 29, 1989

Mr. Fei Wenzhong  
Director  
Foreign Investment Audit Department  
Audit Administration of the  
People's Republic of China  
10 Jaiping Road  
Beijing, China

Dear Mr. Fei,

This is in answer to a letter by your predecessor, Mr. Lu Xian, who had visited me in April, 1988. Allow me to start by extending my best wishes to your appointment as the new Director of the Foreign Investment Audit Department. You will probably know that since Mr. Lu's visit a year ago there have been a number of contacts between your staff and ours, mostly in the context of project audits and evaluation seminars. I sincerely hope that we will be able to establish even closer working relations in the future.

Over the next year or two we expect to conduct several performance audits evaluating the outcome of completed projects in infrastructure, agriculture and energy. We would appreciate it if some of your staff could participate in these audits, a procedure which I envisage to be helpful to both sides. As in the past, we will continue to advise you of proposed visits by our staff so that you can make the necessary arrangements.

I am very pleased to learn that as I had agreed with Mr. Lu during his visit last year, arrangements have been made to train and select two English speaking members of your staff who could spend some time with OED for further training in ex-post evaluation. We will be glad in due course to receive them and to prepare appropriate training programs for them.



- 2 -

I would like to express my gratitude for the kind invitation extended to me by Mr. Lu to visit the Foreign Investment Audit Department in Beijing. I hope to be able to come within this year, possibly during the fall and preferably to coincide with the visit of one of our evaluation teams.

I am pleased to also inform you that Mr. Robert van der Lugt, my former Personal Assistant, has now become Deputy Resident Representative of the World Bank's Office in Beijing. I am sure he will be able to help us communicating with each other, and to lend support for possible joint evaluations or seminars.

Sincerely yours,



Yves Rovani

cc: Messrs. Chopra, Donaldson, Nowicki  
Mr. Daud Ahmad (AS3)

WORLD BANK RESIDENT MISSION IN CHINA  
Beijing

FACSIMILE TRANSMITTAL FORM

FROM: Robert van der Lugt, Deputy Chief

AS3CH

*Handwritten signature: R. van der Lugt*

DATE: March 27, 1989

\* OF PAGES: 1

MSG No:

*Handwritten: 830/1*

Duration of Call: Mins

TO: COMPANY/ORGANIZATION: The World Bank  
CITY/COUNTRY: Washington, D.C., USA  
FOR ATTENTION OF: Mr. Rovani, DGO

TEL. NO. (202)473-1952

SUBJECT: Foreign Investment Audit Bureau

RECEIVED  
1989 MAR 27 AM 5:36  
COMMUNICATIONS DIVISION

- 1. Re your note of November 23, 1989.
- 2. Senior staffing in FIAD as follows:
  - Mr. Fei Wenzhong, Director
  - Mr. Zhong Guangquan, Deputy Director

3. Suggest you adress your reply to Mr. Lu's letter to the new Director of FIAD. Of course this has implications for the draft letter. I think we need to put Mr. Fei fully in the picture by giving him a comprehensive overview of what has happened in the last few years. I also suggest if it would be useful to attach a more complete list of future implications.

*Handwritten: R*

Transmission Authorized by: Anupama Khanna, Acting Chief, AS3CH

World Bank Resident Mission in China  
Bldg. No. 3  
Xiyuan Hotel Compound  
Beijing, China

PANAFAX No. 831-5902  
Telex No. 22934 IBRD  
Telephone: 831-2227

MAR 27 REC'D

# OFFICE MEMORANDUM

DATE: March 23, 1989

TO: Mr. Robert van der Lugt, Resident Mission in China

FROM: Yves Rovani, DGO

EXTENSION: Telefax 473-1952

SUBJECT: Foreign Investment Auditing Bureau-

Following is a revised draft of the letter from me to Mr. Lu Xian, together with a copy of the original letter sent to me by Mr. Lu last November. You will remember that Mr. Lu has in the meantime retired as Director of the Foreign Investment Auditing Bureau. To whom should my letter now be addressed?

Please advise Ed Lim of this correspondence.

cc: Mr. Daud Ahmad (AS3)

**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 477-1234  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS

D R A F T

Mr. Lu Xian  
Director  
Foreign Investment Auditing Bureau  
Audit Administration of the  
People's Republic of China  
10 Jaiping Road  
Beijing, China

Dear Mr. Lu,

Almost a year has passed since you visited us here in Washington. In the meantime, our staff had the opportunity of getting to know each other in the context of project audits, evaluation seminars and informal discussions. I sincerely hope that we will be able to establish even closer working relations in the future.

Over the next year or two we expect to conduct several performance audits evaluating the outcome of completed projects in infrastructure, agriculture and energy. We would appreciate it if some of your staff could participate in these audits, a procedure which I envisage to be helpful to both sides. As in the past, we will continue to advise you of proposed visits by our staff so that you can make the necessary arrangements.

I am very pleased to learn that as we had agreed during your visit last year, you have made arrangements to train and select two English speaking members of your staff who could spend some time with OED for further training in ex-post evaluation. We will be glad in due course to receive them and to prepare appropriate training programs for them.

Let me thank you for your kind invitation to visit you in China. I certainly would like to come within this year, possibly during the fall and preferably to coincide with the visit of one of our evaluation teams.

I am pleased to also inform you that Mr. Robert van der Lugt whom you have met as my Personal Assistant, has now become Deputy Resident Representative of the World Bank's Office in Beijing. I am sure he will be helpful in providing support for our joint activities.

Sincerely yours,

Yves Rovani

cc: Messrs. Chopra, Donaldson, Nowicki  
Mr. Daud Ahmad (AS3)

# 中华人民共和国审计署

Audit Administration of the People's Republic of China

November 22, 1988

Dear Mr. Yves Rovani,

Thank you and your colleagues for the help and support in strengthening our evaluation function.

We are ready to send a staff to Kuala Lumpur for the EDI course on monitoring and evaluation. We believe that our office would benefit from the course. We will be very pleased if you ask EDI to keep us informed of other similar courses.

We have talked with the officials of Ministry of Finance regarding the training of several of our staffs through EDI sponsored courses in China, subsequently two English speaking members of our staffs would be selected from among those trained, who would spend two or more months with OED for further training in ex-post evaluation.

We warmly welcome you to visit our country and wish to expand the scope of our cooperation.

I am looking forward to seeing you in China.

Sincerely yours,



Lu Xian

DEC 05 REC'D

The World Bank/International Finance Corporation  
O F F I C E M E M O R A N D U M

DATE: 2-Feb-1989 04:45pm

TO: Yves Rovani ( YVES ROVANI )

FROM: Robert van der Lugt, DGO ( ROBERT VAN DER LUGT )

EXT.: 32888

SUBJECT: CHINA - FOREIGN INVESTMENT AUDIT DEPARTMENT (FIAD)

1. While in China, I met with Mr. Yu Hua, Division Chief, FIAD, Audit Administration of the People's Republic of China, basically to discuss the visit of Mrs. Chelimsky. Mr. Yu Hua has been in Washington to see us (April 1988) together with the FIAD Director, Mr. Lu Xian. Mr. Lu has in the meantime retired and is now working for the China Auditing Agency.

2. A number of facts have come to my attention that merit recording. As you know, the State Audit Administration has a large staff. FIAD has only 40 staff at headquarters and is divided in five divisions.

- International financial institutions (including World Bank) and bilateral grants (the Division head is Mr. Yu).
- Joint ventures and foreign debt
- Administrative support
- External relations
- International (audit) organizations

3. As part of the large State Audit Administration network that includes offices in each province and a total of ten training centers in the country, FIAD has foreign investment audit divisions at the provincial level and foreign investment audit sections at the country level. A total of 2,000 staff is reputedly employed in this network.

4. Mr. Yu favors the idea of FIAD staff participating in OED missions as it would give these missions also an image of independence in China. How else can OED obtain independent judgments in China.

5. Last year six auditors were sent for two-month training at Lahore (Pakistan Auditor General). Mr. Yang, who accompanied Messrs. Donaldson and Polti on their audit mission in China, was part of this group of trainees. Twenty auditors were sent to the Canadian Auditor General for training. Another twenty will participate in the next training cycle.

CC: Ram K. Chopra  
CC: Graham Donaldson

( RAM K. CHOPRA )  
( GRAHAM DONALDSON )



# OFFICE MEMORANDUM

DATE: February 2, 1989

TO: Mr. Ronald C. Ng, ASTAG

FROM: Robert-Jan van der Lugt, DGO

EXTENSION: 32888

SUBJECT: China Training Agricultural Credit

1. I understand that you are responsible for a training course in China from April 23 til May 20 and would like me to talk for a day or so on ex-post evaluation.
2. If you come back from mission before the middle of March, we could discuss it over lunch. You can reach me through the China Country Operations Division. Otherwise fax me in Beijing.
3. Could you look at the attached paper and see if it would be useful for the China seminar or whether we should make certain modifications before having it translated into Chinese.
4. May I have copies of your initiating activity brief.