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FACSIMILE COVERSHEET

TO:	Mr Pablo Guerrero OED/World Bank	Date:	18.11.93
Fax no.:	1-202-477-1212	No. pages:	2
From:	Denise Freeman (ILMRC)		

Message:

Please see attached
copy of fax.

Closed

March - November
1993

International Land Management
Research Centre

University of Queensland
St. Lucia, Qld. 4072
Brisbane, Australia

Telephone 61-7-365 2762
61-7-365 2871
Fax No. 61-7-365 1544

TO: MR DAVID RIX - SNR COUNTRY OFFICER CHINA AND MONGOLIA DIVISION WORLD BANK	FAX NO. 1-202-477-6391
FROM: DENISE FREEMAN - ASSISTANT ILMRC - UNIVERSITY OF QUEENSLAND	Date 18.11.93 Page of 1 1

SUBJECT: YOUR FAX OF NOVEMBER 12, 1993

DEAR MR RIX

I ACKNOWLEDGE RECEIPT OF YOUR ABOVE FAX ADDRESSED TO DR ADIL KHAN. DR KHAN HAS ASKED THAT I LET YOU KNOW THAT HE AGREES WITH YOUR SUGGESTION THAT HE VISIT WASHINGTON IN MID-JANUARY, 1994. WE ALSO ACKNOWLEDGE RECEIPT OF THE COPY OF THE PRE-CIR PAPER.

YOURS SINCERELY

REGARDS

Denise Freeman

DENISE FREEMAN

cc: MR. PABLO GUERRERO
GED/WORLD BANK
WASHINGTON D.C. USA

FAX NO. 1-202-477-1212

OFFICE MEMORANDUM

→ China
ECDF

DATE: November 1, 1993

TO: Graham Donaldson, Chief OEDD1

FROM: Christopher Gibbs *CG*

EXTENSION: 31735

SUBJECT: CHINA - North China Plain Agriculture Impact Evaluation

1. In accordance with terms of reference dated September 7, the field mission for North China Plain Agriculture Impact Evaluation was completed between October 11 and 29, including travel time. The team, comprised of Christian Polti, Jikun Huang and myself, assembled in Beijing on October 13, held initial meetings with the Ministry of Agriculture on October 14, and proceeded to the field that same evening by train. Between October 15 and 26, three counties of Anhui, Henan and Shandong Provinces were visited in turn, each for three days, with briefer visits to two additional counties. With the exception of the journeys to and from Beijing by train, all remaining travel was overland by bus or car. Final meetings with the Resident Mission and the Ministry of Agriculture were held on October 27, where an outline of initial findings was presented.

2. On the basis of pre-mission preparations and the mission itself, the initial findings of the Impact Evaluation are as follows:

a) the main agricultural objectives of the project - to control groundwater levels and reduce soil salinity - have been achieved and are being successfully sustained. The project's careful monitoring of the status of soil and water and water must, however, be sustained to ensure that there is no reversal of progress. This will become increasingly important as the demand for water and the complexity of water management grow. Massive transfer of Yellow River water to some parts of the project area and more widespread conjunctive use of surface and groundwater are anticipated;

b) many electric pumps installed by the project for collective use to irrigate crops and lower groundwater, have been replaced by diesel pumps operated by individuals or groups of three or less. Farmers have more control over the timely use of these pumps and become independent of erratic electric power supplies;

c) agricultural productivity, which was increased significantly by the project during implementation, has continued to grow but at a reduced rate for most field crops since the PAR in 1988. Crop yields appear to have reached a plateau from which they may be raised only by the application of a new generation of technology, led by the introduction of new varieties for wheat and cotton and increases in fertilizer use to recommended levels. Average yields of some crops have not reached the levels projected in 1988 for full project development. Pest control in cotton has proved problematic for several years;

d) the conversion of a significant field crop area to fruit trees, vegetables and greenhouses, has taken place in many locations in response to freer markets and higher incomes, especially in urban areas. Farmers show high levels of responsiveness to market signals and seize opportunities for profitable production on farms of very limited size. Dependable supplies of non-saline water have been essential pre-requisites for these developments;

e) farm mechanization has proceeded very rapidly, with the introduction of literally thousands of new, small 2-wheel and 4-wheel tractors, in addition to pumps and sprayers. Mechanization targets expressed in the SAR and PCR have been greatly exceeded;

f) based on the project's sample survey of farmers (100 in each project county and 100 outside each project county surveyed annually since 1982), farm incomes have continued to grow in nominal terms, but real farm incomes have declined since project completion in two provinces out of three. The decline is mainly due to the tapering off of field crop yields, poor yields for cotton and very rapid inflation (currently about 23% per annum). The mission is, however, double-checking farm income figures by re-working farm budgets for the three provinces;

g) project ERRs for the three provinces have been re-computed and are still highly satisfactory, all in excess of 30%. Some declines are evident since completion, however, but these are largely due to the comparison with the "without project" case, which has been adjusted to reflect large improvements in economic performance outside the project area - a reflection of the sophistication of the monitoring system established and maintained by the Borrower;

h) the demonstration effect of the project outside the project area has been significant. New projects have been initiated with Bank support, with the support of other donors, and with entirely domestic resources to apply the technology tested on a large scale in the NCP project. Replication of the project with recovered funds has, however, been modest;

i) recovered funds have been applied largely to new non-farm enterprise development by different levels of government (province, prefecture, county, township and village), to create wage employment in rural areas and earn profits to support the Project Management Organizations (PMOs) and repay the Bank Credit. Some of these enterprises are performing extremely well, but it would require an independent survey to make a fair assessment of their overall performance;

j) some aspects of non-farm enterprise development are problematic. Non-farm enterprises have been developed without direct Bank involvement or supervision since as early as 1983, but they were presented to the mission and discussed by the Borrower as "Bank-supported" activities, and seen this way by the communities concerned. Enterprises shown to the mission included feedlots, slaughterhouses, tanneries, leather works, paper factories and factories for quilt making and hand embroidery, among others. The quality of the employment in these plants was often low, with exposure to hazardous equipment and materials in many, with little obvious

attention to safety hazards in most, and few if any environmental controls;

k) off-farm employment has, however, been highly beneficial for young women, offering new opportunities for income-earning activity in the years between the end of schooling and family formation;

l) in agriculture, most environmental effects continue to be highly positive, with significant improvements in the extent and quality of natural resources and their management. Tree planting has been outstandingly successful;

m) institutionally, the PMOs have survived. They are, in fact, responsible for on-going project implementation and loan repayment. Some questions exist, however, about the validity of this model which the impact evaluation will explore. In particular, the concern of PMOs for their own survival, loan repayment and liability for exchange rate risk, may take their attention away from agricultural development, which was the original reason for their creation. Concern for cost control by PMOs may also put physical and social system monitoring at risk;

n) serious attention has so far been paid by PMOs and villagers to operation and maintenance of the project in the post-implementation period. This is a hallmark of the project and augurs well for continuing sustainability, provided the agricultural priorities remain firmly established. The contract system employed for operation and maintenance of most resource management activities, with incentives and dis-incentives for performance, is highly appreciated locally and a model for others;

o) while precise attribution is impossible, project impacts at the household level appear to be significant. Rural families claim to be better housed (brick and tile have replaced mud-brick and thatch, there are many new houses, and new houses are larger than those they replaced); wheat and rice have replace coarse grains in the diet; more meat and fish are eaten; clothing is improved; several household appliances are common (televisions, electric fans, refrigerators and washing machines are common); and most children - boys and girls - are completing nine years of schooling. The income to support many of these gains, however, was earned during project implementation, and post-implementation gains have been less-easily acquired. Beside inflation, implementors are concerned that the costs of system operation and maintenance to farmers be kept in check; and

p) rural electrification - developed to serve agriculture - has made a substantial impact to family life, lighting homes and powering home appliances. Transportation systems between rural areas and neighboring towns and cities has been established or improved, as incomes and the rural road system have grown, supported by the project. Road traffic has expanded greatly, with free markets for farm products thriving in most towns and cities, and labor is increasingly mobile. Most families now own two or three bicycles instead of one, and aspire to owning motor cycles;.

q) health care systems appear not to have suffered, as some observers of rural China had feared (the village barefoot doctor has often established a fee-for-service clinic). Some rural communities have contributed to the capital cost of establishing new schools, including middle schools (grades 7 to 9, and 10 to 12), which were previously few in number in rural areas. Parents also pay school fees and classroom material costs. Several villages have established homes to care for aged members who have no children: a totally new concept in rural welfare.

3. The mission was treated by the Chinese at all levels with great respect - probably too much so. Official concern that the mission be a success sometimes got in the way of its ability to listen to the people. There was often too much formality on the part of the mission's hosts and an overzealous desire to show the mission only the very best: the concept of the normal distribution has still to be learned. Future impact evaluations should establish very clear ground rules for fieldwork in advance, in order to minimize the difficulties Chinese concern for guests and its special relationship with the Bank, engenders.

4. The concept and practice of impact evaluation itself needs to be further developed by the Borrower, but there is considerable enthusiasm by Chinese colleagues to do this. If time and funds permit, future impact evaluations to China should work with individual ministries, and other agencies such as the Chinese Academy of Agricultural Sciences (CAAS), to convey impact evaluation concepts and methods. This could expedite OED missions and contribute to domestic capacity building efforts.

cc: Messrs. and Mme.: Kopp (OEDDR), Guerrero (DGO), Goldberg and Ting (EA2AG), van der Lugt, Ahmad and Zhu (Beijing).

THE WORLD BANK
CHINA & MONGOLIA COUNTRY OPERATIONS DIVISION
DIRECT FAX TEL. NO. (202) 477-8308

→ China

FACSIMILE

DATE: November 12, 1993 NO. OF PAGES: 2 DIV. LOG NO.:
(including this page)

TO: Adil Khan
Organization: Int'l Land Management, Research Centre - Univ. of Queensland
City/Country: Brisbane, Australia
Fax No: (61-7) 365-1544

FROM: David Rix
Dept./Div.: China and Mongolia Dept./Country Operations
Room No.: MC7-335
Tel. No.: (202) 458-5517
Fax. Tel No.: (202) 477-8308

SUBJECT/
REFERENCE: China Performance Post-Evaluation

MESSAGE:

Adil:

Thanks for your fax of 11/11/93, and your earlier ones to Pablo Guerrero concerning your mission to China. Your mission was very extensive, and we appreciate your efforts to contact the key agencies that have an interest in this undertaking. I hope by now you have had an opportunity to recover from your trip.

In your messages you raised several points. I will try to consolidate our responses to them, as follows:

- 1) You mentioned the inadequacy of the paper written by the local consultant. I hope that you were able to convey this diplomatically to Mr. Jin Liqun in your wrap-up meeting with him.
- 2) In the circumstances, we certainly endorse your position concerning being given extra time (10 man-days) for research and preparation of the draft paper. The request sounds reasonable, and I am pleased that Mr. Jin is considering it sympathetically.
- 3) Concerning rescheduling the seminar to mid-February or later, we would have no objections in principle to this request. However, since the seminar will require the presence of some senior Bank managers and staff, and considerable coordination with the Chinese authorities, we will not be able to pin down a particular date at this time. For the time being, let us think in terms of mid-February or a little later. This timing will, of course, be subject to the approval of the Chinese government. We will let you know as soon as a reasonable schedule can be worked out.
- 4) Concerning your visit to Washington on December 7-10, I have discussed this with Pablo Guerrero. Rather than discuss a two-page report over these 2 days, we would prefer to see a first draft of the report. If this is not possible, we would be amenable to your postponing your visit to mid-January. In the interim, you could fax us the two-page note and we could convey back to you our comments the same way.

TRANSMISSION AUTHORIZED BY: David Rix

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax. no. listed above.

- 5) Mr. Guerrero's secretary is ready to make hotel reservations as you requested, but will do so as soon as we hear from you on (4) above.
- 6) We are a little concerned about the seemingly very strong push being made by CIECC. You should not be influenced unduly by their stance in your analysis.
- 7) Finally, concerning our communications on this project, the best approach would be for you to send any messages to me as the primary addressee, with copies to Pablo Guerrero. The primarily responsibility for this project rests with this division (China and Mongolia Country Operations Division).

We look forward to hearing from you soon. Regards.



David Rix

cc: Messrs. P. Guerrero (DGO); Z. Ecevit (EA2CO)

OFFICE MEMORANDUM

File → China

DATE: November 9, 1993

TO: Graham Donaldson, Chief OEDD1

FROM: Christopher Gibbs

EXTENSION: 31735

SUBJECT: North China Plain Impact Evaluation

1. This memo is in addition to my back-to-office report and concerns the issue of ceremony and formality which handicapped field investigation and communication.

2. The field mission to China took place between October 11 and 29, including 13 days in the field in three provinces. Guidelines had been provided in advance on what the mission would need to do to talk to implementors and beneficiaries to complete its task, and an appropriate itinerary was planned and agreed. In all these preliminaries, the cooperation of Chinese colleagues in the Ministry of Agriculture and the Resident Mission in Beijing was excellent: the mission could not have received better cooperation from them.

3. It was indicated by the Resident Mission very early on that the Ministry of Agriculture took the prospect of the impact evaluation very seriously. The mission was aware of this. Chinese colleagues very much wanted the evaluation to proceed and would put its weight behind making the exercise a success. During the mission itself, however, the level of official interest and formality became something of an obstacle to effective field work and communication.

4. I say this with some hesitation because I believe that a number of the problems we encountered were engendered by our hosts' enormous respect for the Bank and for guests in China. There was also a concern for our security and for the efficient movement of three evaluators across several hundred kilometers of rural ground in three provinces. In addition, our hosts wanted to show off their work: they have a lot to be proud of, and they wanted to show it.

5. In terms of sheer logistical efficiency, the field audit mission was extremely well handled. All the travel was overland, by train, car or mini-bus, and all the arrangements went smoothly: a tribute to our hosts' capacity to plan and execute detailed arrangements.

6. Nevertheless, there were some difficulties, some of which I communicated orally to our hosts in Beijing, which I need to record here in more detail in order to minimize their effects in the future:

- the mission became, at times, too much like a celebration - the ten-year anniversary party of 1992 was revisited;

- welcome banners decorated offices and guest houses;
- there were too many banquets - at least a dozen in as many days;
- at the banquets, 10, 20 or 30 people sat down to eat - this was costly;
- the level of the banquets was too high - two were hosted by Vice Governors, one of whom drove for four hours to host a mission lunch;
- the mission was accompanied to the field by too many people - too many people stopped what they were doing to become accessories to the mission;
- the mission was followed by camera people and video recorder people almost everywhere - the cameras were far too frequent and intrusive;
- too many vehicles went to the field - often five or six vehicles, but up to 10 vehicles in procession;
- on the road, the mission was often preceded by public security vehicles - Gong An - with flashing red lights and sirens (which gave mission members their moments of greatest insecurity on the highway because the speed of travel went up and all the vehicles tried to follow each other, in and out of the traffic;
- in Anhui Province, public security accompanied the mission of visits to farm households;
- the farmers the mission was introduced to were hand picked and often atypical of the project's beneficiaries - too big and too well-off;
- the crowd of on-lookers from the various levels of government involved in the project which followed the mission into farmers' fields and homes was too great;
- the project areas to which the mission was first taken were often the better-off areas within the county;
- mission efforts to see comparable areas outside the project area, i.e. the "without" project case, were made to seem difficult;
- mission efforts to see examples of the "before" project countryside, e.g. saline or waterlogged areas, were also made to seem difficult;
- the idea of a distribution of levels of performance, from poor to good to excellent, was very hard to communicate - nothing was less than good or excellent; and
- because there were three provinces on the itinerary, efforts to modify the conduct of the field visits, to lower the profile in order to make them more effective, had to be carried out three times.

November 9, 1993

7. Our hosts made it clear that the mission could have exactly what it wanted, but there were too many times when the level officialdom present made it difficult or discourteous to depart from the pre-arranged plan, or when last-minute changes became impossible.

8. To conclude, for reasons cited above, aspects of the conduct of the mission in the field made it extremely difficult to talk with, and listen to, implementors and beneficiaries. The mission had frequently to force changes to plans in order to get away from the planned itinerary, off the highway and into project areas which were not the best areas or showplaces. But this was not always possible. Observing "with" and "without" project areas became a virtual impossibility.

9. It is, therefore, important that the Bank communicate with our Chinese colleagues to help them: understand OED's mission better; appreciate the value of performance and impact evaluations; recognize the statistical impossibility of all performance being above average; understand the conditions necessary to communicate effectively with farmers; and, realize that superficial evaluations serve them and the Bank poorly, and waste scarce resources.

10. Having said all this, I do believe the mission was successful. But it had by turns to be creative, deceptive and stubborn. Valuable time and nervous energy was used up trying to create an open environment for learning about project performance and impacts. Time was also lost when needed changes could not be made because it would risk offence to very senior officials.

11. I believe that Mr. Xie Guoli, Deputy Director of the Office of External Economic Relations of the Ministry of Agriculture, Mr. Wang Xiang Zhu, Chief of the Project Division responsible for North China Plain, and Mrs Zhu Zhengxuan, Operations Officer in the Resident Mission, understand and appreciate the mission's point of view on these matters. They all assisted the mission a great deal, but there are limits to what they can do about the difficulties the mission encountered, without higher leadership from higher levels.

12. If there is little or nothing that can be done about these issues, then missions have to be acutely aware of the possibility of problems arising; set very precise TORs for missions; be prepared from the outset to set ground rules which will not be deviated from; and, have the capacity to split the mission at the last minute into two, allowing one part the freedom to take unplanned actions while the other follows the agreed path, i.e. take countervailing measures.

cc: Messrs: Kopp (OEDDR), Guerrero (DGO), Goldberg (EA2AG)

→ China

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: November 5, 1993 10:09am

TO: David Rix (DAVID RIX)

FROM: Pablo Guerrero, DGO (PABLO GUERRERO)

EXT.: 31717

SUBJECT: China - IDF/Evaluation

David:

I am departing on mission and would like to ensure that Mr. Adil Khan gets feedback from you.

1. It seems that the mission went well and that there is agreement about taking the extra time to finish the job properly. I am a bit concerned about the seemingly overwhelming influence of the CIECC. We should not be blinded by their strong stance. You may have a word with Jin Liqun or make this point to Mr. Khan.

2. I do not have a problem with the December visit by Mr. Khan. However, rather than discuss a two page report, I would rather see a first draft of the report. If this not possible and means delaying his visit to mid-January, that would be fine with me. If in the interim he wants to fax to us the two page note, we could send him feedback via the same route.

3. I would rather that you reply to Mr. Khan. He should be reminded gently that you are in charge of the IDF.

4. I will ask my secretary to make his hotel arrangements when you confirm the plans.

On a related subject, yesterday evening I received a call from Mr. Hong who is in Washington. You recall that he was the MOF person assigned to the IDF (and interpreter) while we were in Beijing in June. I do not know what he is after but I have no time to see him, unless you think it is absolutely essential that I do. He is staying at the Concordia (phone 467-6000 #603).

Please call.

CC: Yo Kimura (YO KIMURA)
CC: Anne Muhtasib (ANNE MUHTASIB)

'93 NOV 4 AM 8 14

International Land Management
Research Centre

University of Queensland
St. Lucia, Qld. 4072
Brisbane, Australia

Telephone 61-7-365 2762
61-7-365 2871
Fax No. 61-7-365 1544

TO: Mr Pablo Guerrero OED/World Bank Washington D.C., USA	FAX NO. 1-202-477-1212
FROM: Adil Khan Director	Date 03.11.93 Page 1 of 1

SUBJECT: Post-Evaluation, China
Our Ref: L-12/93

Dear Pablo

I returned to Brisbane on October 30, 1993. The mission to China involving research and data gathering for the above project ended satisfactorily. My meetings also included a three hour meeting with the Deputy Auditor-General who sent out a special request to see me. It was a very useful meeting. I had one formal meeting and several bouts of social interaction with people from CIECC. These interactions with competing stakeholders provided me with a reasonable degree of insight into the dynamism involving post-evaluation in China.

The Wrap-up Meeting with Mr Jin Liqun, Acting Director, WB Dept. was held on 26/10 in his office in an atmosphere of mutual understanding and cordiality. I emphasized two changes - (i) request for additional 10 man/days for data analysis and report writing and, (ii) asked for shift of the seminar to late February. He has agreed to consider both these changes sympathetically and indicated that he would consult with Washington about these before relaying his final decision.

I have now made plans to come to Washington on 7th December by British Airways 217 at 1615 hrs to participate in the meetings on 8th and 9th December with both yourself and Mr David Rix. Hope that these dates are still okay with you. In this regard, may I also request your office to kindly book me accommodation at either the Lombardy Hotel or Anthony House (my first choice is Lombardy) - IN: 7/11/93 and OUT: 10/11/93.

78308
Please Fax
copy to done
David Rix
(return)

Page 2 of 2

Re our meetings on 8th and 9th, I shall try and fax you a two page report on my initial findings and impressions concerning the mission. This paper could form the basis of the discussions for our meeting.

With warm regards

Yours sincerely


Adil Khan.

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: November 5, 1993 10:09am

TO: David Rix (DAVID RIX)

FROM: Pablo Guerrero, DGO (PABLO GUERRERO)

EXT.: 31717

SUBJECT: China - IDF/Evaluation

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Please call.

CC: Yo Kimura
CC: Anne Muhtasib

(YO KIMURA)
(ANNE MUHTASIB)

A L L - I N - 1 N O T E

DATE: 02-Nov-1993 10:00pm

TO: DAVID RIX
TO: PABLO GUERRERO

(DAVID RIX @A1@VAX12)
(PABLO GUERRERO @A1@VAX12)

FROM: Robert van der Lugt, EA2CH

(ROBERT VAN DER LUGT AT A1 AT CHINA)

EXT.: 3100

SUBJECT: China Ex-Post Evaluation

Attached for information.

R.J.

CC: ZAFER ECEVIT
CC: SHAHID JAVED BURKI
CC: HANS-EBERHARD KOPP
CC: ROBERT PICCIOTTO

(ZAFER ECEVIT @A1@VAX12)
(SHAHID JAVED BURKI @A1@VAX12)
(HANS-EBERHARD KOPP @A1@VAX12)
(ROBERT PICCIOTTO @A1@VAX12)

A L L - I N - 1 N O T E

DATE: 02-Nov-1993 03:27am EST

TO: Robert van der Lugt

(ROBERT VAN DER LUGT AT A1 AT CHINA)

FROM: Kathy Ogawa, EA2CH

(KATHY OGAWA AT A1 AT CHINA)

EXT.: 3200

SUBJECT: The EM I was supposed to forward to you last week

Robert:

Excuse the delay. Here it is.

Kathy

A L L - I N - 1 N O T E

DATE: 26-Oct-1993 08:02pm EST

TO: Daud Ahmad (DAUD AHMAD AT A1 AT CHINA)

FROM: Kathy Ogawa, EA2CH (KATHY OGAWA AT A1 AT CHINA)

EXT.: 3200

SUBJECT: Visit by Mr M. Adil Khan, Consultant under IDF

Mr M. Adil Khan, Director of the International Land Management Research Center at the University of Queensland visited me yesterday afternoon. Mr Khan is a consultant funded by the IDF looking into the ex-post evaluation system here. He visited me after spending about 3 weeks meeting with over 20 project implementing agencies and visiting Shandong Province. His next steps are to visit OED to report on the mission findings upon which he will compile his report. The report will be discussed with GOC in mid- or end-February. Mr Khan said the plan is to have a seminar to discuss the findings and recommendations contained in the report at that time, and that he understood the OED Director-General might join that mission.

On a preliminary basis, he has identified three priority areas where the current Chinese ex-post evaluation system should be strengthened: staff training; computerization of information; and establishment of a database. If there is endorsement at the seminar on the importance of these 3 activities, he is ready to come up with more specific information regarding how much of each activity is required and the cost estimates, which will lead to the next set of activities. Regarding what institution in China would be suitable for handling ex-post evaluation on a permanent basis -- for Bank & non-Bank projects -- he said the two candidates were the State Audit Administration and CIECC under SPC. The latter apparently lobbied hard for the role during his visit. He said international experience shows there is no single answer, with pros and cons for each option. In the line ministries, the relevant entity to be involved in these activities would be the Comprehensive Division of the Planning Department.

He said both he & OED will keep us posted, in particular as the timing of the seminar draws near.

Is there anyone among the local H/L staff involved in ex-post evaluation? If so, pls let me know & I will forward this memo to them as well.

CC: Pieter Bottelier

(PIETER BOTTELIER AT A1 AT CHINA)

→ China

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: October 29, 1993 06:12pm

TO: David Rix (DAVID RIX)

FROM: Pablo Guerrero, DGO (PABLO GUERRERO)

EXT.: 31717

SUBJECT: Re: China: CSP Updating Memorandum

David:

I was surprised in reviewing the China CSP Update of September 20 that there is no mention of the IDF grant for evaluation capacity development. I realize that the IDF amount is small, but its impact could be catalytic and, indeed, overflow across sectors and public agencies. Furthermore, from a strategy view point, it would seem correct for the Bank to signal in its strategy its support for evaluation capacity in China, an important aspect of good governance and economic management.

Perhaps next time.

CC: Zafer Ecevit (ZAFER ECEVIT)

→ China

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

DATE: October 26, 1993 11:46am

TO: David Rix

(DAVID RIX)

FROM: Pablo Guerrero, DGO

(PABLO GUERRERO)

EXT.: 31717

SUBJECT: Re: FAX from Adil Khan

David:

This morning I faxed you a note received from Adil Khan.

I have no doubt about what Adil says in his fax. I hope that you can take action to support his request which seems very reasonable under the circumstances.

Please call. Regards.

Mr. Pablo Cerrero
 OED/World Bank
 Washington D.C., USA
 Fax: 1-202-6760625

D. G. O.

'93 OCT 25 AM 9 39

From: Adil Khan
 Room No:231
 Holiday Inn Hotel
 Beijing, P R China
 Fax: 86-1-8320696

Dear Pablo

Re: China Post Evaluation mission.

Greetings from Beijing. The China mission comes to an end on 27/10. Probably, one of the most gruelling and exhausting overseas mission I have ever undertaken. At the end of three weeks, I feel completely run down. In the 12' working days, I met twenty two institutions in Beijing and undertook a visit to a province and a county (undertaken as per MOF arrangements, by train, an eight hour gruelling journey). However during the field trip, managed to meet key provincial institutions and three projects.

Tomorrow (25/10/93), I am giving the Seminar on Asian Experience and day after tomorrow (26/10/93), I have my wrap up meeting with Mr. Jin Liqun. Considering the enormity of the task and also in view of the inadequacy of the paper written by the local consultant, I wish to raise two issues: (1) more person-days should be allowed for research and preparation of the draft (10 person days) and (2) the holding of the Seminar may be shifted from mid-January to mid-February or at other later date. I shall appreciate you giving your consideration to these change soon, as I feel that this important report on China should not be rushed. Responses of most of the Chinese institutions towards post evaluation ^{are} extremely positive. I therefore suggest that we take our time and give our best in preparation of this report.

My plans to visit Washington in early December and our meeting on December 8 remain. I shall inform you my exact travel plans later.

With warm regards

Yours sincerely

Adil Khan

PS: Appreciate you asking David Rix to
 kindly send me the China Implementation
 Review Report at my Australia address
 as soon as possible.

✓ Pablo. I asked
 David Rix to
 do this.

A. 10/25

→ China

SLOANE COOK & KING PTY LTD

D. G. O.

AGRICULTURAL AND MANAGEMENT CONSULTANTS '93 OCT 12 AM 8 44
ACN 001 528 883

SYDNEY OFFICE:

110 Willoughby Rd, Crows Nest
Mall to: PO Box 1284, Crows Nest
NSW 2065, Australia

Telephone: 02 439 1411 Fax: 02 439 8046
International: 61-2-439 1411 Fax: 61-2-439 8046
Telex: AA121957 CONSLT

SCK 93 1 page total
To fax no: 0015-1-202-4771212

9 October 1993

Mr Pablo Guerrero
Advisor to the Director General - Education
World Bank
WASHINGTON DC USA

Dear Mr Guerrero,

Re: China - Performance Evaluation

Thank you for your fax of 24 August advising that the Chinese authorities had selected another candidate. We were disappointed at the outcome but appreciate that our lack of extensive Chinese experience and contacts was probably a constraint.

Apart from the post-evaluation of the ADB Brackishwater Shrimp Development Project in Thailand, I have not been involved in post-evaluation this year (despite several invitations which we had to turn down due to prior commitments). We are implementing a two-year TA under the Bank's Third Maldives Fisheries Project (Project Officer is Gert van Santen) for which we are designing the evaluation system and implementing the baseline surveys. This apart, I have been working on project design in the Red River Delta in Vietnam, and am about to leave for a macro-economic planning and policy study in Cook Islands which should be interesting and pleasant.

I look forward to the possibility of working with you in future.

Yours sincerely,
SLOANE COOK & KING PTY LTD



J R COOK

OFFICE MEMORANDUM

D. G. O.

DATE: October 7, 1993

'93 OCT 8 PM 5 09

TO: Mr. Graham Donaldson, Chief, OEDD1

FROM: Julian Blackwood *J.B.*

EXTENSION: 31725

SUBJECT: Dissemination

For the record and as you know, at the request of the China ops. division I made a brief presentation yesterday to a delegation of five "rising staff" from the State Planning Commission.

They were especially interested in planning for poverty alleviation in the remoter areas of China and so I concentrated on area development using the Lessons and Practices paper and AKRPS II as materials (mention of the Karakorum Highway was well received and they seemed familiar with the Northern Areas of Pakistan). Although my presentation was simple and short, language remained a problem, but they took notes. The only question asked was whether AKRSP paid beneficiary labor in cash or kind.

I also took the opportunity of introducing OED, including leaving with them (in addition to RD papers) a set of relevant Précis and the last Annual Review.

cc: Messrs. Picciotto, Köpp

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

DATE: October 5, 1993 01:10pm

TO: Pablo Guerrero (PABLO GUERRERO)

FROM: Yves Albouy, OEDD3 (YVES ALBOUY)

EXT.: 31690

SUBJECT: RE: China - Seminar for Provincial Finance Bureau Officials

J.F. Landeau is available to do this. He will be travelling shortly after.

CC: Robert Picciotto (ROBERT PICCIOTTO)

CC: Hans-Eberhard Kopp (HANS-EBERHARD KOPP)

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

DATE: October 1, 1993 11:08am

TO: Yves Albouy (YVES ALBOUY)

FROM: Pablo Guerrero, DGO (PABLO GUERRERO)

EXT.: 31717

SUBJECT: China - Seminar for Provincial Finance Bureau Officials

Yves:

On October 28, between 2.30 and 5.00 I will be making a presentation on evaluation at the above seminar. My presentation will be about 45 minutes. I would be grateful if you could arrange for Jean Francois (or anybody else you select) to make a presentation at 3.30 on the financial aspects of evaluation. The Seminar is organized by the Country Department and our support is in the context of ECDP.

Please confirm.

CC: Hans-Eberhard Kopp (HANS-EBERHARD KOPP)

CC: Robert Picciotto (ROBERT PICCIOTTO)

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

DATE: September 8, 1993 10:27am

TO: Robert Picciotto (ROBERT PICCIOTTO)

FROM: Rosa Maria Wiemann, DGO (ROSA MARIA WIEMANN)

EXT.: 84572

SUBJECT: China

Visa for China:

It should take about 3-1/2 weeks, according to the Division. They have to ask for a telex from the Chinese government inviting you to visit (the government requires 14 working days for this). Then it take the Embassy here about 5 days to issue the visa (although it is usually ready in a shorter time).

You can visit Hong Kong for three months without a visa.

Shots:

None are required but the following are recommended for your own protection:

Tetanus/diphtheria - Usually good for 10 years

Typhoid - Usually good for 3 years. If your shot needs to be updated, they now have an oral vaccine good for 5 years, but you need to plan ahead as it takes at least 18 days to complete the cycle (they prefer that you finish the pills 10 days before departure).

Polio booster - Good for life.

Malaria pills - Needed if you are going to the rural south. Should be started a week before traveling. Not needed for the north.

Gamma Globulin - They want you to take the shot just prior to traveling.

Medicines should be ordered at least 2 weeks before departure. All cities you are visiting should be listed.

A L L - I N - 1 N O T E

DATE: 15-Jun-1993 02:31pm

TO: Yves Albouy (YVES ALBOUY)

FROM: Robert Picciotto, DGO (ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: Another Angle

For background, see attached.

I had a word with the Alternate. Will get back to him after Pablo is back.

A L L - I N - 1 N O T E

DATE: 14-Jun-1993 04:06am EST

TO: ROBERT PICCIOTTO (ROBERT PICCIOTTO @A1@VAX12)

FROM: Pablo Guerrero - China Visitor, EA2CH(PABLO GUERRERO AT A1 AT CHINA)

EXT.:

SUBJECT: China - Diagnostic Study under the IDF

Bob:

Would you please have Anne fax a copy of this EM to Mr. Weisner in Bogota.

1. The Ministry of Finance has agreed with the TOR of the diagnostic study and to begin implementing the information gathering part as soon as possible. For this latter task they will contract a local consultant, probably Professor Zhou from the People's University.

2. On the external consultant, they claim not to have sufficient information to make a decision. Two of the MOF actors know Eduardo Weisner from the WB Board days (Messrs. Li Yong and Zhu Xian were technical assistants). They still want to check with Washington about Mr. Weisner before they make a decision. Frankly speaking I have the feeling that they are afraid of Mr. Weisner's seniority. The subject is fairly sensitive politically as there is a massive institutional reform program under way. Mr. Weisner's presence may overexpose the bureaucrats associated with the work (the current Chinese slogan says it all "A more open China awaits the year 2000" i.e. a closed or partially closed China will be around for a while). The paradox is that they want to do this work. However, this was confirmed by the majority of officials I met last week.

3. On Eduardo Weisner, they now promise a decision by this Friday. However, I would not be surprised if Eduardo has already made other plans. For the last two months he has been reshuffling commitments to accommodate this work. He should not wait anymore.

CC: ANNE MUHTASIB

(ANNE MUHTASIB @A1@VAX12)

THE WORLD BANK

**OFFICE OF THE VICE PRESIDENT AND DIRECTOR-GENERAL,
EVALUATION**

Tel. (202) 458-4569 * FAX (202) 477-1212**

*Facsimile Cover Sheet and Message
(No. of pages including this one:)*

Date: 9/24/93
To: Denise Freeman
Organization: University of Queensland
International Land Management
City/Country: Brisbane/Australia
Fax No.: 61-7-365-1544
From: Anne (P. Guerrero's office)
Subject: Visit by Mr. Adil Khan

Message: Revised program attached

Program - Adil Khan
Visit to World Bank, September 28 - October 2, 1993

September 29

Meeting with David Rix (ext. 85517) and Pablo Guerrero (ext. 31717) at 9:30 a.m., Room F13-035.

September 30

9:30 a.m., Michael Bamberger (ext. 36438), Room M-4033

September 29/30

Meeting with Mr. Mehdi Al-Bazzaz to be arranged on your arrival. His room number is M-6029 and ext. is 36383.

Meeting with Mr. Patrice Harou arranged. Time to be set. His room number is M-5049 and ext. is 36406.

Note

Ian Knapp will be away from the Bank on mission during your visit.

Catherine Farvacque is arranging for you to meet with Joe Leitmann (ext. 33461, Room S-10-123). Hopefully, an appointment can be arranged before your arrival. Her room number is S-10-133 and ext. is 31016.

Revised: 9/24/93

THE WORLD BANK

**OFFICE OF THE VICE PRESIDENT AND DIRECTOR-GENERAL,
EVALUATION**

Tel. (202) 458-4569 * FAX (202) 477-1212**

**Facsimile Cover Sheet and Message
(No. of pages including this one:)**

Date: August 23, 1993
To: Mr. Adil Khan
Organization: University of Queensland,
International Land Management Research Centre
City/Country: Brisbane, Australia
Fax No.: 61-7-365-1544
From: Mr. Pablo Guerrero
Subject: Performance Evaluation, China
Your Ref: L-12/93

Message:

Dear Mr. Khan:

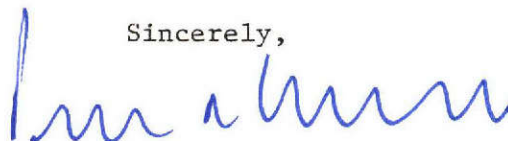
I am pleased to know that you have been selected to carry out this crucial review of ex post evaluation capacity and prospects in China.

The dates for your visit are fine and we will request the meetings you have suggested.

The purpose of your visit is to discuss with David Rix and myself the full context of the review and, specifically, its terms of reference.

Regarding hotel reservations, the Lombardy is fully booked; AMEXCO has reserved a room in the Anthony House for 9/28 to 10/2 (as you may know, your visit coincides with the Bank/Fund Annual Meetings).

Sincerely,



Pablo Guerrero

A L L - I N - 1 N O T E

DATE: 23-Aug-1993 10:57am

TO: American Express Hotel Reservation (AMERICAN EXPRESS HOTEL RES)

FROM: Rosa Maria Wiemann, DGO (ROSA MARIA WIEMANN)

EXT.: 84572

SUBJECT: Hotel Reservation(Change) Without Travel Request

Room No. : F 13-035

Ext. : 84572

Name of Requester: ROSA MARIA WIEMANN

Hotel Reservation For: WASHINGTON, D.C.

Dates Original Arrival : 09/28/93

Change: / /

Departure : 10/02/93

Change: / /

Hotel : LOMBARDY

Change: ANTHONY HOUSE

Name(s) of Travellers:

: ADIL KHAN

Change: SAME

:

Change:

:

Change:

: -

Change: -

: -

Change: -

: -

Change: -

: -

Change: -

REMARKS: PLEASE BOOK MR. KHAN AT ANTHONY HOUSE SINCE LOMBARDY NOT AVAIL.

-

-

A L L - I N - 1 N O T E

DATE: 20-Aug-1993 05:25pm

TO: American Express Hotel Reservation (AMERICAN EXPRESS HOTEL RES)

FROM: Rosa Maria Wiemann, DGO (ROSA MARIA WIEMANN)

EXT.: 84572

SUBJECT: Hotel Reservation Without Travel Request

Room No. : F 13-035

Ext. : 84572

Name of Requester: ROSA MARIA WIEMANN

Hotel Reservation For: WASHINGTON, D.C.

Dates Arrival : 09/28/93

Departure: 10/02/93

Number of Nights : 4

Hotel 1st Preference : Lombardy

Hotel 2nd Preference :

Hotel 3rd Preference :

Name(s) of Travellers: Mr. Adil Khan

:
:
:
:
:
:
:

REMARKS:

-
-

University of Queensland
St. Lucia, Qld. 4072
Brisbane, Australia

D. G. O. Telephone 61-7-365 2762
61-7-365 2871
'93 AUG 19 AM 9 13 Fax No. 61-7-365 1544

TO: Mr Pablo Guerrero Adviser to DG OED/World Bank	FAX NO. 1-202-477-1212
FROM: M. Adil Khan Director	Date 19.08.93 Page 1 of 2

SUBJECT: Performance Evaluation, China
Our Ref: L-12/93

Dear Mr Pablo Guerrero

By now you would have learnt that PR China has approved my candidacy for the above activity. As a part of this activity, I have now made tentative plans to visit Washington during September 28 - October 2, 1993 for briefing before going to China. Hope that you find these dates convenient and suitable for arranging the necessary meetings in Washington.

As I shall be away on another mission to the Philippines during the period August 24 - September 11, I would like to take this opportunity of requesting you to kindly make hotel reservations for me in Washington. I prefer the Lombardy Hotel - IN: 28/9/93 and OUT: 2/10/93.

While in Washington, I also wish to see the following people at the World Bank - provided that is mutually convenient to us all.

- Michael Bamberger, EDI
- Patrice Harou, EDI
- Mehdi Al-Bazzaz, EDI
- Ian Knapp (Ph: 473-5533)
- * - Catherine Farvacque-Vitkovic (Ph: 473-1016)


I would appreciate it if you could include the above people in my schedule of meetings.

29
30

Thank you again for all your help and look forward to seeing you in Washington in September.

With warm regards

Yours sincerely



M. Adil Khan

THE WORLD BANK

OFFICE OF THE VICE PRESIDENT AND DIRECTOR-GENERAL,
EVALUATION

Tel. (202) 458-4569 *** FAX (202) 477-1212

Facsimile Cover Sheet and Message
(No. of pages including this one: 3)

Date: September 16, 1993
To: Denise Freeman, Assistant
Organization: University of Queensland,
International Land Management, Research Centre
City/Country: Brisbane, Australia
Fax No.: 61-7-365-1544
From: Pablo Guerrero
Subject: China - Evaluation, Visit by Mr. Adil Khan

Message: Thanks for your fax of September 16.

The address of the Anthony House is:

1823 L Street N.W.
Washington DC 20036

Tel: (202) 223-4320
Fax: (202) 223-8546

Mr. Khan's program and a map of the World Bank
buildings is attached.

Program - Adil Khan
Visit to World Bank, September 28 - October 2, 1993

September 29

Meeting with David Rix (ext. 85517) and Pablo Guerrero (ext. 31717) at 9:30 a.m., Room F13-035.

September 29/30

Meeting with Mr. Mehdi Al-Bazzaz to be arranged on your arrival. His room number is M-6029 and ext. is 36383.

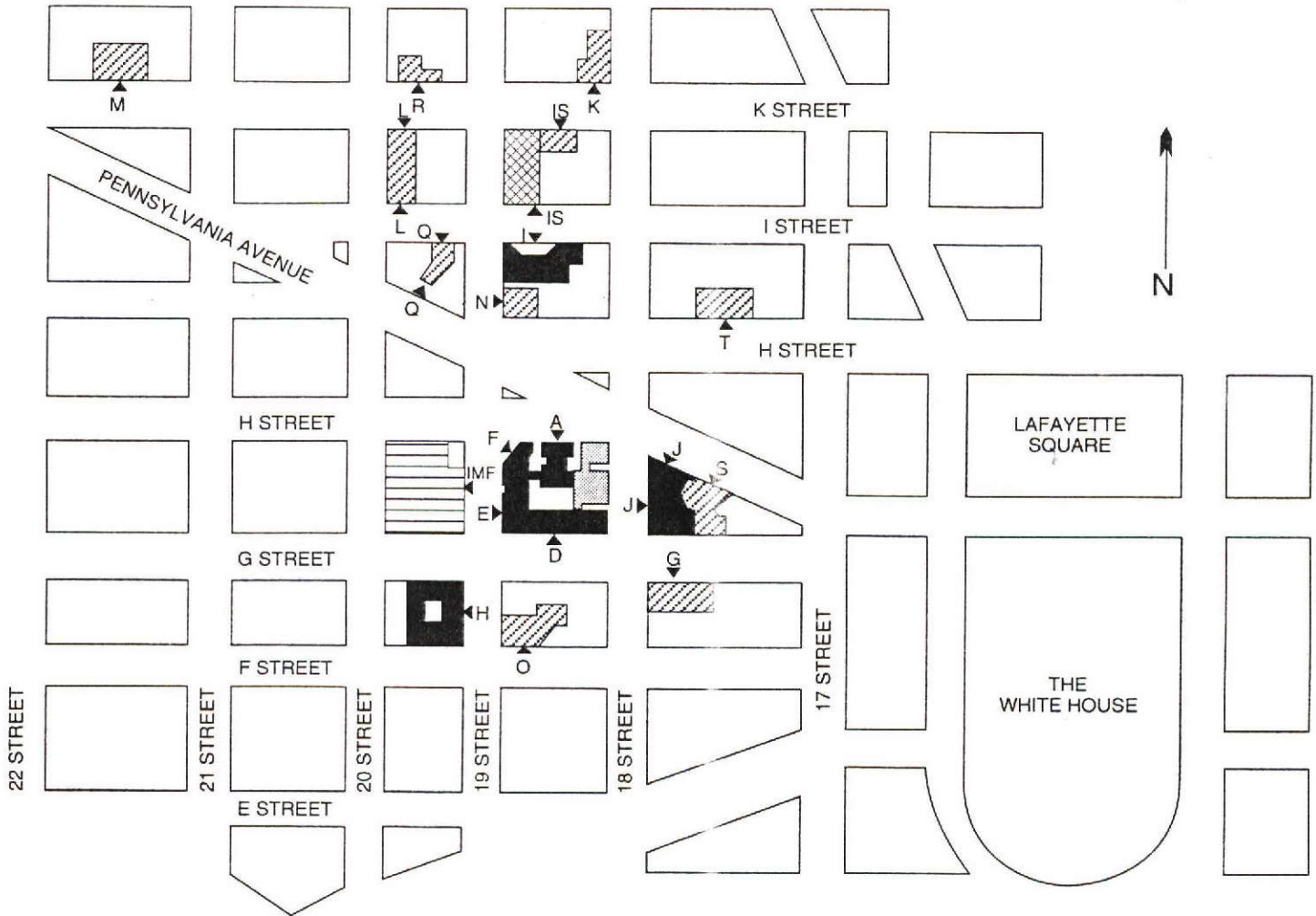
Meeting with Mr. Patrice Harou arranged. Time to be set. His room number is M-5049 and ext. is 36406.

Note

Ian Knapp will be away from the Bank on mission during your visit.

Catherine Farvacque will return from mission shortly. Hopefully, an appointment can be arranged before your arrival. Her room number is S-10-133 and ext. is 31016.

STREET PLAN OF WORLD BANK GROUP AND FUND OFFICES



- Indicates Bank Owned Space
- ▨ Indicates Bank Leased Space
- ▤ Indicates Fund Owned Space
- ▩ Indicates area under construction
- ▧ Indicates Fund Leased Space

HEADQUARTERS
 1818 H Street, N.W.
 Washington, D.C. 20433, U.S.A.
 Telephone (202) 477-1234

Letter	Address
--------	---------

- "A".....1818 H Street, N.W.
- "D"..... 1809 G Street, N.W.
- "E"..... 701-19th Street, N.W.
- "F"..... 1850 H Street, N.W.
- "G"..... 1776 G Street, N.W.
- "H"..... 600-19th Street, N.W.
- "I"..... 1850 Eye Street, N.W.
- "J"..... 701-18th Street, N.W.
- "K".....1801 K Street, N.W.
- "L"..... 1990 K Street, N.W.
- "M"..... 2131 K Street, N.W.

Letter	Address
--------	---------

- "N"..... 801-19th Street, N.W.
- "O"..... 1889 F Street, N.W., floors 4,5,6
- "Q".....1919 Pennsylvania Avenue, N.W.
Floors 6, 7
- "R"..... 1909 K Street, N.W.
- "S"..... 1750 Pennsylvania Ave, N.W.
- "T".....1717 H Street, N.W., Floors 7, 8, 9
- "IMF".....700-19th Street, N.W.
- "IS".....1875 Eye Street, N.W.
- "IS".....1850 K Street

St. Lucia, Qld. 4072
Brisbane, Australia

01-7-365 207 1
Fax No. 61-7-365 1544

TO: MR PABLO GUERRERO ADVISER TO DG/OED - WORLD BANK	FAX NO. 1-202-477-1212 D.G.O.
FROM: DENISE FREEMAN ASSISTANT	Date 16.9.93 Page 1 of 1 93 SEP 16 AM 8 30

SUBJECT: PERFORMANCE EVALUATION - CHINA

DEAR MR GUERRERO

I REFER TO YOUR FAX OF AUGUST 23, 1993 REGARDING ACCOMMODATION FOR ADIL KHAN IN WASHINGTON. THE ANTHONY HOUSE IS FINE AND COULD I PLEASE HAVE THE ADDRESS OF THE HOTEL AND WOULD IT BE POSSIBLE FOR YOU TO LEAVE A COPY OF ADIL'S PROGRAMME AND A MAP OF THE WORLD BANK LOCATIONS AT THE HOTEL FOR HIS ARRIVAL.

THANKS FOR YOUR HELP.

REGARDS.

Denise Freeman

THE WORLD BANK

OFFICE OF THE VICE PRESIDENT AND DIRECTOR-GENERAL,
EVALUATION

Tel. (202) 458-4569 *** FAX (202) 477-1212

*Facsimile Cover Sheet and Message
(No. of pages including this one:)*

Date: 9/22/93
To: Ms. Catherine Farvacque
Organization:
City/Country:
Fax No.: 71391
From: Anne (Pablo Guerrero's Office) Ext. 31717
Subject: Visit of Adil Khan

Message: Thanks for calling back - but I couldn't reach you again to inform you what the appointment is about.

Instead, I am faxing a copy of the original fax we received from Mr. Khan, in which he says he'd like to meet with you.

As you can see, it is about performance evaluation in China.

Please let us know when on 9/29 it is convenient to meet with Mr. Khan.

Many thanks.

Called again 9/23.

Left message.

Sey called to say Farvacque will probably arrange for AK to meet with Joe Leitmann. They'll call again tomorrow. 9/23

M E S S A G ETO: AnneFROM: Katherine TWVRDDEPT./OFFICE: PARVACQUE'SEXTENSION: office PHONE: 31016

- | | |
|---|---|
| <input type="checkbox"/> Called | <input type="checkbox"/> Call back |
| <input type="checkbox"/> Came to see you | <input type="checkbox"/> Will call again |
| <input type="checkbox"/> Returned your call | <input type="checkbox"/> Requests appointment |
| <input type="checkbox"/> U R G E N T | |

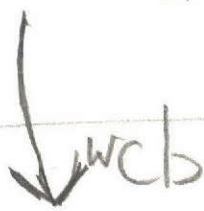
REMARKS:

Appmt 9/29
(Wed.)

What is it about?

On Mission 9-26
to end Oct
Ian Knapp 35533

Cath. Farvacque
31016



Sept. 29 or 30

↓
called again on 9/13.
She's on mission.
Someone wcb

Called again 9/16

ALL - IN - 1 NOTE

DATE: 23-Sep-1993 02:21pm

TO: Pablo Guerrero

(PABLO GUERRERO)

FROM: Michael Bamberger, EDIHR

(MICHAEL BAMBERGER)

EXT.: 36438

SUBJECT: Visit of Adil Khan

Pablo,

My mission has been postponed so I will be here next week and would like to meet with Adil Khan. Could you kindly let me know how I can contact him.

Thanks.

Mike Bamberger

Anne:

Please ^{set} an appointment for Khan with Michael, ~~either~~ on 9/30 preferably. Notify Khan by Fax.

Thanks.

P6.

Called - left a voice mail. 9/23

Thurs. 30 Sept., 9.30, M-4033
MB is sending his own fax to AK, also for some personal arrangements.

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

DATE: September 7, 1993 09:40am

TO: Pablo Guerrero (PABLO GUERRERO)

FROM: Michael Bamberger, EDIHR (MICHAEL BAMBERGER)

EXT.: 36438

SUBJECT: RE: China - Evaluation
Visit by Adil Khan

Pablo,

I will probably be in El Salvador during the whole of that week. If my plans change I will advise you.

Mike Bamberger

CC: Mehdi Al-Bazzaz (MEHDI AL-BAZZAZ)

CC: Patrice Harou (PATRICE HAROU)

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

DATE: September 1, 1993 06:21pm

TO: See Distribution Below

FROM: Pablo Guerrero, DGO (PABLO GUERRERO)

EXT.: 31717

SUBJECT: China - Evaluation
Visit by Adil Khan

Adil Khan will be here from September 28 to October 2 on a visit to prepare for a mission to China to carry out a study on evaluation capacity development. This study is being financed by the Bank's IDF. I am providing advice to the China Country Department and the Chinese counterparts on the exercise.

He has indicated an interest in meeting with the three of you. I will be meeting with him on September 28 and October 1 to discuss the specifics of the study. Could you arrange/coordinate a time(s) when you can see him on September 29 or 30 and let me know ?

Thanks.

DISTRIBUTION:

TO: Michael Bamberger (MICHAEL BAMBERGER)
TO: Patrice Harou (PATRICE HAROU)
TO: Mehdi Al-Bazzaz (MEHDI AL-BAZZAZ)

University of Queensland
St. Lucia, Qld. 4072
Brisbane, Australia

Telephone 61-7-365 2762
61-7-365 2871
Fax No. 61-7-365 1544

TO: Mr Pablo Guerrero Adviser to DG OED/World Bank	FAX NO. 1-202-477-1212
FROM: Denise Freeman Assistant	Date 31.08.93 Page 1 of 1

SUBJECT: Performance Evaluation, China
Our Ref: L-12/93

Dear Mr Pablo Guerrero

Thank you for your fax of August 23 addressed to Adil Khan. Adil is currently overseas but I have conveyed your fax to him and he has asked that I inform you that the Anthony House is fine. Could we please have the address of the hotel and would it be possible for you to leave a copy of Adil's programme and a map of the World Bank locations at the hotel for his arrival.

Your assistance is greatly appreciated.

Your sincerely



Denise Freeman

OFFICE MEMORANDUM

China

DATE: September 24, 1993

TO: Mr. Jozsef B. Buky

FROM: Yves Albouy, Chief, OEDD3 *Y.A.*

EXTENSION: 31690

SUBJECT: Travel to China, Philippines, Indonesia and India - Terms of Reference

You should travel to the above countries, departing Washington on October 13, 1993 for the Performance Audit of the following projects:

- 1) China: First Rural water Supply - Cr. 1578-CHA
- 2) Philippines: Manila Sewerage and Sanitation - Ln. 1814-PH
- 3) Indonesia: Jakarta Sewerage and Sanitation - Ln. 2236-IND
- 4) India: Initiation of Impact Evaluation in Bombay

You should stay in China about ten days and should discuss the project experience with the relevant Chinese authorities with particular attention to the validity of the design and subsequent operational assumptions across the wide range different size of subprojects. You should also review the functioning of the cost recovery program and the revolving fund built into the project, and, to the extent possible, assess the continuation of these programs under the Second Rural water Supply Project. You should visit completed subprojects in representative provinces/towns/villages (as selected by the authorities) and review the provincial and local organizations in charge of the operations of the facilities. If time permits and requested by the authorities you should participate in informal workshop(s) under the ECDP and make appropriate presentations on the evaluation of water supply and sewerage projects.

On, or about, October 27, 1993 you should proceed to the Philippines for about 8 days and discuss the project experience with relevant officials. The focus of this review should be: a) the appropriateness and effectiveness of the sanitation solutions used in the low income areas of Manila; b) the effective functioning, operation and maintenance of the main sewerage system; c: the cost recover and financial management of the sewerage/sanitation services by the Metropolitan Waterworks and Sewerage System (MWSS); and d) the environmental impact of the sanitation developments and associated programs on the waters of the Manila Bay. You should visit selected facilities constructed under the project. The Asian Development Bank (ADB), as major cofinancers of the project, may participate in you discussions and site visits but, in any case, you should arrange to brief relevant officials of ADB of the findings of your mission.

In addition to your project evaluation work you should discuss with MWSS

officials the possibility of carrying out an Impact Evaluation of Bank involvement in the water supply and sanitation developments of Manila. This work would cover the Second Manila Water Supply Project (Ln. 1615-PH), the project to be audited (Ln. 1814-PH) and the overlapping parts of the Third Urban Development Project (Ln. 1821-PH). The impact assessment would replicate the primary focus of these projects, namely the environmental improvements in Manila as a whole but particularly in the low income areas and in the waters of Manila Bay and the institutional and financial development of MWSS. If agreement is reached with the authorities, you should attempt to identify local consultants for data collection and establish a tentative date for the Impact Evaluation mission proper in 1994.

On November 5, 1993 you should continue to Indonesia to assess the performance of the Jakarta Sewerage and Sanitation Project. You should pay particular attention to the following: a) the appropriateness, effectiveness and public acceptance of the design of the low cost sanitation measures and the communal sanitation facilities; b) the problems identified in the PCR of the proposed wastewater systems; c) the organizational set up and development of the new sewerage authority, its cost recovery methods and financial status and its operation and maintenance program; d) to the extent possible assess the progress and effectiveness of the continuation of the low cost sanitation program under the follow up urban infrastructure project; and e) assess the environmental effects of the project of the Jakarta area.

From Indonesia, subject to the agreement of the government, you should visit Bombay, India to resurrect the discussions (postponed due to the aborted mission in 1992) on initiating an Impact Evaluation of the Bank's role in the water supply and sanitation developments in Bombay. As originally planned you should arrange, if possible, for the assistance of the New Delhi based UNDP/Bank water program and identify local consultants for data collection and agree tentative dates for the impact evaluation mission proper in the first half of 1994.

On your return to Washington, about November 14, 1993, you should prepare brief back to office report and, in due course, the respective PARs and outlines of the Impact Evaluation reports. It is noted that your wife will accompany you on the mission.

cc: Messrs. Köpp, Guerrero

OFFICE MEMORANDUM

DATE: September 20, 1993

TO: Mr. Sven Sandstrom, Managing Director, EXC

FROM: Gautam Kaji, Vice President, EAPVP

EXTENSION: 81384

SUBJECT: China: CSP Updating MemorandumEAD → China

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D. G. O.

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Attached, for appropriate review, please find a Country Strategy Paper Updating Memorandum for China. The Updating Memorandum reviews political and economic developments since the last CSP was issued in April 1992, principally focussing on the acceleration of reforms on the one hand, and the emergence in recent months of economic overheating, and the Government's stabilization program, on the other. Taking account of the hardening IBRD/IDA blend that will result from the decisions made during the Tenth IDA replenishment, the Updating Memorandum recommends that the Bank's lending program continue at essentially the 1992 CSP 'Base Case' level, as authorized by the senior management at last year's CSP review.

Attachment

cc: Messrs./Ms. Sandstrom (5 copies), Rajagopalan (EXCPM), Shihata (LEGVP), Thahane (SECGE), Linn ((FPRVP), Einhorn (TREV), Eccles (CTRVP), Jaycox (AFRVP), Wood (SASVP), Thalwitz (ECAVP), Koch-Weser (MNAV), Husain (LACVP), Kashiwaya (CFSVP), Bruno (DECVP), Choksi (HROVP), Rischard (FPDVP), Serageldin (ESDVP), Alisbah (PAAVP), Picciotto (DGO), Rylie (CEXVP), Iida (MIGEX), Neiss, Horiguchi (IMF), Thomas, El Maaroufi (EAPVP), Burki, Cardoso o/a (EA2DR), Ecevit, Goldberg, Newfarmer, Stott, Sierra, Mukherjee (EA2), Harrold, Ody (EA2CO)

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CHINA

COUNTRY STRATEGY PAPER UPDATING MEMORANDUM

September 1993

**Country Operations Division
China and Mongolia Department
East Asia and Pacific Region**

CHINA: 1993 CSP UPDATING MEMORANDUM

EXECUTIVE SUMMARY

i. The past year has witnessed key meetings of China's party congress and national legislature, which gave their approval to the collective leadership succession proposed by veteran leader Deng Xiaoping. In many ways even more importantly, the Congresses authoritatively changed the official definition of China's basic economic ideology, removing references to planning and public ownership and substituting a "socialist market" creed. With this clearing of the ideological air, recent months have witnessed a near-ferment of new market-oriented reform proposals in many key areas of public policy, including those targeted by last year's CSP [reform of state-owned enterprises (SOEs); housing and social security reform; financial sector reform; and reform of prices and markets]. In the latter area, indeed, the liberalization of product pricing and the adjustment of the most distorted prices (energy, rail tariffs, raw materials and grain) have come so far over the past two years that the remaining steps are starting to look significantly less challenging than before.

ii. Beyond the speeding-up of market-oriented reforms in these and other areas (see paras. v, vi), the news in recent months has been dominated by macroeconomic developments. The further acceleration of the boom during 1992 brought real GDP growth from around 7 percent in 1991 to almost 13 percent, well above the 8-9 percent which we and the Government see as the safe trend rate. Much of the fuel came from monetary expansion, running at over 30 percent. Results for the first quarter of 1993 confirmed the costs of this pace of growth, including a swift turnaround in the trade balance and escalating inflation, and the Government was quick to accept our advice on the need for immediate action to avoid further deterioration and try to achieve a "soft landing." The first measures announced, though pointing in the right direction, were in our view clearly insufficient to achieve the desired result, and Bank representatives delivered this message in unambiguous language to senior leaders at a high-level seminar on macroeconomic management held in June.

iii. Many elements of the Bank's recommendations were rapidly picked up by the Senior Vice-Premier, Mr. Zhu Rongji, who has emerged, de facto, as in charge of overall economic policy (including assuming the functions of the Governor of the Central Bank), and incorporated into a "16 point program" designed to stabilize the economy. As yet it is too early for solid data to confirm the effectiveness of the measures adopted, but the boldness of the economic leadership being provided is definitely encouraging. Beyond this, while we do not expect the external accounts to be allowed to get out of hand, we are emphasizing the benefits of extending more market-oriented (rather than administrative) approaches in this area as well, and have recently completed a major ESW report advocating a combination of further trade liberalization with exchange rate reform. Helping to avoid another bout of chronic overheating, with the potential for reform

setbacks this has brought in the past, has thus become our highest priority for the immediate future.

iv. At this stage, it is still too early to rule out the risk that, as has happened before, the Chinese authorities will miss the chance to achieve a relatively soft landing for their overheated economy. In favor of an *optimistic* view are the heightened sensitivity of central leaders, following the lessons of 1988-90, to the dangers of delaying an effective response and being subsequently forced into an abrupt deceleration (interruption of reform momentum, sociopolitical stresses, loss of domestic and international confidence), the increasing economic sophistication of their own domestic policy analysts and the fact that a substantially larger share of the economy is now more highly marketized and hence susceptible to management through indirect policy levers. There is also, as noted above, the boldness of Vice-Premier Zhu's attack on the problem. The sources of *concern*, by contrast, are that much of the investment pressure still comes from the least reformed sectors of the economy—local authorities and locally-controlled state enterprises—which have their own powerful political patrons among provincial leaders. The latter have, in the past, too often put parochial development interests above the national need for stability until forced to give ground by an obvious crisis. We cannot yet rule out the danger that this will happen again, and thus China *may* again experience a hard landing.

v. On the reform front, the Government has announced new measures to increase further the role of private sector investment in the economy [including Foreign Direct Investment (FDI), currently running at record levels of around \$10 billion a year.] These include opening-up inland areas, the service sectors and—in a recent initiative whose implications have yet to be fully assessed—even the provision of physical infrastructure to private FDI. In a more general sense, private sector development continues to move largely *in parallel* with SOE reform rather than being seen, as in some other economies attempting transition, as an immediate or large-scale component of the solution to the SOE's problems. The key features in the next phase of China's assault on SOE reform will thus, in general, involve not so much privatization as "corporatization" and "marketization." Consistent with our Strategy Paper on SOE Reform, approved earlier this year, these measures will be designed to convert the SOEs from miniature welfare-states, subject to extensive bureaucratic interference and protected from market discipline by a range of distortions in pricing, taxation and financial markets, into market-oriented commercial corporations, whose workers look outside the factory-gates for social security or housing provision, and whose managers are responsible for their performance to well-defined owners' representatives. The past year has seen further advances in defining and protecting managers' autonomy and promoting the adoption of more transparent mechanisms of corporate governance: we expect active innovation in this area to continue. In parallel, the Government has explicitly committed itself to cutting and restructuring the public bureaucracy so as to reorient it away from the micro-interventionist tendencies of the past.

vi. Recent months have also seen a new intensification of interest in the previously slow-moving area of financial sector reform. Sector reform is projected to include separating remaining directed "policy lending" from a newly commercialized

mainstream banking sector, accompanied by the restructuring and further strengthening of China's Central Bank. These are changes the Bank has long been urging. They will also be ambitious and far-reaching changes and, when they start to be introduced in earnest, we can expect to be called on to supplement our largely advisory role of recent years with substantially expanded hands-on operational involvement.

vii. In addition to providing advice and practical implementation support for the new phase of economic reforms, Bank objectives also include other priority goals set out and approved in last year's CSP: helping to break the recurrent infrastructure bottlenecks which have repeatedly constrained China's growth; promoting the expansion of income-generating opportunities and improved provision of basic social services for the country's 100 million hardcore rural poor; and supporting policymakers and local administrations confronting the formidable challenges posed by air and water pollution. Broadly speaking, our strategies in these three areas will continue to follow the lines set out in the 1992 CSP. Some shifts of emphasis will, however, be warranted. In the infrastructure sectors, in particular, recent progress with tariff reform means that attention can increasingly shift to the corporatization of service provision along more commercial lines, accompanied by the development of more transparent regulatory frameworks. It also, however, leaves the inadequacy of China's highway network, starved for dependable sources of investment financing, all the more apparent—and we propose a further increase in the emphasis given to highways development in our own operational program.

viii. An additional challenge which has emerged since the approval of the 1992 CSP concerns the management of the decline in IDA availability resulting from decisions taken on "blend" countries during the tenth replenishment. Domestic onlending arrangements create a danger that the hardening of China's IBRD/IDA blend could lead to reduced willingness to borrow in the areas of poverty alleviation, the social sectors and the environment. We have communicated our view that such an outcome would be unacceptable. The early response has been encouraging, but we can expect this issue to resurface as the cuts start to become effective.

ix. The accelerated pace of reform is being accompanied by a heightened appetite for Bank advice and assistance, not only with broad policy issues but also, very crucially, with the details of reform implementation, often delegated by the central decisionmakers to sectoral agencies or, more often, local authorities. With the major philosophical barriers now mostly crossed, these "nuts and bolts" questions will increasingly determine China's success in translating its bold reform intentions into working reality. In turn, with no other outside agency able to match the Bank's experience or credibility within China, we ourselves face difficult challenges in trying to leverage our own limited resources in innovative ways so as to maintain our responsiveness to the country's requirements and demands, including the related priority of strengthening our presence in China's less-advanced inland regions. Economic and sector work will need to become more flexible to meet calls for immediate advice on specific reform implementation choices, and we are restaffing our Resident Mission to help meet this need. Sector-specific technical assistance operations may offer another promising new model. In addition, our lending operations are rapidly acquiring more of a "reform implementation

support" element, precisely to help meet the "nuts and bolts" needs of putting reform into practice.

x. The quickening of the reform impulse outlined above may be considered to meet, in substantive terms, the basic conditions set out in last year's CSP for moving from the CSP's *Base Case* lending scenario (about 45 operations over FY94-96, with combined IBRD/IDA lending of close to \$9 billion) up to the *High Case* scenario (about 51 operations, with combined lending of about \$11 billion). In *not* making such a recommendation at this time, we have been guided by three considerations:

- (a) The decline in China's expected IDA allocation under IDA 10, compared to the assumptions made in the CSP, together with assurances given to the Chinese at the time of the IDA 10 discussions, create an imperative to substitute IBRD lending for previously anticipated IDA credits;
- (b) This, in turn, brings forward the date at which attention needs to be given to issues of IBRD exposure limits; and
- (c) The internal budgetary implications of seeking to process a larger number of projects.

xi. Accordingly, we propose to continue working at a level approximately equivalent to last year's *Base Case* (44-45 operations over FY94-96, with combined lending of an estimated \$9.1 billion). On this basis, China's share of IBRD debt outstanding and disbursed is forecast to remain within the 10 percent guideline through at least the turn of the decade.

CHINA: 1993 CSP UPDATING MEMORANDUM

1. The 1992 Country Strategy Paper (CSP) was reviewed and approved by the President's Office on June 12, 1993. The present "Country Strategy Note" (CSN) updates our analysis of the reform climate and macroeconomic situation and proposes appropriate modifications in our country assistance strategy in keeping with the rapidly evolving situation in China. An Updating Economic Memorandum (UEM), based on a mission to China in April 1993, was issued in Gray Cover on June 30, 1993 (Report 11932-CHA).

A. BACKGROUND: KEY CHALLENGES

2. Last year's CSP and a number of other Bank documents have extensively documented the key achievements of China's reforms to date—the marketization of agriculture, the rapid growth of nonstate activity in industry and services, the "open door" to trade and foreign direct investment (FDI)—and the ensuing growth in GDP (averaging 9 percent) and productivity. Rather than repeating this discussion, we concentrate here on the areas where we still see major challenges remaining. Many of the priority areas from last year's CSP remain (e.g., the key nexus of SOE reform, connected social reforms and financial sector reform), though the recent impetus seen behind price reforms (paras. 4, 5) means that this area has now dropped somewhat down the scale of our priorities. By contrast, the short-term macroeconomic situation has emphatically increased in visibility since June of last year. We therefore list the following key challenges:

- (a) Intensifying the marketization of those domestic producers of tradable goods still significantly shielded from market forces, i.e., *China's state-owned enterprises (SOEs)*: a process that needs to move in parallel with the further development of domestic *factor* markets (including *financial and labor market reforms*);
- (b) Continuing to address perennial constraints to growth in the domestic nontradable sectors: principally energy, transport and communications *infrastructure bottlenecks*;
- (c) Developing effective responses to the plight of the 100 million Chinese poor still largely bypassed by reform-induced development; and
- (d) Further strengthening indirect instruments of *macroeconomic demand management* consistent with an increasingly marketized economy and, as the *highest and most urgent priority of short-term policy*, making effective use of them to achieve a "soft landing" from the pressures of overheating that have recently emerged.

3. **State-Owned Enterprises and Related Reforms.** As in the CSP, this continues to be seen as the key longer-term challenge. To summarize our basic analysis, China's 100,000 SOEs have continued to operate in an environment characterized by

significant administrative involvement in economic decision-making and to be sheltered from the ultimate discipline of "hard budget constraints." The relatively cautious pace of SOE marketization hitherto can be largely attributed to concerns over the potential social impact of fundamental restructuring on the SOEs' workforce, over 70 million strong and, together with dependents, covering the bulk of the population in the main cities. The SOE workers' vulnerability, in turn, has reflected patterns of social security provision designed in the context of traditional lifetime employment, including dependence on the employing enterprise for subsidized housing, unfunded and nontransferable pension rights and medical insurance, together with the absence, until very recently, of formal systems of unemployment compensation or meaningful urban labor markets. A variety of mechanisms has served, in practice, to soften SOE budget constraints so as to avoid redundancies or bankruptcy, including—in addition to explicit budgetary subsidies—concessional pricing on Plan allocations of energy and raw materials; ad hoc local negotiation of corporate income tax bills; and preferential access to directed credit, often on favorable terms, from the state banking system. Beyond this, SOE managers have continued to be subject to extensive involvement in business decisions by government agencies: the organization of these bureaus, both centrally and locally, along narrow, subsector-specific lines has served, inter alia, to inhibit diversification strategies and, to a considerable degree, to "freeze" the pattern of SOE investment and output.

4. A certain amount of progress has already been made in the marketization of the SOE sector. Final output markets are far less subject to state control (90 percent of retail prices are now uncontrolled) and have also been increasingly influenced by competitive pressure from nonstate entrants; the financing of industrial investment has been largely shifted from the budget to the banks and retained earnings; and energy supplies and raw materials are now subject to multiple-tier pricing, with at least out-of-Plan supplies at the margin at generally realistic market prices. In addition, "contract management system" reforms from the mid-1980s, which converted SOEs' formal objectives from gross output to profit maximization, provided managers substantially enhanced autonomy over the allocation of resources (including labor) *within* the individual enterprise: Bank-supported studies have identified a resulting upward trend in SOE productivity. At the same time, the earlier phase of reforms fell short of a more fundamental restructuring involving cross-enterprise or cross-sectoral resource reallocation; the SOEs continue to show slower growth in productivity or output than nonstate enterprises; SOEs still absorb a disproportionate share of formal credit (approximately four fifths) and of the best-qualified entrants to the workforce; and visible SOE losses (generally considered understated as a result of weak accounting standards) are equivalent to 4-5 percent of GDP, or close to double the total budget deficit. Broader ramifications of the SOEs' protected status include obstacles to relaxing continued government dominance over the allocation of bank lending (as well as to placing the taxation system on a more transparent basis). As such, SOE reform is needed not merely as an end in itself, but also as a means toward freeing-up markets (including the capital market) in order to permit greater responsiveness to demand from the *nonstate* sector. The Chinese authorities' recently reinforced commitment to more fundamental marketization of the SOEs is discussed in greater detail in Section C below.

5. **Infrastructure.** Basic infrastructure bottlenecks, as also noted by the CSP, have played a part in choking off growth in each of the recent episodes of overheating, including 1985 and 1988/89, and reports of power shortages and congestion on the railways and at the ports have again surfaced in recent months. Investment in transport and energy has been constrained from two sides—erosion of the budgetary funds that were the traditional sources, and low controlled prices for nontradable services, which inhibited self-financing (while also stimulating wasteful consumption). Bank-supported price reforms, which have accelerated over the past two years, have gone a long way toward removing past distortions: recently increased rail tariffs are expected to permit the self-financing of about 80 percent of planned sectoral investments, while average consumer electricity tariffs are now estimated to be in excess of 90 percent of long-run marginal cost. Even in these sectors, however, backlogs and unevenness in regional coverage remain. Meanwhile, efforts to develop a more balanced transport system, in particular a modern highway network, continue to be hampered by the absence of robust road financing mechanisms, while telecommunications coverage remains at low levels, in part reflecting quasi-monopolistic traditions and past resistance to competitive entry. Recent policy initiatives in the infrastructure area are also reviewed in Section C.

6. **Poverty.** A major Bank report finalized during the last year (No. 10409-CHA) has broadly confirmed the view of this issue taken in the 1992 CSP. It shows that, while the first five years of reform lifted some 170 million Chinese out of absolute poverty, the population remaining in poverty (close to 100 million) has shown no discernible reduction over the last decade. Absolute poverty in China today is almost exclusively *rural*; it affects *whole communities* rather than individuals; and it is heavily concentrated on a *regional* basis—affecting villages in remote, resource-poor (and often environmentally degraded) areas, primarily in the northwestern and southwestern interior. The challenge of alleviating this remaining hardcore poverty is a multidimensional one. In at least some of the poorest regions, technological packages now exist that are capable, with the necessary investment support, of yielding substantially improved agricultural incomes, on an environmentally sustainable basis, for at least part of the current population. Other sources of employment, however, such as small-scale industry, are widely constrained by infrastructure deficiencies and poor market access (although some border areas, in particular, should benefit from the recent expansion of the open-door policies). For some of the poor, outward migration may be the most promising option: this, though, is a field where earlier policy restrictions are only gradually yielding to pressures from below.

7. Low incomes in these regions are compounded by marked weaknesses in the provision of social services, and resulting indicators of health and education status strikingly below national averages. Women's health and girls' education are frequently the most severely affected. Central policy has traditionally stressed self-sufficiency by rural communities in social service financing and, although fiscal arrangements have long redistributed revenues to the poorest *provinces* (and, since the mid-1980s, also to the poorest *counties*), there is little indication that effective mechanisms yet exist to achieve sustained social improvements at the level of the poorest *villages* where the worst conditions are found. With no easy solutions, the plight of China's poor continues to

challenge the best efforts both of the Chinese authorities and of the international development community (paras. 42-43).

8. **Macroeconomic Management.** The cyclical nature of Chinese growth since 1978 has been widely discussed. By many international standards, the troughs have been neither particularly deep nor especially prolonged: the most recent cycle, at its lowest point, witnessed real GDP growth of 3.8 percent in 1990, with recovery to 7.2 percent in 1991. There is, nonetheless, legitimate cause for concern over the stresses created by very rapid deceleration,^{1/} as well as over the extent to which, in past episodes, the pursuit of marketization reforms has become subordinated to the imperative of regaining control of aggregate demand, in turn achieved largely through administrative mechanisms and quantitative controls. The prevalence of such direct levers to date can be traced to several causes. The tax system, based largely on multiple-year contracts negotiated between the different layers of government, has not lent itself to the fine-tuning of demand (though Beijing has shown some inventiveness in introducing *new* taxes), so that deflationary fiscal policy has primarily comprised direct cutbacks in public investment (imposed administratively by the center). On the monetary side, although interest rate changes played a more important role in the most recent (1988/89) period, direct quantitative credit controls remained the principal instrument, reflecting partly the limited capability and experience of the central bank (People's Bank of China, PBC) in the use of indirect policy tools (and relatively thin, undiversified domestic money markets), but also reservations over the likely responsiveness of SOE credit demand to the interest rate changes then considered feasible.

9. The 1988/89 episode had specific features not likely to be repeated, including an abortive preannounced "big bang" attempt at price reform, which sparked a rapid upswing in consumer demand and complicated the design of an effective policy response. Beyond this, the earlier experience has itself served to increase the sensitivity of policymakers to the disruptive potential of overheating, and thus to improve the likelihood of a more timely response on subsequent occasions. Signs of the need for concern built over a period of time. Real GDP growth during 1992 proved close to 13 percent, significantly above the 8-9 percent level judged consistent, on a sustained

^{1/} Economic factors, including rapidly rising prices, curbs on wages and bonuses, and general economic insecurity (possibly including concern over longer-term job security) undoubtedly played a part in the *urban* protests that preceded the Tiananmen events of June 1989. This experience helps explain the caution shown by the leadership over the pace of urban reform (particularly in the labor market area), and the promptness with which Beijing has responded to the latest signs of overheating. Beyond this, the Western press reported cases of *rural* protest earlier this year (mostly concerning delayed payment for grain purchases and/or excessive local taxes), and some commentators have suggested that such protests could now be a serious source of instability for the Government. We disagree. Careful readers of the Chinese press know that scattered, small-scale incidents of this kind are nothing new: the purchase of the harvest is traditionally a time of tension. But experience in China and elsewhere suggests that only under historically exceptional and extreme circumstances do the peasants coalesce into a larger movement able to threaten the government politically. One of the key aspects of 1989 is that—despite similar discontent over grain purchases, etc.—the rural areas lent no support whatever to the urban protests. All this is not, of course, intended to deny the case, *on equity and efficiency grounds*, for continued reforms to gain marketing and the tax system, and continued attention to regional differentials—all areas in which the Bank is working actively.

basis, with noninflationary growth by the 1992 CEM (and subsequently adopted as the official target). At the same time, however, the trade and inflation results for 1992 were, in overall terms, still relatively comforting, with export growth at 18.2 percent (though imports grew faster, at 26.2 percent), and the retail price index (RPI) up by only 5.4 percent (though here, too, more worrying signals were visible in some of the disaggregated indices, including a rise of 15 percent in the "means of production" measure of raw materials prices).

10. Data for the early months of 1993 eliminated any remaining ambiguity over the danger of overheating. The turnaround in the trade balance was particularly striking. While export growth (first quarter) slowed to a rate of 7.4 percent, import expansion maintained its pace at an unabated 25.4 percent, resulting in the first trade deficit since 1989 (\$1.2 billion for the quarter). This was accompanied by substantial further widening of the divergence between the official exchange rate and that in the parallel market. Price data confirmed the trend, with the RPI rate of increase up to 8.6 percent and the "means of production" index rising at a rate of 38 percent by the end of March. Industrial output growth had reached an annual 27.3 percent by May, but the single most dramatic statistic, which said much about the nature of the boom, was the growth in state enterprise investment, which reached 70.1 percent in the year ending May 1993. With the official budget deficit relatively stable (in the internationally unexceptionable range of 2-3 percent of GDP), it was the monetary sector that provided most of the fuel for the rapid expansion in demand, through an expansion in credit focused heavily on state enterprises. Growth in broad money during 1992 reached 31.3 percent and, on top of perennial difficulties in containing lending by local branches of the state banks, a distinctive contribution on this occasion originated from rapidly expanding nonbank financial institutions (NBFIs), effectively covered neither by PBC's traditional quantitative controls nor by the newer style of prudential regulation the central bank is attempting to introduce into the sector.

11. Starting in mid-May, and in line with warnings contained in our draft UEM, the central authorities signaled their recognition of the need for immediate measures to avoid further deterioration in the macroeconomic balance. Preliminary steps announced at this time, consistent with our advice, included increases in officially administered interest rates for bank deposits and loans, as well as on Government bonds; proposals to stiffen enforcement of the authorization process for capital market issues; and directives to curb the erosion of the fiscal revenue base by local governments via the multiplication of "development zones" conveying tax concessions. While these initial actions were welcome and timely, we made very explicit our view that these changes alone would not be sufficient to achieve the desired results. We also expressed concern over the fact that *deposit* rates had been raised significantly more than *lending* rates, with adverse implications predictable for financial sector viability. In addition, we pressed the role which further *trade liberalization and exchange rate reforms* could play, in addition to their longer-term contribution to improved resource allocation, in helping to absorb the more immediate demand pressures.

12. In June, a crucial conference on macroeconomic management was held in Dalian, China, hosted jointly by the Bank and China's Systems Reform Commission. A

statement prepared at this conference, on China's macroeconomic priorities, was presented to the government and received attention at the personal level of the Senior Vice-Premier, Mr. Zhu Rongji. Very shortly after, at the beginning of July, the Central Committee of the Party issued a 16-point program of austerity measures to arrest the macroeconomic deterioration. Close personal involvement with the plan was indicated by the removal of the former governor of the Central Bank, and the assumption of this role by the Senior Vice-Premier himself. There is a close correspondence between this plan and the measures proposed by us to the government, which indicates a very high degree of responsiveness to our message at both the working level and the very top.

13. The 16-point program encompasses, first, measures to address immediately the unsustainable macroeconomic upswing, and second, longer-term structural measures to address the underlying roots of macroeconomic instability. Important in the first category are a squeeze on the money supply, through the compulsory issue of government bonds and deadlines for the recall of loans issued outside earlier ceilings; a proposal to cut government administrative spending by 20 percent; a temporary suspension of further price reforms through the end of the present year; further increases in interest rates for savings deposits; a tax on the appreciation of real estate (to curb speculative investments) and a reduction in the scale of infrastructure projects. The second category of measures addresses more long-term, structural issues. These measures include, importantly, the proposed strengthening of the central bank, and a decision to separate commercial lending from policy loans (see also para. 24). The clamp-down on unauthorized development zones was reiterated, while the government also reemphasized its commitment to resolve bottlenecks in transport and communications. The issue of new IOUs to farmers for the purchase of summer grain was explicitly forbidden. Realizing the need for coordination at provincial and local levels, the government also resolved to send out teams to inspect the implementation of the program at these levels.

14. It is as yet too early to determine the economy's response to these measures with any accuracy or comprehensiveness. However, a few early indicators are available, which provide some positive and other more mixed results. First, the index of industrial production, which had increased by 27.3 percent for the 12-month period ending May 1993, and a similar 30.2 percent up to June 1993, registered rises of only 25.1 percent in July and 23.4 percent in August. The value of retail sales indicates a similar trend: this rose in June by an annual 28.4 percent, but by only 22.2 percent in July. It is reported that the deposit flight from commercial banks has been reversed, and that large sums of money (estimated at Y 72.7 billion) have been recovered from illegal interbank lending. Inflation indices are mixed so far. In May, the urban cost of living index for the 35 largest cities was 19.5 percent above a year before, and continued to rise, in June, to 21.6 percent, but declined in July to 18.2 percent. The increase in the retail price index (RPI), standing in June at 13.9 percent above a year before, had come down to 10.8 percent by July. By contrast, the price index for grain, construction materials and services continued to rise, from 15 percent, at the end of 1992, to over 20 percent in the year ending July 1993. On the external front, while import growth (over a year previously) declined fractionally from 26 percent in May to 25.7 percent in July, export growth declined as well, from 7.7 percent to a low 4.7 percent by the end of July. The exchange rate

differential between the parallel market and the official market has narrowed (with the parallel rate declining from Y 11:\$1 in June to Y 8.8:\$1 in July and August), though this is likely to have been influenced in part by the reported intervention of the People's Bank of China to support the currency.

15. If this constitutes a mixed picture, such is in fact what should be expected at this stage: allowing for normal lags, the economy's response may well not be entirely clear until the early part of next year. On the side of optimism, it can be said that the technical content of the Government's proposals is broadly in line with the advice we and other independent economists have provided, and that the leadership in Beijing is pressing these measures with considerable vigor and political commitment. It is almost a truism by now that the key test will be the center's ability to secure compliance in the provinces and at lower levels. If the jury is still out on this issue, Beijing is fully aware of the problem and its approach appears to combine both toughness and sophistication.

B. External Environment

16. During recent years, with the relative isolation suffered following Tiananmen now largely dissipated, China has benefited from a generally favorable external environment, which permitted trade growth over 1989-92 of 15-20 percent per annum. In 1992, in particular, FDI (primarily targeted to export-oriented manufacturing) rose to around \$10 billion, making China the largest developing country recipient of such investment. China has also continued to enjoy relatively easy access to international financial markets, made easier of late by the opening (albeit on a restricted basis) of China's internal financial markets to overseas portfolio investors. At the same time, however, as noted above (para. 10) and as predicted in last year's CSP, the trade balance has rather rapidly swung into deficit; not in itself necessarily an undesirable development, but one which will require careful monitoring.

17. In *trade*, there are a number of *external* issues. First, China's application to resume its seat at the GATT, which was filed in 1986, is still pending (and subject to difficult negotiations, which may take at least one more year to conclude). If completed satisfactorily, this would add a degree of certainty to China's external economic environment that has for some years been lacking. Second, in May the US administration extended China's MFN status for another year, linking subsequent renewal to progress on human rights, but explicitly excluding bilateral trade and arms export issues (concerns in the latter area were, however, in August to prompt US imposition of *selective* sanctions in high-technology areas). Third, China stands to benefit more than many others from a hoped-for successful conclusion to the Uruguay Round, in view of its dependence on garment and footwear exports, which would be liberalized relatively more than other commodities.

18. China's *investment climate* continues to improve, as reflected in the doubling of FDI in 1992. The country is benefiting in this regard from the growing role of other Asian economies such as Japan, Taiwan (China) and Korea as overseas investors, supplementing China's original investment partners in Hong Kong. If this continues, FDI

can be expected to make a significant and increasing contribution, both in established manufacturing sectors and also in new areas for FDI (such as services and infrastructure). The *financial markets* continue to look favorably on Chinese instruments. Bonds and syndications are issued with ease, especially on Asian financial markets, and at very favorable rates. China's excellent repayment record, and absence of rescheduling requests, combine to make the country a very desirable sovereign borrower. We expect China to continue to enjoy a strong creditworthiness position. As we forecast last year, the balance of payments current account has returned to its normal pre-1989 stance of a moderate deficit. We see no reason to expect this to be allowed to get out of hand (see UEM for more detailed forecasts): the interesting question, rather, is whether its future management will take place primarily through traditional administrative measures or, as advocated in a recent major ESW report on *Trade Reform*, through a combination of liberalization of quantitative restrictions and exchange reform. Total debt outstanding stood at only 16 percent of GDP in 1992 and this is projected to fall gradually over the balance of the decade. The associated debt service level is also expected to remain healthy, declining further from its already modest level of 9.7 percent of export earnings in 1992 to about 7 percent in the second half of the decade. Indicators for IBRD exposure are reviewed in para. 53 below.

19. On the downside, some uncertainties remain. Trading arrangements are ad hoc, as noted, and subject to arbitrary change pending conclusion of ongoing negotiations. China's export growth has been highly concentrated in terms of markets and products (notably in garments, toys and footwear for the US market) and some of these niches may be approaching saturation. Finally, political tensions continue to affect relations with Hong Kong and Taiwan (China), which reduce the achievement of potential synergies from the much-discussed "fourth growth pole." These aspects will therefore continue to demand attention and monitoring.

C. Country Assistance Strategy

Recent Developments and Government Policies

20. **Political Developments.** The past year has witnessed developments of considerable importance at the policy-making and political levels, which have served inter alia to cement the policy consensus around further acceleration of China's marketization reforms. The key events were the meeting, in October 1992, of the fourteenth Party Congress, whose decisions set the overall policy direction for the next five years, and the subsequent inaugural session (March 1993) of the newly elected National People's Congress (NPC), China's legislature. These two bodies, the sources of policy legitimacy within the party and the state, took the critical symbolic steps of writing into party policy and the constitution, respectively, a redefinition of official economic philosophy that replaced the earlier formula of "a planned economy on the basis of socialist public ownership" by "a socialist market economy." In keeping with Chinese tradition, the latter concept does not readily lend itself to a precise or static legalistic definition. It may, however, be read (particularly taken together with an earlier reinterpretation of "socialist public ownership" to include not only SOEs but also local collectives) as an explicit

downgrading of the weight attached to any specific ownership model, as well as a powerful public assertion of the central role further marketization is designed to play in future economic strategy. In summary, we see these steps as symbolizing the authoritative removal of residual ideological constraints to the ongoing marketization process. The *socialist* nature of the Chinese economic model, in turn, is likely in future to be manifested primarily by concern to protect basic social service provision and avoid extreme inequities in economic welfare and, more specifically, a continuing commitment to the eradication of China's remaining absolute poverty.

21. The two Congresses also gave their stamp of approval to the planned collective succession to the elders of the Long March generation. This included the reelection (with a number of dissenting ballots) of Li Peng to his second (and, constitutionally restricted, final) term as Premier; the elevation of Jiang Zemin to be State President as well as Party Secretary and Chairman of the Central Military Commission; and the promotion of the reform-minded Zhu Rongji to the new post of *Senior Vice-Premier*. In designing the new lineup, China's patriarch Deng Xiaoping appears to have succeeded in avoiding several potential political pitfalls. The rumored ambitions of the Yang family (outgoing President Yang Shangkun and his younger half-brother General Yang Baibin) were squashed, and both brothers sidelined, together with a number of potential allies in the military. Equally, several members of the "princelings' party" (the sons and daughters of older leaders whose activities helped fuel popular discontent in 1989), were passed over in the new appointments. The specific names that *were* chosen clearly reflected a good deal of back-room negotiations, and could yet be subject to disruption by unforeseen events (e.g., the currently uncertain health of Premier Li Peng). However, the obvious success of and popular support for the basic policy line ratified by the Congresses is probably of greater ultimate significance for the future than the position of any particular individual among the designated successors. The Congresses' removal of remaining uncertainties over ideology has legitimized the recent and very obvious upsurge in the discussion, proposal and introduction of specific reform measures, at both central and local levels, in many of the most important reform areas. The current policy climate is reviewed in greater detail in the UEM, but key features are outlined below.

22. **SOE Reform.** The central thrust of official policy is now the aggressive promotion of corporatization and marketization reforms in the SOE sector. New regulations (July 1992) seek to improve the definition and protection of *management autonomy* over major business decisions. The center is, in addition, encouraging the conversion of SOEs into *shareholding companies*, with the ownership function exercised by Boards of Directors rather than government bureaus: this step will also help open the door to further *ownership diversification*. In parallel, a *government reorganization* has been announced, designed over several years to reduce the overall size of the bureaucracy and to reorient the work of ministries and bureaus away from their past micro-interventionist traditions. Meanwhile, *bankruptcy provisions and mergers* are being increasingly applied to SOEs. Official sanction has been extended for the *sale or leasing* of at least some of the smaller SOEs to collectives or private enterprises. A cautious approach is currently being taken, however, to the expansion of *stock exchange listings* (not inappropriate at this stage, given the gaps still to be filled in securities market

regulations, as well as the generally weak state of *enterprise accounts*, an area where the Government has recently launched an urgent nationwide upgrading program: as recent stories such as the "Great Wall" bond scam show, weak regulations leave China still vulnerable to financial scandals).

23. **Labor Market (Housing and Social Security) Reform.** As noted earlier, this is a crucial corollary of SOE reform, and one in which the basic lines of official policy have by now been in place for about two years. The scope of fixed-term *labor contracts* for SOE workers (replacing lifetime guarantees) is being expanded. In *housing*, the center has established a timetable for previously nominal rents to increase to cover management, maintenance, depreciation, interest and property taxes by the end of the decade. In parallel, enterprise housing units are to be transferred to commercial housing corporations. As rents rise, the second prong of official policy, encouraging wider owner-occupation, should also come into play. *Pension* rights are starting to be pooled across enterprises: similar reforms for *health insurance* are, however, at a more preliminary stage. Finally, *unemployment insurance* schemes are under development and introduction. It should be stressed, however, that the detailed *implementation* responsibility for the above reforms lies almost entirely at *local* (usually municipality) level, and this is where practical models are having to be worked out.

24. **Financial and Capital Market Reforms.** Following several years without basic policy movement, this area is now receiving reinforced attention. It is symptomatic—and encouraging—that we received a Government request, which has been met, for a strategy paper in this sector earlier this year. Beijing has committed itself in principle to converting the bulk of the existing State banking system into genuinely *commercial banks*, with the autonomy over lending this would imply. Remaining directed "*policy lending*" is to be segregated from commercial banking—initially on an accounting basis, but subsequently through the formation (probably by restructuring existing institutions) of one or more banks dedicated to the provision of policy loans. Banks' *accounting* practices are to be standardized as part of the basis for *more sophisticated methods of monetary control and bank regulation*. Consistent with these changes, gradual deregulation of *interest rates* is projected. On the *capital market* side, meanwhile, new regulatory bodies have been established for the securities exchanges, and foreign investors permitted to purchase certain categories of Chinese equity shares. Finally, there is now active preparation for a *reorganization of PBC*, to strengthen its ability to concentrate exclusively and more effectively on its *central banking* functions. Additional details of the Government's plans are becoming available on almost a daily basis, and the prospects now appear highly encouraging. At a seminar held in mid-September, the authorities indicated their acceptance of our advice to strengthen the autonomy of PBC, and there is reason to expect a corresponding enhancement of the effectiveness of indirect monetary policy instruments.

25. **Fiscal Reform.** This is an area where progress has long been complicated by conflicts of interest between the center and the lower-level administrations that actually carry out the assessment and collection of the great bulk of China's tax revenue. Initiatives under way include efforts to standardize the taxation of *corporate income* (another area

where improved accounting standards are crucial), as well as the gradual diversification of the revenue base, including phased introduction of a *value added tax*. Despite Beijing's desire to regularize its fiscal relationship with lower levels, however, and experiments with "*tax-sharing systems*," there appears no sign of an imminent breakthrough in this politically difficult area: we plan to continue, nonetheless, to press its importance within our own dialogue.

26. **Private Sector Development.** In overall terms, the further development of the private sector is projected to continue to take place *in parallel* with the corporatization and marketization of the SOEs, rather than through efforts at a mass privatization of the existing public sector. The central authorities have undertaken to simplify further the *registration* of new private firms, and to *ease restrictions* over such firms' scope of business. Lower levels, meanwhile, are increasingly active in promoting new *joint venture* subsidiaries between Chinese enterprises (including both SOEs and local collectives) and foreign partners (even if some represent in part a response to advantageous tax treatment of joint ventures). Such activity is likely to increase further following recent announcements *expanding the scope of the open door for FDI* both geographically (to cover *interior regions*) and sectorally (to encompass an increasing range of *tertiary activities*, including retailing, distribution and financial services). The center has also extended its blessing to increased FDI in *infrastructure* sectors. There are already examples of private Hong Kong investment in toll highways, other transport facilities and a 200 MW thermal power station in neighboring Guangdong province, as well as a recent Hong Kong-Chinese joint-venture agreement to develop Shanghai's container port. Assessing the potential for wider replication is now an area of active interest for IFC (paras. 47-48) and the Bank Group as a whole.

27. **Legal Reform.** The authorities recognize that further marketization calls for traditional reliance on administrative mechanisms to give way, across wide areas of the economy, to transparent rules-based systems and a more comprehensive framework of economic law. Given the many areas in which the current legal framework is either clearly deficient or nonexistent, as well as the numerous fields in which, as discussed above, new reform proposals are under active development, something close to a flood of draft legislation is at present circulating in Beijing. The authorities have indicated potential interest in Bank advice and assistance in helping to develop the legal framework in an effective and internally consistent manner: exploring possible modalities for such support will provide a new focus for our proposed assistance strategy (para. 32).

Main Objectives and IBRD/IDA Program of Assistance

28. **Lending and Portfolio.** New Bank commitments to China amounted to just over \$2.5 billion in FY92 and \$3.2 billion in FY93. Despite modest year-to-year changes in average supervision ratings, to be expected in a growing and maturing program, the overall implementation status of the Bank portfolio in China, currently comprising approximately 100 active investment projects, has continued to be robust (average supervision rating of 1.50), fundamentally reflecting a combination of strong local administrative capability and the powerful sense of borrower ownership that has

consistently characterized the Bank-supported program in China. There are no major implementation problems identified as generic to a significant number of operations, and at any one time there are seldom more than 3-4 specific operations rated as having significant implementation difficulties (while the Government's responsiveness to concerns raised by the Bank is such that projects do not generally remain in this category very long).

29. **Country Dialogue and ESW.** The policy dialogue between China and the Bank is exceptionally strong, reflecting Chinese decisionmakers' trust in the objectivity and relevance of Bank ESW, respect for the quality of the Bank's investment project work across a broad range of sectors and regions, and recognition of the consistency of the institution's support of China's reforms and development throughout the past decade. Formal ESW reports are studied seriously both by the most senior decisionmakers and by officials in the relevant sectors, and studies in recent years have contributed to the evaluation of reform implementation alternatives in areas including the financial and fiscal sectors, housing and social security reform, the development of urban land markets and grain market liberalization, as well as providing comprehensive overviews of issues relating to poverty and the environment. Major reports on China's trade policy and budgetary issues, respectively, are currently being finalized. Planned topics for work over FY94 are summarized in the box below.

CHINA: PROPOSED MAIN AREAS OF ESW FOR FY94	
<i>Studies:</i>	Domestic Market Regulation and Development State-Owned Enterprise Reform Municipal Finance Quasi-Fiscal Deficit GNP/National Accounts Regional Patterns of Development Agricultural Marketing Water Resources Planning Provincial/Municipal Environmental Management Higher Education Efficiency Health Finance Reform
<i>Strategy Papers:</i>	Financial Sector Industrial Policy and Restructuring Power Sector Transport Sector Ports Subsector Highways Subsector

30. **Need for Innovation.** Our program in China over much of the past decade largely comprised the two products discussed above: formal ESW reports, prepared after intensive research and providing comprehensive coverage of issues in specific sectors or policy areas; and solid, well-prepared investment projects supporting technological

modernization and institutional development objectives, as well as selected, well-defined sector reform objectives, such as tariff reform in the principal infrastructure sectors. This combination, and the "parallel track" approach which maintained some distance between the two products, helped to meet specific country needs and demands for technology transfer and institutional modernization during a period when China was still emerging from its earlier international isolation. It was also broadly compatible with the relatively deliberate approach to reform during much of the decade, and the manner in which the leadership then preferred to receive outside advice. What is now apparent, however, is that the earlier product range and the parallel track will no longer serve fully to meet the requirements and demands for assistance being generated by the recently accelerated pace of reform, and the Government's desire to see more intimate Bank involvement in the detailed implementation of the new generation of reforms. We are thus now being challenged to develop new approaches and incorporate additional flexibility into our country assistance program, and this is a challenge the proposed strategy will seek to meet.

31. One clearly identified demand is for the ability to provide *prompt feedback and advice* to decisionmakers on reform implementation alternatives in specific areas through succinct analytical papers, based more upon synthesis than on extensive original research, and produced on a more flexible schedule than formal ESW. During the past year, informal strategy papers of this kind have been provided to the Government in areas including SOE reform, financial sector strategy and short-term macroeconomic management issues: to help reinforce our capacity to respond to additional requests of this type, we are currently restructuring the staffing of the *Resident Mission in China (RMC)*, to put considerably greater emphasis on macro and sector policy analysis skills. Under a second model, we have to date provided intensive assistance, through international workshops and follow-up staff input, to two of China's most important coastal cities (Shanghai and Tianjin) with the design of city-level "*reform action plans*," intended to serve as "living documents" capable of guiding reform implementation on a multi-year basis and underpinning future Bank lending: we plan in the near future to start adapting this model to the needs of selected inland cities (tentatively, Wuhan and Shenyang).

32. In some of the key reform areas, the demand for external assistance with policy analysis and reform implementation issues will clearly go beyond what the Bank can provide from its own resources (in view of the *extent* of the support needed and/or the *specialized skills* involved). We thus expect to make increasing use of *sector-specific TA operations* in future. The first example was provided by the Financial Sector Technical Assistance Project (Credit. 2423-CHA), designed largely to help strengthen the capability of PBC, and approved in September 1992. We are actively discussing with the Government the potential for additional operations of this type, in such areas as economic law reform, further strengthening of financial and capital markets and the development of support services for newly marketized enterprises.

33. A further area where we are introducing innovative products might be described as *reform implementation support operations*. In many areas where reform plans are now active, effective reform implementation will itself call for significant investments in building new or modified institutions, imparting new skills and creating supporting

infrastructure, not only at the center but throughout China's provinces and municipalities. One example concerns the marketization of China's hitherto tightly planned grain distribution system. This reform will not only require development of new institutions and skills (commodities exchanges, commercial trading corporations, etc.), but will also open up new possibilities for more economically rational domestic and international trading patterns that, however, without supporting physical investment, could be frustrated by infrastructure bottlenecks: a grain market reform implementation support operation was recently approved by the Board. A second area is housing and social security reform, where the city-level administrations charged with implementation require assistance with the creation of viable models of commercial housing corporations, housing finance institutions, etc. Here, too, preparation is at an advanced stage. A third example, where we are working actively, relates to labor redeployment issues raised by SOE reform. Existing vocational/technical training models in China focus heavily on *preservice* training: new approaches will be needed to meet the *retraining* requirements of older workers called on to change jobs.

34. **IDA Replenishment.** An additional challenge in the management of the country assistance program, on both the Bank and Government sides, is raised by the decline in availability of IDA resources for China resulting from the decisions, subsequent to last year's CSP, on blend countries in the context of the tenth replenishment (IDA-10). In this connection, we are already discussing with the Chinese authorities our aim of maintaining our existing levels of support for the social sectors, for the development of the poorest regions and for environmental protection and the amelioration of pollution. Internal arrangements for onlending make this a difficult issue for the Chinese to handle and, although the initial response has been encouraging, it will undoubtedly continue to require considerable attention, particularly as the cuts start to bite.

35. **Proposed Operational Program.** As earlier discussion has sought to demonstrate, the central policy stance has by now evolved to provide an enabling environment for rapid further marketization reforms. Certain key policy areas will continue of necessity to be addressed primarily through dialogue at the center—e.g., monetary and financial sector aspects, and fiscal and trade reform—though in these areas too we will explore all possible vehicles for Bank support, including the types of innovative products outlined above. In most other areas, however, reform progress will depend largely on developments at the level of individual sectors, provinces and municipalities, and it is at these levels that we propose to continue to concentrate the bulk of our future lending.

36. Our earliest operations in *industry* focused primarily on supporting the technological modernization of Chinese firms (primarily SOEs) in a selected number of subsectors, itself an important contribution given that prevailing standards were often decades behind international best-practice. Expectations today, however, are pitched much higher, and future involvement in this sector must clearly be designed with the primary objectives of fully supporting and advancing the processes of marketization and transformation now endorsed at the central level. In keeping with the recommendations of our *Enterprise Strategy Paper*, endorsed by Bank Senior Management earlier this year,

understandings have therefore been reached with the Government that future Bank support in the industrial sector (at both the regional and sectoral levels) would need to be provided within specific frameworks fully consistent with marketization and transformation objectives, including:

- (a) separation of state firms from government bureaus through restructured corporate forms (including transparent ownership mechanisms);
- (b) promotion of ownership diversification;
- (c) corporate income tax reform;
- (d) accompanying social and labor market reforms (housing, social security, etc.);
- (e) competitive market policies, including promoting freedom of entry and exit for both public and private producers; and
- (f) satisfactory guarantees of access by nonstate enterprises to Bank support.

37. We are committed to experimenting with the design of industrial investment operations meeting the above objectives at the provincial/municipal level in several regions (including inland as well as more traditional coastal locations), and are also exploring the possibility of applying them in selected subsectors on a cross-provincial basis. One ongoing operation, the Rural Industrial Technology (Spark) Project (Ln. 3274-CHA, Cr. 2186-CHA), seeks to provide support exclusively to the domestic nonstate sector, and we will consider possible further operations with a similar focus. We will also review the possibility to make use of the innovative product models discussed earlier to support industrial enterprise marketization and restructuring.

38. In the *financial* sector, our initial goal was to help introduce modern investment evaluation approaches through the development of a new industrial DFC, the China Investment Bank, CIB (and parallel support, in rural areas, to the Agricultural Bank). Recent years have witnessed a shift in focus to the imperative of strengthening the overall sector policy framework and the institutional capability of PBC, an approach whose operationalization was launched with the recently approved TA project (para. 32). We expect our next financial sector operation to continue and broaden the focus on the sector-wide framework and infrastructure pioneered by the TA project. Given the expected pace of change in this sector, however, attention to the strengthening of PBC and other sector-level agencies will soon need to be supplemented by a focus on the transformation and restructuring of the operating institutions in the sector, including the commercialization of China's state banks. This is thus a sector in which our operational involvement may need to be intensified rather rapidly, and it is a sector in which finding innovative models for reform implementation support will be a central challenge for our assistance strategy.

39. China's *infrastructure* sectors (primarily power and—within transport—rail, roads and ports) have together absorbed over 40 percent of cumulative Bank lending to China. As discussed earlier (para. 5), these have been the key bottleneck sectors, with heavy absolute investment requirements, and the development of effective new mechanisms of *domestic* resource mobilization (fundamentally through tariff reform) has inevitably been a gradual process. As also discussed, however, it is a process now paying off, with the *railways* and the *power sector*, in particular, now better placed for internal resource generation (para. 5) and the *ports* undergoing rapid commercialization, including experiments with the introduction of FDI (para. 26).

40. These changes are now prompting a reevaluation of the future role of the Bank in the infrastructure sectors. We recently submitted a strategy paper on the railways sector to the Board (No. 10592-CHA), and are planning similar papers on ports, highways and electric power, respectively, as well as a strategy document for the transport sector as a whole. With substantial progress already in tariff reform, greater attention is now called for within our policy goals, in the case of the natural monopolies, to promoting *corporatization* accompanied by more transparent systems of *regulation* reflecting the lessons of international best-practice. In subsectors where competitive market structures are a realistic possibility, meanwhile, including ports and—potentially—*telecommunications* (an area where the Bank has yet to lend but where a proposed first operation is due to be negotiated shortly), our priority will be to promote the dual objectives of *commercialization* and subsectoral policy frameworks conducive to *competition* and the introduction of private capital, including FDI.

41. By contrast to the directly revenue-earning subsectors, there has been no comparable breakthrough in the case of China's *highways*. Our analytical work has highlighted the severe modal imbalance of the Chinese transport system (in which almost 60 percent of freight, and close to half the passenger traffic, is still carried by the railways). A modern highway system is urgently needed both to support the further development of marketized production activities and also as a key to greater domestic market integration and more balanced regional development. Within the overall transport system, this is the mode where future capital requirements are likely to be greatest. Our recent intermodal transport study of Guangdong province (Bank Discussion Paper No. 151), for example, recommended that some three quarters of future transport investment in the province should be directed to highway development. It is also, however, the field where domestic resource mobilization is currently least well-developed. We are therefore proposing a major increase in the relative weight given to highway development, and will be taking the study of, and support for, new models of resource mobilization as our leading sector policy objective.

42. In *agriculture* and the *social sectors* last year's CSP explicitly proposed the pursuit of *poverty alleviation* as our highest priority objective. In several of the regions of concentrated absolute poverty, including areas of the northwest as well as the "red soils" areas found in much of the southeast, we consider that farming models already in existence (developed in part through earlier Bank projects) have proven their worth, and we are now preparing successor operations to promote their replication on a larger scale. Rural income

generation in the most resource-poor areas of the southwest, by contrast, has less in the way of proven farm technology packages to build on. As an outgrowth of our recent poverty study (paras. 6-7), we plan very shortly to launch the identification of a poverty alleviation project in the southwest: given the difficult local conditions, innovative approaches (possibly including a multisectoral strategy) are likely to be required.

43. In the social sectors, similarly, operations recently approved or in the active pipeline exemplify the priority now being given to the problems of the poorest areas (para. 7), including basic education for girls and maternal health care priorities. The Education Development in Poor Provinces Project (Cr. 23390-CHA), which seeks to strengthen basic education provision in six of China's poorest provinces, is expected to be followed by a successor operation extending the approach to additional poor regions. Work is also under way on a Maternal and Child Health Project, similarly targeted at poor rural areas. The recently approved Rural Health Workers Development Project includes provisions intended to help develop appropriate and sustainable financing mechanisms for rural health care which, if successful, could provide the basis for wider replication.

44. Beyond the primary goal of poverty alleviation, there are additional areas in agriculture and the social sectors where Bank assistance has an important role to play. Our support for the marketization of China's *grain* sector has already been noted (para. 33), as have our efforts, within the social sectors, in vocational retraining (para. 33) and health finance reform (box attached to para. 29). In addition, strengthened *water resource planning* is a vital priority for China, both for agricultural and other end-uses, and in both the water-scarce north of the country and flood-prone areas further south. Despite well-established domestic capability in irrigation development, particularly at the local level, water-use planning on a regional or cross-regional basis tends to strain both the older generation of planning models currently in use within China and established mechanisms for interprovincial coordination. In addition, while a recent Bank review has confirmed that Chinese mechanisms for planning and implementation of *resettlement* have generally produced very satisfactory results in recent years (and a report on this study has been issued in Gray Cover recently), it is also clear that it is the larger water development projects that are most likely to put pressure on the adequacy of these mechanisms. This sector is therefore proposed to continue as an area of active Bank involvement.

45. Our first comprehensive strategy paper on China's *environment* (No. 9669-CHA) was completed in April 1992 and its recommendations were summarized in last year's CSP. These recommendations provide the basis for what has become the fastest-growing area of concentration in our lending program, and we have recently concluded that a new sector division should be created, to focus exclusively on future environmental activities, while permitting sufficient attention also to be given to our work on education and health. Three investment operations addressing the amelioration of environmental conditions, especially in the field of water pollution, and located in—respectively—Southern Jiangsu, Zhejiang and Changchun, were approved during the course of FY93 (Ln. 3582-CHA; Credits 2475-CHA and 2457-CHA). Work is under way on a pipeline of further investment projects in additional priority cities and provinces: as in the earlier operations, each will include significant TA for the strengthening of local environmental

management agencies and will also promote the corporatization of local public utilities such as water supply, sewage treatment and solid waste management services, to ensure that their operations are placed on a financially sustainable basis. In addition, we propose to follow the earlier overall strategy paper with a new phase of environmental ESW that will focus in greater depth on environmental management issues as seen from the *provincial and municipal* levels. More immediately, the Board recently approved a first Bank-supported Environmental Technical Assistance Project, intended to help strengthen further the institutional capability of China's National Environmental Protection Agency (NEPA) and other key sector agencies, as well as to support focused studies in priority areas of sector policy.

46. **Cooperation with Other Sources of Financing.** There are no major changes to report in our relations with the IMF, ADB, UNDP or with the principal sources of bilateral funding. As pointed out in last year's CSP, Chinese administrative mechanisms for financing development projects have generally not, in the past, been conducive to *cofinancing* on a large scale: although both ADB and Japanese Government agencies have sizable programs within China, the Government has to date in practice preferred to have just one channel of major overseas funding per project. There have, however, been some recent indications of possible interest in experimenting with more extensive use of cofinancing, which we will continue to pursue (including possible ECOs). In the industrial sector, in particular, we are looking to the possibility of encouraging more extensive involvement of joint ventures with foreign investors. In addition, the Government's expressed intention to encourage greater *private* investment in the *infrastructure* sectors (para. 26) should, over time, open new possibilities in this area. We will be exploring the issues involved and potential vehicles over the coming year.

47. **IFC and MIGA.** IFC's country assistance strategy for China focuses on three principal objectives: (i) promotion of a more favorable foreign investment framework, (ii) catalyst to the expansion of private sector investment, and (iii) acceleration and deepening of financial and capital markets. To respond effectively to the rapid development of the Chinese economy in the context of a continued move towards a market economy, IFC opened its first representative office in Beijing in October 1992. IFC's active participation is being sought by the authorities in China, particularly as the economy is moving towards a more market-based system, with an increasing emphasis on private sector led growth.

48. IFC's operations in China have so far concentrated on supporting joint ventures between foreign investors and Chinese enterprises. IFC plays an important advisory role in China in helping to structure these transactions and in arranging finance on a project risk basis without guarantees from government banks. Work in the capital markets area includes the establishment of a joint venture bank, and technical assistance to the new Securities Regulatory Commission, which will focus on the adequacy and regulations for the rapidly expanding stock markets in China. IFC has also encountered lively interest in infrastructure projects, where the scope for private investment is substantial, as China recently announced new policies to encourage foreign participation in infrastructure development. IFC's progress in infrastructure projects in the near future

will depend on stronger efforts by the Chinese government to develop a suitable environment for private investments, including the legal and regulatory framework, as well as the institutional infrastructure, for private business operations. In the Bank's fiscal year 1993, IFC approved financing for four projects in China, in the areas of banking, cement and manufacturing, totaling \$42.8 million, which brought IFC's accumulated total investments in China to \$103.4 million. As of June 1993, MIGA had approved one investment guarantee in China, with a package of additional guarantees expected to be submitted for approval very shortly.

49. **Proposed Bank Lending Program.** As discussed in Section B above, China's external position has been generally strong in recent years, with substantial inflows of FDI, especially into export-oriented manufacturing, and—until the recent deterioration—surpluses on the trade account. With strong private capital inflows into certain sectors of the economy (para. 16), and the current account deficit projected to remain moderate (para. 18), capital transfer is not the primary objective or determining principle of the level of Bank lending which, even at current and proposed levels, accounts for only a relatively minor share of China's total resource requirements. Rather, we see our operational program as a mechanism for helping to provide vital support for the nationwide implementation of the ongoing reforms, as well as the crucial objectives of poverty alleviation and environmental protection, discussed earlier in this paper.

50. The composition of our future lending program is proposed to continue to be broad-based in both geographical and sectoral terms, in view of the extensive agenda outlined in the present paper. In several sectors, as noted earlier (para. 42), social objectives have already prompted an increased emphasis on China's interior provinces, and we also believe a strong case exists for a similar relative shift of geographical focus in several others, including industry and highways. More broadly, we recognize the need for additional flexibility in the development of the lending program, including the ability to bring forward innovative operations on a fairly tight timetable as warranted by reform implementation needs, but equally the freedom to drop earlier proposals no longer seen as responsive to rapidly changing conditions. As such, the composition of any multiyear Lending Program proposed at the present time must be considered more subject to change than in previous years: it may be taken almost as a certainty that new operations, e.g., of the sector-specific TA or reform implementation support variety, will in fact be developed during the period in question, consistent with the reform impetus and support needs in different sectors and policy areas.

51. In terms of *scale* of future lending, a very crucial element that now needs to be allowed for is the change, since the last CSP, in China's status within IDA. We have explained to the Chinese authorities that, in practical terms, they should assume that IDA resources for China will henceforth decline by roughly \$200 million a year (from about \$850 million in FY94 to \$50 million in FY98, assumed to be the pregraduation year), and this scenario has been accepted. We have additionally explained that: (a) future IDA flows will be concentrated on supporting IDA objectives in the areas of poverty alleviation, the environment and the social sectors, and will not be available to finance investment operations in other sectors; and (b) the Bank would expect, despite the IDA

decline, to safeguard its current level of operational involvement in the above sectors. These factors have obvious implications for the substitution of IBRD for IDA lending within the overall portfolio—indeed, on resource transfer grounds, a case could be made for being prepared to offer such substitution on a more than one-to-one basis. As a minimum, the delivery of any given size of total lending program will now imply greater use of IBRD resources than was assumed at the time of the last CSP. This substitution, in turn, has the result of advancing, compared to the situation at the time of the CSP, the date at which IBRD exposure limits must be factored into the equation.

52. The *Base Case* for lending approved following last year's review of the CSP envisaged 45 operation over FY94-96, with an associated IBRD/IDA lending volume of close to \$9 billion. With no change in circumstances, the subsequent acceleration in reform discussed in earlier sections of this memorandum may be considered to create a strong case for now recommending a move to the CSP High Case (51 operations; combined lending of \$11 billion). We are still convinced that the Bank should now be maximizing its opportunity to provide support for the implementation of the next, crucial phase of China's reforms. We accept, however, that in view of the IDA substitution factor discussed above and the need to respect IBRD exposure guidelines (as well as internal budgetary constraints on the number of operations the Department can feasibly expect to deliver), such an outcome is, in practice, likely to be much closer to last year's Base Case than the original High Case. As such, we are now recommending a lending program for FY94-96 of 44-45 operations, involving total lending of about \$9.1 billion (IDA: \$1.95 billion, phased as per para. 48 above; IBRD: \$7.15 billion, assumed to be phased roughly: FY94, \$2.25 billion; FY95, \$2.35 billion; FY96, \$2.55 billion). *For purposes of projecting exposure, we have assumed the FY96 level of IBRD commitments to be sustained in all subsequent years.*

53. Based on the Region's proposal above, China's DOD is projected by FRS, as shown below, to remain within the 10 percent guideline through the year 2000.

	(%)
FY93 (actual)	4.0
FY95	4.9
FY97	6.9
FY98	8.0
FY99	9.0
FY2000	9.9

The possibility on this basis of exceeding the 10 percent guideline temporarily at some point in the next century is one that cannot be totally precluded. This possibility is not, however, considered by the Region to justify a further compression of the proposed lending program to China over the period now under review. Aside from the high degree of uncertainty surrounding the Bank-wide totals after the year 2000, the lending proposals made above go no further than meeting the assurances provided to the Chinese, at the time of the IDA-10 negotiations, that any loss in IDA resources would be compensated for by access to IBRD funds. If the Bank were now to retreat from this assurance, based on an

unusually rigid application of the 10 percent guideline to long-term projections, the institution's hard-earned credibility in China could suffer damage, with (arguably) no obvious compensating real gain in the Bank's own financial soundness.

China

A L L - I N - 1 N O T E

DATE: 10-Sep-1993 04:29pm

TO: CHMOF (CHMOF @A1@CHINA)

FROM: David Rix, EA2CO (DAVID RIX)

EXT.: 85517

SUBJECT: Hiring of External Consultant for Evaluation Study in China

For attention: Mr.Hong Houqi, copied to Mr. Li Yong and Mr. Zhu Xian, World Bank Department, Ministry of Finance.

Thank you for your em outlining the proposed revised schedule for Mr. Khan. Although we would have preferred that Mr. Khan visit Washington following the first visit to China -- so that we could be briefed on his first set of meetings in China, and could therefore perhaps provide him with some additional advice on the major part of his work to be done at his residence -- we have no objection in principle to the proposed schedule changes. I have been unable to discuss the new dates with Mr. Guerrero, and his availability around the end of November and the end of January (when the Bank visits take place), as he is presently away from Washington. He will return on Monday Sept. 13, so I will discuss with him then. I will let you know if there are any problems.

We look forward to Mr Khan's commencing work on his assignment later this month.

Best regards,

David Rix.

CC: Pablo Guerrero (PABLO GUERRERO)
CC: Zafer Ecevit (ZAFER ECEVIT)

China

A L L - I N - 1 N O T E

DATE: 08-Sep-1993 05:12am EST

TO: DAVID RIX (DAVID RIX @A1@VAX12)

FROM: Ministry of Finance, AS3CH (CHMOF AT A1 AT CHINA)

EXT.:

SUBJECT: Hiring of External Consultant for Evaluation Study in China

Dear Mr. Rix:

Thank you for your EM regarding your confirmation to the Letter Agreement for the captioned assignment. We forwarded the confirmed copy of the Agreement to Mr. Khan in Australia and received today his response in which he suggested several changes for the calendar of his consulting services. We tentatively have no objection to the changes and hope to receive your comments or confirmation in this regard. The changed distribution of work-days is as follows:

Period	Work-days*
Sept. 27 - October 2, 1993 Background Work World Bank	4
October 9 - October 27, 1993 Work in China	14
October 30 - November 28, 1993 Work Place of Residence Briefing World Bank	18 2
January 17 - February 1, 1994 Work in China Final Briefing World Bank	10 2

*Note: Work-days do not include travel time.

As you may notice from the above, there are two major changes. One is the date of the first visit to China, which was suggested to be shifted from the period October 5 - 22 to October 9 - 28. The other is the shift of the second visit to Washington from being undertaken immediately after initial Beijing mission to immediately after submission of the draft report.

Hope to hear from you about these proposed changes soon, preferably in a couple of days, so that we will have sufficient time to communicate with Mr. Khan on the signing of the Letter Agreement before his first activity for this assignment on Sept. 27, 1993.

Best regards.

Hong Houqi, project officer

World Bank Department
MOF

CC: HONG ZHAO
CC: Pablo Guerrero - China Visitor

(HONG ZHAO @A1@EDSEL)
(PABLO GUERRERO AT A1 AT CHINA)

OFFICE MEMORANDUM

→ China

DATE: September 7, 1993

TO: Christopher Gibbs, OEDD1 *CG*

FROM: Graham Donaldson, Chief, OEDD1 *GD*

EXTENSION: 31730

SUBJECT: CHINA - Impact Evaluation of North China Plain Agriculture (Cr. 1261)
Terms of Reference

1. Between approximately October 11 and 31, 1993 you will visit China to undertake field visits in support of an impact evaluation of the North China Plain Agriculture Project.
2. Christopher Gibbs will lead the mission and be responsible for the preparation of the final report. The field mission will comprise yourself, Mr. Christian Polti (Consultant) and Mr. Jikun Huang (Consultant from the China National Rice Institute).
3. The mission will meet with relevant government officials in Beijing and the three provinces in which the project was implemented: Anhui, Henan and Shandong. It will also visit a sample of field locations served by the project, and comparable areas which were not served, in order to identify project impacts and assess their value and significance. In the field, you will meet with project beneficiaries, representatives of farm households, farmer organizations and local officials to identify their perceptions of project impact. In addition, you will hold discussions with staff of rural development research institutes in Beijing and the study area to gain additional views on project impacts and impact evaluation methods appropriate for field work in rural China.
4. The impact evaluation will be conducted within the draft framework provided for "new style" OED impact evaluations. Based on a prior understanding of intended project inputs and outputs, the PCR and the PAR, the aim of the evaluation will be to identify development effects and impacts which can be traced directly or indirectly to the project. To accomplish this you will review the impact study data prepared by the Borrower in Beijing, and apply rapid rural appraisal techniques in field-site discussions with beneficiaries, local officials and rural households in the project area, to identify and evaluate project effects and impacts. Relevant indicators of project impact - economic, social and environmental - will be sought, and their relationship to project design and implementation will be traced. You will compare relevant development indicators in the project areas with comparable areas which were not directly affected by the project. The long-term sustainability of project impacts will be addressed.
5. While in China you will also have preliminary discussion with relevant officials and resource bases of the prospective OED study of agricultural development in China. The draft approach paper for this study will be prepared following these discussions.

6. On your return to Washington, you will write a back-to-office report outlining your findings and your approach to the completion of the impact evaluation report.

cc: Mr. Köpp (OEDDR)
Mr. Guerrero (DGO)
Work Program

University of Queensland
St. Lucia, Qld. 4072
Brisbane, Australia

Telephone 61-7-365 2762
61-7-365 2871
Fax No. 61-7-365 1544

TO: Mr Pablo Guerrero Adviser to DG OED/World Bank	FAX NO. 1-202-477-1212
FROM: Denise Freeman Assistant	Date 02.09.93 Page 1 of 2

SUBJECT: Your fax of September 1, 1993 - Performance Evaluation, China
Our Ref: L-12/93

Dear Mr Guerrero

I have just received your fax and please find attached a list of persons that Adil would like to see during his visit to Washington.

Best regards

Denise Freeman

Denise Freeman.

University of Queensland
St. Lucia, Qld. 4072
Brisbane, Australia

Telephone 61-7-365 2762
61-7-365 2871
Fax No. 61-7-365 1544

TO: Mr Pablo Guerrero Adviser to DG OED/World Bank	FAX NO. 1-202-477-1212
FROM: M. Adil Khan Director	Date 19.08.93 Page 1 of 2

SUBJECT: Performance Evaluation, China
Our Ref: L-12/93

Dear Mr Pablo Guerrero

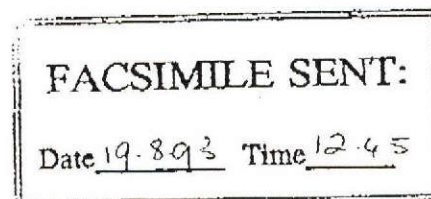
By now you would have learnt that PR China has approved my candidacy for the above activity. As a part of this activity, I have now made tentative plans to visit Washington during September 28 - October 2, 1993 for briefing before going to China. Hope that you find these dates convenient and suitable for arranging the necessary meetings in Washington.

As I shall be away on another mission to the Philippines during the period August 24 - September 11, I would like to take this opportunity of requesting you to kindly make hotel reservations for me in Washington. I prefer the Lombardy Hotel - IN: 28/9/93 and OUT: 2/10/93.

While in Washington, I also wish to see the following people at the World Bank - provided that is mutually convenient to us all.

- Michael Bamberger , EDI
- Patrice Harou, EDI
- Mehdi Al-Bazzaz, EDI
- Ian Knapp (Ph: 473-5533)
- Catherine Farvacque-Vitkovic (Ph: 473-1016)

I would appreciate it if you could include the above people in my schedule of meetings.



→ China

CANADIAN COMPREHENSIVE AUDITING FOUNDATION
LA FONDATION CANADIENNE POUR LA VÉRIFICATION INTÉGRÉE

55 Murray Street, Suite 210
Ottawa, Ontario
K1N 5M3 Canada
Telephone: (613) 236-6713
Fax: (613) 236-2150

55, rue Murray, Pièce 210
Ottawa (Ontario)
K1N 5M3 Canada
Téléphone: (613) 236-6713
Télécopieur: (613) 236-2150

FACSIMILE MESSAGE TRANSMISSION
TRANSMISSION PAR TÉLÉCOPIEUR

DATE: 30/8/93
TO/À: MR. PABLO GUERRERO
COMPANY/SOCIÉTÉ: THE WORLD BANK
FAX NUMBER/
No DE TÉLÉCOPIEUR: 202-477 1212

MESSAGE:

DEAR PABLO

- 1) I JUST RETURNED TO MY OFFICE
- 2) THANK YOU FOR YOUR NOTE OF
24/8/93
- 3) IT IS TOO SAD ABOUT THE MISSION
IN CHINA. THIS WOULD HAVE BEEN
QUITE A CHALLENGE
- 4) THANK YOU FOR HAVING PUT FORWARD
MY NAME. I WOULD BE DELIGHTED
TO WORK WITH YOU AGAIN IN THE
FUTURE. BEST REGARDS

Guy

FROM/
DE:

Guy Leclerc

NUMBER OF PAGES/
NOMBRE DE PAGES

1 see. sat. over

→ China

TELEPHONE: 256467/243995
FAX: 259997
TELEX: 61209 (PEFUGA)
IPS Building, 6th and 7th Floors
Parliament Avenue



THE REPUBLIC OF UGANDA

PUBLIC ENTERPRISES REFORM
AND DIVESTITURE SECRETARIAT
MINISTRY OF FINANCE AND
ECONOMIC PLANNING
P.O. BOX 10944
KAMPALA - UGANDA

Fax : 001-202-477-1212
Date : August 6, 1993
For : Mr. Pablo Guerrero, Special Adviser to Director General Evaluation,
The World Bank, Washington

Dear Mr. Guerrero

Thank you for your letter of 21 July 1993. China's gradual system of evaluation capacity development will be of special relevance to several developing countries. While I will be delighted to assist the World Bank to fully institutionalise performance evaluation when they are ready for it, China would, I am sure, seek World Bank's assistance in the meantime for short term advisers to help them assess the state of art of their capacity building and evaluation arrangements. Do let me know if they need help as I would be interested even in a short term assignment in China. If you need my assistance on any aspect of the follow up of the June 93 meeting including the September 93 meeting, please do not hesitate to get in touch.

With warm regards to you as well as to Mr. Robert Picciotto.

Yours sincerely

6 August 1993

Dr. P.K. Basu
CHIEF ADVISOR ON PE REFORM AND DIVESTITURE
AND EVALUATION CAPACITY BUILDING

Reminder
sent re
SOE. 8/6

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

July 28, 1993

Mr. Huang Zhao-xian, Chief
Division 2, Office of External Economic Relations
Ministry of Agriculture
Nong Zhan Guan Nan Li No. 11
Beijing, People's Republic of China

Dear Mr. Huang:

Impact Evaluation of North China Plain Agriculture Project

Thank you for your letter of June 14, 1993 to Mr. Christopher Gibbs. We are pleased to have your interest and participation in the impact evaluation of this important project.

We are also pleased that you propose your own self-evaluation of the same project. As you know my Director-General is most anxious to encourage this kind of work in the line departments of our borrowing member countries.

Your offer to have your staff accompany Mr. Gibbs and his team is very welcome and we are pleased to accept.

I regret, however, that my Division has like yours a very limited budget. Since we have to undertake evaluations in about 50 countries each year it is not possible for us to contribute to the work of Government Departments in our member countries. It is expected that, since the borrowing country is an equal beneficiary of our evaluations, the costs should be carried by the Bank and the country in proportion to their interest. We also consider that in our evaluation work there is a significant training element, which is a contribution to your Division.

I very much regret, therefore, that I will not be able to provide the \$10,000 you request.

Mr. Gibbs will be sending a complete terms of reference for his evaluation in a few days. We look forward to a most beneficial collaboration for us both.

Yours sincerely,

Graham Donaldson, Chief
Agriculture & Human Development Division
Operations Evaluation Department

Cl. with & cc: Mr. Köpp, OEDDR
cc: Messrs. Gibbs, OEDD1 (o/r); Guerrero, DGO (o/r) ✓

CG

中华人民共和国农业部

Ministry of Agriculture

People's Republic of China

Address, NONG ZHAN GUAN NAN LI No.11, BEIJING

TEL, 5003386 Telex, 22233 MAGR CN Cable, CHAGRI

June 14, 1993

Mr. Christopher Gibbs
Operations Evaluation Department
The World Bank
1818 H Street, N.W.
Washington D. C. 20433
U. S. A.

Dear Mr. Gibbs:

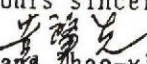
Mr. Zhang Kaiping, Director of the Office of External Economic Relations, Ministry of Agriculture, has passed me the letter of May 4, 1993 which is written by Mr. Graham Donaldson of OED, concerning the impact evaluation of North China Plain Agriculture Project. We are very glad to know that you will be the Task Manager for this impact evaluation.

The Ministry of Agriculture held the 10th anniversary meeting of North China Plain Agriculture Project in September, 1993 to exchange experience of the project operation and decide the policies and tasks for its future operation. At that time we also worked out a outline for data collection of the impact evaluation. Now I am sending this outline to you for your reference.

The data collection and analysis are now being carried out in accordance with this outline though it is not perfect enough as we lack experience in this field. I hope you could soon send us a suggested outline of preparatory steps, a proposed timetable and tell us which counties you plan to visit, what data you will need and what issues are most important to which we should pay more attention, so that we can make a better preparation before your arrival.

When your mission visit China in September or October this year, one senior agro-economist, one senior agro-engineer and one English interpreter from my division will work with you. The preparation for the impact evaluation, trip to project sites, translation and print of the impact evaluation report will need some money while funds allocated to my division by our government is quite limited, so it would be appreciated very much if you could list additional U. S. Dollar 10,000 in your budget of the proposed study for the activities mentioned above.

Yours sincerely


Huang Zhao-xian, Chief

Division 2, Office of External Economic Relations
Ministry of Agriculture, P. R. of China

DATA COLLECTION OUTLINE FOR THE IMPACT EVALUATION
OF
NORTH CHINA PLAIN AGRICULTURE PROJECT

- I. BACKGROUND OF THE PROJECT
- II. EVALUATION ON PROJECT DESIGN AND IMPLEMENTATION
 1. project design
 2. project implementation
 3. impact at project completion
- III. PROJECT IMPACT ON AGRICULTURE
 1. change of agricultural production
 2. change of cropped area, yield and production
 3. impact on the development of animal husbandry by the development of agriculture
 4. change of forestry production
- IV. FINANCIAL BENEFIT AND ECONOMIC RATES OF RETURN
 1. change of farm income
 2. financial change of the project
 3. project ERR (economic rates of return)
- V. SOCIAL IMPACT OF THE PROJECT
 1. change of farmers' living conditions
 2. social status and role of women
 3. impact on rural education and health
 4. impact on labour employment
 5. role of beneficiaries and their views on the project
 6. external impact
- VI. IMPACT ON ENVIRONMENT
 1. land resources protection by soil improvement
 2. improvement of soil nutrient
 3. changes of ground water table and quality
 4. area with newly increased or improved irrigation/drainage
 5. development of forestry and its impact on environment
 6. keep environment from pollution
- VII. IMPACT OF PROJECT ORGANIZATION
 1. agencies for project management
 2. responsibilities and functions of PMOs and related departments at different levels
 3. efficiency analysis of the project organizations
 4. sustainability of the project management agencies
- VIII. GENERAL REVIEW OF THE PROJECT IMPACT
 1. general evaluation of the project and project sustainability
 2. experiences and lessons gained from the project
 3. project prospect

A L L - I N - 1 N O T E

DATE: 01-Jul-1993 02:00pm

TO: ROBERT VAN DER LUGT

(ROBERT VAN DER LUGT @A1@CHINA)

FROM: Christopher Gibbs, OEDD1

(CHRISTOPHER GIBBS)

EXT.: 31735

SUBJECT: Impact Evaluation North China Plain

Greetings. I have just received a letter dated June 14 from Mr. Huang Zhao-xian, Chief, Division 2, Office of External Economic Relations, Ministry of Agriculture, PRC which indicates that the Ministry is ready for the OED impact evaluation of North China Plain Agriculture in late-September or October. The letter also encloses an outline being employed by the Ministry for data collection prior to the field mission. The outline is well ordered and thorough but stops somewhat short of impacts and fails to address areas which were not affected by the project, but we are invited to comment on the outline and suggest changes. The letter indicates the level of personnel support the Ministry is prepared to offer during the period of fieldwork.

Most importantly, the letter closes with a request for \$10,000 as payment for the services the Chinese will offer, presumably for advance data collection and personnel. Before responding to this, Graham suggested that I check with you to see if you had any knowledge of the request for a payment, of the proposed data collection outline, or of similar requests made to the Bank by the Government of the PRC for payments for services rendered to missions similar to the one we propose for North China Plain Agriculture. Any light you can shed, or guidance you could offer, would be much appreciated.

With thanks and warm regards.

A L L - I N - 1 N O T E

DATE: 12-Jul-1993 03:55am

TO: CHRISTOPHER GIBBS

(CHRISTOPHER GIBBS @A1@VAX12)

FROM: Zhengxuan Zhu, EA2CH

(ZHENGXUAN ZHU AT A1 AT CHINA)

EXT.: 3120

SUBJECT: Impact Evaluation North China Plain

Mr. Robert van der Lugt has forwarded me all your EMs on the subject. I agree with the comment made by him. In addition, I would like to provide the following background information on \$10,000 as payment for service MOA will offer based on my conversation with the Ministry:

On June 10, representatives from MOA had a meeting with Mr. R. Pablo Guerrero in RMC on impact evaluation. It was suggested by Mr. Guerrero that China carries out impact evaluation for all Bank financed projects, while OED evaluates only 40% of the projects. Mr. Zhang Kaiping, Director, External Economic Relations Office was in agreement with the suggestion. Meanwhile he raised the funding issue, since this activity has financial implications. He further asked Bank's financial assistance in this respect.

In view that impact evaluation for North China Plain Project is likely to happen in coming September/October, data and information need to be collected now. For this, MOA asked for \$11,000 in the letter, which is used for the following items:

data and information collection:	\$ 3,500
translation of impact evaluation report	\$ 1,850
printing fee of the report	\$ 3,000
travel cost for Chinese counterpart accompanying the Bank mission	\$ 2,880
total	\$11,230

Best regards.

CC: Robert van der Lugt
CC: DAUD AHMAD@A1@VAX12

(ROBERT VAN DER LUGT AT A1 AT

OFFICE MEMORANDUM

DATE: July 21, 1993

TO: Distribution

FROM: Peter Harrold, Acting Lead Economist (EA2DR)

EXTENSION: 82341

SUBJECT: Mr. Chen Li's C.V.

P. Guenero
any interest for
your EEP P in
China?

YA
7/27

File China

1. The Research Institute of the Ministry of Foreign Economic Relations and Trade (MOFERT) of the People's Republic of China have a UNDP financial program to help junior staff trained overseas. In this connection, we received the attached C.V. of Mr. Chen Li.
2. Would you please examine the C.V. and let me know at your earliest convenience whether or not Mr. Li would be a useful resource for you to have on board for a 12-month period. Thanks for your time.

Attachment

Distribution:

A. Bhattacharya (FRSCR); M. Baird (OEDD2); S. Lateef (OPRIE); G. Donaldson (OEDD1);
Y. Albouy (OEDD3)

RLall:voc

中华人民共和国
对外经济贸易部 国际经济合作研究所

THE RESEARCH INSTITUTE FOR INTERNATIONAL ECONOMIC CO-OPERATION
Ministry of Foreign Economic Relations and Trade
People's Republic of China

Attachment 1

RESUME

Name: Chen li

Born: October 30, 1964 Beijing, China

Nationality: China Sex: male

Martial Status: Married, with one daughter age 2

Current academic status: assistant researcher, with major in China's foreign economic and technical aid and international development assistance.

Present research task: Suggestions on improvement of Chinese aid to developing countries.

Education: Bachelor of Economics 1986. Department of International Economic Cooperation.

Experiences: December 1988 to December 1990, posted as economic attache of the Chinese Embassy to Mauritius, with major responsibility of supervising implementation of Chinese aid funded projects. November to December 1992, visited Sweden, Germany and the United Kingdom for understanding and comparing foreign aid administration.

Publications: Nordic countries aid, NGO's aid, Comment on Japanese Aid, improving aid effectiveness by laying emphasizing on aid management. Comparative analysis of aid administration between China and some western countries in academic research monthly journal sponsored by this institute.

中华人民共和国
对外经济贸易部 国际经济合作研究所

THE RESEARCH INSTITUTE FOR INTERNATIONAL ECONOMIC CO-OPERATION
Ministry of Foreign Economic Relations and Trade
People's Republic of China

Attachment 2

Proposed undertaking research activities at the
World Bank

1. what experiences China can learn from the
World Bank in managing aid projects in
developing countries including
 - a) preparation of background materials of Country
Program.
 - b) identification of aid forms
 - c) management procedures in each project cycle
and
 - d) evaluation
2. The role of the World Bank in aid coordination
3. How does the World Bank cooperate with IMF,
NGO and individual donors to implement aid
programs and management.

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

JOHANNES F. LINN
Vice President, Financial Policy & Risk Management

D. G. O.

'93 JUL 8 PM 1 19

July 7, 1993

Mr. Robert Picciotto

Bob:

I thought you might be interested in the attached BTO on China.

A question: Do our PCR's and audit reviews systematically record our borrowers' concerns about World Bank "services"?



Attachment

OFFICE MEMORANDUM

DATE: June 18, 1993

TO: Mr. Sven Sandstrom, EXC

FROM: Johannes F. Linn, FPRVP

EXTENSION: 80602

SUBJECT: China Field Trip

1. I visited China from May 22 through June 9 for GEF negotiations and for a tour of three provinces to familiarize myself with the current situation and Bank projects in China. On my return trip I stopped for a day and a half in Tokyo; this note reports on my field trip.

2. The trip lasted a total of ten days and took me down and up along the East Coast through three provinces and six cities besides Beijing. It was superbly organized by the staff in Resident Mission and the Ministry of Finance. On my trip I was accompanied by Messrs. Yang from the Resident Mission and Mr. Lu from the MOF. In effect, the trip started with discussions in Beijing with central and local officials; I then proceeded to Fujian Province in the South East where I visited Fuzhou, Quanzhou and Xiamen; from there I flew to Shanghai, and on to Jiangsu Province (northwest of Shanghai) for a visit of Wuxi and Suzhou. In Beijing and Shanghai I gave a seminar on central-local government relations and urban finance issues, based on a recently published book by Roy Bahl and myself. The remainder of this note briefly summarizes some major observations from my trip; I will also be sharing some more detailed notes with Regional managers.

Macroeconomic situation

3. From my discussions with senior officials at MOF and the People's Bank of China it is clear that there is now serious concern in the central government about the increasing evidence of "overheating" (import and construction boom, export slow down, inflation increase). However, the meetings confirmed that the leadership is not unified on how to deal with the macroeconomic situation; moreover, the picture is complicated by the fact that in the increasingly decentralized economic management of China, central authorities do not have strong indirect macroeconomic management tools (monetary and fiscal), while provincial and local governments are seen to resist central efforts to limit growth through direct measures, such as limits on credit expansion and public expenditures at the local level and increased local tax revenue transfers to the center. Getting a handle on its macroeconomic policy levers is arguably the greatest challenge that China faces. This involves principally credit control and fiscal control, which are briefly discussed in turn.

Credit control

4. The recent interest rate increase put into effect by the PBC seems to have brought back some deposits into the official financial system, but appears to have had very little impact in cooling off investment spending in the provinces. The PBC indicated that a further increase in rates may be considered in June. From conversations with provincial plant managers and local officials it is clear that modest interest rate increases will not have much, if any effect; there are, however, signs at the local level that access to credit may have become a binding constraints as some PBC branches may be following central PBC requests for putting the breaks on credit.

Fiscal control and central-local fiscal relations

5. I had frequent opportunities to discuss this topic with central and local officials all of whom are well aware of the fact that this is a central issue in the management of the reform process. The core of the problem is that while China in principle still has a unitary fiscal system (in the sense that provincial and local finance bureaus are branches of the MOF and collect all taxes), in practice the subnational bureaus managers are appointed by their respective provincial or local political leaders and respond substantially to their directions. One provincial finance bureau director told me outright that it is his job to keep tax revenues out of the pocket of the Minister of Finance. Under these circumstances it is not surprising that the central government does not have effective control over revenue collection (reflected among other things by the proliferation of tax exemptions granted to township and village enterprises--the ubiquitous TVEs--and hence a very low revenue elasticity) and cannot use the tax instrument as a means for short term macroeconomic management. At the same time, controlling expenditures of local authorities may have become virtually impossible, a fact that is aggravated where local governments can borrow directly (or indirectly through local public enterprise) from the local PBC branches.

6. The central dilemma which China faces is this: In the long term only fundamental fiscal reform (designed to introduce a conventional fiscal system where central and local governments have their clearly delineated expenditure responsibilities and revenue authority) is likely to solve its fundamental fiscal problem--a process which will be politically very difficult, given the clearly very entrenched provincial and local interests and their great sense of independence from central control. But in the short term there may be no substitute for reestablishing a degree of central control over subnational government finances if the government is to establish a modicum of overall macroeconomic control. In this connection two complementary steps might be taken relatively quickly: The first order of business is to establish firm control over the lending activities by subnational branches of PBC and/or to raise the cost of credit substantially; second, firm rules of the game, reasonably uniform across provinces and localities, need to be introduced which govern (a) tax sharing upward of fixed proportions of all locally collected tax revenues and (b) exemptions that local authorities can grant to enterprises in their jurisdictions. Of course, these short term measures will also cause serious political difficulties for exactly the same reason that

fundamental fiscal reform will be very difficult: Subnational leaders will not easily cede control over their local financial base.

7. What is encouraging in this connection is that local leaders were generally very interested in developing new revenue sources outside the traditional tax arena, including user charges (witness the wide use of tolls on highways), infrastructure development charges, property taxes, taxes on automobiles, etc. Building on this willingness it may be possible to start redesigning the revenue structure of central and local authorities for the long term. However, this will take time and require a lot of intensive external support. One critical area of support will be to help local officials better understand how urban land markets function and how to manage urban land development in a market economy.

Local economic conditions

8. When travelling up and down the east coast of China one is struck by the extraordinary surge in local economic activity that is gripping this large region. All medium-sized townships that I visited (in China this means cities with populations between 500,000 and 1 million inhabitants) reported GNP growth rates in 1992 over 1991 of around 50%; the entire region appears to be one huge building site with new factories, apartment building, shophouses and roads recently completed or under construction everywhere. I am told that the 200 miles of roadway from Nanjing, the capital of Jiangsu Province, to Shanghai are now solidly lined by TVEs--I personally saw this for parts of the road that I travelled by car.

9. Much of this development is fuelled by direct foreign investment of Overseas Chinese from Taiwan, Hongkong, Singapore and even Thailand and Indonesia. But much of it must also come from local savings and credit. None of the local officials with whom I spoke saw any inherent problem in this investment boom and nobody seemed to be worried about it coming to a sudden halt. To an outside observer like myself such an event does seem possible, either because of a sudden turning of the macroeconomic screw by the Center or, perhaps less likely, because of a collapse of foreign investment, possibly linked to a belated recognition of excess capacity having been created. In either case, the impact of an investment crash at the local level could be traumatic, as the substantial expansion of employment and incomes related to the construction boom could be quickly reversed. A "slow landing" from the current investment boom would therefore seem highly desirable also from the local perspective. Making sure that local officials understand this would appear to be a high priority.

10. Another possible source of instability might be the very ambitious investment programs in infrastructure and urban development which many of the local governments have currently at the implementation or planning stage. Shanghai, for example, is planning an investment program of \$ 3 billion just in the new town of Pudong for the next 2-3 years, and possibly as much as \$ 20 billion over the subsequent five years. One wonders about the ability of local authorities to service

the resulting debts and whether they have adequate financial planning tools to assess the financial risks which they incur in the process.

11. Of course, the headlong economic growth in the region has created major public investment needs that need to be addressed:

- Transportation is a major bottleneck as all intercity road arteries are seriously clogged, even though there are still very few passenger cars on the road--most of the traffic is trucks, buses and vans, agricultural vehicles and bicycles. Also, traffic congestion is becoming a serious problem in the larger cities. These problems will only get worse as more private cars come onto the roads and streets as will inevitably happen. The current transport infrastructure (roads, railroads, ports, airports) seems woefully inadequate. Incidentally, how China will manage the transition to an individually motorized society is one of the major policy questions that should be addressed early on, if that is not already being done.
- Electric power is, or will be a bottleneck in many places; addressing this in a cost effective and environmentally sound manner will obviously be critical for continued smooth economic expansion.
- Environmental degradation in the region is dramatically evident wherever one looks--all water ways are seriously polluted; a grey-brown haze seems permanently to hang in the air; acid rain is said to be a serious problem in many places. Fortunately, all local officials whom I talked to are acutely aware of these problems, and plans to deal with environmental degradation seem to be at the top of their agenda.

12. Local officials of all provinces and cities that I visited pleaded for more Bank support to help them respond to these investment needs. In particular, our record in the area of environmental protection appears to be particularly strong in the eyes of local officials; this may provide an opportunity to expand lending in an area that is both crucial for the country and important in the eyes of our donor countries.

Bank and IDA Projects

13. During my trip I had an opportunity to visit, and talk to many officials about a substantial number of Bank projects at various stages of preparation and implementation. Throughout I was struck by what appeared to be a generally excellent record of project implementation (confirming the well-known record of China in this regard), the overwhelming interest by local officials in Bank support and the extraordinary goodwill towards the Bank which is notable wherever one turns. Even the resettlement components of the projects that I visited appear to be handled very effectively, again confirming what is generally known about China. In cases where local officials raised concerns about Bank procedures--as they did in response

to my specific question on how the Bank could be more helpful (see below), this was generally prefaced with a statement of great interest in continued Bank support and with praise for the task managers and project officers with whom they dealt on a day-to-day basis.

14. The issues that were most commonly raised regarding possible problems and improvements in the way the Bank does business were the following:

- International Competitive Bidding: While most local officials welcomed ICB as helping to lower cost and providing access to a greater range of technological options, many complained that it required an excessive amount of time and was not helped by a slow Bank turn-around for review of bidding documents. Some thought that the cut-off limit for Local Competitive Bidding (LCB) for projects involving mostly civil works (e.g., construction of sewerage interceptors) should be raised and greater authority be given to the Resident Mission in Beijing for clearing documents.
- Lengthy preparation process: Many local officials felt that the Bank's project preparation process was unduly lengthy (18 months to 2 years), particularly in an environment such as China where the conditions surrounding a project change so rapidly.
- Lack of flexibility in Bank projects: There was generally a sense that the Bank is inflexible when it comes to changing project design or implementation in an environment of rapidly changing economic conditions. This view was particularly prevalent for the industrial credit projects in Shanghai (SIDP) and Jiangsu (SPARK). In both cases local officials and managers expressed considerable unhappiness about the Bank's cumbersome and slow process for preparing, reviewing and approving subprojects which in their view makes these projects very difficult to implement in a way that is useful to the dynamic enterprises in their respective regions.
- Slow down in Bank disbursement: A number of local officials complained about a notable slowdown in the Bank's payment performance after disbursement had been authorized. Apparently, what used to take two weeks, now commonly takes over one month. What is more, telexes of inquiry by the borrower are not answered. Apparently, they see this linked to the fact that the disbursement officer whom they used to deal with has moved on to another job. More generally, some project managers saw a need for more intensive training of their staff in Bank financial procedures and wondered whether more could be offered by the Bank in this area early in the project cycle.

- Excessive staff turnover: While I heard only good things about specific project officers and their hard work and willingness to help wherever possible, some local officials professed a sense of frustration about excessive turnover among task managers.
- Decline in access to IDA: Local officials were unhappy about the lower share of IDA which they saw leading to an increase in borrowing costs. On this point, I had to gently break the news that this is only likely to intensify as one of the side effects of success, both as regards the success of the particular region of China relative to the rest of the country, and as regards the success of China relative to other poor developing countries.

Other matters

15. Officials from the Shanghai Finance Bureau expressed a great interest in learning more about the possibility of cofinancing, both official and private, in connection with Bank projects. Apparently, they see this as a way to expand and enhance their access to external funds on favorable terms as they see that access to Bank funds will in future be limited to levels below what they regard as desirable. They feel that they can take a lead in this area for China as a whole and would like to be in touch with staff from the Bank who can explain to them the cofinancing experience of other countries and point them towards specific country and project examples which they can study as a way to find out whether and how to get into this type of financing.

16. Throughout my trip, Chinese officials reminded me that the eastern and southern provinces are much better off than the rest of China. Moreover, they vigorously complained about the "IMF/World Bank" purchasing power parity (ppp) income calculations which reportedly have put China number three in the world among countries ranked by size of economy.

Conclusion

17. In sum, based on what I saw and heard on this trip I am very optimistic about the development prospects of China and about the scope for continued successful collaboration between China and the Bank. This presumes that three potential clouds on the horizon can be effectively dealt with: maintaining macroeconomic stability, preventing excessive regional disparities, and maintaining political stability. My hunch is that each of these three issues is related to what may be the one of the thorniest questions which China faces today: how to structure its central-local government relations. One other issue which stands out as needing urgent attention is the need for environmental protection--fortunately, on this issue the Chinese officials themselves seem to be eager to move, and move quickly.

June 18, 1993

cc. Messrs./Mesdames. Preston, Karaosmanoglu, Stern; Kaji, Burki, Bottelier;
Serageldin, El-Ashry; Kashiwaya, Sud; Eccles, Raghavan;
Donovan, Nishimizu

中华人民共和国农业部

Ministry of Agriculture

People's Republic of China

Address: NONG ZHAN GUAN NAN LI No.11, BEIJING

TEL, 5003366 Telex, 22233 MAGR CN Cable, CHAGRI

June 14, 1993

Mr. Christopher Gibbs
Operations Evaluation Department
The World Bank
1818 H Street, N.W.
Washington D. C. 20433
U. S. A.

Dear Mr. Gibbs:

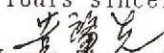
Mr. Zhang Kaiping, Director of the Office of External Economic Relations, Ministry of Agriculture, has passed me the letter of May 4, 1993 which is written by Mr. Graham Donaldson of OED, concerning the impact evaluation of North China Plain Agriculture Project. We are very glad to know that you will be the Task Manager for this impact evaluation.

The Ministry of Agriculture held the 10th anniversary meeting of North China Plain Agriculture Project in September, 1993 to exchange experience of the project operation and decide the policies and tasks for its future operation. At that time we also worked out a outline for data collection of the impact evaluation. Now I am sending this outline to you for your reference.

The data collection and analysis are now being carried out in accordance with this outline though it is not perfect enough as we lack experience in this field. I hope you could soon send us a suggested outline of preparatory steps, a proposed timetable and tell us which counties you plan to visit, what data you will need and what issues are most important to which we should pay more attention, so that we can make a better preparation before your arrival.

When your mission visit China in September or October this year, one senior agro-economist, one senior agro-engineer and one English interpreter from my division will work with you. The preparation for the impact evaluation, trip to project sites, translation and print of the impact evaluation report will need some money while funds allocated to my division by our government is quite limited, so it would be appreciated very much if you could list additional U. S. Dollar 10,000 in your budget of the proposed study for the activities mentioned above.

Yours sincerely


Huang Zhao-xian, Chief

Division 2, Office of External Economic Relations
Ministry of Agriculture, P. R. of China

DATA COLLECTION OUTLINE FOR THE IMPACT EVALUATION
OF
NORTH CHINA PLAIN AGRICULTURE PROJECT

- I. BACKGROUND OF THE PROJECT
- II. EVALUATION ON PROJECT DESIGN AND IMPLEMENTATION
 1. project design
 2. project implementation
 3. impact at project completion
- III. PROJECT IMPACT ON AGRICULTURE
 1. change of agricultural production
 2. change of cropped area, yield and production
 3. impact on the development of animal husbandry by the development of agriculture
 4. change of forestry production
- IV. FINANCIAL BENEFIT AND ECONOMIC RATES OF RETURN
 1. change of farm income
 2. financial change of the project
 3. project ERR(economic rates of return)
- V. SOCIAL IMPACT OF THE PROJECT
 1. change of farmers' living conditions
 2. social status and role of women
 3. impact on rural education and health
 4. impact on labour employment
 5. role of beneficiaries and their views on the project
 6. external impact
- VI. IMPACT ON ENVIRONMENT
 1. land resources protection by soil improvement
 2. improvement of soil nutrient
 3. changes of ground water table and quality
 4. area with newly increased or improved irrigation/drainage
 5. development of forestry and its impact on environment
 6. keep environment from pollution
- VII. IMPACT OF PROJECT ORGANIZATION
 1. agencies for project management
 2. responsibilities and functions of PMOs and related departments at different levels
 3. efficiency analysis of the project organizations
 4. sustainability of the project management agencies
- VIII. GENERAL REVIEW OF THE PROJECT IMPACT
 1. general evaluation of the project and project sustainability
 2. experiences and lessons gained from the project
 3. project prospect

A L L - I N - 1 N O T E

DATE: 01-Jul-1993 02:00pm

TO: ROBERT VAN DER LUGT

(ROBERT VAN DER LUGT @A1@CHINA)

FROM: Christopher Gibbs, OEDD1

(CHRISTOPHER GIBBS)

EXT.: 31735

SUBJECT: Impact Evaluation North China Plain

Greetings. I have just received a letter dated June 14 from Mr. Huang Zhao-xian, Chief, Division 2, Office of External Economic Relations, Ministry of Agriculture, PRC which indicates that the Ministry is ready for the OED impact evaluation of North China Plain Agriculture in late-September or October. The letter also encloses an outline being employed by the Ministry for data collection prior to the field mission. The outline is well ordered and thorough but stops somewhat short of impacts and fails to address areas which were not affected by the project, but we are invited to comment on the outline and suggest changes. The letter indicates the level of personnel support the Ministry is prepared to offer during the period of fieldwork.

Most importantly, the letter closes with a request for \$10,000 as payment for the services the Chinese will offer, presumably for advance data collection and personnel. Before responding to this, Graham suggested that I check with you to see if you had any knowledge of the request for a payment, of the proposed data collection outline, or of similar requests made to the Bank by the Government of the PRC for payments for services rendered to missions similar to the one we propose for North China Plain Agriculture. Any light you can shed, or guidance you could offer, would be much appreciated.

With thanks and warm regards.

A L L - I N - 1 N O T E

DATE: 12-Jul-1993 03:55am

TO: CHRISTOPHER GIBBS (CHRISTOPHER GIBBS @A1@VAX12)

FROM: Zhengxuan Zhu, EA2CH (ZHENGXUAN ZHU AT A1 AT CHINA)

EXT.: 3120

SUBJECT: Impact Evaluation North China Plain

Mr. Robert van der Lugt has forwarded me all your EMS on the subject. I agree with the comment made by him. In addition, I would like to provide the following background information on \$10,000 as payment for service MOA will offer based on my conversation with the Ministry:

On June 10, representatives from MOA had a meeting with Mr. R. Pablo Guerrero in RMC on impact evaluation. It was suggested by Mr. Guerrero that China carries out impact evaluation for all Bank financed projects, while OED evaluates only 40% of the projects. Mr. Zhang Kaiping, Director, External Economic Relations Office was in agreement with the suggestion. Meanwhile he raised the funding issue, since this activity has financial implications. He further asked Bank's financial assistance in this respect.

In view that impact evaluation for North China Plain Project is likely to happen in coming September/October, data and information need to be collected now. For this, MOA asked for \$11,000 in the letter, which is used for the following items:

data and information collection:	\$ 3,500
translation of impact evaluation report	\$ 1,850
printing fee of the report	\$ 3,000
travel cost for Chinese counterpart accompanying the Bank mission	\$ 2,880
total	\$11,230

Best regards.

CC: Robert van der Lugt

(ROBERT VAN DER LUGT AT A1 AT CH

CC: DAUD AHMAD@A1@VAX12

→ China

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

DATE: July 13, 1993 01:01pm

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

FROM: Pablo Guerrero, DGO (PABLO GUERRERO)

EXT.: 31717

SUBJECT: Re: EM copied to you from Zhengxuan Zhu on 7/12/93
North China Plain Impact Evaluation

Just to clarify some misinformation in the EM.

1. I met with the some 15 ministries in Beijing, including MOA, to discuss evaluation capacity development in China and the role of MOA, not to discuss impact evaluation.
2. Mr. Zhang mentioned impact evaluation in connection with OED's announced North China Plain mission for September, but made no reference to financial needs tied to this work.
3. I did not suggest that impact evaluations be carried out for all Bank projects in China, so I am not sure where Mr. Zhengxuan got this information or what Mr. Zhang was agreeing to.
4. You know that OED's budget (except perhaps when we had a trust fund from CIDA to hire local data gathering) does not allow financing for data gathering by the borrower. If data gathering is desirable, the decision to fund a request for it would fall squarely on the country department. Mr. Zhang mentioned his desire for financial assistance out of the IDF grant but, as you know, this would be conditional on a series of steps yet to be decided on by MOF. If this is the case David Rix should be consulted.
5. You told me that Mr. Zhang Kaiping had met with you after my meetings; perhaps he mentioned this impact evaluation related request to you. I had no knowledge.

CC: ZHENGXUAN ZHU (ZHENGXUAN ZHU @A1@CHINA)

→ China

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

DATE: July 13, 1993 12:01pm

TO: Graham Donaldson (GRAHAM DONALDSON)

FROM: Pablo Guerrero, DGO (PABLO GUERRERO)

EXT.: 31717

SUBJECT: Re: China-North China Plain Impact

Dear Graham:

I have not discussed or made any arrangement with the Chinese on this impact evaluation or on any other matters related to OED's work.

You may be right but only you can judge; I was not a part to any agreement.

I do not know what is intended since I did not discuss the matter. The task manager for the Chinese IDF "grant" for ECD is David Rix and you might ask him. I doubt though that these funds can be use for that work, unless they evaluation work itself (the Chinese side) were to be turned into case study material for a future evaluation workshop.

I agree with you that quality should be priority number one. However, I fail to see how the Chinese effort to collect data in anticipation of the OED mission would harm the study quality in any way. Given our long-standing offer to help the Chinese develop their evaluation know-how, the least we can do is show them how we go about this business in their own country, specially when they express an interest.

CC: Hans-Eberhard Kopp (HANS-EBERHARD KOPP)
CC: Christopher Gibbs (CHRISTOPHER GIBBS)

China

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: July 13, 1993 11:18am

TO: Pablo Guerrero (PABLO GUERRERO)

FROM: Graham Donaldson, OEDD1 (GRAHAM DONALDSON)

EXT.: 31730

SUBJECT: China - North China Plain Impact

Would you please inform us of whatever arrangements or commitments you have made with the Chinese authorities (in the Ministry of Agriculture or elsewhere) in respect of this impact study (and any other audits or studies?)

It would seem that we are being dunned for their expenses - was this agreed?

If what is intended is training in the context of ECDP can we charge the amount in question to our ECDP vote? Or can it be funded under the Chinese "grant" funds for this purpose? If the latter, whom do we see about arranging this?

Please note that this will be the first of the new-style Impact Evaluations and a major one in view of the scale and character of the project. Given your interest in the quality of our output in OED you will appreciate the need to keep our activities focussed on quality output as a priority.

CC: Hans-Eberhard Kopp (HANS-EBERHARD KOPP)
CC: Christopher Gibbs (CHRISTOPHER GIBBS)

→ China.

A L L - I N - 1 N O T E

DATE: 26-May-1993 06:22pm

TO: 4RGUERRER

FROM: PABLO, GUERRERO@VAX12@A1&DGO, (PABLO, GUERRERO@VAX12@A1&DGO)

EXT.:

SUBJECT: WBKR1416 WBKS1767

ZCZC WBKR1416 WBKS1767
QK WDIAL 4RGUERRER DROP
.PABLO, GUERRERO@VAX12@A1&DGO
OINFO

-SUBJECT : ECDP Consulting
-DRAFTED BY: Pablo Guerrero EXT: 31717
-AUTHORIZED BY: Pablo Guerrero

FAX
-FAX # 901162215712251
-#RETURN 202-4771212
-Mr. Alain Barberie c/o JENNIFER BARBERIE
-Canadian Embassy
-JAKARTA, INDONESIA
-Telephone 202-4731717
-Urgent

BT

* ALL-IN-1 ORIGINATOR DROPCOPY *

SUBJECT: ECDP Consulting

WASHINGTON, D.C. 26-May-1993

Dear Mr. Barberie:

You may recall that we met in May 1991 when you visited the Bank prior to moving to Jakarta. At the time I mentioned that we had some efforts under way in the orient in the area of helping borrowing member countries create or strengthen their public sector evaluation function. There has been some progress in this area in China.

The Bank has recently approved a grant for a two-year institutional development program focusing on setting up a performance evaluation system in China. I would be very interested in knowing whether you would want to be considered as a possible consultant for parts of this work. Depending on the assignment,

visits to Beijing of varying lengths could be required (but no longer than four weeks at any given time). If you are interested, I would like to know your earliest availability. It would also be useful for me to have copy of your updated CV and some idea of the daily honorarium you would expect.

I am leaving for China on June 4 to discuss the implementation plan of the grant with the authorities. It would be helpful to receive your reply before I leave.

Alain, best regards and I hope that you have been having a good time in Indonesia.

Pablo Guerrero
Adviser to the Director-General
Operations Evaluation

=05261820

NNNN

IDF

A L L - I N - 1 N O T E

DATE: 22-Mar-1993 12:03pm

TO: David Rix (DAVID RIX)

FROM: Sumiko Sato, CTRTA (SUMIKO SATO)

EXT.: 80527

SUBJECT: IDF China Org. & Dev. of a Proj. Performance Evaluation Capability

On behalf of Mr. Lau, I am pleased to clear the IDF grant agreement for the above project. The grant number is 28735. A copy of the signed grant agreement should be sent to each of the following divisions: the Office of Trust Fund Administrator, Trust Funds Accounting Division and LOAS.

- CC: Suzanne Morris (SUZANNE MORRIS)
- CC: Nancy Lim (NANCY LIM)
- CC: Nimrod Raphaeli (NIMROD RAPHAELI)
- CC: Kah Hie Lau (KAH HIE LAU)
- CC: Herbert Langer (HERBERT LANGER)
- CC: Suzan Huang (SUZAN HUANG)

OFFICE MEMORANDUM

DATE: February 2, 1993

TO: Mr. Abdallah El Maaroufi, Senior Operations Adviser

FROM: David Pearce, Chief, EA2CO

EXTENSION: 82350

SUBJECT: CHINA: Request for IDF Financing - Project Performance Evaluation

1. I attach herewith a revised request for IDF financing of activities designed to strengthen project performance evaluation, and ultimately the creation of a national institution, in China.
2. The revised draft incorporates the comments made by the Bank-wide committee. Specifically, the matrix of planned activities has been simplified and made clearer; the government contribution of RMB 250,000 (\$44,000 equivalent) - for local overhead costs of seminars and courses - has been spelled out; the preliminary timetable for initial training and consultants' activities during 1993 has been adjusted; and the \$13,000 of contingencies, previously shown separately, have been 'folded' into identified cost categories.
3. I have noted the committee's suggestion that twinning arrangements with performance evaluation institutions in other countries be considered, and this will be reflected in the terms of reference of the two study tours proposed.
4. Finally, you may wish to note that OED, as well as EDI and this department, is expected to provide significant back-stopping to this activity. Indeed, this initiative is the outcome of a request made by the former Minister of Finance to Mr. Picciotto last fall and, if the IDF grant is approved, I expect to discuss arrangements for its initial implementation with the Chinese authorities during the Country Implementation Review (CIR) later this month. Similarly, OED staff are ready to proceed with hiring consultants without delay. ~~In the circumstances, I consider the preliminary timetable quite realistic.~~
5. I hope this note and the attached revised request respond to the committee's concerns.

Attachment

cc: Messrs. Burki, Kimura; Ody, Rix o/r; Guerrero (DGO).

DPearce:jd

The World Bank Group
REQUEST FOR IDF FINANCING

Region	Country		
	East Asia and Pacific Region		China
Country Dept.	Task Manager	Amount of Grant Requested	
EA2		David Rix, EA2CO	US\$ 440,000

Title of Proposed Activity

Organization and Development of a Project Performance Evaluation Capability.

Purpose of Grant (a brief description of the activities to be financed and likely outcome of grant)

While China's project implementation record to date is highly satisfactory, there is a need to pay increased attention to, and provide more systematic support for performance evaluation, including the assessment of development impact. While performance evaluation has to date been carried out mainly by the project executing agencies concerned, its effectiveness and independence are inhibited by the lack of an overall national organizational framework, shortages of staff, inadequate knowledge of performance evaluation methodologies and techniques, and general inexperience in this area. During a meeting with the Director-General, OED last September, the former Minister of Finance expressed the authorities' interest in obtaining international technical assistance for the organization and development of China's project performance evaluation capability, including performance evaluation seminars, professional staff secondments, study tours by senior officials, hands-on participation in the evaluation of externally-financed projects in China, the development of performance evaluation guidelines, and the setting up of a performance evaluation information system. Against this background, and with the ultimate objective of developing a national organizational framework, including an institution, for project performance evaluation, the proposed IDF grant would support the objectives, activities and outputs outlined below.

Relationship of Grant Proposal with Country Economic and Sector Work (or Business Plan)

The proposed IDF grant would be consistent with the department's goals (and ESW) of assessing China's reform experience to date, and of seeking to operationalize it in terms of new and/or reformed institutions.

[IDF]

<u>Objective</u>	<u>Activities</u>	<u>Outputs</u>
1. To define the role, responsibilities and structure of proposed project performance evaluation unit or institution.	<ul style="list-style-type: none">a. Design and deliver seminar on performance evaluation system.b. Review adequacy of existing performance evaluation arrangements.c. Develop proposal for national performance evaluation system, including organizational structure.	<ul style="list-style-type: none">a. Seminar content and materials.b. Report and recommendations on existing performance evaluation arrangements.c. Report and recommendations on national performance evaluation system.
2. To establish policies, guidelines, and standards for proposed project performance evaluation unit.	<ul style="list-style-type: none">a. Review national and international policies, guidelines, and standards for project evaluation in China.b. Propose operational policies, guidelines, and standards for project evaluation in China.	<ul style="list-style-type: none">a. Report on national and international evaluation policies and practices.b. Manual of policies, guidelines and standards.
3. To ensure adequate staffing for the performance evaluation function.	<ul style="list-style-type: none">a. Develop training curriculum for basic skills in project evaluation methodology.b. Develop and deliver course to train trainers in project evaluation methodology.c. Design and arrange study tours to familiarize senior officials with international project evaluation practices.d. Arrange national participation in evaluation of Bank-financed projects in China.	<ul style="list-style-type: none">a. Training curriculum and materials.b. Training course and materials.c. Study tour program design and delivery.d. Internship program.

Government Agency Responsible for Execution

Director, World Bank Department, Ministry of Finance (MOF)

Government Contribution (cash or in-kind)

RMB 250,000 (\$44,000) for local overhead costs of training courses and seminar.

Other Comments

If successful, the activities to be financed by proposed ~~the~~ grant are expected to lead to creation of national institution for project performance evaluation.

Preliminary Timetable

The timetable for initial training and related consultants' activities would be approximately:

- 1st Performance Evaluation Seminar: June/July 1993.
- Preparation of curriculum for, and delivery of, 1st Project Evaluation Methodology Course: March-August 1993.
- 1st Project Evaluation Trainers' Course: October 1993.

Proposed Use of Grant Funds (breakdown by consultants, travel, studies, equipment)

- Study Tours: September 1993.
- Internship Program: November 1993.

See attached.

Modality of Execution (indicate modality - government agency, UN agency, NGO, international & local consultants)

The institutional development program would be implemented by external or local consultants, under the guidance of the World Bank Department of MOF.

Statement by the Director, Country Department

Following discussions with donors, I confirm that alternative and timely funds are not available, in particular and in the first instance, from UNDP.

Signature: Shahid Javed Burhan

Date of Submission to the Screening Committee 2/2/93

Date of Review by the Screening Committee 2/5/93

Decision by the Screening Committee Approved. Budget to be revised & incorporated.

Grant No. (issued by the Trust Funds Administrator upon approval by the Screening Committee) Local cost contribution. Government contribution to be increased to 15 percent.

CHINA

ORGANIZATION AND DEVELOPMENT OF A PROJECT
PERFORMANCE EVALUATION CAPABILITY

Estimated Costs over Two-Year Implementation Period

	Quantity	Unit cost/rate (\$/month)	Total cost (\$)
<u>Consultants</u>			
Fees	12 m/months	12,000	144,000
Travel	9 China visits total (2 consultants)	5,500	50,000
	Subtotal		<u>194,000</u>
<u>Training Courses/Seminars</u>			
Performance evaluation	3 seminars x 15 participants	1,000	45,000
Project evaluation methodology	3 courses x 15 participants	1,000	45,000
Project evaluation trainers	3 courses x 15 participants	1,000	45,000
	Subtotal		<u>135,000</u>
<u>Study Tours</u>			
To developed country	1 tour x 6 participants	4,500	27,000
To developing country	1 tour x 6 participants	3,000	18,000
	Subtotal		<u>45,000</u>
<u>Internships</u>			
Mission partici- pation	2 missions x 5 participants	2,500	<u>25,000</u>
<u>Equipment</u>			
Computers/software	3 workstations	2,500	<u>8,000</u>

Quantity	Unit cost/rate (\$/month)	Total cost (\$)
<u>Miscellaneous</u>		
Training Facilities Usage		13,000
Translation services		10,000
Supplies and materials		10,000
Subtotal		<u>33,000</u>
<u>Total Estimated Cost</u>		<u>440,000</u>

Cost Summary

Consultants' fees and travel	194,000
Training courses/seminars	148,000
Study tours	45,000
Internships	25,000
Equipment	8,000
Miscellaneous	20,000
<u>Total Estimated Costs</u>	<u>440,000</u>

OFFICE MEMORANDUM

cc: PG
 cc: EK
 YA
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M. Piccolo

D. G. O.

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File China

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DATE: March 12, 1993

TO: Mr. Shahid Javed Burki, Director, EA2

FROM: Daniel Ritchie, Director, AST *[Signature]*

EXTENSION: 81312

SUBJECT: "Retooling" - Improving the Bank's Business Processes: Meeting in China

1. As part of the effort to reexamine and simplify the Bank's business processes, Mmes. McCollom, Sato, and I from Headquarters and Messrs./Mmes. Ashraf, Dai, Hou, Lin, Zhang and Zong from RMC met on March 1 and 2, 1993 in Beijing with about 50 representatives of Chinese line ministries, local governments and implementing agencies. The purpose was to listen to the comments and suggestions of Chinese officials on the "receiving end" of Bank's assistance on ways to improve the efficiency and effectiveness of the Bank's business processes in support of China's own development effort. A list of participants is attached.

2. The meetings were remarkably open, honest, and constructive. Participants had prepared carefully and were anxious to express their views. According to later feedback, they were pleased to have the opportunity to offer their recommendations, and fully supported the initiatives suggested at our wrap-up meeting on March 2 (see below).

3. A number of specific suggestions were made which are summarized in the attachment. We have also attached a summary of the views of individual speakers, to give a flavor of the comments and their sources.

4. I thought I might give you a few impressions from these sessions, which were corroborated by the RMC staff who also participated. Clearly, we have a very healthy and maturing relationship in China, but one in which the Chinese seem to be anxious to move faster and assume more responsibility.

The Good News

5. There seems to be a strong agreement on the objectives of the Bank's investment program. No speakers disagreed with the purposes of our projects, even if they were sometimes described as too idealistic, complex, and ambitious.

6. There was also a consensus on the appropriateness of the Bank's policy objectives. Only one speaker criticized our policies (relating to lending to state enterprises).

7. Many speakers expressed genuine appreciation for the Bank's role in China's development. These were not the usual courtesy statements prior to criticism (there was virtually none of such formality). There seemed to be real respect for the Bank's professionalism, commitment and teaching.

8. The Chinese seem anxious to accept more responsibility for project preparation and implementation. Lack of ownership is clearly not an issue. The representatives expressed the views that these were their projects and they should have more of a role in consultants' supervision and in monitoring project progress.

9. The overall relationship seems very healthy. The suggestions for improvement were constructive and not unexpected, often reflecting the discussion at the CIR 4 meetings. There is a clear sense that the Bank can usefully undergo a "reform process", just as the Chinese themselves were undertaking. There is an appetite for improvement both in the Bank's business processes and in their own bureaucracies and in "harmonizing" the two more effectively.

The Bad News

10. There isn't any really bad news, given the quality of the portfolio and the initiatives agreed during the CIR and elsewhere. Still, I sensed some real impatience from the speakers that China was changing faster than the Bank, and we needed to show greater recognition of the need for speed, flexibility and the growing competence of Chinese professionals.

11. There was a strong consensus that the Bank's preparation process was too long and inefficient. One ministry's slogan describing the Bank's preparation process used to be the "three two's" -- two years, twenty tons of documents and two hundred thousand yuan. Now they say it has become the "three three's". (There have been 13 missions for one project we visited which has yet to be appraised.) Since their own feasibility study and SPC approval process takes 2 - 3 years before Bank preparation even begins, the overall elapsed time can be enormous.

12. Some representatives questioned whether the Bank hadn't become too expensive, both literally and in terms of the hassles required. Since the end users bear the full repayment costs, they mentioned the higher interest rate (and commitment charges) than the ADB, higher interest rates than commercial banks and, especially the foreign exchange risk, as real deterrents to future borrowing. They also mentioned the very expensive and extensive preparation cost, the high supervision overhead and sometimes irritating micro-management of implementation.

13. Some implementing agencies regretted the loss of the Bank's technical leadership. In the initial years of our relationship, the Bank's most valued contributions were on technical alternatives and design solutions, they said. Increasingly, task managers are younger economists and financial analysts more interested in economic and policy matters. The amount of technical contribution has decreased.

14. Some speakers criticized the Bank's working style. They felt that some Bank staff failed to appreciate local competence and were even rude or condescending to Chinese professionals. They cited several good examples of genuine teamwork and collaboration, but also occasional lapses in respect and communications.

15. In the same vein, several representatives expressed concern for the lack of staff continuity, slow response times, poor service orientation, lack of knowledge of the Bank's own procedures, and the over-reliance on consultants.

16. Finally, there was a common theme that China was changing rapidly, and the Bank's own processes and procedures were slow to respond. The lengthy preparation process of sub-projects in industry, for example, often meant that economic circumstances had subsequently changed and affected viability. Micro-management of implementation by the Bank in some sectors was cited as unnecessary, time consuming and inflexible.

Next Steps

17. Several of these themes are familiar from the Wapenhans Report, while some Wapenhans recommendations are not relevant as they are already common practice in China. Still, there seems to be a number of actions we might take to respond to this interesting feedback.

18. As a beginning, it might be useful to review the comments of the Chinese representatives with Bank staff working on China to separate the real issues from the rhetoric. In connection with the CIR 4 follow up, we might see whether additional actions specific to the China program might be appropriate. My sense from Task Managers is that they share a number of these perceptions, so dealing with them would be beneficial to all parties.

19. I mentioned two possible actions at our wrap-up meeting on March 2 (obviously without commitment):

- (a) A review of the consultancy industry in China, to assess the size, scope, competence, independence and potential contribution of local consultants to help prepare and implement Bank financed projects. (This would be a companion-piece to a review of the contracting industry about which I am writing you separately); and
- (b) An analysis of China's project preparation process, to see whether and how the Bank's preparation requirements could be further "harmonized." (Mr. van der Lugt and I raised this possibility with the Vice-Minister of Finance, Mr. Chi Hai-bin, who agreed that informal harmonization of a pool of projects larger than the lending program might be considered.)

20. In addition, I wonder if we might not consider reinstituting staff training in "client relations," ranging from negotiating skills to setting service standards. As a service institution, we offer little help to staff in managing relationships with customers.

21. Beyond China, several of the themes reinforce the need for "retooling" certain business practices Bankwide, including project preparation financing (the ADB grant facility was mentioned explicitly), project preparation itself, financial reporting (the representative of the

State Audit Administration said he had received comments on only 20 of 160 audit reports sent last year), and project implementation planning.

22. Many thanks to you, Yo Kimura, Mohammad Ashraf, Robert van der Lugt, and the several local staff in RMC (who were very thoughtful and insightful themselves) who enabled these meetings to take place. I believe they were very useful, and should encourage us to have similar seminars in other countries over the next two to three months. If similar themes emerge, it would point the way to more experimentation and adjustments in the Asia Regions' business processes.

Cleared with and cc: Mr. Ashraf, and RMC staff

cc: Messrs./Mmes. Kaji, Thomas, El Maaroufi, Kimura, van der Lugt, McCollom, Sato, Bottelier

DR/ddp

Improving the Bank's Effectiveness

Meeting to Identify Possible Improvements in World Bank
Processes and Procedures

Beijing, China, March 1-2, 1993

The following themes emerged from meetings on Monday morning, March 1, 1993, with representatives of China's line ministries, Monday afternoon, March 1, with representatives of local government and implementing agencies (including audit and procurement agencies, provincial authorities, etc.) and a wrap-up meeting on March 2, 1993, at which these findings were presented and agreed. The Ministry of Finance, World Bank Department, co-chaired the three meetings, and enforced the suggested next steps.

1) Project Preparation

- Project preparation is much too long, according to several speakers. The Ministry of Agriculture's slogan of Bank preparation -- the "three two's" (2 years, 20 tons of documentation and 200,000 yuan) had become the "three three's." Given the SPC's own requirements before projects are submitted to the Bank, the preparation can take six or seven years. Ways were needed to harmonize these processes.
- There should be an early agreement on objectives, technical solutions, information requirements to avoid lengthy iterations;
- Once agreed, there should not be costly last minute "add-ons" (often resulting from the Bank's internal reviews). The Bank had to be more consistent. Project conditions should be limited to those required for project success, not for moving the project through the Bank's bureaucracy.
- Drop the FAO-CP.
- Good preparation is critical to project success, but over-design is not synonymous with good quality preparation. In some rapidly changing sectors, excessive detail limits essential flexibility during implementation.
- In these changing sectors (industry, technology, some agriculture), a better assessment is needed of risks, and the potential impact of changes in policies, prices, the reform environment, etc., and design flexibility introduced accordingly. Static designs in an evolving economy were not useful.
- The Bank and implementing agencies need much better project implementation planning, including procurement planning.
- Finance preparation on a grant basis, à la ADB.

2) Data

- Have greater "respect" for data already available. Do better data management at HQ -- don't have different TM's asking for the same data.
- Be realistic and clear in requesting data. Don't "fish", hoping to catch something interesting. Don't insist on statistics if the data doesn't exist, or the risk will be "data invention" (as one speaker said he had done on resettlement statistics).

3) Consultants

- Have greater respect for the growing consulting profession in China (joint ventures, design institutes, universities, private firms).
- Use more local consultants rather than assuming only international consultants will do. Cost of "training" international consultants is very high.
- Ensure more borrower/implementing agency involvement in preparing TOR's for consultants and supervising them.
- Manage greater continuity of consultants hired by the Bank. Inconsistent and conflicting recommendations by successive Bank consultants is a problem.

4) Documentation

- Clarify the purpose of the SAR - sales document, description of project rationale, or implementation guide.
- Strengthen implementation planning section of SAR significantly (or produce a separate implementation volume).
- Improve clarity and simplicity of project financial reporting requirements.
- Review project reporting requirements.

5) Project Supervision

- Supervision needs to be taken more seriously, by Bank and borrowers alike.
- Strengthen the roles of provincial governments and the RMC (especially for procurement and disbursements).
- Make supervision more forward looking, not just retrospective or a current status review. Review likely impact and outputs, not just inputs.
- Ensure consistency, continuity and accountability of Bank staff.

- Give regular feedback on project reports, financial statements and project studies.
- Review current audit requirements.
- Introduce reference numbering system on correspondence, especially related to procurement.
- Revise pre-review contract, special account and SOE thresholds consistent with the growing size and complexity of the Bank's operations.
- Revise prequalification standards for civil works (where responsiveness has been limited).
- No mention was made for the need to increase the amount of Bank staff supervision.)
- Harmonize Bank and borrower requirements on resettlement, EA's, procurement, etc. (CIR focused on this.)
- Change procurement procedures for bulk commodities procurement (underway).
- Improve price estimations for project components (agreed in CIR).

6) Borrower Relations

- Bank is increasingly expensive in preparation costs, implementation overheads, interest rates, on-lending spreads, commitment fees and foreign exchange risk; ADB said to be more competitive financially (different commitment rate, lower interest rate, single currency option) and less hassle.
- Need to find other ways to manage Fx risk than passing on cross-currency risks to complementing agencies.
- Several comments related to the style of Bank staff -- sometimes overbearing, dictatorial, condescending, and lacking in respect; not a partnership; need more constructive working relationships.

7) Bank staff

- Many complimentary comments on professionalism, dedication, effectiveness and efficiency of Bank staff.
- Several pleas for more continuity, especially of consultants.
- Complaints of over-reliance on consultants rather than regular staff.
- Ruefulness over the loss of technical leadership, which was the hallmark of earlier relations; growing number of young TM's with

economic/financial backgrounds; less attention to technical alternatives and designs.

- Some complaints that Bank staff were unfamiliar with Bank's own policies and rules (especially on procurement) and too rigid in application (especially on resettlement).
- Several examples given of very slow or no response to letters, requests for action, sub-project approval, document clearance, project studies, periodic reports, and especially audit reports; poor service orientation.
- At least one borrower (the Ministry of Health) has started a course for staff on "how to survive the World Bank".

Summary of Participants' Comments

I. Project Preparation

1.1 Ministry of Agriculture. Projects becoming more complicated. During the last 3 years one project received 7 preparation missions, 4 of which were FAO-CP missions. The largest mission included 12 persons. It's difficult to receive such large groups particularly in terms of translation, documentation and transportation requirements.

1.2 Working with FAO-CP is very difficult. There is too great a reliance on and too little continuity in FAO-CP consultants. There is poor coordination between FAO-CP and the Bank. Ministry would prefer to rely on Bank staff for entire process. When Bank staff enter the preparation process at preappraisal, it's too late to introduce any needed changes to the project.

1.3 Another problem is with both Bank and FAO reliance on consultants. Creates inefficiency as each new consultant must be taught again about the Chinese situation. Also, technical solutions change with each new consultant introduced during project preparation. Example given: Red soils project.

1.4 Selection of consultants, particularly those working as Bank mission members is not rigorous enough. There is an insufficient understanding of the reality of China. Would be preferable to have more use of local consultants or joint reviews by foreign and Chinese consultants.

1.5 Sense that consultants arrive at technical solutions too quickly without adequate consultation with government. This leads to a frequent need for changes in recommendations regarding technical solutions.

2.1 Ministry of Communications. Bank staff less technically qualified than in past. Even the same person on various preparation missions offers different opinions from mission to mission. Difficult to come to closure on project issues.

2.2 Consultants often suggest such technical solutions and specifications that leads to procurement from their country.

3.1 State Scientific and Technology Commission (SSTC). Based on experience of SPARK project, there are implementation advantages to long preparation periods. This project was started in 1986, but didn't become effective until 1991, but implementation is good so far. Several changes in Task Managers, however, was a hinderance to project preparation.

3.2 China is a huge country with greatly varying conditions. Would suggest that attempts be made to restrict project areas. Also changing conditions reflecting progress of reform program require greater flexibility in project design and implementation criteria.

3.3 Bank should make better use of the Resident Mission (RMC), particularly by delegating more approval authority regarding Subprojects.

4.1 Ministry of Education. While the financial and economic analysis contributed by the Bank is important, there is too much time spent in project preparation.

4.2 One project started in 1988 was appraised only in 1993, too much detailed information is requested as a routine requirement. Some information is impossible to deliver as it is not systematically collected. In some areas despite weak statistical base, Bank staff demand information. This leads to delivery of imprecise or even incorrect information just to meet Bank demands. A request was made to have Bank staff develop a greater appreciation for data existing in implementing agencies and line ministries and to minimize requests to build data "from the bottom-up"

4.3 Bank should have greater respect for abilities of line ministries' research and design institutes.

4.4 Would suggest greater use of sector loans rather than customized, specific investment loans. Better support of on-going programs could reduce project preparation time.

5.1 SPC. Bank needs grant facility for project preparation similar to ADB's. This would allow local implementing agency to take on more of the project preparation activities. Currently there are three methods for project preparation:

(a) ADB's way: funds provided to borrower to carry out preparation activities;

(b) Cooperative preparation: Chinese take lead with Bank assistance; or

(c) Bank takes the lead.

Want to see less of Bank taking the lead.

6.1 Ministry of Public Health. For some projects, preparation time can be cut. For others, a heavy preparation effort will be required.

6.2 Lessons learned and experience gained from good project preparation helps to improve the quality of the ministry's routine work. Three areas where time could be saved:

(a) Composition of mission team - keep staff the same during project preparation.

(b) RMC could be used to help identify, screen, support local consultants. Need to make better use of those Chinese experienced in Bank projects, particularly those staff in the provinces who have management experience.

(c) Working style of Bank staff: focus should be on building effective teams with local staff and consultants. Bad experience when Bank staff view themselves as decision makers

with Chinese counterparts only there to collect data for Bank missions.

7.1 Ministry of Communications. 2-3 years of preparation for big investment projects is to be expected, but in the provinces there is a belief that processes are too complicated and too time-consuming.

7.2 Domestic procedures for preparation of infrastructure projects are too distinct from Bank procedures. Bank comes to project after several years of domestic preparation which leads to problems. If Bank enters process after prefeasibility study completed, the preliminary design is usually also already done. Bank comes in and opens up scope of review again. Need to harmonize domestic and Bank preparation processes and cycles.

7.3 Resettlement and environmental issues complicate project preparation. Bank should request specific information in these areas as early as possible.

8.1 Ministry of Agriculture. Differences between World Bank and ADB are limited. With regard to Bank project objectives, however, these are found to be too high, too idealistic and too many.

8.2 For example, a recent project had as its objectives the reorganization of a core agency, the establishment of farmers' associations and improved agriculture extension and husbandry. This is too much for one project and leads to implementation problems.

9.1 Ministry of Finance. Whether consultants work as staff on missions or are hired by Chinese for project preparation, they are: (1) hired under TOR normally written by Bank staff; and (2) work to please Bank staff rather than Chinese.

10.1 Ministry of Education. Terms of Reference for TA are often too specific and not flexible enough to allow for implementation under changing conditions. Too much detail (i.e. timing of seminars, who will be trained.) is specified that introduces too much rigidity and doesn't enhance implementation prospects.

11.1 Tianjin Bureau of Finance. Project preparation cycle too long, procedures too complicated, too much data required and there is too much risk in Bank borrowing.

11.2 Light industry project under preparation for 2-3 years, another 4 years has gone by and there's still no money. The supply of materials and international market has changed considerably since project preparation.

II. Documentation

12.1 Ministry of Public Health. With regard to the SAR, it is not clear who it is written for and what use is to be made of it by the Chinese. Is it a descriptive, selling document for the project to the Board, is it a legal

document, or is it an implementation document. Lots of data is requested for SAR, but little is utilized in the document.

12.2 Need to harmonize requirements of Chinese feasibility study with Bank SAR - Both documents justify project, provide basic implementation conditions.

13.1 Resident Mission China. Conditionalities perceived as tools to sell project to Board, not to enhance project quality.

14.1 Tianjin Bureau of Finance. Tendering for ICB takes so long that project costs escalate, leading to a shortage of project funds.

14.2 Project conditionalities often introduced at last minute. Little discussion of rationale with Chinese. This timing creates a "take it or leave it" situation and does not foster meaningful debate.

15.1 Beijing Bureau of Finance. Confusion regarding standard bidding documents, particularly with quantities under lump-sum contracts. With regard to qualification and tendering, want more decision-making authority delegated to RMC. Quarterly reporting on disbursements too much.

16.1 ITC. Procurement could be accelerated if Bank staff were more responsive. Also, decisions Bank staff reach with implementing agencies, often not communicated to procurement agencies. Subproject reviews too slow.

17.1 State Audit Administration. Bank not clear in its financial reporting requirements. In some loan agreements the financial data to be audited is not specified, nor is the agency responsible for the audit.

17.2 A specific description of the financial data required should be spelled out in the loan documents. As project is usually only small part of agency activity would suggest restricting scope of audit. Bank rational for entire agency audit not always clear.

17.3 Last year 160 audit reports sent to Bank. Received comments on only 20 (and one of these actually reviewed previous year's audit!). Seems that reports are not reviewed or utilized by Bank.

18.1 Shandong Bureau of Finance. Speed and quality of procurement has direct impact on project performance. Need to better coordinate domestic and Bank procedures.

18.2 Bank believes ICB guarantees best price and quality, but long-drawn out process limits benefits.

III. Project Implementation

19.1 Ministry of Railway. Bank insistence that Ministry of Railway ensure proper resettlement reflects basic misunderstanding of authority of this ministry. Responsibility for resettlement rests with local governments.

19.2 Bank interest rate and commitment fees too high. Bank should consider graduated commitment fee similar to ADB.

19.3 Currency pool also too complicated. ADB has single currency risk that is easier for implementing agencies to manage.

20.1 Shandong Bureau of Finance. Organizational structure at local level for Bank projects worry some. Temporary organizations are created for project implementation, but what happens when disbursements are completed? Who will assume long-term responsibility, particularly loan repayment responsibilities? Public Finance Bureau in Shandong gearing-up to assume this responsibility.

21.1 Ministry of Construction. Bank Staff in H.Q. review outdated reports. Need better mechanism to gain up-to-date plan of project studies prior to going on mission.

21.2 Bank reviews look at past and present need better focus on future. Guidance on post-evaluation is necessary and has been requested in the past, but Task Managers often aren't interested in this activity.

IV. Bank Staff

22.1 Ministry of Agriculture. There is lack of respect for the sophistication of Chinese staff. Bank staff "think China is like Africa."

23.1 Ministry of Education. Report studies are routinely sent to Bank, but no response comes back. Question whether these are even read by Bank staff.

24.1 RMC. Quality of Task Managers reported by provincial leaders to have declined. In early '80s staff were specialized and could converse easily with local technical specialists. Now, Task Managers less specialized and often don't identify during project preparation the technical issues that will later lead to implementation difficulties.

24.1 Tianjin Bureau of Finance. Staff changes in Bank have required some documents be sent to the Bank more than once.

25.1 General Comment From Several Ministries. Bank staff are not responsive on a number of fronts: Procurement documents, periodic reports, special studies, audit reports and subproject approvals. Delays in response of several months is not unusual; several examples of complete non-responsive were also cited.

List of Participants in
Follow-up Meeting on Wapenhans Report
(March 1 - 2, 1993)

Ministry of Finance

- | | |
|----------------------|--|
| 1. Mr. Luo Qing | Director, World Bank Department |
| 2. Mr. Chen Junshuo | Deputy Director, World Bank Department |
| 3. Mr. Zhu Xian | Division Chief, Energy, transport & Industry Division |
| 4. Mr. Pan Xiaojiang | Division Chief, Technical Assistance & Training Division |
| 5. Zhu Guangyao | Deputy Division Chief, Agricultural & Rural Development Division |
| 6. Ms. Yang Junmei | Project Officer, Agricultural & Rural Development Division |
| 7. Mr. Shi Jin'an | Project Officer |

Ministry of Communications

- | | |
|--------------------|--|
| 1. Mr. Sun Guoqing | Chief, Planning Department |
| 2. Mr. Li Daming | Chief, Industry Management Department |
| 3. Mr. Liu'e | Chief, Technical Coordinating Unit of World Bank Loan Highway Project, Construction Management Department, |

Ministry of Agriculture

- | | |
|----------------------|--|
| 1. Mr. Xie Guoli, | Deputy Director, Office of External Economic Relations, |
| 2. Ms. Zhang Xiaowan | Project Officer, First Division, Office of External Economic Relations |

Ministry of Energy

- | | |
|------------------|--|
| 1. Mr. Liu Jiayu | Deputy Chief, International Cooperation Department |
|------------------|--|

Ministry of Public Health

- | | |
|-------------------|---|
| 1. Mr. Zhou Ji'an | Deputy Director, World Bank Loan Office |
|-------------------|---|

Ministry of Forestry

- | | |
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| 1. Mr. Qu Shuye | Director, World Bank Loan Management Center |
|-----------------|---|

Ministry of Water Resources

- | | |
|------------------|---|
| 1. Mr. Cui Boxun | Deputy Director, Foreign Affairs Department |
|------------------|---|

State Education Commission

1. Mr. Xu Ling Assistant Director, Finance Department
2. Mr. Zong Gang Deputy Chief, Training Division, Foreign Investment Department
3. Mr. Xun Fuqiu Project Division, Foreign Investment Office

State Science & Technology Commission

1. Mr. Sun Zhongqian Director, Office of World Bank Loan Project

State Audit Administration

1. Mr. Sun Baohou

Procurement Agencies

1. Mr. Qin Daohua Deputy Chief, China National Chemical Construction Corporation
2. Mr. Chen Shaotang China National Machinery Import & Export Corporation
3. Mr. Sun Xun Deputy Chief, China National Instruments Import & Export Corporation
4. Mrs. Ci Bin Deputy General Manager, International Tendering Company, China National Technical Import & Export Corporation
5. Mr. Qin Daohua Deputy Manager, International Tendering Division, China National Chemical Construction Corporation
6. Mr. Sun Fajun China National Instruments Import & Export Corporation

Shandong Province


15. Mr. Pang Dunzhi Chief, World Bank Loan Agricultural Project Management Office, Finance Bureau of Shandong Province
16. Mr. Qin Fengkui Officer, World Bank Loan Agricultural Project Management Office, Finance Bureau of Shandong Province
17. Mr. Xu Debin External Finance Division, Finance Bureau of Shandong Province

Others

1. Mr. Kong Yan Agricultural Bank of China
2. Mr. Zhang Jinru China Investment Bank
3. Mr. Kong Jie Agricultural Bank of China
4. Mr. Ying Liwen Deputy Chief, External Finance Division, Finance Bureau of Tianjing Municipality
5. Mr. Dong Pinru Deputy Manager, Beijing-Tianjing-Tanggu Highway Corporation, Beijing Branch
6. Mr. Li Yang Chief, External Finance Division, Beijing Finance Bureau
7. Mr. Zen Shouli Deputy Director, Project Management Office of Da Xingan Mountains

RMC

1. Mr. Mohammad Ashraf Senior Operations Officer
2. Mr. Hou Dingyong Operations Officer, Social Sector
3. Mr. Dai Dongchang Operations Officer, Transport Sector
4. Ms. Zou Youlan Operations Officer, Agricultural Sector
5. Mr. Lin Xiaosen Operations Officer, Energy Sector
6. Ms. Zhang Hong Operations Officer, Procurement & Disbursement

ROUTING SLIP		DATE: 1993 / VI / 23	
NAME		ROOM NO.	
Mr. Pablo Fuentes		D. G. O.	
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COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
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<p>received from CIECC</p>			
FROM:		ROOM NO.:	EXTENSION:

→ China

**《The Project Ex-post Evaluation Report
on the Stage I of Qinghai Aluminium
Smelter》**

CIECC

Jan. 1992

About the Compilation

Mandated by the State Planning Commission, the evaluation of the project, stage I of Qinghai Aluminium Smelter (QAS) which has been completed is made according to "the notice of evaluating the completed major construction projects of the state in 1990" issued by the State Planning Commission. Based on the Ex-post evaluation report draft prepared by Qinghai Aluminium Smelter, China International Engineering Consulting Co. arranged a group of experts to go to Qinghai Aluminium Smelter for investigation and research at Qinghai site. The experts put forward a lot of proposals to the Ex-post evaluation form 5th to 10th, March of 1990. The evaluation was examined and approved by China Non-ferrous Metals Industry Co. (CNNC) in December, 1990, then Qinghai Aluminium Smelter submitted an official evaluation report on the completed project, stage I of QAS. In August of 1991, China International Engineering Consulting Co. examined the report and approved it, and the concerned examination and approval report was made by the group of experts, and then reported to the State Planning Commission in March of 1992.

The document includes the Ex-post evaluation report on stage I of Qinghai Aluminium smelter, and the examination and approval report on the evaluation report of stage I of QAS made by the group of experts.

China International Engineering Consulting Co.

January, 1992

Part I The Outline of the Project

1. Location

Qinghai Aluminium Smelter lies in Huangyiazhai Township, Datong County, Qinghai Province, 28km away from Xining City, occupying 170.27 hectares (2554.16mu) of land with altitude of 2403m above sea level.

2. Production Capacity

Qinghai Aluminium Smelter's construction is divided into two Stages, ie Stage I and stage II with a total design production capacity of 200,000 tons of AL ingots annually, in which the capacity for Stage I is 100,000 tons yearly.

3. the main production technology and equipment

In the potrooms, there are 260 pots, for which 160KA current, closed type intermediate feeding, automatic break as well as prebaked anodes and 10 multiple cranes are used. The computer control, automatic alumina feeding cars as well as the vertical droptype Rectifier units are adopted for production system in the potrooms while calcine, kneading, vibrating compaction, and baking technologies are used for anode production system with main devices such as rotary furnaces, ballmills, pitch melters, kneader, vibrating compactor and anode baking furnaces.

4. the main engineering amount of the project

The project, stage I of QAS consists of 4 parts, ie, production facilities, aux. production facilities, common production facilities and welfare facilities, covering 127 subprojects as well as 343808m² of building area totally.

5. investment

An investment of 712,390,000 yuan was made for stage I of QAS totally, and the corresponding account settled after the project was completed was 813,120,000 yuan, in which 100,730,000 yuan of loan interest during construction was included, forming 779,630,000 yuan of fixed assets.

6. the units for design and construction

The overall design of stage I of QAS was made by Shenyang Aluminium & Magnesium Design and Research Institute(SAMI) that undertook the design of all workshops and other engineering works at the working site mainly while the Architectural Prospecting and Resign Institute of Qinghai Province, and Lanzhou Non-ferrous Metallurgy Design and Research Insititute took the design for living site; And Sian Non-ferrous Metal Prospectiong Insititute was responsible for the survey and prospecting of hydrology and engineering geology. No. 8 and No. 11 construction Co. s of CNNC took the full responsibility for the construction of working site while No. 1, No. 4 and No. 7 construction Co. s of Qinghai Province for the construction of living site.

7. About the completion and acceptance of the project

The project, Stage I of Qinghai Aluminium Smelter is one of the major projects of the state during the seventh five-year plan. It started officially on April 5, 1985. Its first 66 pots were put into operation on December 10, 1987, and aluminium was produced on December 19. The project was completed in December

1986 and at the same time reported to CNNC that 100,000 tons of comprehensive production capacity of electrolytical aluminium were formed. The preacceptance of the project was passed on May 18, 1990 and the acceptance was adopted by the state on July 31, 1990.

Part I the evaluation of the earlier stage works

1. setting up the project

1.1 For the development of Non-ferrous metals

the state formulates the policy that gives priority to the development of aluminium, encouraging the joint development electrical power and aluminium, transferring the products with high energy consumption from northeast and north of China to northwest and southwest with rich water conservancy resources. Depending on the fact that the present aluminium production capability of country's industry can not meet the requirement of the development of our national economy. Aluminium needs to be imported over a long period of time. At the beginning of 1979, it was planned to set up an aluminium Smelter in Qinghai Province by making use of rich and cheap water conservancy resources, and by cooperating the construction of Longyangxia water power station, in the meanwhile forming a complete set with the alumina project of Shanxi Alumina plant. On January 5, 1982 it was decided to use the superior water resources of Yellow River to carry out the joint development in northwest of China. Longyangxia Water power Station was planned to generate electricity in 1985. In such case, there would be a surplus of electrical power in northwest and an aluminium smelter with an output of 100,000 tons of aluminium could be set up, and then further opening-up could be made to this area step by step.

1.2 the process of setting up the project

At the beginning of 1979, the address of Qinghai Aluminium Smelter started to be selected, three reports on it were put forward early or late. By the investigation, study, comparison and contrast to the construction plan, finally the present address was chosen after the approval of the Economy Council of the state.

"The feasible research report on Qinghai Aluminium Smelter" was put forward by Shenyang Aluminium and Magnesium Design and Research Institute in April of 1982, and the examination meeting on it was convened jointly by the former Non-Ferrous Metals Bureau of the Ministry of Metallurgy and the Planning Council of Qinghai Province in June, 1982.

"The design mission report for QAS" was submitted to the State Planning Commission by the former Non-ferrous Metals Bureau of the Ministry of Metallurgy in June of 1982. The meeting on examination of the preliminary design for QAS was held by the former Non-ferrous Metals Bureau of the Ministry of Metallurgy in Datong County in July of 1983. At the meeting, the design capacity of annual Al ingots stated in the feasible research report was changed from 80,000 tons into 100,000 tons. The preliminary design was approved by the State Planning Commission on May 3, 1984.

1.3 the evaluation of setting up the project

Aluminium is a kind of industry with high energy consumption. Electrical power is the life of aluminium. Therefore, there will be no aluminium without electricity. Based on the international and domestic experiences, all the electrolytical aluminium smelters are set up near electrical power source, not near alumina plants. The upper reaches of Yellow River is rich in water conservancy resources and is being opened up grad-

ually. The water drop difference of the main river course with a length of 340km from Longyangxia to Liuji-axia within Qinghai Province is 714 metres, along which, many step type water power stations can be set up. Up till now, Longyangxia Water power Station has been built up with an installed capacity of 1280000KW, and Liji-axia Water power Station is under construction, and planned to put into operation in 1996, which will open up vast vistas for the development of aluminium industry.

Since Qinghai Province is far away from the centre, there are less factories and mines. The setting up of Qinghai Aluminium Smelter would play an important part in bringing about a great advance in the industry of Qinghai Province, in opening up the northwest of China, in developing Qinghai and in adjusting the industrial arrangement of Qinghai Province.

The work site had the features of wide and smooth ground, less cubic metres of earth, good engineering and hydrographic geologies, unnecessary for house-moving around, rich in water resources, needing less water supply pipes, reliable electrical power supply and needing less electrical powerlines, convenient in traffic, good coordination for developing the industries around, having reliable and advanced production technology and main devices.

As stated above, the setting of Qinghai Aluminium Smelter was correct in general terms.

2. The process of decisive policy is compatible with the process of capital construction.

During the policy decision-making to the project, the reports on each link was given by SAMI and the project construction command post ahead of time, and reported to CNNC for examination, then reported to the concerned ministries and councils of the state for the policy decision by CNNC. The official and written replies to each link were given by the ministries and councils of the state. The decisive policy was identical with the process of capital construction with all the formalities in a general way.

3. The depth of the work done in the earlier stage is satisfied with the requirement of the construction. The engineering in the earlier stage included the address selection of QAS, the feasible researches of the project, and the equipment import, the compilation of planning mission report, the technical talks for equipment import, devices distribution, the preliminary designs, geological survey of engineering as well as hydrographic geologies. A great amount of work was done for each thing in the earlier stage, and a great deal of investigations and study were made in order to have a good grasp of the first hand materials. By which, a good foundation was laid for the design of construction drawings and diagrams in the later stage. The fast speed and remarkable beneficial results of the project were inseparable from the well-done preparation in the earlier stage.

4. The design is made according to the concerned rules and principles of the state.

The Examination Department of the state thought that the design basis, standard, specification, quota and rate were in agreement with the stipulation of the state, and the design capacity and the main construction content were in keeping with the demands which the state approved.

The design drawings for construction abided by the preliminary design principles that the state approved and accorded with the concerned rules, specifications and standard of the state, and at the same time adopted the related standard of SAMI according to the actual situation at site. The budget estimate of the project was based on the quota and rate stipulated by the state, provinces, cities and the quota centre of CNNC.

Part III the evaluation of the project implementation

1. The preparation for implementation of the project satisfies with the requirement of starting the project.

1. 1 land purchasing and house moving

The land purchasing for the project was done according to the related documents which were approved by the state and by Qinghai Province. The total land purchased was 1554. 16 mu, which took 9,910,000 yuan. The mean cost per mu 3880 yuan.

1. 2 About water and electrical power supplies, highways, railways, and land levelling

Before starting the project, two wells (which named well 1 and well 3) were drilled, 26km of temporary water pipes were laid to supply water for the construction at working site; A well was drilled for the construction at the living site by laying 2km of temporary water pipes. Two branch water pipes with diameter of 350mm and 250mm respectively were connected to the main water pipes which ran to Xining City from Tal water resources for supplying drinkingwater at living site and working site.

In order to provide electricity for construction temporarily, transmission lines were erected from Maojiazhai Transformer Station to the switching station and then from the switching station to six temporary substations. For which, 14km of temporary powerlines were erected; At the living site a switching station was set up to supply power both for living and construction with a total length of 3km temporary powerlines.

The living and working site of QAS lies along the Ninzhang Highway. It is unnecessary to pave another way, therefore, only 12km of temporary highway were paved at the worksite, 4km at living site; To take it into consideration that a lot of materials and installations would be transported to working site after starting the project, special railways were laid, which opened to traffic in March of 1985. By which, the construction was made much convenient and the cost for short-distance transportation was reduced.

The site levelling was finished completely in September of 1984 with 939000 cubic metres of earth removed or land filled in the working area, and with 67200M³ of earth filled in the living area, which laid a very good foundation for starting the project.

1. 3 About large temporary facilities

The unified programme and layout drawings were made to the construction site while getting ready for water, electricity supplies and way pavement. Two concrete-mixing stations with an annual output of 6400~10000M³ were setup; One concrete prefabricated components factory with 10000M³ of components yearly and two comprehensive timber processing factories with an annual pressing of 2000M³ were built up. Besides, a reinforcing bar processing factory with a processing capacity of 4000 tons as well as a metal structure processing factory with a yearly processing ability of 5000 tons were setup. The offices built were 8031M³, bedrooms were 577M³, which laid a good foundation for the construction.

1. 4 the fulfilling of goods and materials

In order to do well in goods and materials supply before construction, the command post established the Department of Goods and Materials Supply, built and rented temporary warehouses. Before April 15, 1985, 3720 tons of steels, 311M³ of timber and 6750 tons of cement had gotten ready; According to the list for large special equipment handed over by SAMI, the installation supplies were arranged to site one after another, which satisfied with the requirement of goods and materials for construction.

1. 5 the fulfilment of construction funds

From preparing the project to the work done in the earlier stage in 1984, 9830,000 yuan of investment had been used to allocated within the state budget, it was changed from funds allocation within the budget of the state into credit loan with the budget because of the economy system reform of the state later. From 1984, investment for the project from funds into loan was executed, and in the same year, 27,310,000 yuan of loan investment was arranged to make use, which met the requirement of funds before the construction.

After 1985, CNNC arranged 534,290,000 yuan totally, mainly from foreign currency on hand, commercial loan, loan for capital construction from Construction Bank, special kind of loan instead of funds, ect. In 1986, CNNC signed the agreements of joint investment with Shanghai Joint Development Co, Qinghai Aluminium Processing Factory as well as the Goods and Materials Supply and Marketing Co. of the Aviation and Spaceflight Ministry respectively. By which, 178,100,000 yuan of funds were raised. Up till then, the budgete estimate investment for the project got ready.

2. the evaluation of tender-invitation, tender-submitting and contract execution.

2. 1 about tender-invitation, tender shbmitting and tender management.

In order to arrange the tender invitation well, a tender group consisting of construction commanders as the leaders of the group, and the members mainly from CNNC, SAMI, commercial Bank and from the construction command post of Qinghai project, was responsible for the tender invitation of the engineerings.

According to the general construction schedule, the whole project was decided to be divided into the following parts for bidding in turn; work site levelling, residential buildings, electrolytical production system, anode production system, and common production system.

To the key production items requiring high quality with complicate technology, the construction units subordinated to CNNC that had good experences for electroltytical aluminium smelter construction with skilled and qualified workers and a complete set of quality control and measurement means were invited for tenders; To the items for civil facilities, notices were made in the newspaper for the public bidding within the range of Qinghai Province.

2. 2 the evaluation of tender invitation and submitting as well as the execution of the contracts.

For the project, Stage I of QAS, 25 items of engineering tenders were invited publicly, 5 items of tenders were discussed. By which, remarkable benefits of economy were obtained, about 20,300,000 yuan of engineering cost were saved; The time limit for the project was half year shorter than the limit approved by the state. The quality rate of all all engineerings came up to 100%, in which, 63.5% was better qualified; the disputes were reduced, and the formalities for settling accounts were simplified.

347 contracts were signed for building and erection of the project. In which, 93 contracts for large engineerings and 381 contracts for small engineerings. During the execution of them, generally speaking, the both parties were able to carry out their own commitments, do what should be done according to the items stipulated in the contract and ensured the rights of both parties. Especially for the small contracts, since there were less duties and a short time limit, the result of its execution was better and the work could be done strictly according to the contract. As for the large engineering contracts, since the construction cycle was longer, the execution of most contracts went beyond the year; Besides, it was the first time to make the design for such engineerings domestically with so many design modifications; except that, there were a lot of changes in the concerned professional personell, therefore, there was not enough trace to the contract cxecution and some disputes occurred to a few items of the contracts. As to which, accounts of some items with disputes were settled

by budget plus visa in the later stage. An overall check up was done before the acceptance, and the disputes occurred were handled properly.

3. the construction administration

By tender invitation and submitting, the main construction units were determined to be No. 8 Construction Co. and No. 11 Construction Co. of CNNC, responsible for the construction of work site. These two Co. s set up their own capable administration department first of all, arranged a vice manager as its commander respectively for the project at Qinghai site, then dispatched their construction teams and transported their construction machineries. 7 days after obtaining the tender, No. 8 Construction Co. of CNNC moved their workers and machines to Qinghai site from Jinchuan City, 400km away from working site; 30 days after obtaining the tender, No. 11 Construction Co. arrived at Qinghai site from Liuzhou City, which was 2000km away from the site. These two Co. s arranged their technicians to work out construction plans and tried to get a favorable condition for speeding up the construction as soon as they set up their construction bases. They had complete engineering control systems respectively, and maintained the system of "3 inspections" and examined engineering quality each year, and carried out the construction based on the concerned construction rules and technical specifications. At the same time, they set up the rewards and penalties system for engineering quality control. These years, no great engineering quality accidents had happened.

A set of complete and strict administration system was set up for safety. Each construction unit had its own full-time safety men and each construction group had its own half-time safety men. Their workers were often taught in safety. As a result of that, death accidents had never happened to No. 8 Construction Co. since 1984, and no heavy injuries and death accidents occurred to No. 11 Construction Co. either.

During the construction, the two Co. s grasped the total construction time limit firmly, paid special attention to the controllable engineering, adopted new technology and new ways for construction, quicken the engineering speed. By which, the project was half year earlier put into operation than the time scheduled by the state.

4. the administration of the project construction

The construction command post for Stage I of QAS was the agency dispatched by CNNC and the construction unit of QAS. On one hand, it took the full responsibility for the construction of the project, and for the production preparation of QAS, that meant that it coordinated the relation of each party in construction on behalf of CNNC; on the other hand, it had economical contract relations with each construction unit, and played an important part in guarantee and supervision of construction according to the items stipulated in the contracts.

During the construction, the command post held the whole time limit closely and distinguished the work which should be done in order of importance and urgency, caught hold of the focal points as well as the common and auxiliary engineerings matched with it, recommended the spirit of "joint administration and joint construction" according to the programmed overall construction plans.

By which, a complete set of effective management was formed by SAMI, construction Co. s, QAS, Construction Bank and command post in full cooperation unity.

During the construction, spot was combined line and surface while twig was combined with lump, all the tasks were fulfilled down to each worker, and the responsibility was taken to each work, and a lot of problems were solved in time at site, which brought about so much convenience to the construction and sped up the con-

striction of the project.

5. the evaluation of environment protection

There are 46 environment facilities for the project, and investment for them is about 66,000,000 yuan, making up 9.26% of the total investment, which satisfies with the requirement of the designed specifications.

The east and west scrubbing systems for potrooms were put into operation respectively on April 10, 1989 and on February 19, 1988. The scrubbing units for anode baking were put into operation on November 2, 1987. The whole scrubbing system worked properly and easily. The dry scrubbing technique was used for potrooms and anode baking, that meant a lot of harmful smoke appeared in production was enriched by fresh alumina. After filtering, the enrich rate to hydrogen fluoride came up to 98.5%. The smoke after filtering went into air and fluoride bearing alumina was retrieved and transported to electrolytical pots for melting. The smoke after solidification reaction contained only 10 mg/Nm³ of dust, 3 mg/Nm³ of pitch and 10 mg/Nm³ of fluoride. It was proved by practice that the scrubbing result was good and the dust and harmful gas content discharged into air lower than the discharge standard stipulated by the state.

Most of the ventilation and dust removing system worked normally after put into operation, and just a few worked without ideal result. As to which, modifications had to be made. The content of discharged carbon dioxide, nitrogen dioxide as well as carbon monoxide was less than 1/10 of the allowed value of environment protection.

The water for production was circulated by close circuit and waste water was not drained to outside. The waste water from office buildings and from living site was treated by the sewage treatment station of QAS and the test result came up to the drainage standard stipulated by the state. 48,000 tons of residues were drained each year for stage I of QAS; in which, the harmless coal cinder and garbage accounted to 70%, and harmful waste residues from the overhaul of pots containing aluminium carbide and fluoride. Fluoride, methane and acetylene, etc. could be separated out of the residues after they were immersed in the water. Then, they were transported to a residue site with a capacity of 46000m³, 3km away from the working site. By which, the pollution was controlled.

In aluminium melting, a lot of poisonous smoke and gas were harmful to men, animals and crops. If effective steps were not taken, the bad results would be resulted in. Therefore, a great amount of money was spent for the proper measures to waste water, harmful gas and residue, and pollution was controlled, which met the requirement of environment protection standard stipulated by the state. However, further attentions should be paid to the environment protection while full use of the existing facilities for protection of environment should be made.

6. About the operation and production

The project, stage I of QAS was the first large electrolytical aluminium smelter designed by SAMI itself.

The most of the installations were China made, and only some special equipments were imported. As to lack of experience, there were some deficiencies in design and device manufacturing. Beside that, there was a lot of AL ingots were produced in the first year of test run, in which, AL ingot of Grade I and beyond Grade I making up 50.13%; 34000 tons of AL ingots were produced in 1989 with 63.8% of Grade I and beyond Grade I; 44000 tons in 1990 with Grade I and beyond Grade I up to 96.4%. According to the data listed above, it was shown that AL production was getting better and better one year after another not only in AL

quality, but also in quantity. By strengthening the enterprise management and training to the workers, all the technical and economical targets rised step by step. From 1988 to 1990, most of these targets had come near the designed ones.

The time to come to the designed capacity of AL production will be in 1992, which was arranged depending on the ideal situation. By the end of 1990, 98000 tons of AL ingots had been produced totally and 76500 tons were sold, the sale rate was 78%; the main reason why AL sale was influenced was that the market slumped. In recent years, AL output was not ideal; specially in 1990, the planned output was 65000 tons, but the actual yield was 44000 tons only. The reasons for that were as follows:

a. raw materials

There were no stable supply channels for the main raw materials which needed for stage I of Qinghai Aluminium Smelter. For instance, the normal production was menaced by coal, coke and alumina, especially alumina. The distributed quantity of alumina in 1990 could not satisfy with the production requirement, which almost made a great number of pots stopped. Since there was a shortage of alumina in longer time, more pots were unable to put into operation quickly, technical conditions could not be met with and the output could not be raised, and the economical benefit was affected.

b. electrical power

During water-storage of Longyangxia Reservoir in 1988 and 1989, each province supported it, and electrical power lacked in common all over the country, so was in Qinghai Aluminium Smelter. Because of electricity limit, 33 pots were switched off totally, which brought about great losses to AL production; the electrical power supply in 1990 was not enough either.

c. funds

Since the market slumped, it was difficult to sell AL ingots. More than 7000 tons of ingots were kept long in stock in the first half year of 1990, taking up over 70,000,000 yuan of funds, together with fuels, materials, the loan for circulating fund came up to 220,000,000 yuan. The chain reaction of short fund caused the production benefit dropped.

d. design and installations

Multicranes are the main devices for the production system of potrooms. Since they were designed domestically first time; besides, the grasp to them was not so skilled, they could not work in multifunctions. And alumina conveying system could not work properly; the life expectancy of electrolytical pots were still unable to reach the designed one.

7. the evaluation of execution to construction investment

7. 1. the execution of the total investment of budget estimate

The total budget estimate approved by the state in 1984 for the project, stage I of QAS was 498,630,000 yuan plus 74,000,000 yuan of expenses allocated by CNNC for temporary base, the budget estimate investment came up to 512,630,000 yuan. with the reform of economy system, the price for some raw materials and some products as well as the rate of manpower cost, the rate of construction management fees and independence expenses were adjusted by a big margin by the state and localities. Therefore, the original budget estimate became different from the actuals. Based on the concerned stipulations of the state, the adjusted budget estimate approved by the state was 712,390,000 yuan.

7. 2. the analysis to they adjustment factor of the investment

The preliminary planned budget estimate approved was 512,630,000 yuan, then it was adjusted to 712,390,000 yuan. The final account after the project was completed was 813,120,000 yuan (including 100,730,000 yuan of loan interest during capital construction). The amount of adjusted budget estimate and the final amount after the completion of the project were increased netly by 39% and 59% respectively by comparison with the amount of the preliminary planned budget estimate. Looking on the surface, the net increased amount was much higher, but it was reasonable if looking beneath the surface.

The reasons why the net increase of the capital construction investment occurred was analyzed as follows:

a. 30,910,000 yuan of investment were increased because of price adjustment according to the policy document, which took 15.47% of the total increase amount.

b. 113,630,000 yuan of investment was increased because of the price adjustment of materials and installations, making up 56.88% of the total addition.

c. 23,150,000 yuan of investment was increased because the exchange rate between the foreign currency and RMB used to buy the special import installations rised, which accounted to 11.59% of the total addition.

d. 32,070,000 yuan of investment was added because of other costs and design modification, which took up 16.05% of the total addition.

Based on the analysis above, more than 95% of the total additional account of investment was caused by the objective reasons. Therefore, the addition of investment was reasonable.

7.3 less investment spent for construction and for aluminium per ton

The investment proportion for each specific field accorded with the stipulation which the state stipulated for setting up electrolytical aluminium smelter.

The main reason why less investrment spent was that the technique and experiences from other aluminium smelter were sucked up in design, and the main installations and materials were bought domestically and only a small amount of special equipment and technology were imported. By which, a lot of foreign currency was saved. The project planned by the state was executed strictly by bidding and the responsibility of the "five guarantees". Because the project was strongly supported by the local governments, and full preparations in the earlier stage were made, the construction cycle was short; a great number of costs for temporary engineering facilities were saved because the permanent building were used for engineering construction.

Part IV the Evaluation of the Economical Benefits

1. the evaluation of national economy

The evaluation of national economy is to survey the benefit and cost of a project from the point of overall view of the state, to calculate and analyze the net benefit which the project brings about to national economy by means of shadow price, shadow exchange and social discount rate, and to evaluate the project rationalization in economy.

1.1 the direct benefits

Aluminium produced in China has not met the social requirement and needs to be imported over a long

period of time. stage I of QAS after completion would play an important part in relaxing the tense situation of aluminium in China, and lay a good foundation for aluminium self-supporting.

The designed members for stage I of QAS were 4000 persons. The building area of the living site was 128605M², in which, the residential buildings were 88739M², the buildings for culture and hygiene were 23549M², and buildings for administration and services were 1667m². For which, 63,160,000 yuan were put in, accounting to 7.77% of the total investment.

1.2 the indirect benefits

The construction of QAS would produce an important impact on the economy development of Qinghai and the outlying districts. Qinghai Province used to be an area where there was no bauxite. QAS after completion could satisfy with the requirement of the raw material supply for industry such as aluminium processing, aluminium power lines, cables; and at the same time, it would give an impetus to the development of other industries and play an important part in promoting the local industries.

1.3 the evaluation of national economy

According to "the national economy evaluation specifications" issued by the State planning Commission and the Ministry of Construction in 1990, the basic data were adjusted based on the stipulated calculation rules. The evaluation result to the main indexes of the national economy was as follows:

- a. the net current value of national economy; 159,558,000 yuan
- b. the internal gains rate of national economy (total investment); 14.62%
- c. the net benefit rate of national economy investment; 15.28%

The internal gains rate of national economy was 14.62%, which was higher than the stipulated social discount rate (12%). The net current value of economy was more than zero, and the net benefit rate of investment was 15.28%. The beneficial result was better.

2. the evaluation of financial affairs

If the designed production capacity could be achieved in 1992 and the loan could be paid in 12 years, the economical life would end in 2012. It was estimated that the net profits would be attained for ten years.

By determining the basic data, the evaluation indexes to financial affairs were achieved as follows:

- the internal gains rate of enterprise; 16.49%
- the profit rate of investment; 17.25%
- the profit tax rate of investment; 26.79%
- B. E. P. ; 33%

It was shown from the above data that the internal gains rate of enterprises (16.49%) was higher than the basic gains rate of the trade (13%). By B. E. P (33%) it was shown that the anti-risk ability of QAS was better.

98000 tons of AL ingots were produced totally by the end of 1990 by test run with 76,500,000 yuan of profit. 42,210,000 yuan of taxation was turned over to the state, and 59,950,000 yuan of loan were paid.

If the actual production capacity achieved the designed till 1994, not till 1992, the internal gains rate of national economy (14.62%) would be still higher than the stipulated social discount rate (12%), the internal gains rate of enterprise (15.54%) would be higher than the basic gains rate of the trade (13%), which proved that the construction of stage I of QAS was comparatively successful, and the beneficial result was

good.

Part V Problems and Suggestions

After the project was put into operation, the designed production capacity should be achieved in 1990 according to the plan. However, only 45000 tons of AL ingots were produced in the same year, even it did not come up in 1991. There were many reasons for that, some were that the market was slumpy and aluminium ingots were overstocked, which caused more pots unable to be switched on, and some others were that the quality of a few devices was poor, the supplies of electrical power and raw materials were not enough as well as the poor quality of the workers. In order to make stage I of QAS into full play, it is suggested that:

1. Ensuring the supply of electrical power

Originally the State Planning Commission approved that "electrical power for stage I of QAS would be supplied by Longgangxia Water Power Station".

Therefore, one incoming line would come to the Substation of QAS directly from Longgangxia Power Station; and the other line would come from Xining Substation as standby according to the original design. At present, both of these two incoming lines come from Northwest Power Supply Networks. Since the power supply for stage I of QAS was changed from direct supply into the net supply, besides, electrical power all over the country was short in common at the end of 1988 and at the beginning of 1989, the electrical power for QAS was limited as well, which made 33 pots switched off totally in the same year. As long as the pots were switched off, it would cause enormous losses when the pots were switched on again. Since 1990, electrical power supply became better.

2. alumina supply

If the designed capacity of aluminium production was to be achieved, 200,000 tons of alumina should be needed. According to the document approved by the State Planning Commission, alumina should be supplied by Shanxi Alumina Plant which was in correspondance with QAS under construction, but the plant only supplied 40% of the total amount which QAS required because of short alumina and its high price, which almost made a lot of pots switched off.

3. the management problems existed in QAS

Since there were not enough technicians and skilled workers for production, and there were some devices which had defects, some targets could not be obtained after being put into operation. For instance, the designed life expectancy of each pot was 1200 days, the current efficiency was 87.5%, the overhaul period for each pot was 48 days, and annual output of aluminium ingot each pot was 414.547 tons. However, the actual average life expectancy of each pot was only 620 days, current efficiency was only 86% which was 1.5% lower than the designed value, the overhaul period of each pot was 54 days which were six days more than the designed according to the statistics of the first half year of 1991. Because of that, the actual average output of each pot was only 380 tons yearly which was 34.457 tons less than the designed.

For the reason of this, a lot of efforts had to be concentrated to raising operators' technical levels, and to strengthening the enterprise management. And at the same time, technical modifications should be made in order to make the life expectancy of pots up to the designed requirement as soon as possible.

4. about the further processing of AL ingots

At present, each piece of aluminium ingot QAS made weights 16 kg, sold to aluminium processing factories. Before rolled in the factories, aluminium ingots should be remelted and casted into certain forms. If the melted aluminium can be casted into the forms and rolled into all kinds of materials directly in QAS, the remelting process can be cancelled. By which, not only related devices and labour powers can be saved, and the freight can be reduced, but also the energy consumption will be decreased, and remarkable economical benefits will be obtained especially, which should be taken into consideration by SAMI.

5. There should be a reasonable design cycle.

The design is done according to the processure of ground first, then underground while the construction is just vice versa. Generally, the drawings for comprehensive pipingnet are made at last and pipes should be laid first in construction. Therefore, there should be enough time for design. As to lack of time for the design cycle of stage I of QAS, the drawings for the comprehensive piping net were made one year later than for the other engineering works. In order to hold time limit for engineering, the works on the ground had to be done first, then laid pipes under the ground when the drawings for them were ready. At that time, the engineering works both on and under the ground were done simultaneously. In such case, the working site was in disorder, and ditches were dug everywhere, roads were blocked, which made the construction very difficult. Since the roads started to be paved as soon as the piping was laid before the backfill for piping ditches sank naturally or proper steps were not taken to it, many places of the roads became cranked and sunk, which had to be done over again, and for which, a lot of materials and manpowers were wasted.

The evaluation metioned above was discussed once together by the gentlemen from the construction command post of QAS, Shenyang AL and Mg Research and Design Institute (SAMI), all the Construction units and construction Bank. Please be kind enough to give valuable comments from leading bodies at higher levels and experts to what unproperly worded.

The Examining Opinions on the Ex—post Evaluation Report(EER)on QAS (state I) by China International Engineering Consulting Corporation (CIECC) Expert Group.

Mandated by the State Planning Commission (SPC), CIECC carried out the examination in EER on the QAS (Stage I) worked out by QAS Constructron Command Post. In March, 1991, an expert group was organized to make on—the—spot investigation and research. They draw the conclusion that the EER about the QAS was drawn out on the bases of carefully summdeup experiences and analysed problems. The report was basically in conformity with the actual situation of the QAS. The main points of the Examination Opinions are as follows:

1. The project was decided to set up at the beginning of 1980s. It is a large scale electrolytical aluminium smelter, built synchronously with Shanxi Alumina Factory, Longyangxia Power Station as a complete set. Its construction was in conformity with the strategic policy of joint developncent of aluminium and electricity. Its production practice proves that the finished project's production not only provides the country with one hundred thousand tons of aluminium ingots, helping to alleviate the tense situation of aluminium supplies, but also, to some extent, plays an active part in developing Qinghai area economy, changing the industrial layout of our country. Therefore, the identification of this project is correct.

2. The design of the project's technological process is comparably rational. The electrolytical technology uses 160KA to feed in the raw material in the mid—position, 260 pre—roasted anode electrolyzers, ten overhead carrying cranes with multiple functions. The project also uses computer control, automatic alumina feeding pushcars and rectifier groups of vertical falling type. Carbon production system mainly uses roasting technology and calcining, mixing and kneeding, vibrating for modeling. To view the situation as a whole, the people engaged in this project have raised the design level and used the investment sparingly.

3. Qinghai Province Government and China National Nonferrous Metals Corporation attached high importance and gave full support to the construction of QAS project, so the project construction was well organized and put into effect, besides, it is one of the projects taking the full responsibility for the fixed investment, guaranteeing five aspects, ie time limit for the project, quality, investment, amount of materials needed, and completed productive capacity. The time limit for the project and the investment have been effectively controlled and the project quality assured. Thus success was achieved when conducting test run by feeding in raw material only once, moreover, experience was allumulated for further construction of project of nonferrous metal industry.

4. The investment for the unit capacity of the project was comparatively lower. The investment of aluminium perton was 14% lower than that of Baiyin, Qingtongxia Smelters' extension projects built during the seventh—five plans' period. Provided the production output of QAS reaches 33% of the designed capacity, the capital invested will be surely recouped. The evaluations from the projects national economy, social benefit and finacial affairs get better result.

5. Problems and suggestions

After the project, Stage One of QAS went into operation, it should reach the designed capacity in 1990 according to the stipulations. In fact, the production output of the year was forty—five thousand tons of AL ingots.

In 1991, the output was not obtained, either. There were many reasons for this; ie, aluminium ingots were overstocked because of the slumpy market, besides, because of some devices with poor quality, short supply of electricity and raw materials as well as the weakpoints in enterprise management and poor quality of the workers and staff member in culture and technology, which made it impossible to put all the pots into operation. For the reason of that, it is suggested as follows:

1. Ensuring the electricity supply. Originally it was approved by the state that "electricity for stage I of QAS would be supplied by Longyangxia Water Power Sftation". At present, it is supplied by the Northwest Power Networks, which can not ensure the electricity QAS requires for AL Production. Now, the electricity supplied by the network still can not satisfy with the requirement for AL Production. For the reason of that, kindly ask the Electrical Power Administration Bureu of Northwest of China to supply electricity for QAS according to the concerned stipulations made by SPC in order to ensure the power supply.

2. The alumina QAS requires is not enough. Kindly ask CNNC to make an unified plan for alumina supply by Shanxi Alumina Factory according to the programmed plan in order to ensure the normal AL production.

3. Because of the management problems of QAS, the technical and economical targets of some devices have not achieved the designed ones. Therefore, the benefit of enterprise must be improved by strengthening enterprise management further, and market ideology, paying special attention to the circulation links, promoting the sale of AL ingots actively, training the workers and staff members at their jobs and raising the quality of them continuously.

4. The further attention should be paid to the envirement protection in order to make full use of the existing control facilities.

5. About the aluminium processing. At present, the weight of each AL ingot is 16kg. It should be remelted and casted into concerned forms before rolled. If melted aluminium can be casted into the forms directly in QAS, not only the related devices and manpowers will be saved, but also the energy consumption will be reduced especially with remarkable economy benefit.

The expert group of PEER
China International Engineering Consulting Co.
January 9, 1992

THE EX-POST EVALUATION REPORT ON BAODIAN PROJECT

THE INTERNATIONAL ENGINEERING CONSULTANT
CORPORATION OF CHINA

Dec. 1990

Introduction

Baodian colliery was opened fresh ground in Oct. 1977 and commissioned in Dec. 1985 with a designing capacity of 3 Mtons/year.

According to the document released by State Planning Committee and General Corporation of State-run Collieries of China, through May to Dec. in 1990, we had carried out "The Ex-post Evaluation Report on Baodian Project". The whole evaluation work might be divided into two steps. Firstly, ex-post evaluation report was prepared jointly by "Yanzhou Coal Mine Bureau"(the owner), the "Coalfield Exploration Corporation of Shandong", the "Yanzhou Coal Mine Design and Research Institute" and "Jinan Coal Mine Design and Research Institute"; then it was submitted to the Shandong Branch of State-run Collieries Corporation, and in-turn to General Corporation of State-Run Collieries of China, at last, it was reported to the State Planning Committee and The International Engineering Consultaut Corporation. In Dec. 1990, (through 18-22) a joint experts team organiged by the Consultaut Corporation and the General Corporation of State-Run Collieries came to site and made an investgation. After examining and discussing the Owner's ex-post evaluation report, they composed a comments report. This document includes the owner's Ex-Post Evaluation Report on Baodian Project and the Expents Team's Comments Report.

The Ex-post Evaluation Report on Baodian Project

1 Background and General Condition

1.1 Background of construction

Baodian colliery is the second large one to be constructed in Yanzhou Coal Mine Area in which three collieries will be constructed, all large ones, each with a capacity of 3-4 Mtons/year.

Yanzhou Mine Area lies in the south part of Shandong Province, its total area is 375.5 Km², in situ reserve is 3.55 billons, the surface is plain and the traffic, transportation and communication conditions are very convenient, after the completion of the area's construction, the coal supply might be distributed locally to East China, especially the quality, low ash, clean coal needed by Baoshan Steel Complex will be supplied from the area. Generally speaking, East China is well devoloped, the industrial enterprises are so many, the coal supply is always in shortage.

The geological condition of Yanzhou Coalfield is rather complex, the coal measure underlies deeply, about 200-1100m, and entirely covered by quanternary alluvium which is 280m thick. 45% of the alluvium is aquifer with a maximum rush rate of 1457m³/h. Its underlying stratum is Jurassic, the upper Jurassic

is red sandstone with weak, broken and rich water in structure, the rush rate is as high as $2660\text{m}^3/\text{h}$. Owing to so deep the coal seam lies, all the collieries to be constructed in the area must employ vertical shafts to develop. Tectonically, Baodian colliery locates at the axis zone of an anti-cline in Yanzhou Coalfield. Baodian minefield has the features of some undulant folds and minor faults with short displacement, the dip is $4-6^\circ$, maximum 20° . (locally), the in-situ reserve is 0.62 billion tons, the mineable reserve is 0.336 billion tons. The quality of coal is classified as medium metamorphosed gas coal, the main mineable seam (No 3) contains low ash, sulphur and phosphor with high volatile matter. So it is a kind of high quality coal, used for ingredient of coking, power plant fuel, gas making and C.W.M (coal-water mixture). During the time of the construction of Yanzhou Mine Area in full swing, the construction and operation techniques in the country were comparatively lagged behind, so at the very beginning, the main problem in construction was that the techniques must be renovated and be made a breakthrough. Baodian colliery was opened fresh ground in Oct. 1977, at that time, two collieries had been completed with total designing capacity of 1.95 Mtons/year, another large one of 3 Mtons/year (Xinglongzhuang) was being constructed in the mine area. Although the construction of Baodian was two and half years later than that of Xinglongzhuang, yet there were still some technical difficulties remaining unsolved. Furthermore, according to the General Layout of Mine Development, two years after Baodian's opening, another large colliery, Dongtan (4 Mtons/year), would be opened fresh ground in 1979. Therefore, the construction of Baodian had a function of serving as a link between the past and the future. After the completion of Baodian colliery, not only would the mine area own a total designing capacity of 7.95 Mtons/year, but also provide some more reliable and mature experiences and techniques for the construction of Dongtan colliery.

1.2 General condition (Social environment)

The Yanzhou mine area is under the jurisdiction of Yanzhou, Zoucheng and Qufu cities, Jinan, the capital city of Shandong Province, locates in its north about 180Km; Xuzhou city, a main stronghold in China, lies in its south about 169Km, two state trunk railways (Beijing-Shanghai, Shijiusuo-Xingxiang) just crosses the area along the east and north boundaries separately, and intersect at Yanzhou city. The area has a dense population and developed agriculture, only in the mine field of Baodian (about 37.5Km^2), there are 33 villages all over the colliery. The underground mining would cause the surface subsided, consequently would bring about some adverse effects on the agricultural production and the live of local peasants; but in the other hand, the development of coal industry would bring about some promotion to the local industrial development.

2 Establishment and Design

2.1 Evaluation on the establishment

The project of Baodian colliery was established in July 1973, its capacity was set at 3 Mtons/year, but it was changed to 2.4 Mtons/year in the same year when it was submitted to State Planning committee by Shandong Province Planning Committee; again, it was changed back to 3 Mtons/year by the Ministry of Coal Industry in Oct. 1975, the reasons were:

"To make the colliery size, equipment, operation system and building structure in Yanzhou mine area to be standardized, serialized and finalized as far as possible, and achieve speeding up the design, improving the equipment supply and facilitating the construction and operation."

Having analyzed the establishment condition, we deem that the establishment of Baodian project is generally correct, but the considering "deepness" of determining the capacity seems short of "fittedness". During the course of evaluation, a comparatively unanimous point is:

The determination of a colliery's capacity mainly depends upon the occurrence conditions of coal seams and the amount of mineable reserve, even in the same coalfield the occurrence condition and mineable reserve do vary sharply due to geological and geotechnical conditions, the capacities of collieries shouldn't be unified forcedly. Baodian colliery couldn't achieve its designing capacity according to schedule after its commission, the main reason is the geological conditions changed greatly. Although its capacity of 3 Mtons/year was corresponding to the existing technical policy, (in coal shortage region, the life span of a 3Mtons' colliery allows not lower than 50 years) yet it was unfavorable for full and balance production. According to the geological features of Baodian and its capacity of 3Mtons/year, the calculated period of full and balance production might be marginally maintained 50 years, thereafter, the production would decrease to 1.5Mtons/year. The reason is that the reserve of Baodian minefield consists of two parts, and the thin seams are all covered by the thick, as a result, in early time the thin seams can't be mined simultaneously with the thick, but in later the thick seam would be mined out the production would decrease. If the capacity was selected at 2.4Mtons/year, the balance production period might be prolonged to 70 years, from the view point of long term economical benefits, it is fairly suitable to select the capacity of Baodian colliery at 2.4Mtons/year.

2.2 Evaluation on the design

The design of Baodian colliery was carried out by Yanzhou Coal Mine Design and Research Institute, the preliminary design was submitted in Dec. 1975.

its capacity was selected at 3Mtons/year, life span was 73.6 years, (on the basis of co-mining the thin and thick) two vertical shafts and two levels were adopted to develop the whole take, the first level was selected at -430m, 5 mining districts including 15 working faces were arranged, the total drivages amounted to 71281m, surface buildings were 220325m², the systems of hoisting, haulage, ventilation, compress air, pumping would be equipped with domestic plants, the productivity was 2tons/manshift, the total capital fund was 150.7024 million yuan(R.M.B). In 1980 and 1983, the preliminary design was revised for two times and changed significantly. The main indexes of final design were produced as following:

Life span 80years;

Three districts including 5 faces equipped with fully mechanized machineries;

Hoisting, mining and safe monitoring systems would be installed with imported plants;

Drivages reduced to 57790m;

Surface buildings increased to 249454m²;

Productivity raised to 3 tons/manshift;

Total capital fund 494.753 million yuan;

During evaluating on the design, it was rather controversial, but a comparatively identical point has been reached as following:

"The major technical principles adopted in the design are correct, the considerations against the geological and geotechnical data are fairly carefully, especially during the construction, the design can timely adsorb both domestic and foreign advanced techniques and experiences, boldly update operation processes and equipments, raise mechanized degree and ability of concentration mining, so it does correspond the requirements of the times and the technical progresses, but in the other hand, the design has some apparent drawbacks, mainly are:

- ① The capacity of surface coal handling system doesn't match with that of underground, the R.O.M can't flow smoothly to its destination; hence, it impairs the potential development of other systems.
- ② The major equipment selected are short of flexibility, for example, the substation of power supply is installed with two 20 MVA transformers, in the initial years, the output isn't high, the electricity load is certainly much lower than its rating capacity, only 8~10 MVA, so it would loss quite a lot of electricity fee, about several hundred thousands yuan per year. Besides, the power supply line to hoisting has also apparent drawback, and would pay 491 thousands yuan more than that of normal.
- ③ The north main haulage way is arranged in a weak stratum under No 3 coal seam, meanwhile the mining method adopted is straight passing over it without pillar and no special considerations on the road support. Once the working face advanced over the haulage way, quite a length would be collapsed and causing many difficulties and losses, then the operation

fell into passive position.

- The detail drawing of general layout of site square is produced later than the need, so a large amount of piping and line works should be constructed repeatedly, and causing the constructing site disordered as well as the construction fund losses.

2.3 Evaluation on the exploration

The exploration report is the major basis both for the establishment and the design of a project.

The precious geological report of Baodian minefield was prepared and submitted by the former 2nd Exploration Team of East China Coal Mine Construction Corporation. The evaluation has made two comparisons against the precious exploration report:

- A comparison against the state-released exploration specification;
- A comparison against the actual findings during construction and operation.

The results show that the exploration report does basically correspond to actual condition, furthermore, in some aspects, it exceeds the requirements of the exploration specification of its kind, but even so the precious report is hardly to satisfy the requirements of mining operation, the main reasons are:

- The contents and accuracy of precious exploration report stipulated in present specification has been far behind the practical need of up-to-date concentrating mining system, for example, the precious exploration must identify all the faults larger than 30m in the initial mining districts, such requirement is fulfilled very well, but because of adopting fully mechanized mining system, this stipulation has been so outdated that it no longer meets the requirements of up-to-date concentrating mining system for example, even a minor fault displacing 2~3 meters can cause mining trouble in a fully mechanized face, let along a fault displacing so distantly up to 30m. This fact minds us the time is flying forward, so the specification must be revised timely and accordingly.
- the exploring devices were relatively lagged behind. In that time, the exploring programme was carried out mostly by drilling and short of advanced devices, so it was hardly to identify minor geological structures and interpret them exactly. But in actual operation, only a minor structure can also cause difficulties to a continuously mining face. Therefore, it is an inevitable matter to strengthen exploring ability by equipping modern devices and techniques.

3 Implementation of construction

3.1 Brief course

The course of the implement of Baodian project might be briefly divided into four phases as following:

- Site preparation, including "four accesses and one plain"(road, power supply communication and water are all accessible, and a plain site), the pre-grouting and freezing facilities for ground treatment altogether 22 months (Dec 1975~Oct 1977).
- Shaft-sinking, 33 months (Oct 1977~July 1980).
- Main haulage way development, 55 months (April 1980~Sept 1985).
- Panel drivages, installations and commission, 46 months(Dec 1980~Oct 1985, with some items overlapped).

The actual total construction period of the project(excluding site preparation) was 104.28 months, 6.28 months ahead of the planning schedule(104.28 months on the basis of ministry released norm).

3.2 Main actual performance

The main economical and technical performances achieved before commission are listed below:

items	units	design	actual	%
Capital fund	million yuan	494.753	412.5297	83.38
Drivages	m	57790	50468	87.33
Surface building	m ²	249454	244515	98.02
Installation	piece	1148	1096	95.47
Piping	Km	103.61	90.08	86.94
Power supply line (greater than 6KV)	Km	23.27	23.27	100
Railway	Km	5.25	5.25	100
Road	Km	15.89	15.89	100
Filled materials	m ³	44730	43320	96.85

3.3 Evaluation on the implementation

According to the design and the state guideline of construction, we have fully reviewed and evaluated all the phases one by one, the summary comment is that all the phases from site preparation to commission were implemented better, especially on the following aspects:

- The organization of the constructing works was powerful, this were reflected on the facts: The capital fund allocation secured the construction being carried out smoothly, no works were adversely influenced by fund; The project site management adopted the trend system, the leading officers were directing at the "front line", all the problems encountered in construction had been

solved timely; All kinds of work were carried out on the basis of reasonable schedule by using critical path network system, so the progresses were controlled better; The site preparation was relatively sufficient, especially on the technical alternatives of the construction which had been deeply studied prior to shaft sinking.

- The techniques employed in construction were fairly suitable, and containing some inventions and renovations. Such a sizeable shaft sinking through thick alluvium and formations with high rush rate and complex geotechnical conditions had successfully employed the pre-grouting and freezing systems, fully mechanized operations, pouring concret lining with fluid pressured slipping falsework etc. This had significantly changed the construction technique of large shaft like Baodian to a new level, fulfilled sinking operation in a dry sump and finished a dry shaft, liberated the labours from heavy physical works. The alluvium section and upper base rock of the shafts were all treated specially, with the later pre-grouted, the former frozen. This secured the quality and strength of shafts wall which are normally considered the weakest, and the water leakage through the wall is only $3 \text{ m}^3/\text{h}$, far below the requirement ($10 \text{ m}^3/\text{h}$). The inset area is up to 105 m^2 , the structure of skip loading pocket is very complex but by employing two steps support system, the construction operation was simplified, the progress speeded up, the safety secured, and the quality improved. The pit bottom silo was constructed by drilling upward and enlarging downward, then lining with slipping falsework, this was firstly introduced in Yanzhou Mine Area, and the productivity raised more than 100%. The bunton interval was successfully lengthened for the first time from 4m to 6m, and was a breakthrough to its original theory. All these new techniques and operations would create significant effects not only upon the construction of Yanzhou Mine Area, but also upon the shaft sinking technique of the whole country.
- The quality of construction was excellent, the qualification rate was up to 100%, the composite excellent grade items were 58.4%, in which the drivage, architectural and installation were 22.3%, 72.5% and 75.4% respectively. Besides, six items were praised as excellent grade of ministry level.
- The standard of commission was high, sixteen systems had been completed before commission, the remaining drivages and surface building were only 7602m and 6100 m^2 respectively, the state checking and accepting committee deemed that the commission standard of Baodian project was the highest and the progress of construction was speedy in the country.

3.4 Evaluation on capital expenditures

The capital cost estimation of the preliminary design of Baodian project was

0.15 billion yuan(R.M.B), but it was revised formally for five times and adjusted partially for two times, at last, up to 0.49 billion yuan. The above total cost expenditures was analyzed by audit department and the ex-post evaluation team, the conclusion is;

94% of the total cost expenditures is reasonable; 6% exactly to say, 31.95 million yuan is unreasonable, in which 1.6% is the result due to design change and the unsuitable plants selection; 0.06% due to poor construction management; 0.06% due to the change of investment (state allocation changed to Bank loan, 3.11 million yuan of interest needed to pay); 1.77% due to the price inflation of land.

From above analysis, we may find out the following problems:

- The cost estimation was prepared according to fixed norm which biased toward low, the actual cost was controlled by the budget rather than the estimation, the Baodian's estimation was revised and adjusted for so many times as above, the amount changed from 0.15 to 0.49 billion, in the matter of fact, it had lost its controlling function and significance.
 - The construction period of a large colliery is very long, the plants selection and procurement is a problem worth to discuss and study. Baodian colliery had paid more than 2.19 million yuan due to unsuitable plants selection.
 - The capital expenditures were impaired by the external factors, such as, the land price inflation and other man-made exorbitant demand had caused this part of estimation hardly to be controlled and had to pay more than 8.7869 million yuan.
 - The enterprise management should be enhanced, during the construction, many plants was rusted to be useless and lost 300 thousand yuan; the training expenditure had to pay 9.6647 million yuan more than the planning amount due to earlier recruitment and training fee inflation.
- Generally, the present scheme of preparing estimation should be changed, the enterprise management be enhanced, and the investment condition be further improved.

3.5 The drawbacks in construction

The evaluation has analyzed the problems in construction, mainly are:

- The site preparation still has some drawbacks, the standard of road pavement in some sections wasn't high enough to maintain transportation in rainy days, as a result, the construction was once interrupted for 7 months due to the cement couldn't be conveyed to site; the formal design of constructing organization hadn't been produced, and the shaft was opened fresh ground only on the basis of a "enlarged organizing design of shaft sinking", consequently, caused the later phase works to be disjointed.

- The time differences of starting among four shafts (main, service, north ventilating, south ventilating) were arranged unsuitably, for example, the difference between main and service shafts was 5.5 months at starting but was 13.2 months at reaching to their bottoms, this had impaired the schedule of critical path; the another instance was north ventilating shaft, originally, it was determined to commission the north side districts first, so the north ventilating shaft was sunk ahead, but later it was changed to the south side districts, so the construction period was prolonged for 14 months, this caused the critical path schedule postponed for 7 months.
- During the construction of north main haulage way, the pumping capacity was low and operated not in time, so the roadway was soaked and its strength weakened, this would cause hidden trouble to the operation.

4 Economical and social benefits

4.1 Evaluation on the operation after commission

In Feb 1982, the preparatory department of Baodian colliery was established, and immediately developed its works. In Oct 1984, the training courses for operation workers started. In Dec 1989, the colliery was commissioned. The designing total fixed personnel were 4747, the actual members on book were 6004 at the time of commission, the main part of operation workers were from Weizhuang colliery, partially from Tiantun colliery (both of Zaozhuang Mine Bureau), the new recruits were 3000.

The state check and accept committee and the ministry of coal mine industry stipulated the output in 1986 would be 600 thousands tons (raw coal), thereafter, it would be increased progressively 600 thousands tons each year and up to full capacity of 3 million tons by the end of 1990. All the remaining capital works would have been finished in 1988.

The first three years after its commission, the output did increase progressively at an average amount of 600,000 tons per year, the policy loss index did decrease 13,100,000 yuan per year. But in the later half of 1989, a mine panel caught self-combustion fire and the north main haulage way collapsed by the abutement pressure, the output was no longer increasing any more, the operation cost and losses were soaring highly (see table 2), the formerly stipulated output target was not fulfilled.

Table 2 Actual performances

Year	Planing output million tons	Actual output million tons	Loss 10thousand	Tax 10thousand	Remark
1986	0.55	0.6002	-4920.5	71.67	
1987	1.25	1.35	-3261.3	161.8	
1988	2.01	2.20	-2299.6	3654.9	
1989	2.20	2.212	-6501.5	468.3	
1990	2.30	2.08			1-9month

During evaluation, we have made an analysis on the reasons of why the colliery couldn't reach its designing capacity accordingly.

- The collapse of north main haulage way is the main factory causing the colliery failing to reach its designing capacity accordingly, the concrete reasons are:
 - a. The horizon and support system selected for north main haulage way is unsuitable. During the course of design, the strata near the third limestone were reviewed and analysed, the design specification pointed out the stratum having property of swelling when wetted, however, the haulage way was still arranged in the strata and no special consideration was paid to its support system, so it caused the operation falling into a passive position.
 - b. The exploration report interprets the lithology of strata near the third limestone as siltstones, it is not so accurate, in fact, they are mainly mudstone with siltstone interbeded.
 - c. During construction, some lengths of roadway were driven downward without pumping water timely, so the roadways were soaked and the strength decreased.
- Baodian minefield locates at the axis zone of an anticline structure, the stress is very concentrating, the minor structures are so mang, that a total of 49 faults ranging from 0.5~5.6m have been unveiled so far, which causing tough difficulties to the continuously mining.
- The coal seam thickness changes sharply in some districts, for esample, the No 3 seam splits zigzagly in No 2 district; the 3 upper seam thickness in the exploration report is 4.7m, actually 3.8m, which causing difficulty to slicing mining; the dip in No 4 district is actually 17~20° but the report indicates 8~12°, which causing the fully mechanized support failing to accommodate.
- The design arranges to mine the No 2 seam (thin coal) prior to the underlying No 3 seam (thick coal). after commission, the No 2 seam is unreited to be a extremely unstable in thickness and can't be mined out economically, so the face is forced to be stopped, the whole operation is impaired.

- The cultural and technical qualities of the workers are relatively low, the staffs and seniors are short of the experiences of organizing concentrating mining with fully mechanized equipments, for example, the quality of wire net laying is not high enough to secure the lower slicing face; sometimes mining under weak and broken roof it is needed to leave a thin layer of coal to protect it, but the horizon is controlled unsuitably, which impairing the middle and lower slices to be mined out smoothly and leaving hidden risk of self-combustion.

4.2 Evaluation on financial

Owing to there is no implementary schemes available. We have to temporarily work out the following data as the basis for financial evaluation:

- Presuming the completion date as the time limit, before it the financial figures take actual performances; after it, take the figures predicted according to the actual performances of 1989;
- The cash flow rate takes 5.77 yuan/ton, the interest includes in the operation cost;
- The profit rate takes 3%;
- The rate of expenditure beyond business takes 1.45 yuan/ton, after 1990;
- product tax, city construction tax and education surtax are added to 3.21%, the resource tax takes 0.5 yuan/t;
- The firm retained profit is ignored, except in 1987 and 1988, (take actual performances)
- The colliery life span takes 29 years.

The results calculated are listed below:

● Net financial value	-492.09 million yuan
● Net financial value rate	-121.32%
● Inner profit rate	-
● Return on investment rate	-7.85%
● Investment recovery period	-

Under present state policy, it is rather difficult to raise the economical benefit only by decreasing operation cost, even the operation cost decreases 30%, all the financial indexes above remain negative.

The main reason causing such an undesirable situation is that:

The coal mine industry is assigned by state policy as a loss trade, the coal price is limited and the loss subsidized both by the state. The only way that the coal enterprise can raise its economical benefits is to open the coal price, but even the price raises 80% more than present, i.e 80.64 yuan/ton, the inner profit rate can't reach to the present discount rate standard(10%).

4.3 Evaluation on social benefits

The social benefits are very significant after the commission of Baodian colliery.

4.3.1 It was reported that in the mid 1980s, each 100 thousand tons of coal can produce 0.1 billion yuan(average)of GNP. According to the designing capacity of Baodian(3 million tons/year), the GNP would be 3 billions per year. If it is calculated by using actual rate of GNP in Shandong, Zhejiang, Jiangsu and Shanghai (where the coal supplies to), the total GNP would be even more.

4.3.2 during the construction of Baodian colliery, a great many new techniques and operations are employed and created, which not only promotes the development of constructing technique in Yanzhou Mine Area, but also would have profound influence upon the constructing techniques in the whole trade.

4.3.3 The local industrial and agricultural production of township is promoted, so many jobs are provided to the local peasants. But in the other hand, some farm lands are subsidized and causing some difficulties and impairs to them.

5 Problems and recommendations

Through the ex-post evaluation on Baodian project, we have found out many subjects worth to discuss and think deeply, they are listed below and submitted to leaders and responsible departments at all levels for reference:

5.1 About the capacity

The designing capacity of Baodian colliery was changed for times during its establishment. The practice proves that if the designing capacity of Baodian was selected at 2.4 million tons/year, it would be fairly suitable. During evaluation we have learned even it not yet commissioned, the department concerned had raised the issue of enlarging the capacity from 3 million to 4 million tons. Not to mention the basis of such a motion, only the motion itself was worth raising objection. In China, a colliery with 3 million tons has been a large one, to achieve its designing capacity by means of present mining techniques and managerial level has been an uneasy issue. During a colliery was under constructing, neither commissioned nor achieved its capacity, the motion of enlarging had been raised. Such motion is only seeking high output and no attention is paid on the economical benefits, so it is unacceptable. Besides, the Xinglongzhuang and Dongtan collieries were also experienced the same problem of attempting to be enlarged.

The evaluation deems unanimously that all the motion of enlarging should be rejected.

We do recommend that the senior department should, from now on, be prudent to determine a newly constructed colliery to be enlarged.

5.2 About the estimation and capital expenditure

The purpose of estimation is to control the capital expenditure, but none of the formerly prepared estimation of Baodian project had function of controlling. The reasons have been studied, the main one is that the ministry released norm was the only basis of estimation, but the rates and prices in it were far away from the reality; the controlling method was also stationary. During construction, the estimation of Baodian was changed for several times, once it was being revised or adjusted, the senior department emphasized the new estimation should be contracted "to death". However, the new estimation never be contracted so, only just the time of commission, was the estimation given the final approval. Such scheme of preparing estimation has been unacceptable even in the conditions of planning economical system, it would be more unacceptable in the marketing system.

We do recommend that the departments concerned should take counter measures and work out an estimation scheme which would be suitable for reforming and opening policy, then the estimation may act as a true means of controlling capital expenditure.

About the capital allocation, it was usually arranged the major operation facilities first then the auxiliaries; the shaft sinking ahead and followed by road pavement. Such a scheme brought along a series of malpractices, one of them was the cost of large temporary facilities always remaining high, for example, the cost of temporary facilities of Xinglongzhuang was 6.13 million yuan, the Baodian was 10.77 million yuan, almost double the former. Meanwhile, the more the temporary works were, the more the site square disordered, which causing a great many of repeatedly constructed works and waste. Furthermore, all kinds of works couldn't be co-ordinated smoothly between their relations and steps, thus impaired the systems to be completed timely and the construction period was prolonged. Last but not the least, the poor standard of road pavement influenced adversely on the transportation, and increased the transporting cost.

We do recommend that the capital allocation issue should be studied deeply, to reduce the waste and the fruitless capital investment and obtain the maximum capital profits.

5.3 About the equipment selection and procurement

The experiences from the construction of Baodian and others in Yanzhou area have exposed many problems in equipment selection and procurement, which are worth studying. Such as: the period of constructing a large colliery is very long, and the equipments selected should be ordered earlier. Some plants may be the new ones at ordering but they would turn out of date in the time of installation. The types of domestic mining plants are very few, the qualities of

some plants rather low and the alternatives of plants selection constrained; the procedures of purchasing foreign plants are rather overelaborate and the spare parts couldn't be secured; besides, the equipment selection is interrupted frequently by administration, so they couldn't be selected by the merits. All these would not only cause some waste, but also bring along adverse effects on the operation after commission. Only in the construction of Baodian the amount of capital wastes due to unsuitable equipments selection was up to 2.19 million yuan. Although some plants has been clearly known unsuitable, yet they were reluctantly selected, as there was no other possible alternative, which causing the operation falling into passive position.

We do recommend that the state departments concerned should organize domestic forces to study and research the manufacturing processes; produce the dedicated coal mining machinery and electrical equipments which are suitable for Chinese condition; improve the lagged behind state of manufacturing mining equipments in the big coal-production country.

5.4 About the preparation plant

Generally, in Yanzhou mine area the construction of a preparation plant started 4~5 months later than that of mining systems, which has caused a series of problems as following:

- Adversely influenced the economical benefit of the colliery, about several ten millions yuan of income were lost each year.
- The partings and ash in the raw coal couldn't be cleaned, which adding extra loads of transportation and spreading contaminations to wider environment.
- Single product could never satisfy the various coal demands of the whole society.

We do recommend that the preparation plant should be constructed simultaneously with other systems; meanwhile it ought to be considered on the basis of practical condition. In a relatively concentrating mine area, not all collieries need to be accompanied with a preparation plant. One or two center preparation plants may be constructed according to the requirement. Besides, the functions of a preparation plant should be comprehensive, so the products composition might be adjusted timely according to the market demand. Anyhow, a preparation plant shouldn't be constructed with a function of single product.

5.5 About the living facilities

The living facility of Baodian colliery locates very near the site square, only apart a width of road, its building area is 213000m², such close a living facility has caused many problems:

- Enlarging the site square pillar;
- A living facility lying so far away from the city has caused many troubles to the schooling and employment of children. Besides, it isn't beneficial to develop the third industry.
- Adding difficulties to the colliery management, the manager has to tackle both the operation and living affairs.

We do recommend that the living facility should be built near the city and town where is a sterile zone, thus it would be continuously used after the end of a colliery; the auxiliary facility in the site square should be minimized as far as possible. All these should be planned and arranged as a whole in the General Layout of Mine Development to raise the general economical benefits of the mine area.

THE END

EX-POST EVALUATION OFFICE OF YANZHOU COAL MINE BUREAU

Oct. 1990

THE EXPERTS TEAM'S COMMENTS REPORT ON
THE EX-POST EVALUATION ON BAODIAN PROJECT

Entrusted by the state Planning Committee, the International Engineering Consultaut Corporation of China together with the General Corporation of State-Run Collieries of China have organized an experts team consisting of geological, mining, fully-machanized technical and economical spocialists, and made a full analysis and study against the ex-post evaluation on Baodian project. The team came to site and made a field investigation in Dec. 1990, then reviewed and examined the ex-post evaluation, the comment was made as following:

1 General

Baodian colliery locates at the middle part of Yanzhou coalfield, with a minefield area of 37.5Km², which is 7.5Km in strike and 5Km in dip. The total in-situ reserve is 0.62 billion tons, mineable reserve is 0.336 billion tons, the total thickness of coal seams is 14.25m, the mineable seams are seven, in which the main mineable is No 3 seam with an average thickness of 9m, it is relatively stable in the minefield, and classified as medium metamorphosed gas coal and can be used for cooking as a ingredient, or for power fuel.

The designing capacity of Baodian is 3 million tons(raw coal)/year, its life span is 73.6 years, all the raw coal is conveyed to the colliery preparation plant to be cleaned.

The first version of Baodian estimation was 150.78 million yuan(R.M.B), but was formally revised for five times and adjusted partially for two timed, the last version of Baodian estimation is 494.753 million yuan. The reasons for estimation change were that for the purpose of improving the mining productivity, safety and economical benefits, the design was revised to adopt composite mechanized operation systems, all the fully mechanized mining machineries, hoist plants and safety monitor facilities were employed with foreign products instead of domestic ones; Five mining districts including fifteen faces were reduced to three including five faces, the productivity of 2 tons/manshift was raised to 3 tons; Besides

the rates and prices were also inflated by policy, some supplementary works were added, thus, the capital investment was increased accordingly.

Baodian colliery was opened fresh ground in Oct 1977, commissioned in Dec 1985, checked and accepted in June 1986, by the state assigned committee. It produced 600,000 tons in 1990, the productivity of mining district was up to 75% of the planned.

2 comments on the owner's ex-post evaluation report

According to the experts team's investigation and analysis, it is deemed that the ex-post evaluation report presented by the owner (Yanzhou Coal Mine Bureau) is completed with full informations, reliable data, objective in analyzing, so it has grasped the key points, all the main achievements and lessons during the construction of the colliery have been summarized and they are basically corresponding to the objective practices.

2.1 Comments on the establishment

2.1.1 The establish of the project is correct, it does pay attention to the work of site preparation, the decisions correspond basically to the requirements of the construction procedure, and can carry out the rules and regulations of the coal mine industry.

2.1.2 The size of the colliery and its development layout do correspond both the General Layout of Mine Development and the geological conditions of Baodian minefield.

2.2 Comments on the exploration and design

2.2.1 The geological exploration report satisfies the requirement of design basically.

2.2.2 The design has systematically absorbed both the domestic and foreign

advanced techniques and has them renovated, such as, the fully mechanized mining system; 91% of rock roadways driven by smooth surface blasting and supported by anchor bolts and grout ejection; the buntons and various brackets are all fixed with resin anchors; four installations of large motor-generators for main shaft hoist plant are installed at the upper deck of the headgear tower, etc. All these new techniques have reduced enormous amounts of works; speeded up the progress; improved the quality.

2.2.3 The horizon selected for north main haulage way is not so "fittedness".

2.3 Comments on the construction

2.3.1 The constructing progress of the colliery is speedier than that of its kind in the country, the total actual period is 98 months and 6.28 months ahead of the schedule calculated per the norm.

2.3.2 The mechanized level of construction has greatly been raised by employing advanced techniques and science, such as, the new technique of pre-grouting from surface is firstly employed in the mine area, so four shafts are sunk to bottoms in a dry condition, which has improved the shaft sinking environment, speeded up the progress and secured the quality.

2.3.3 The quality of works is good, all the individual works are up to standard of qualification, the composite excellent rate is 58.04%, the construction quality of the project is fairly good among its kind.

2.4 Comments on capital expenditure and social economical benefit

The total capital expenditure of Baodian colliery is 494.7530 million yuan, its main part is basically reasonable, the unreasonable part is about 6% (31.95 million yuan), for example, two hydra-lathe'r have been stored up to now because they are unsuitable for mine condition, about 1.9 million yuan of capital have been wasted.

The completion and commission of Baodian colliery has produced significant social economical benefits for East China where is short of coal. Not only can it relief the situation of coal transportation from west to east, but also can increase more values (G.N.P) due to the GNP rate in east china is higher than that of other regions.

Owing to the cost of coal mining is rather high, but the price of coal is low, the inner profit rate of a coal mining enterprise is too low. According to the present coal price and cost, all the financial indexes would remain negative at least within twenty nine years, the investment fund could never be recovered. If the coal price is adjusted and increased 50%, the inner profit rate would be 3.65% which is only 0.65% higher than the basical profit rate (3%) of coal industry.

3. main experiness and lessons

During the construction of Baodian colliery all works in each phase have been carried out better. The geological report informations are proved basically correct by the actual findings. The preliminary design has been revised for two times and changed significantly to employ fully mechanized mining system and equip with advanced machineries and devices for the main operation systems, and make the colliery up to the international standard of earlier 80S, so Baodian colliery is a modernized one which has been constructed more successfully.

Main problems:

3.1 The north main haulage way

The north main haulage way has been heavily influenced by the mining abutment pressure when the faces advanced straight over it. Although it has been treated for several times, yet the problem never be solved at all, and still in had condition, such as: the section area being shrunk, deformed and floor heaved. So the haulage way is hardly to undertake its normal transporting duty, then the efficiency

of fully mechanized equipments could never be brought into full play and even be forced to stop. The reasons causing the north haulage way being so severely broken are from many aspects, mainly are:

3.1.1 The exploration report interprets the stratum siltstone, in fact, it is mainly mudstone with siltstone interbedded .

3.1.2 The north main haulage way is arranged in above-mentioned stratum which lies below the No 3 coal seam, and above the third limestone (38~50m apart from the floor of No 3 seam). The stratum is an aquifer and would be weakened to resist the abutment pressure after it has been soaked.

3.1.3 During construction, it has been found that the roadway is in a weak, soft horizon of mudstone, but still supported with anchor bolts and grouting according to the design, the strength of such support is apparently not strong enough. If it was changed to employ the U-shaped steel support in that time, and maintain the integrity and stability of surrounding rock, meanwhile, pumping out water timely, the situation would be better.

3.1.4 After the commission, north main haulage way has been deformed, heaved, shrunk and even collapsed by the mining abutment pressure, but the colliery administration has not studied thoroughly from the basic point and failed to take effective measures of tackling the problems left over by construction.

The quality of the support system employed in north haulage way has further demonstrated the disjunction between the design and construction units, which causing many losses and problems to the project. If they has co-ordinated each other during the construction, and the unveiled geological structures can be feeded back timely to the design unit, then made a joint study and take necessary measures, such as: pumping out the accumulated water; improving the support system; protecting the integrity of surrounding rock, etc; Even if the roadway was compressed by the mining abutment pressure, the consequential

damage couldn't be so seriously. Had the mine layout been changed from the direction along the dip to the strike, instead of mining pass over the roadway, the condition would be better for the operation.

3.2 Partial geological information hasn't been identified clearly. For example, the coal seam dip in No 4 district is actually $17\sim 20^\circ$ but the exploration report interprets it $8\sim 12^\circ$ and the design such and such. So it has brought along some difficulties. The coal seam in No 2 district splits zigzagly as a 'Z' shape, the thickness changes from thick to thin, causing difficulty to slicing mining.

3.3 Problems in management

The fully mechanized mining operation necessitates the operators must possess higher cultural quality and skill level, but the workers accepting the operation are from Weizhuang, a small colliery of Zaozhuang Bureau. The large colliery is handed over to those from a small one, the staffs' cultural and skill qualities are not high, and not trained sufficiently. So it is hardly to accommodate the requirements of large-scale mechanized operation.

Nowadays, the colliery's operation depends only upon two fully mechanized faces in No 2 district, the No 3 district can't give its play due to the influence of north haulage way. Without the question being solved thoroughly and enhancing the operation management, the colliery would be hardy to reach its designing capacity in the near future.

4 Several recommendations

4.1 Enhancing the geological exploration

The fully mechanized mining system requires the exploration report more precious. So it is in urgent need to raise the accuracy degree of a precious geological exploration report, for it is the basis of design, construction and operation. The coalfield geological exploration issue would be prominent increasingly, along with the construction of colliery shifting to deep coal

measures and complex geotechnical conditions; the operation being fully mechanized, enlarged and concentrated. Hence, it is a must to raise the technical level of geological exploration, enhance and enrich the drilling and geophysical exploration devices, as well as the personnel training. Besides, the two exploring systems should be combined together very well.

4.2 The maintenance of north main haulage way should be solved as soon as possible, we recommend that an experts team should be organized to study the technical problems of the theory for driving and supporting roadways in the zone of mining abutment pressure, then find out the best way to solve it and maintain it in a good condition as soon as possible. Furthermore, the concrete measures to reach the designing capacity should be raised to improve the quality of road way support, and give better play to the economical benefits of the project.

4.3 The issure of preparation plant

The preparation plant of Baodian colliery was opened fresh ground five years later than that of other systems, and caused the colliery remaining in the low beneficial condition for so long a time and increased the losses. We ecommend that from now on, a colliery and a preparation plant like Baodian should be constructed simutaneously to raise the national resourse being used more reasonably, and increase the economical benefits of the enterprise.

4.4 Yanzhou coal mine area is a large one which started to be constructed in the 1970S. Baodian colliery is the super large one in the General Layout of Mine Development of Ysnzhou Coalfield. The ex-post evaluation on the full course of such a colliery's construction would produce some directing functions to the national construction of collieries of its kind, but from the view point of macroscopic, only through this evaluation and in turn the ex-post evaluation on the whole mine area, the mine development could sysmatically be analyzed, and then the constructing experiences and lessons of collieries, preparation plants, main and auxiliary and living facilities etc, could be summarized. In view

of the experiences and lessons during the construction of Yanzhou mine area would influence on that of East Jining coalfield and others. We recommend that the ex-post evaluation on Yanzhou mine area should be listed in the ex-post evaluation programme of the national construction.

4.5 Some problems existing in Baodian colliery such as the period of reaching its capacity, the accuracy of precious exploration report, and the position of roadway etc, are of universal in the coal mining trade. We recommend that some forces should be organized to select some subjects of special studies, and then summarize mainly the common problems in newly commissioned collieries, such as, the problems caused by design, construction and the actual geological data inconsistent with the report; the grade of gas emission turned high; the insufficiency of ventilation capacity after commission; the hydrogeological information failed to be identified clearly and caused flood or abnormal operation; the maintaining difficulties caused by unsuitable selection of roadway position due to lithological changes; and so many minor-faults hindered the colliery failing to reach its capacity. Through the analyses and studies of above special subjects, the revision work to the specifications of design, construction and exploration would be carried out directly on their merits; and then improving the construction procedures, handling correctly the affairs of current exploration, design, construction and commission in which their relations and responsibilities are not exact, thus, the construction of a project may be raised to a new level.

THE END

THE INTERNATIONAL ENGINEERING CONSULTANT CORPORATION OF CHINA

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