STAFF APPRAISAL REPORT

CHINA

STATE FARMS COMMERCIALIZATION PROJECT

March 5, 1998
CURRENCY EQUIVALENTS
(as of February 1998)

Currency Unit = Yuan (Y)
$1.00 = Y 8.3
Y 1.00 = $0.12

FISCAL YEAR
January 1 to December 31

WEIGHTS AND MEASURES

1 meter (m) = 3.28 feet (ft)
1 kilometer (km) = 0.62 miles
1 square kilometer (km²) = 100 ha
1 hectare (ha) = 2.47 acres
1.5 mu
1 ton (t) = 1,000 kg
2,205 pounds
1 kilogram (kg) = 2.2 pounds

ABBREVIATIONS AND ACRONYMS

CAS - Country Assistance Strategy
CRAES - Chinese Research Academy for Environmental Science
CTICED - China Trust and Investment Corporation for Economic Development
FECC - Foreign Economic Cooperation Center of MOA
ICR - Implementation Completion Report
LLC - Limited liability company
LLSHC - Limited liability shareholding company
MOA - Ministry of Agriculture
OED - Operations Evaluation Department
PFI - Project financial intermediary
PMO - Project Management Office (MOA)
SFB - State Farms Bureau
SFS - State Farm System
SOE - State-owned enterprise
TIC - Trust and Investment Company
TVE - Township and Village Enterprise

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CHINA
STATE FARMS COMMERCIALIZATION PROJECT
LOAN AND PROJECT SUMMARY

Borrower: People's Republic of China
Implementing Agency: China Trust and Investment Corporation for Economic Development (CTICED)
Beneficiary: State Farm Enterprises; CTICED
Poverty: Not applicable
Amount: $150 million
Terms: 20 years, including 5 years of grace, at the standard interest rate for LIBOR-based US dollar single currency loans
Commitment Fee: 0.75 percent on undisbursed loan balances, beginning 60 days after signing, less any waiver
Onlending Terms: From the Borrower to CTICED in US dollars at IBRD rate, with a maturity of 15 years, including 5 years' grace. From CTICED to end-users in US dollars (with end-users bearing the foreign exchange risk) at IBRD rate plus 2.4 percent spread or in yuan (with CTICED bearing the foreign exchange risk) at CTICED's standard rate for similar loans, with a maturity of not more than seven years including two years of grace.
Financing Plan: See para. 4.10 and Table 4.4
Economic Rate of Return: N.A.
Staff Appraisal Report: Report No. 16004-CHA
Maps: None
Project ID Number: CN-PE-3591
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1. BACKGROUND

A. INTRODUCTION

1.1 The Government of China (GOC) has requested Bank Group assistance to finance a State Farms Commercialization Project to support and act as a catalyst for enterprise reform within the state farm system (SFS). This operation has been designated as a Line of Credit, and the Government and the Bank have selected the China Trust and Investment Corporation for Economic Development (CTICED) as the project financial intermediary (PFI) to bear full responsibility for appraisal of subprojects, onlending and recovery of project funds. The State Farms Bureau in the Ministry of Agriculture would put forward potential subprojects, or enterprises could apply directly, to CTICED for its appraisal of commercial, financial and technical viability of the subproject and the commitment of the sponsor to enterprise reform within guidelines established with the Bank. The Bank loan would support technological modernization of existing enterprises and establishment of new commercial ventures, mostly small and medium scale light industry, of a scale sufficient to support appropriate environmental pollution control technology and linked to defined steps in the continuum of economic reform in China; it would also support strengthening the capacity of the PFI to conduct long-term lending activities. While not ruling out subprojects which support primary production of agricultural commodities, the project focuses on secondary industry, in line with the increasing importance of industrial activities in the economic development of state farms, as in the entire rural sector. While agriculture was the mainstay of state farms in their early years, it now accounts for less than half of total sales for the entire system. Still, the State Farms occupy an important position in the rural economy, and reform demonstrations in their industries would serve as replicable models for achieving greater efficiency, profitability and accountability in other rural industries.

1.2 Agriculture in China provides sustenance for about 1.2 billion people, accounts for 20 percent of the country's GDP and is the main source of income for some 200 million farm families. An important trend affecting the sector has been the shift to a more market-driven economy. Elements of the old command system are steadily eroding, and enterprise reforms related to increased management autonomy and liberalized markets have been increasing rapidly since late 1993. Further evidence of economic reform affecting the rural sector can be found in the output of township and village enterprises (TVEs) and collectives. Since the introduction of reforms in 1978, the value of goods produced by this nonstate sector has reportedly increased from 2 percent to over 56 percent of industrial output value. TVEs, championed for creating jobs and increasing incomes in the rural areas in the 1980s, have been challenged in the 1990s by increasingly
competitive markets and difficult business decisions. Most TVEs are run without enterprise autonomy, answering to and controlled by local government leaders. While they do not face the burden of state-owned enterprises (SOEs) to provide social services, they have only recently begun to participate in pension and medical insurance programs. Pensions for state farm workers, however, fall under the centrally mandated pension reform for SOEs calling for provincial governments to set up pension pools at county or city levels; this program, while not complete, is further along than the programs of TVEs or the remainder of the rural sector. The proliferation of small rural enterprises (most TVEs fall into this category) has increasingly threatened the rural environment as most utilize fairly primitive technology and have little money for environmental equipment, commonly discharging untreated industrial waste into the countryside. The proposed project would make use of the People’s Bank of China’s latest instructions placing responsibility on financial intermediaries to assure that appropriate pollution control equipment is designed before investment lending approval and installed and functioning before extension of working capital loans.

1.3 Within the agriculture sector, the relatively small subsector of state farms, with a population of some 12 million, occupies 38.3 million ha (about 4 percent of China’s total land area), extending over all provinces, and reports directly to either central, provincial or municipal governments. Under the centrally planned economy, their main role was to serve as suppliers of such strategic commodities as rubber, surplus grain, cotton, sugar and wool for government procurement and of milk, fish and meat for regional urban centers; state farms also served as collection points for surrounding farmers’ production and played a significant role in distribution of reliable quality seeds and breeding animals in rural areas. Starting in 1978 with the introduction of rural economic reforms which lessened their importance in supplying essential agricultural products, the central government encouraged state farms to integrate agricultural, industrial and trade activities and readjust their production mix to achieve better economic results. By 1991, industry accounted for nearly 60 percent of their industry and agriculture output value. The introduction of the socialist market economy, despite the decline of government procurement and the difficulty of adapting infrastructure geared to the centrally planned economy (e.g., rubber plantations), has provided many new challenges and opportunities for state farm enterprises to behave entrepreneurially. Subsidies, either from central or provincial governments, have been largely phased out and even past investments by the state are now considered as loans, which must be repaid. State farms are, by virtue of their ownership, SOEs and to a large extent, they face problems similar to those of industrial SOEs, and their reform system is modeled after the enterprise reform program being adopted nationwide. On the other hand, with populations in the tens of thousands or larger, they bear many similarities to rural villages, and possess an array of enterprises.


2 Chinese authorities define a “socialist market economy” as one in which market forces determine resource allocation while public ownership remains the mainstay.
and expertise that has matured to more sophisticated levels, e.g., progressing from cotton production to spinning, to textile production and on to garment manufacture; from fabrication of farm machinery to production of steel containers, pumps, and components for truck and motorcycle manufacturers. For some time, most of their income has derived from production outside the scope of quotas and price controls; hence, their managers are anxious to introduce economic reforms that would place them in a better position to compete in the market place with TVEs, collectives, SOEs and the private sector.

B. ENTERPRISE REFORM

1.4 The most serious problems of the state enterprises have been their misallocation of resources and their contribution to macroeconomic instability. Resources were misallocated for two main reasons. First, the credit plan rather than markets allocated most investment funds, restricting the flow of capital to sectors with the highest return. Second, because social services were tied to enterprises, workers could not move easily to more productive uses. Macroeconomic instability was linked to the inflationary effects of financing state enterprise deficits through money creation. Enterprises contributed to the public sector deficit because their relatively low profits did not finance their share of investments. State enterprises, however, in China are collectively profitable. As a group, industrial SOEs report operating profits of about 2 percent of GDP, but about 40 percent of SOEs incurred losses amounting to about 1 percent of GDP. As a consequence, after-tax profits of SOEs as a group finance only a small share of their investments. Because the after-tax profits are low, SOEs use a disproportionately large percentage of available credit and, generally, it is used less productively than in the nonstate sector. Several policy-related distortions depressed the relative financial performance of SOEs. The tax regime imposed a heavier burden of taxation on SOEs, primarily because of the tax exemptions of foreign-funded enterprises. Price controls depressed earnings of coal, natural gas, fertilizer, and grain producers, and these sectors have recorded substantial losses. SOEs were obligated to provide social services—education, health, and pensions—that in most market economies would be largely borne by government. Additionally, SOEs had limited autonomy to release redundant workers.

1.5 The state farms have many manufacturing enterprises with a similar history. They were established during the period of strong central planning, being created under administrative fiat and thus suffering from poor decisions with respect to location, size, product mix, technology and capital/labor combinations. The result is a large number of enterprises suffering from rigid patterns of corporate integration, prevalence of plant designs at less-than-minimum efficiency, few economies of scale and use of obsolete, inefficient and heavily polluting technologies. Their problems are also rooted in the system under which enterprises' productive objectives have been commingled with those of government (particularly in border areas), with the state acting as both owner and regulator, and with the burdening of these business entities with obligatory social services and corporate internal and external incentive structures diverging from those that would have arisen from a focused pursuit of commercial objectives alone.
1.6 Initial reforms, aimed at decentralized economic decision-making, introduced market forces and competition into the industrial sector, and liberalized the external sector. These reforms were generally introduced in the Chinese gradual and incremental style, often first as experiments in certain regions and subsequently replicated in other locales. The Contract Responsibility System was introduced to define the rights and obligations of managers. SOEs were corporatized through granting of management autonomy from the line ministries, and sometimes sale of shares. Far-reaching and significant reforms were set out in the New Operating Mechanism (NOM) and the 14 Autonomous Management Rights, which give to SOE managers broad authority in production, price-setting and input purchase decisions, enterprise accountability for profits and losses, the separation of profit remittances from tax payments and discretion to close down and/or declare bankruptcy. Further reforms were introduced in November 1993 with the “Decision on Issues Concerning the Establishment of a Socialist Market Economic Structure.” This Decision outlines a 50-point agenda for economic reform to be attained by the end of the century and calls for creation of a “modern enterprise system” of corporate structure, governance and management. It provides for full separation of the state’s exercise of ownership rights from the enterprise’s exercise of legal person property rights, encourages development of diversified ownership forms, improves macroeconomic and monetary policy management, including clarifying the role of the People’s Bank of China (PBC) as an independent central bank, enhances labor market and human resource development as well as creating a basis for a national social security system, and establishes a market-oriented legal system. The Decision is, however, a statement of principles, and implementation is the challenge facing the government.

1.7 The Company Law, enacted in 1993, sets out the basic legal framework for transforming state-owned enterprises into limited liability companies (LLC) and limited liability stock companies (LLSC), both of which are based on multiple ownership. The difference between the two company forms are, in summary: In the case of LLCs, shareholders (of which there are between two and 50) are liable toward the company to

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3 Regulations on Transforming the Management Mechanisms of State-Owned Industrial Enterprises, approved and promulgated in 1992, is a subsidiary document under the 1988 Law on State-Owned Industrial Enterprises. They provide more detail in transferring several major operating rights from the government to the enterprises:

1. production and management decision-making powers;
2. the right to decide prices of products and services;
3. the right to sell products;
4. the right to purchase goods and materials;
5. import and export rights;
6. the right to make investment decisions;
7. the right to determine application of reserve funds;
8. the right to dispose of assets;
9. the right to operate joint ventures or undertake mergers;
10. the right to hire workers;
11. the right to determine personnel management;
12. the right to determine distribution of wages and bonuses;
13. the right to decide the organization of internal divisions; and
14. the right to refuse proration (demand for resources from government departments).
the extent of their capital contribution; minimum registered capital requirements range from Y 100,000 to Y 500,000; the company is not obligated to establish a shareholders’ general meeting or a board of directors (BOD)—small companies with few owners may have an executive director rather than a BOD and the executive director can serve concurrently as the manager. In the case of a joint stock company, all the company’s capital must be divided into equal shares, with shareholders liable toward to the company to the extent of the shares they hold; the minimum registered capital is Y 10 million; the company is obligated to set up a shareholders’ general meeting and a board of directors. The Company Law also outlines procedures for receiving approval for issuing shares to be listed and traded on a securities exchange: total share capital must be at least Y 50 million; the companies must have been in business for three years prior to the date of application and been continuously profitable for the immediately preceding three years; the number of shareholders holding more than Y 1,000 in shares must be at least 1,000. The Law also specifies that wholly-owned state enterprises can be transformed into LLCs, with specific procedures being formulated by the State Economic and Trade Commission.

1.8 Recent efforts have continued the process of delegating business decision making to SOEs and breaking up the relationships with the line ministries that have historically managed them. Budget transfers to SOEs are declining, implicit subsidies through the financial system are falling, and tight credit policies toward SOEs have reduced their access to automatic rollover finance. The commercial banks have greater autonomy to make loans, autonomy enhanced by a steady reduction in the scope of the credit plan. This, together with tighter credit after mid-1993, began to reduce access to finance for some poorly performing enterprises. Consequently, municipalities increasingly experimented with bankruptcies, and divestiture of small enterprises—often to managers and workers. Pension pooling and new housing arrangements are becoming more common. The State Farms have been subjected to the same constraints and followed the same path, using the occasion of new investments for expansion or restructuring of production to set up new enterprises which legally are able to take advantage of enterprise reform measures, such as reduced social obligations, corporate structure, management autonomy, employee contracts and property rights.

1.9 The recent trends in enterprise reform would undoubtedly accelerate with a fully supportive national policy framework, for which the Bank recommends4 two clear principles: one, external incentives should improve economic performance by establishing market-based discipline; and two, internal incentives through improved governance would reward shareholders and managers if enterprises perform well and penalize them if enterprises perform poorly. The external incentives would deal with competition and financing—promoting competition in product and, eventually, capital markets by removing policy-related barriers to new competition and phasing out

4 China—Reform of State-Owned Enterprises, IBRD Report No. 14924-CHA, China and Mongolia Department, East Asia and Pacific Region, June 21, 1996.
noncompetitive access to finance and subsidies. Internal incentives relate to improving
governance and include implementing the new accounting system, accelerating the
incorporation of enterprises under the new Company Law, consolidating state asset
management to replace line bureaus, setting clear commercial objectives through state
representation on the board of directors, using the board of directors to hold management
accountable for achieving enterprise objectives, and granting management maximum
autonomy in its decision-making.

1.10 Closely linked to SOE reform is the urgency of addressing reform of the pension
system. A recent Bank report (China: Pension System Reform, Report No. 15121-CHA
August 22, 1996) states two problems for China’s pension system—the urgent and
immediate problem of the pension burden of SOEs, and the longer-term problem arising
from the rapid aging of the population—and concludes that the current pension system is
incapable of tackling either and makes no contribution to the economic development of
the country. The pension burden of the SOEs is due to the fragmentation of the system
(with several different ministries involved and variations in implementation introduced at
the local levels), generous benefit rates, and high rate of exemptions and noncompliance
(stemming from the high contribution rates); the solution lies in higher-level pooling and
more realistic benefit levels that reduce contribution rates. The long-run problem stems
from the rapid aging of the population combined with incomplete pension coverage; the
solution lies in expanding coverage and creating a multipillar system that combines a
social safety net with funded individual accounts. The current pension system with
largely notional accounts\(^5\) is not solving this problem—it does not encourage labor
mobility, provide a level playing field for different enterprises, expedite SOE
restructuring by delinking pension provision from enterprise management, or assist in the
term transformation of savings and the funding of long-term investments.

1.11 There is growing consensus in China on the principles of a reformed pension
system: lower benefits, extended coverage, and increased reliance on funded individual
accounts. An official statement “Deepening of Reform of Pension Insurance System” in
State Council Document No. 6 (March 1995)\(^6\) expresses the goal of establishing a unified
pension system by the year 2000, but meanwhile provides two options for selection by
the municipal or prefectural governments. However, the Government views the cost of
transition to a funded system as prohibitive. The Bank report argues that China’s costs of
transition are lower, and its capacity to bear these costs greater, than in other countries

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5 Notional pension accounts rely on using contributions of current workers to pay current retirees;
contributions are paid out as fast as they come in and have no opportunity for investment, pensions may
not be portable when the worker changes jobs, and this system requires increasing contributions from
workers as the population rises or ages.

6 Earlier regulations had defined pension rates, established pooling across state enterprises on a limited
basis, and broadened the coverage. A 1991 regulation called for individual contributions by all workers,
in addition to enterprise contributions, expanded the pooling and established three tiers in the pension
system (basic benefit, a supplementary benefit to be provided by enterprises, and a benefit based on
individual savings).
that have made similar transitions. There are a number of factors and mechanisms that will generate resources enabling China to pay its obligations to pensioners and workers under the old system while making a transition to a new reformed system. The loans necessary to fund transition in the short and medium term can eventually be repaid out of contributions, taxes, or proceeds from the sales of SOE assets. The report outlines a recommended unified pension system that includes both mandatory funded individual accounts and a social safety net. It argues that investment rules for pension funds should encourage diversification, that indexed government bonds should be provided for pension funds, and that domestic and international competition should be introduced into the pension and insurance sector along with a strengthened regulatory framework.

C. THE FINANCIAL SECTOR

1.12 Rural Finance Sector. The largest agricultural banking institutions in China are the Agricultural Bank of China, with total assets of approximately $175 billion and loans of $110 billion, and the Rural Credit Cooperative system, with total assets of $105 billion and loans of $75 billion (end-1996). Another important financial institution was established by the Ministry of Finance in 1988, originally under the name of China Trust and Investment Corporation for Agricultural Development (CTICAD); its scope of business was enlarged to include all economic fields in 1991 and its name was changed to China Trust and Investment Corporation for Economic Development. CTICED is entering the arena of NBFIs, with assets of $2 billion and paid-in capital of $0.2 billion at end-1996. This financial institution has been proposed as the project financial intermediary (PFI) for the State Farms Commercialization Project (Chapter 3).

1.13 Financial Sector Reform. China has embarked on gradual but significant reform of the financial sector since 1979. The first stage of reforms focused on breaking up the monobank system and the People’s Bank of China (PBC) was established as the central bank with four specialized banks for different sectors—People’s Construction Bank of China (construction), Bank of China (foreign transactions), Agricultural Bank of China (rural banking), and Industrial and Commercial Bank of China (urban operations). Credit cooperatives were formed in both urban and rural areas; new banks were formed at the provincial level, and numerous nonbank financial institutions were established.

1.14 More recently, between 1994 and 1997, government has taken measures to strengthen the commercial orientation of the banking sector. These measures have included: enactment of laws on central and commercial banking; establishment of three new policy banks to separate policy from commercial lending and reclassification of the four specialized banks as commercial banks with increased autonomy in lending decisions and responsibility for their profits and losses and branch management; enhancement of the powers of the central bank to conduct monetary policy and prudential supervision of financial institutions; separation of ownership links between banks and nonbanks; the licensing of additional banks, including China’s first nonstate-owned bank; merger of urban credit cooperatives in 30 cities and their conversion into city-united commercial banks; permission for eight foreign banks to conduct local currency business on a pilot basis;
unification of the interbank market; and conduct of open market-like operations. Since
1996, the government has approved increasing amounts of banks' loan loss reserves for the
write-off of state banks' bad loans.

1.15 In early 1998, the government announced plans for the reorganization of the central
bank along the lines of the Federal Reserve System in the United States in order to increase
its independence and authority. The authorities also announced the further reductions in the
scope of the credit quotas and are considering more flexibility to the financial institutions in
the determination of interest rates. Most recently, they announced plans to recapitalize the
four state commercial banks by issuing bonds.

1.16 Interest Rates. PBC sets the interest rate structure for deposits and lending in
local currency that is binding on all banks and NBFIs; however, for foreign exchange
transactions, it merely publishes nonbinding “reference” rates. PBC has followed a
moderately active interest rate management policy over the past decade, with at least 16
adjustments since 1985. Interest rates became negative in real terms during periods of
The last adjustment was in October 1997, which yielded the following interest rate
structure for loans: 8.64 percent for working capital loans and 9.36-10.53 percent for
fixed investment loans. As part of PBC’s more moderate interest rate management policy,
a band of +/- 10 percent has been allowed for the past several years, and there are reports
recently that this will be enlarged to +/- 20 percent. Since the annualized domestic
inflation rate declined to less than 1 percent in 1997, real rates for borrowers and
depositors are positive and further reductions are likely.

1.17 The Bank has continued to review with Government the impact of interest rates
on savings mobilization and resource allocation and has stressed the importance of
moving towards market-based determination of interest rates. However, in line with the
OPD Handbook on Financial Sector Operations and Operational Directive 8.30 on
Financial Sector Operations, the Bank has been cautious about recommendations on the
timing and sequencing of interest rate liberalization. Many of the critical policy and
institutional conditions for successful liberalization are still lacking in China: sound and
comprehensive prudential regulation and supervision by the central bank, price
deregulation in all critical sectors of the real economy, commercialized SOEs with
regularized lending arrangements with banks, an accurate assessment of nonperforming
assets in bank portfolios, etc. Therefore, the Bank has recommended a phased approach,
with the initial steps in the short-term covering: simplification of the interest rate
structure, more frequent adjustments to interest rates in line with changing
macroeconomic conditions, and elimination of administrative guidelines related to loan
loss provisioning. Once these reforms are in place, and over the medium term, the
Government can complete the transition to fully market-determined interest rates.

1.18 Trust and Investment Companies (TICs). At the end of 1997, there were 244
TICs with total assets of about Y 400 billion. Of these, 22 (with total assets of Y 150
billion) are supervised directly by PBC in Beijing, and the balance are overseen by
provincial branches of PBC. The introduction of more rigorous licensing requirements in 1996 saw a drop in the numbers of TICs from almost 400 to the present number. TIC operations are very diversified and include commercial banking, direct investment, trust, securities, underwriting, guarantees, leasing, project management, consulting services and foreign exchange operations. The regulations governing TIC operations include a minimum capital ratio of 8 percent and investment limit of 20 percent of their own capital. TICs are not allowed to take deposits from households and collectives. National TICs are supervised by PBC's NBFI Department, which gives a score on their financial health. The Government is gradually strengthening its regulatory and supervisory roles concerning TICs. PBC has found it difficult to regulate and supervise TICs, and it stepped up its oversight in 1996/97 with the closure of the China Agricultural Development Trust and Investment Corporation (CADTIC) and other smaller TICs as a result of financial improprieties and mismanagement. The Financial and Economic Commission of the National People's Congress was given the task of drafting appropriate trust legislation, for which financial support has been made available under the Economic Law Reform Project (Cr. 2654-CHA); this has been reviewed by the Fourteenth Party Congress and is being redrafted. The draft law proposes to extend the client base of TICs to include individuals. Strengthening of prudential regulations is also being addressed under the Bank's continuing policy dialogue with Government.

1.19 Despite the reform measures and progress made to date, further policy reforms and institutional strengthening are necessary to enhance the efficiency of resource allocation. Development of an efficient financial system would require an effective monetary policy that relies on indirect control instruments; further strengthening of the sector infrastructure framework, including legal, prudential, accounting, and payments system; further reforms in the state enterprise sector, including a resolution to their bad debt problem; enhanced competition; further liberalization of interest rates; and converting human resources into human capital to enable banks to manage commercially their assets and liabilities. The Bank is engaged in an active policy dialogue with Government on these outstanding reform requirements. The key vehicles for these discussions have been formal economic reports on the banking sector, capital markets and public finances; informal reports on interest rate liberalization and NBFIs; ongoing supervision of the FY93 Financial Sector Technical Assistance Project, and preparation of the proposed FY99 ABC Commercialization Project.

D. RATIONALE FOR BANK INVOLVEMENT

1.20 Country Assistance Strategy. The proposed project would support the areas of focus set out in the Country Assistance Strategy that was discussed by the Board in March 1997. The objective of the Bank Group's program is to assist the Government in developing the institutions and instruments necessary to sustain rapid growth and broad-based, equitable development using a mix of nonlending services, technical assistance, lending, investments and guarantees from the Bank, IFC and MIGA. This broad strategy translates into five major areas of focus: support for implementation of macroeconomic
and structural reforms, removal of infrastructure bottlenecks, human development, protection of the environment, and the development of agriculture and the rural economy.

1.21 The Government's and the Bank's concern for agricultural development and the rural economy is in response to lagging sectoral performance in recent years, which has caused rural incomes to grow more slowly than urban incomes, contributing to sharpening income disparities and increasing rural-urban migration. The major thrust of Bank Group support is on interventions that address the following: sustainable techniques to upgrade marginal land; major water storage, transfer, irrigation and flood control schemes; afforestation; agricultural research; and commercialization of agriculture. The proposed project, like the earlier Feed Industry and Seed Commercialization Projects, would promote further commercialization of agriculture.

1.22 In addition, the project supports another of the major areas of focus: macroeconomic and structural reforms. Development of the nonstate sector, through reform of the financial sector and SOEs, is a key ingredient to ensuring macroeconomic stability and growth. Recent progress in financial sector reforms has been good and includes passage of key legislation and major steps toward establishment of a prudential regulatory framework. SOE reform has proceeded more slowly at the national level, but clear progress is being made by local-level initiatives. The principles underlying the Bank Group's support to SOE reform are: (a) creation of autonomous corporate enterprises with clear lines of governance, a fully transparent set of modern financial accounts, and clearly defined management prerogatives and responsibilities; (b) separation of the provision of social services (including housing, social security, education and health) from enterprises; (c) subjecting enterprises to market discipline by eliminating subsidies and promoting competition (or appropriate regulation in the case of natural monopolies in infrastructure); and (d) promoting greater flexibility in ownership to facilitate enterprise restructuring through acquisition of new technologies, management expertise and financing sources.

1.23 **Rationale.** Four justifications underlie Bank support to reform of China's SOEs. First, the SOE reform process is at the heart of the overall economic reform effort in China, and to stay out could exclude the Bank from the most important aspect of policy formation, and one in which it has been invited by the Chinese authorities to contribute. Second, progress in the SOE issue cannot be achieved solely through national-level policy dialogue or economic and sector work (ESW), particularly when the Chinese approach to reform is definition of the broad guidelines at the central level and implementation at the local level in the context of specific investments. Third, while the Government is in general convinced and determined about the nature of reforms, the Bank can help to galvanize reform in these areas and impose discipline on the program by linking changes to specific lending operations that would serve as powerful reform demonstrations. Finally, the Bank has wide experience from other countries of changing the enterprise environment in the ways that China is proposing, and by becoming involved in the nuts and bolts of these reforms—instead of just the broad principles—we should be able to have a positive impact on the quality of the reform program.
1.24 China has demonstrated in the past that it is willing to act pragmatically in the interests of economic development. It will, therefore, adopt those measures that will assist in improving efficiency, and this would include changes in ownership of SOEs, as well as changes in management systems. In this respect, privatization will be one instrument that China will use to stimulate economic gains, but it would not be politically acceptable, given its commitment to a socialist political system that requires a significant role for the state in the ownership of productive assets, to push for wholesale privatization or for the elimination of the bulk of the SOE sector as a policy aim. Thus, the Bank’s policy is to pursue the necessary reforms to induce efficiency gains in the SOEs and make enterprises behave and react in similar ways to private industry in other countries, rather than any abstract notion of which form of ownership is necessary for efficiency. To this end, SOE beneficiaries of Bank lending must be credibly committed to corporatization under Chinese law and subject to hard budget constraints.

1.25 Special emphasis will be given to reforming the SOEs by commercializing their operations, ending their dependence on subsidized credit from the banking system, and transferring their social service functions to other institutions. Closely linked will be reforms in the financial sector to encourage more efficient financial intermediation, better resource allocation, and higher returns to savers. Reforms in these two sectors lie at the core of the Government’s reform agenda and are designed not only to increase the efficiency with which investment resources are used in the economy, but also to facilitate the management of aggregate demand. The proposed project would attempt to realize both enterprise and financial system reform elements, in a defined but nonetheless significant component of the rural economy and state enterprise system.

1.26 This project has been proposed because the state farms system continues to play an important role in Chinese agriculture, particularly as a reliable source of high quality seeds and livestock, as an accessible large-scale processing and marketing channel for raw materials (produced by smallholders) in many areas throughout the country, and for its ability to introduce and demonstrate to surrounding areas appropriate scale and technology, not only of agriculture, but also of rural industry. The Government is extending to state farms the same reform measures as promulgated for state-owned industrial enterprises, which will result in improving efficiency and changing ownership and management systems. Provincial State Farm Bureaus (many of which are already virtually corporatized) are experimenting with the details of this reform program to effect the evolution of the state farms from subsidized, government-directed, supply-driven entities to profitable, independent, market-oriented and demand-driven farms and enterprises. Among China’s SOEs, state farms and their enterprises may prove to be the most amenable to true enterprise reform due to their relatively low level of capital intensity, their breakdown into relatively small natural units, and their placement in the competitive rural sector. By becoming involved in the actual mechanics of these reforms at the enterprise and farm level, the Bank would be able to facilitate the reform process and establish models of change which would have a profoundly positive impact, first on the SFS, with a population greater than that of Hungary, and then on the agriculture sector as a whole, as an indigenous potential large-scale processing and marketing system.
competitive with those of Ministry of Internal Trade, local governments, and foreign firms. The proposed project would provide an additional incentive for reform at the enterprise level, would ensure that provincial and enterprise resources are well used, and would strengthen the hands of those who are most dedicated to reform.

E. PAST BANK SUPPORT AND LESSONS LEARNED

1.27 Lessons from Previous Operations. A recent report of the Bank’s Operations Evaluation Department (OED) summarizes experiences with industrial restructuring that are relevant to the present project. In a study of 44 completed projects, it was concluded that examples from China and Hungary suggest that effective and sustainable public sector restructuring requires that public enterprises be exposed to hard budget constraints and competition. Of the 18 factors identified in the report as determinants of successful project outcome, seven were found to be statistically significant: macroeconomic stability, market liberalization, labor policies, quality of ownership and management, borrower performance, and Bank performance. In the case of China, the report identified good management, relative independence from government interference, and exposure to competition (especially export competition) as the major factors for successful outcome. For China, OED’s report specifically recognized the importance of formal and informal ESW that helped China clarify the conditions necessary for successful restructuring, including price increases, ownership changes, and social impact mitigation. Of importance to China also is the report’s finding that separating the production and social service functions of public firms is essential, but presents a major challenge. In addition, and not China-specific, governments need to institute hard budget constraints, new oversight committees, managerial autonomy, and performance and regulatory agreements. The report concluded that a complementarity of Bank services is key to industrial restructuring: lending and nonlending services, economic analysis, policy advice, and provision of specialized support services—projects alone are not sufficient. It also concluded that in terms of individual lending instruments, more stringent conditions need to be applied to financial intermediation loans (including return on equity, capital adequacy ratio, debt service capacity, degree of portfolio rescheduling, and collection rate).

1.28 The Bank has two projects under implementation in China with enterprise reform features. The Shenyang Industrial Reform Project (Ln. 3788-CHA) aims to assist the Shenyang municipal government to redefine its role in relation to the market and help reform and reorganize its industry, with four components: a reform program support, restructuring of a large SOE (Shenyang Machine Tool Company Limited), modernization and restructuring of other industrial enterprises with a line of credit through two commercial banks, and environmental protection. Both project development objectives and implementation progress are rated as satisfactory (Form 590 dated 5/15/97). The

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Chongqing Industrial Pollution Control Project (Ln. 2847-CHA) focuses on enhanced industrial pollution control linked to enterprise reform and technological restructuring. The project includes a line of credit to be extended to industrial enterprises to restructure their productive facilities, control pollution and transform themselves into modern corporations. The project became effective in March 1997 but implementation progress has been unsatisfactory (Form 590, 6/12/97) due to market changes, and studies are under way on redesign of the major component.

1.29 An earlier project, the Tianjin Light Industry Project (Ln. 3022-CHA) has fared less well. The project aimed to expedite system reforms at the regional level, modernize and restructure enterprises, strengthen institutional infrastructure, improve internal enterprise organization and management systems, and support the preparation of a long-term industrial development strategy for Tianjin. Subsector policy objectives have generally been achieved: paper and textile enterprises were given direct export rights, production and price controls have been removed from textile and paper products, and the subsidy on imported pulp was eliminated. However, the financial status of subborrowers is in jeopardy because of cost overruns, construction delays brought about by shortage of counterpart funds, and marketing problems; consequently, their debt-service capacity has been inadequate. The project was one of the earliest Bank efforts to support enterprise reform in China and began before the Government’s current policy framework and legal environment had been put in place and before a market orientation had been so overwhelmingly adopted by vast numbers of enterprises.

1.30 Past Bank Support for State Farms in China. The SFS has played a significant role in China’s relationship with the World Bank since the early 1980s. The second and third agricultural loans extended to China (Heilongjiang Land Reclamation Project, Loan 2261/Credit 1347-CHA, and Rubber Development Project, Credit 1417/SF 005-CHA) were directed to state farms in key production areas for grains (Heilongjiang) and rubber (Guangdong and Hainan). While the implementation completion reports (ICRs) for both projects indicated satisfactory performance, OED has judged only the former project as satisfactory and assessed the sustainability of both as uncertain; however, the Project Performance Audit Report notes that since the audit was completed, world rubber prices increased and the economic rate of return, if recalculated, might be higher than the rate calculated at audit. The OED and ICR lessons have influenced the design of the proposed project in setting the selection criteria for subprojects, which includes firm commitments for total financing and analysis which shows a reasonable time-frame for buildup of production.

1.31 State Farms also implemented the Xinjiang Agricultural Development Project (Cr. 1764-CHA) whose main objective was to increase agricultural productivity and farm incomes in Xinjiang. The outcome was viewed as satisfactory, since the first and most important objective of agricultural growth and diversification in Xinjiang was achieved with a relatively high degree of sustainability. The relevant lessons learned related to (a) the importance of confirmation of the availability of working capital during appraisal, and (b) in agroprocessing subprojects, the necessity for the Borrower to seek technical
advice on design and equipment selection and the need for both the Borrower and the Bank to pay greater attention to construction and commissioning of wastewater treatment facilities. Other Bank-financed projects in which the State Farms participated, along with other beneficiaries, were the Seeds Project (Cr. 1577-CHA), several Rural Credit Projects (Cr. 1462, 1642, 1871-CHA and Loan/Cr. 3265/2182-CHA), and Red Soils Area Development Project (Cr. 1733-CHA).
2. THE STATE FARM SYSTEM

A. DESCRIPTION

2.1 There are five definable sets of players in the State Farm system as shown in the Organizational Chart (Annex 1, Figure 1) and summarized below:

(a) the central-level State Farms Bureau (SFB) in the Ministry of Agriculture (MOA), representing the interests and past investments of the central government and mainly responsible for the state farms in border regions;

(b) the provincial-level bureaus/departments/agribusiness corporations reporting directly to the central government (Xinjiang, Heilongjiang, Hainan and Guangdong);

(c) the provincial-level (also including prefectural, county and municipal) bureaus/departments/agribusiness corporations reporting directly to their own local government and receiving only general guidance from the central-level SFB;

(d) the actual state farms themselves—some 2,200 of them, spread over 28 provinces; and

(e) the enterprises—about 40,000 subsidiary enterprises involved in industry, trade, transportation and construction, with a variety of “owners” which include individual farms, prefectural and provincial bureaus, and “the State.”

2.2 The SFS supports a population of some 12 million people, of whom about 5.02 million are staff and workers and another 1.3 million are retired workers. Population distribution ranges from 17,800 in Shanxi to 2.2 million in the Xinjiang. State farms occupy some 39 million ha (out of China’s total land area of 960 million ha). The gross value of agricultural and industrial output (GVAIO) in 1995 (in constant 1990 values) was Y 89 billion, of which 36 percent came from agriculture and 64 percent from industry. The top three industries and their contribution to the total value of industrial production are food processing, 27 percent, machinery manufacturing, 11 percent, and the textile industry, 12 percent. In the context of the national economy, state farms provide 2.7 percent of the nation’s total rural output value of agriculture and industry, and include 1 percent of the total population, and a slightly higher percentage of the rural population. However, they provide about 80 percent of the national production of rubber (with almost 400,000 ha of planted area), 10 percent each of sugar, wool, cotton and prawns, and 30 percent of the milk products.
2.3 The SFS originated from the feudal military tradition of “tunken” literally meaning “to station troops and open up wasteland for food and grain production.” The existing state farms were established more or less on these principles in 1949, with administrative responsibility shifting in the intervening years from MOA to its own ministry (the State Reclamation Ministry) to a system of dual leadership with MOA, through its State Farms Bureau, and the provincial governments. Their role was focused on three aspects: resettlement centers, mainly to provide employment opportunities for demobilized army soldiers; a balancing force in border areas; and as a major agricultural base to ensure production and supply of rubber, grain, sugar and wool for government procurement of national supplies and milk, fish and meat for regional urban centers. Their origin and subsequent evolution reflect a major difference between Chinese state farms and Eastern Europe/Former Soviet Union state farms, which were largely collectivized from private holdings. Partly due to their remote locations, state farms in China were charged with heavy social obligations: housing, schooling from nursery school to university, medical care, lifetime employment, pensions and other services to employees and their dependents. In addition, they were held responsible for providing their own infrastructure—roads, communication, transportation and other public facilities—and to pay for public security services. Particularly in the northern and western border provinces (Heilongjiang, Xinjiang and Yunnan), many of the farms are still located in isolated areas, distant from major commercial centers with, even today, less well developed transportation and communication services. On the other hand, farms established around major cities—Shanghai, Beijing, Tianjin—are well positioned geographically to focus their business strategies on urban markets, not only for the agricultural goods they can supply, but also for the industrial and service sector needs which they can fulfill. Provincial highway improvements over the last decade (particularly in Guangdong, Hainan, Yunnan and Jiangsu) have greatly improved access to markets and facilitated state farms to shift from monocrop agriculture (rubber for the first three and cotton for the fourth) to diversified agriculture, industry and services.

2.4 In comparison with rural villages, agricultural production on state farms shows some very positive aspects: a higher level of mechanization, higher productivity (8.8 tons of grain per laborer as compared to 1.11 tons for the average farmer—mainly due to the size of holding), a higher specialization level (of the 2,200 farms, 43.5 percent are specialized grain farms, 23.3 percent livestock farms, 7 percent rubber farms, 7 percent tea farms and 10 percent fruit farms); and a stronger technical force, with 11 technical personnel per 10,000 laborers, compared with 1.5 technical persons per 10,000 farmers (at the county level) in 1995.

B. Status of Reforms

2.5 Since 1979, a series of reform programs have taken place across the entire SFS (Annex 1). Early reforms included introduction of the household farm system, financial contracting system between the MOA and provincial bureaus for distribution of profits; and the enterprise contract system between farms and their enterprises. With the opportunities afforded by the Company Law, more enterprises entered into the reform
and by mid-1997, there were 439 limited liability companies and 138 shareholding companies (including 14 listed on the stock exchanges). In addition, the new financial accounting system has been widely adopted; bureaus have been restructured; and social sector reform has been introduced to separate social obligations from enterprise and farm operations. A matrix outlining the present status of reform, short-term targets (during the course of the Ninth Five-Year Plan and long-term targets (Tenth Five-Year Plan and beyond) is presented in Annex 1. This matrix was discussed and confirmed with the MOA during appraisal.

2.6 The main feature of the current policy package for state farms is the restructuring of provincial and municipal bureaus into State Farm Agribusiness Corporations (sometimes called Agriculture, Industry and Commerce Corporations or Group Corporations), gradually delinking their government functions and eventually turning them into holding companies with responsibility for management and operation of state-owned assets. Thus far, 16 bureaus (Beijing, Tianjin, Liaoning, Jiangsu, Shanghai, Anhui, Hubei, Gansu, Shaanxi, Guangdong, Guangxi, Yunnan, Ningxia, Guangzhou, Chongqing and Jiangxi) have already been renamed as State Farms Agribusiness Corporations. During the transition period, Government’s administrative functions are still being assigned to either the restructured bureaus (smaller in staff number) or the agribusiness corporations.

2.7 Enterprise reform still lies at the heart of all reform efforts in China, including the SFS. Within the enterprises, reform emphasis would be put on adopting the 14 autonomous management rights and conforming to the Company Law with registration as limited liability or shareholding companies. With state ownership still required, the SFS would pursue a more diversified ownership pattern. The shareholding system would be extended. Special importance would be attached to Sino-foreign joint ventures and cooperative production enterprises. Experiments on shifting of ownership from state to nonstate entities would be continued through merging, selling or leasing out some state assets to collectives and employees.

C. SOCIAL SECTOR REFORM

2.8 Pensions. To bring state farms in line with the Government’s long-term goal of universal pension coverage, state farms and state farm enterprises were allowed to establish their own pension fund pooled within the SFS at provincial bureau level. Most of the provincial bureaus have followed the Government’s reform program with some participating in the pension programs sponsored by local governments and others establishing their own separate pension pools. The motivation of taking different approaches is rooted largely in the reluctance to share heavier pension obligations but benefit less from the program. About 80 percent of state farm employees in service and 70 percent of retired employees are covered by a pension program. Effective January 1, 1996, temporary and seasonal workers with contract duration greater than three months (e.g., about 60 percent of the rubber tappers on Hainan state farms are peasants hired under the contract responsibility system) are covered under the pension system. The
major constraint to complete coverage is the lack of a national pension scheme and, pending this, the delay by most provinces/municipalities in adopting locally based provincial schemes. Still, the aim is to have 80 percent of all employees covered by the year 2000 and ultimately 100 percent participation.

**Box 2.1: Organization of Hubei State Farm**

The first state farm in Hubei province was established in 1953. Today, there are 50 state farms in the province, falling under three general administrative arrangements: the Provincial Land Reclamation Bureau has 14 farms, the municipality of Wuhan has six, and there are 30 farms under various prefectures in the province. Farms in each of the three arrangements account for approximately one-third of the population and area, but fully half of net income is generated by the provincial farms, 40 percent by the Wuhan farms and only 10 percent comes from the prefectural units. The 50 farms have a combined area of 320,000 ha, of which 90 percent is under active production as follows: 153,000 ha under crops, 37,000 ha of fish ponds and traps, 90,000 ha of fruit trees and 4,500 ha of forest area. There are 460,000 workers, and they support a total population of 1,090,000. With a total output of Y 16.6 billion in 1995, Hubei has the fourth largest SFS in the country. Of that output, 30 percent was agricultural, 50 percent industrial, and 20 percent came from services. Average output value per worker was Y 36,206 in 1995.

Except for cotton, marketing of agricultural production has been liberalized, and the individual households that make up the production units of the farms have the right to sell as and where they wish. The resulting pattern is that cash crops such as vegetables and fish tend to be sold in the free markets, while a significant share of commodities, particularly those that require processing, is still sold to the state farm or one of its processing enterprises.

The Hubei SFS is a leader within the province on reforms in the sector, but other jurisdictions are following suit. At the present time, all land and productive agricultural units are contracted to private households and the majority of workshops in industrial enterprises are operated under contract to groups of workers. Five percent of economic activity is now in the hands of private enterprises such as specialized households and cooperatives, and the target is to have this figure reach 20 percent by the year 2000 through the sale or long-term lease of small and medium scale businesses to groups of staff members. The major organizational strategy is the promotion of joint ventures for the acquisition of new capital and technology for a wide range of state farm enterprises.

The 14 provincial state farms and their associated enterprises are now organized as a legal entity which can borrow, lend, buy and sell in its own name, but as far as fixed assets are concerned, it only has a management responsibility—it cannot buy or sell these assets. The provincial government has agreed to allow the this entity to be changed into an enterprise group with responsibility for management of state-owned assets.
Established in 1957, the farm has developed into a comprehensive and large-scale enterprise, having expanded in the past three years to cover a total area of 240 km² with a total population of about 100,000. With an incredible annual average growth of 36.9 percent in total industry and agriculture output value, 25 percent in profit and foreign exchange generation since 1970, Gongqing has become the fastest growing state farm in Jiangxi. The farm's ambitious target is to reach 10 billion yuan of annual total industry and agriculture output value by year 2000 (50 percent of all Jiangxi state farms total) and 80 billion yuan by year 2010. The farm was approved by the provincial government in 1992 to become one of the three key development areas in Jiangxi and a provincial comprehensive experimental zone for social development, and by the State Council to be the only “three high” agricultural (high yield, high quality and high return) demonstration area and only development area for Taiwanese investment in Jiangxi. The sponsor is perhaps the only farm in the entire SFS in Eastern China where a farm plays a dual function of a conglomerate enterprise and a veritable local government. The sponsor's down processing industry is the largest in China and its products enjoy an excellent reputation in both domestic and international markets. It produces about 30 percent of total down-based products sold in China's domestic market and 10 percent of China's total export of down-based products. The industry's immediate target is to double 1994 production of 5 million pieces by year 2000. Gongqing has submitted a subproject proposal for renovation and upgrading of its textile factory.

The farm is determined to build itself into a true enterprise group in the next few years with further diversification of ownership including joint ventures, shareholding, private business, and sole foreign investment. It formulated details for implementing the Comprehensive Experimental Zone for Social Development program designated by the provincial government. The farm plans to reform the cadre recruitment system soon from one based on appointment to one based on contract. Jiujiang City, where the farm is located, is one of only two national experimental cities for medical insurance reform. Gongqing is closely following the medical insurance reform experiment. Other social programs, including pension and unemployment, are currently with local insurance companies, and Gongqing is preparing itself for and promoting the reform programs to be formulated by the local government (expected in one or two years). All housing except dormitories for seasonal workers have been sold to farm employees, and new housing will be built and operated only on a commercial basis. One of Gongqing's main enterprises, the “YaYa” down garment factory, has completed asset evaluation and is awaiting final approval from the central government to become a registered, publicly listed shareholding company.

2.9 Housing Reform. The Government’s objective of housing reform is to shift all responsibility for rental housing from enterprises to commercial housing companies by late 1990s. Unlike SOEs which have a difficult time in accomplishing this, state farms have already sold 95 percent of their apartments and housing to staff and workers. While sales of housing for bureau officials in urban areas lagged behind those in rural areas, this has now been accomplished in most areas. SFB aims to complete the sale of housing during the Ninth Five-Year Plan (1996-2000).

2.10 Medical Insurance. An insurance system is being promoted for medical care, but its acceptance has been accomplished on a much smaller scale. At present, most state farms practice one or the other of two major medical insurance experiments: (a) the state farm provides each employee with a small cash allowance (depending on its economic
capability and the employee's age, seniority, length of service) for medical care in addition to their regular monthly pay; or (b) the state farm keeps an annual budgetary allotment for each employee for their medical expenses. In both cases, the state farms provide for medical expenses up to the annual limit; in serious cases, where the cost is far beyond the employee's ability to cover, the state farm steps in with additional funds. Virtually all state farms have their own clinics; the five border provinces have complete medical care facilities with well-equipped hospitals; SFBs in other provinces have contracts, either formal or informal, with local government hospitals for care of staff and workers when this is at a level which their own facilities cannot provide. The short-term goal of SFB is to have 50 percent of state farm employees covered under local medical insurance programs by the year 2000, with 80 percent coverage within the next decade.

D. THE "3-100s" PROGRAM

2.11 The SFB's latest reform initiatives are embodied in the 3-100s program, which sets further goals for modernization. This program aims to develop 100 modern enterprises, 100 enterprise groups, and 100 seed and livestock breeding enterprises. The Chinese definition of a modern enterprise essentially focuses on property rights, clear definition of rights and responsibilities, separation of government functions from the enterprise, and "scientific" management. At this time, 48 state farms have been selected to participate in the program for enterprise modernization and 21 have begun implementation, with objectives as follows:

(a) definition of asset ownership and identification of main investors—enterprises would revalue their assets, determine the various owners, register the state-owned assets, and evaluate creditors' rights and obligations. All enterprises have been required by Government to undergo revaluation of assets. Evaluation is carried out first by the enterprise itself, then assessed and confirmed by designated government-authorized evaluation agents. The main objective of this exercise is for the farms to obtain the right to manage state-owned assets. In most cases to date, this right has been given to the provincial-level State Farms Corporations, who in turn appoint a representative to the enterprise for management of state-owned assets. In other cases, the State Asset Management Bureau at the provincial level appoints a representative.

(b) determination of corporate structure—two forms of enterprise ownership are predominant: limited liability companies and shareholding companies. Most of the experimental enterprises will be transformed into limited liability companies with shareholders being legal persons. In accordance with the Company Law, the enterprises would adopt organizational and management structures which would include a shareholders' assembly, a board of directors, and a board of supervisors.
(c) separation of government function from the enterprise—this aims at reducing government interference in enterprise operations and shifting responsibility for the social obligations to the local government.

(d) debt relief for overburdened enterprises—many of these debts were accumulated for social obligations or government functions and were funded by government loans. Several proposals are under consideration: applying a zero interest rate to these obligations; a debt to equity conversion, with the loan amounts to be considered as the state’s paid-in capital; a debt to equity conversion among enterprises for converting long-standing loans to shares; and extension of loan maturity periods.

**Box 2.3: Xilian State Farm (Hainan)**

This state farm was originally established in the 1950s for rubber production. It participated in the Bank-financed Rubber Development Project in 1984 with an expansion of planted area and replanting, then a sawmill and drying equipment. Since then, it has expanded on its own to produce sawn lumber, furniture, and pressboard. It has recently obtained approval to conduct trials in both agricultural and industrial operations for turning its timber complex into an enterprise group and its Dong Feng branch farm to be categorized as a modern enterprise. Dong Feng branch encompasses 800 ha of land within Xilian, with a population of 1,500 and its main activity hinges on 10,000 mu of rubber. Both the farm and the timber complex are scheduled for state asset valuation in the near future and will be turned into shareholding companies, with 50 percent of the shares held by the state, 25 percent for sale to staff and workers, and 25 percent to be sold to foreign investors. One of the main changes to be adopted is that all staff and workers would be contracted for fixed terms, whereas under the old system only workers were on contracts and “cadres” always had permanent positions. Xilian has submitted a subproject proposal for establishing a 50,000 m³/yr medium density fiberboard (MDF) factory to utilize eucalyptus wood (planted both as windbreaks and as monoculture plantations) and rubber tree prunings.

2.12 Numerous enterprise groups have been set up in the past, and an additional 23 have been established in 1996 and begun operation. By combining several enterprises under one corporate umbrella, State Farms hope to strengthen their ability in the market. Some enterprise groups would be based on specialized production (e.g., rubber, dairy, Xilian timber). Several provincial bureaus have set up enterprise groups, which comprise several unrelated enterprises linked together on the basis of their capital contribution, e.g., Shanghai State Farms Bureau’s Agriculture, Industry and Commerce Group Corporation and Guangdong’s Agribusiness Corporation. Other forms of enterprise groups would be companies owned partially or entirely by the same parent company. Enterprise groups are seen as a mechanism to break present administrative and geographic boundaries that restrict interprovincial trade.

2.13 Individual enterprises to be financed under the proposed project will be selected partially on the basis of their commitment to enterprise reform. While only seven subprojects in the initial project pipeline are formally included in the “3-100s” program,
all enterprises selected to participate in the proposed project would receive the assistance and encouragement offered by SFB under that program.

E. THE FINANCIAL SITUATION

2.14 The State Farms Bureau in MOA collects and aggregates the accounts of the 4,100 independent accounting units in the state farms system. The aggregated figures collected by SFB do not represent the legal, consolidated financial position of the state farm units, which, in any case, are not managed as a unitary system. The SFB collects this data for national planning purposes on the basis of a standard format, still evolving, supplied by them to the provinces. It is only since 1993 that international accounting standards began to be adopted in China and applied retroactively to an existing set of state farm accounts designed for a now-obsolete management information system. Concurrently, major changes have been made in the way the state farm units operate, and in their tax treatment, as they are gradually integrated into the market economy. Within these limitations, the data supplied by SFB provide the best available financial profile of China’s state farms and allow some qualified conclusions on the overall financial condition, with the expectation that data will become progressively more reliable.

2.15 Revenues. Over the period 1989 to 1996, the revenues of the state farms as a group increased from an aggregate Y 40 billion to Y 127 billion. Adjusted for inflation, this represents an increase of about 12 percent a year until 1996, when a series of natural disasters (floods, typhoons, and severe blizzards) inflicted heavy damages on livestock, fishery and crop production and revenue growth dropped to 3 percent. While sales from industrial production have been steadily increasing, and in fact, more than doubled between 1995 and 1996, this was not enough to offset the 60 percent reduction in agricultural sales.

2.16 Profits. The system has reported an annual profit for each of the last eight years, peaking at Y 2.4 billion in 1995. Profits as a percentage of revenues had stabilized at around 2.0 percent in 1995. Not surprisingly, an effect of exposing the state farms to market forces is the divergence of performance among the various units.

2.17 Liquidity. Summary financial figures show that the current ratio, overall, has declined from 1.07 (1989) to 0.86 (1996). No doubt the liquidity of the system has declined somewhat, but to the extent that short-term loans are regularly rolled over, as is the general practice in China, there is an argument for considering them long-term loans, and the “effective” liquidity to be higher.

2.18 Debt. The debt to equity ratio of the system increased greatly with the introduction of the new accounting system. This overall ratio is weighted towards Heilongjiang and Xinjiang, large units with high debt ratios. However, in 1995 figures show some stabilization of the debt load for the system, with equity increasing to 20.2 percent, but dropping precipitously to 5.3 percent in 1996.

2.19 Subsidies. Subsidies paid to units of the SFS by central government have been running at about Y 350 million per year. This is comparatively small compared with the
reported profits of the state farms of Y 2.5 billion. Moreover, the subsidies go to remote farms which operate public facilities such as medical and educational institutions.

2.20 **Regional Variation.** Within the system, almost 50 percent of assets, liabilities, profits and sales derive from Xinjiang AICC, Heilongjiang and Shanghai. In the case of Heilongjiang and Xinjiang AICC, both of whom report directly to MOA, government support has been strong, as would be expected for these two border provinces. Only one province (Guizhou) has consistently posted losses in recent years—but Guizhou also has one of the lowest average rural per capita net incomes in the country, about 60 percent of the national average.

2.21 Most of the provinces represented by the subproject proposals fall in the middle range of the state farms: each showing between 2 and 5 percent of the total assets, liabilities and sales of the system, and with debt:equity ratios between 2:1 and 4:1. While the global figures are interesting, they do not reveal much about the individual farms. However, the adoption of the new accounting system at the farm and enterprise level allows more meaningful analysis to be carried out.
3. CHINA TRUST AND INVESTMENT CORPORATION FOR ECONOMIC DEVELOPMENT

A. BACKGROUND

3.1 The Government has proposed that project loan proceeds be channeled through the China Trust and Investment Corporation For Economic Development (CTICED). CTICED is a state-owned nonbank financial intermediary (NBFI) established by the Ministry of Finance in 1988. It is a separate legal entity authorized to engage in the following activities, in both yuan and foreign exchange: take deposits (other than from the public, and excluding checking accounts), borrow, lend, underwrite and trade in securities, make investments on its own behalf, provide guarantees and engage in international financial leasing. Clients include government agencies and departments, state owned enterprises, collectives and TVEs.

B. SUPERVISION AND MANAGEMENT

3.2 The Ministry of Finance is responsible for all equity interests in CTICED. Since 1992, the Ministry has exercised its control through the appointment of its Board of Directors, President, Vice Presidents and Chief Accountant. The President, who is its legal representative, reports solely to the Board and is accorded full management autonomy for day-to-day operations of CTICED. Its Department Managers are appointed by the President with the approval of the Board. All appointments below those levels are based on written examinations and personal interviews.

3.3 As a financial institution, CTICED is subject to the supervision and regulation of PBC. PBC controls are principally concerned with liquidity and risk. Specific standards with respect to these regulations were issued by PBC in June 1994, and NBFIs are monitored for compliance. As of December 1997 CTICED was in full compliance with all but two requirements: its trust loan portfolio was equal to 157 percent of its deposits, whereas PBC requires no more than 75 percent; and 15.6 percent of its renminbi loans were overdue, whereas PBC requires less than 15 percent. These anomalies are not unique to CTICED, and the PBC has granted CTICED a temporary waiver of compliance. CTICED indicated at negotiations its plan to achieve full compliance in early 1998, and compliance with the major ratios will be regularly monitored during implementation (para. 5.7). Since CTICED is engaged in foreign exchange transactions it is also subject to supervision and control of the State Administration of Exchange Control to which it must also provide periodic reports. Other agencies such as the State Planning Commission and the Ministry of Foreign Trade and Economic Cooperation have regulations which impinge on CTICED operations as part of overall economic management.
C. Organizational Structure

3.4 CTICED’s internal structure is based on 15 departments located at head office. CTICED presently has no branch network, but it plans to establish several branches in its major areas of business concentration. At present, its regional securities departments, subsidiaries and joint ventures are supervised by head office line departments. Of the 15 departments, five are concerned with credit, one with securities, one with subsidiaries, one with consulting services, and the remainder with administration and corporate services. The four Vice-Presidents and two Assistants to the President each assume supervisory responsibility for the line departments, subsidiaries and joint ventures according to workload and their respective expertise. An organization chart appears in Annex 2.

3.5 Early in 1996 CTICED reorganized its credit operations. Although five separate departments have been maintained, there has been a significant realignment of clientele as detailed in Annex 2. All entrusted business,\(^8\) which currently represents the majority of CTICED’s loan volume, has been consolidated into a single Entrusted Loan Department, whereas previously it had been divided among three subsector departments. All trust\(^9\) business in Renminbi, including deposits and loans, has been consolidated into Credit Department One and Credit Department Two, with each department serving designated major business sectors. The International Finance Department remains unchanged and handles all trust business denominated in foreign exchange other than the proposed World Bank loan, for which the World Bank Onlending Department has been established.

3.6 With the growing importance of regular (trust) credit operations, and the increasing diversity of financial services required by individual clients, it will become increasingly important for CTICED to ensure consistency of the criteria for and the analytical methods used in its lending decisions. This need, together with the matter of cost-effectiveness and efficiency, will require that CTICED integrate its credit operations and rationalize its other operations, such as deposit generation, more effectively than can be done with the present structure. In this regard, CTICED plans to integrate the two Credit Departments in the near future.

3.7 Since CTICED currently has no branch network, it relies heavily upon the local Bureau of Finance (BOF) offices to assist in all phases of loan administration, except loan approval, from the time of application to servicing and collecting its loans. However, CTICED has made application to the PBC for permission to establish regional branch offices in its principal areas of business concentration in East China, North China, Mid-South China and Hong Kong.

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\(^8\) In “entrusted” operations, CTICED acts as an agent in channeling funds from various government ministries and agencies, over 90 percent of which is originated by the Ministry of Finance, to targeted entities. It takes no risk in these operations and receives a commission for its administrative and collection services.

\(^9\) “Trust” operations refer to CTICED’s own lending portfolio, for which it selects and appraises loans and bears full risk.
3.8 Other recent changes made by CTICED to improve its organizational structure include: establishment of an Internal Audit Department; employment of legal staff with plans to establish a formal Legal Department in 1998; and, establishment of a Credit Review Committee. CTICED is also taking steps to limit its risks associated with its securities operations as will be described in the following section.

3.9 Securities Operations. The Securities Department at headquarters controls and supervises the following securities operations: Wholly-owned departments in Beijing, Shanghai, Shenzhen, and Wuhan; Controlling interest in departments and agencies in Tianjin, Hubei, Nanchang, Ningbo, Suzhou, Hangzhou, Nanjing, and Changchun. The headquarters staff consists of 22 including 1 General Manager, 2 Deputy General Managers, 6 Project Managers, 2 Deputy Project Managers and 11 others. The field operations employ an additional 230.

3.10 CTICED is a member of both the Shanghai and Shenzhen Exchanges and deals only in domestic securities. It acts primarily as agent/broker for all types of securities, provides custodial services for clients, underwrites GOC bond issues and acts as an agent for redemption of GOC bonds. It also provides consulting services to new companies wanting to be listed on an Exchange by assisting them with the paper work and in developing a prospectus and is currently working with one to be listed on the Hong Kong Exchange. Collectively, CTICED is reportedly the largest trader of GOC bond futures in China. While GOC bonds are issued with fixed rates, speculation occurs in relation to the subsidy to be paid by the GOC upon redemption, which is based upon the domestic inflation rate. CTICED does some trading in bond futures for its own account but the great majority is for clients. In 1995, CTICED’s total collective volume of securities transactions amounted to ¥ 59.2 billion of which ¥ 18.5 billion was in government bonds.

3.11 Although the foregoing describes the present structure of CTICED’s securities operations, the Corporation has initiated a plan to reorganize those operations with the primary objective of limiting its liability. In December 1995 a plan was submitted to the PBC for approval in which CTICED would purchase an existing securities entity into which it will fold all of its present securities operations. Initially CTICED would be the sole owner of that entity but its liability would be limited to its investment.

3.12 Subsidiaries and Joint Ventures. The main purpose of the Enterprise Administration Department is the establishment and operation of joint ventures. The Department is responsible for two wholly-owned subsidiaries, eight joint ventures in which CTICED has a majority interest, and six firms in which CTICED has a minority interest. Companies in which CTICED has full or majority interest report monthly to the Department; others report semiannually. Reports include income statements, balance sheets and cash flow statements. All subsidiaries and joint ventures are separate legal entities, and CTICED's exposure in their operations is to the extent of its share of subscribed capital.
3.13 **Administration and Corporate Services.** This department is responsible for logistics, vehicles and part of administrative expenses.

3.14 **Personnel Department.** The Personnel Department has four broad responsibilities: defining and recruiting management; recruitment, training, incentives, discipline, and supervision of personnel; salaries and welfare; and, counseling. The Corporation has a good retention rate among its staff, in part the result of its capacity to pay higher salaries and benefits than the Government service. Its close ties to the Ministry of Finance contribute to a somewhat conservative use of this flexibility, and as the demand for banking skills grows in China, CTICED may need to review its salary structure. In recruitment, emphasis is gradually shifting from hiring good Ministerial personnel to engaging persons with broad technical skills and commercial banking and finance experience. In view of the changing activities of the Corporation and the limited experience of its growing staff, continued emphasis on formal and on-the-job training in commercial finance practices will be critical to sustained success.

3.15 **Planning and Statistics Department.** This Department’s primary responsibilities are as follows: the preparation of CTICED’s annual operating budget; forecasting of local and foreign exchange lending operations in collaboration with its several credit departments and the statistical monitoring of those operations; funds management including deposits and interbank borrowing/lending; ensuring compliance with PBC financial ratio requirements; and providing other statistical data. CTICED maintains a computerized system of monitoring its operations based upon an annual budget. This system is not linked with computer systems in the Financial and Accounting Department, and input is in the form of raw data entered directly by PSD staff. Monthly monitoring compares actual performance in relation to projections with the primary focus being on controlling expenses and lending activity by departments, maintaining adequate liquidity and complying with other PBC financial ratio requirements, and for cash management purposes. Additionally, it monitors cash flows daily through cash receipts and cash disbursements all of which flow through this Department. Also, it prepares a monthly loan arrears report with an age analysis which reportedly is detailed showing principal and interest by department and individual borrower. The Department also prepares other statistical reports for management upon request. A new Management Information System (MIS) has been adopted and will be put into operation in early 1998 when CTICED moves into its new headquarters building.

**D. LENDING POLICIES AND PROCEDURES**

3.16 The lending policies and procedures adopted by CTICED generally follow conventional lending practices. If adequately enforced, they should assure good loan selection and good collection performance. However, Bank review of CTICED’s actual loan management performance highlighted several weaknesses, especially risk management. Applications for long-term loans (in excess of one year) must be supported by a feasibility study. Such studies are generally prepared by an accredited, usually government, agency. While thorough with respect to technical specification and cost estimates, these studies are usually weak on commercial assessments, human resource
development, project management and environmental impact. The proposed loan is subsequently appraised in the field by a CTICED project officer with assistance from the local bureau of finance (BOF), following which a project appraisal report is drafted for review by the Department General Manager.

3.17 CTICED had developed a tier system of loan approvals based upon term and amount. Those under six months and under $2 million (or Y 10 million) could be approved by a Vice President. Those of successively larger amounts and longer maturities required approval by the President, the Loan Committee, or, for all loans over $5 million, approval by the Board of Directors. To date the great majority of CTICED’s loans have been for one year or less and none has had a maturity longer than three years. Therefore, little experience has been gained in effectively managing long-term and thus riskier loans. A recent innovation has been the establishment of a Credit Review Committee, consisting of senior managers of the company and supported by a Credit Review Group presently assigned to the Office of the President. All loan proposals are reviewed by the Credit Review Committee, with final approval to be given by the President. Appraisal and approval procedures under the proposed Project are summarized in Chapter 5 and Annex 2.

E. Loan Security

3.18 Financial intermediaries in China are very reluctant to depend on liens on fixed assets as loan collateral. Until recently the rights of grantors and acceptors of mortgages have not been clear, nor has the process of remedy, and no consistent pattern of jurisprudence is evident with which to judge actual practice. Consequently, financial intermediaries have depended more on guarantees of repayment from public agencies or substantial enterprises. A new mortgage law was introduced in September 1995 which is designed to clarify these rights and procedures. At the same time Government has forbidden agencies such as local finance bureaus to issue guarantees, except for foreign-funded projects. This pattern is part of the Government’s overall policy of separating governmental and commercial functions, increasing the transparency of financial transactions, and improving the commercial acceptability of both the terms and the remedies of financial transactions. It will be some time before financial institutions are confident enough in mortgage collateral to forgo their usual guarantee requirements, but CTICED, like most other lenders, has begun to accept mortgages as part of an overall security package.

F. Loan Supervision

3.19 Several key elements of loan supervision are in place, mainly geared to whether the borrower makes semiannual interest payments on time. Nonpayment and/or late payment triggers direct contact with the borrower by phone or on-site visit as determined appropriate, with the conduit for many such contacts being the local finance bureau. On long-term (over one year) loans CTICED’s project managers are required to make at least semiannual on-site supervisory visits to each borrower to evaluate project progress and problems, following which written reports are submitted to the Department General
Manager with loan servicing recommendations as necessary for corrective actions. In addition, borrowers are required to submit semiannual financial statements to CTICED which are generally subjected to a desk review. Collection procedures appear to be adequate. They include a notice to each borrower one month in advance of each principal payment due which, if not paid, is followed by two delinquency notices. Overdue principal payments trigger immediate on-site visits, generally by the Project Manager together with the local finance bureau and, as appropriate, the Guarantor, to determine the problem(s) and attempt to work out solutions beneficial to both the borrower and CTICED.

3.20 This pattern of loan supervision and servicing is generally adequate, if effectively implemented and if accompanied by effective follow-up actions. However, a review of CTICED’s loan portfolio (Annex 2) during appraisal indicated that performance needed strengthening. All measures of performance are below internationally acceptable levels, although the data provided by CTICED for December 1995 indicate notable improvement over 1994 in all areas but the aging of arrears. CTICED’s audited 1996 financial statements indicated an improvement in loan performance for foreign exchange loans, but deterioration in Renminbi loan performance. When the new president assumed office in mid 1997, he immediately initiated a program of remedial action to reduce overdues and improve collection performance.

G. Audit

3.21 CTICED has recently established an Internal Audit Department which reports to CTICED’s Executive Vice President. For the 1994 and 1995 external audit, CTICED engaged a new firm of external auditors, and Bank staff have held extensive discussions with them on the scope of their work and their findings. While this firm appears to be among the leaders in introducing Western-style auditing in China, a number of aspects of its audits raise procedural questions. In that regard, Terms of Reference (Annex 9) for an annual external audit were developed for CTICED during appraisal, which will satisfy Bank requirements with respect to the scope of audit under the Project and the qualifications of the selected auditors.

H. Financial Performance

3.22 CTICED’s financial performance (Annex 2 and summarized in Table 3.1) has been very good. Its balance sheet indicates a continued financially healthy position: a risk-weighted capital adequacy ratio of 30 percent, as compared to an industry standard ratio of 8 percent; a long-term debt to equity ratio of 0.4:1; a return on paid-in capital of 14 percent; and, a return on assets of 1 percent.

I. Policy and Regulatory Framework

3.23 In terms of the regulatory framework within which CTICED operates, the interest rate structure appears to be the most serious impediment to efficient operation. The absence of a trust act may ultimately limit the range of financial services the company can offer but this is not an imminent constraint. Accounting inadequacies limit the ability
TABLE 3.1: CTICED KEY PERFORMANCE INDICATORS
(Y millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets /a</td>
<td>3,826.9</td>
<td>6,329.5</td>
<td>8,504.2</td>
<td>9,074.2</td>
<td>8,263.9</td>
</tr>
<tr>
<td>Short-Term Loans &amp; Investments</td>
<td>950.5</td>
<td>1,502.7</td>
<td>2,622.2</td>
<td>2,355.1</td>
<td>1,711.6</td>
</tr>
<tr>
<td>Current Assets</td>
<td>2,000.7</td>
<td>4,099.6</td>
<td>7,097.2</td>
<td>7,597.3</td>
<td>6,723.6</td>
</tr>
<tr>
<td>Long-Term Entrusted Loans</td>
<td>5,768.0</td>
<td>7,638.8</td>
<td>10,158.3</td>
<td>6,618.8</td>
<td>7,323.8</td>
</tr>
<tr>
<td>Long-Term Loans</td>
<td>874.6</td>
<td>1,311.1</td>
<td>349.7/a</td>
<td>295.2</td>
<td>231.8</td>
</tr>
<tr>
<td>Long-Term Investments</td>
<td>504.1</td>
<td>383.8</td>
<td>410.3</td>
<td>568.3</td>
<td>695.3</td>
</tr>
<tr>
<td>Short-Term Trust Deposits</td>
<td>0.0</td>
<td>1,433.4</td>
<td>1,392.9</td>
<td>1,045.3</td>
<td>621.3</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>865.3</td>
<td>3,181.4</td>
<td>4,764.4</td>
<td>5,405.4</td>
<td>4,702.8</td>
</tr>
<tr>
<td>Long-Term Debt (Excluding Entrusted Deposits)</td>
<td>1,718.3</td>
<td>1,740.8</td>
<td>1,675.8</td>
<td>1,264.3</td>
<td>743.4</td>
</tr>
<tr>
<td>Total Equity</td>
<td>1,084.1</td>
<td>1,376.1</td>
<td>1,516.9</td>
<td>1,718.8</td>
<td>1,973.4</td>
</tr>
<tr>
<td>Total Income</td>
<td>245.7</td>
<td>537.2</td>
<td>807.5</td>
<td>863.3</td>
<td>958.7</td>
</tr>
<tr>
<td>Net Profit (after tax)</td>
<td>125.9</td>
<td>174.6</td>
<td>167.9</td>
<td>172.6</td>
<td>156.0</td>
</tr>
</tbody>
</table>

Key Indicators:
- Current Ratio 2.3:1 1.3:1 1.5:1 1.4:1 1.4:1
- Long-Term Debt/Equity (multiple) 1.6X 1.3X 1.1X 0.7X 0.4X
- Total Equity/Total Assets (%) 38.9 28.3 21.7 17.8 18.9
- Net Profit/Total Income (%) 51.3 32.5 20.8 20.0 16.3
- Net Profit/Avg. Total Assets (%) 1.6 1.5 1.0 1.0 1.0
- Net Profit/Avg. Total Equity (%) 12.2 14.2 11.6 10.7 8.5

/a Excluding entrusted loans.
/b The large reduction in long-term trust loans between 1994 and 1995 reportedly resulted from reclassification of some short-term loans previously, and erroneously, classified as long-term, which also accounts for the large increase in short-term trust loans.

of the company to force disclosure by its clients, and legal recourse to recover losses through the sale of collateral is still untested. Like other financial intermediaries, CTICED has found means of coping with these problems. However, interest rate controls limit the range of services and clients and, overall, prevent adequate profitability to attract new capital into the sector. This risks the substitution of official capital for voluntary savings, and a reduced overall scope of operations.

J. CONCLUSIONS

3.24 CTICED is operationally autonomous and commercially oriented, has competent management and a well educated and committed staff, and is financially sound. Its
limitations with respect to a proposed role in the State Farms Commercialization Project lie in certain operational procedures, its capability for risk management, and its limited experience in long-term lending. A program of technical assistance, supported by an Institutional Development Fund grant to MOF for rural financial institutions approved in 1996, has already begun to address the development needs of the organization and will be continued under the project (para. 4.5). With the results obtained to date and the commitment of its senior management to continue this program of staff training, procedural development and internal organization changes, CTICED would be a suitable financial intermediary for the proposed Project.
4. THE PROJECT

A. PROJECT OBJECTIVES

4.1 The basic objectives of the project would be to (1) support, accelerate and catalyze enterprise reform within the SFS with a line of credit to be extended through an independent project financial intermediary (PFI) to state farms and enterprises for technological modernization of existing production facilities or establishment of new commercial ventures and (2) to increase the capacity of the China Trust and Investment Corporation for Economic Development (CTICED), the PFI, to conduct long-term lending activities. Financing would be predominantly used by small and medium scale light industries, of a scale sufficient to support appropriate environmental pollution control technology, and linked to defined steps in enterprise reform in China—enterprise autonomy, ownership diversification, and removal of social services from enterprises. In this way, the proposed project would assist farms to further diversify output and assist enterprises to improve their management and planning capability. It would help the SFS to fulfill its role in initiating and demonstrating economic development in rural areas and spreading these benefits to surrounding areas, supplemental to (and competitive with) both other large integrated processing, marketing, and commercial networks, that is, thousands of county-owned enterprises, and tens of thousands of TVEs, usually limited to small jurisdictions.

4.2 Project monitoring indicators (Table 4.1) would focus on the enterprise reform measures undertaken by the subprojects and the overall performance of CTICED. Development of the indicators is based on the assumption that the loan will be disbursed over a five-year period and that the complete portfolio will consist of about 50 subprojects with average subloans of $4.0 million. The major risks to achieving both project implementation and development objectives lie in the following: (1) the relative shortage of entrepreneurial management ability, (2) the possibility that the enterprise managers will be unable to break the tradition of answering to the “state,” first and foremost, rather than to shareholders and owners, and (3) reluctance to break the pattern of “guanxi” or political connections.

B. PROJECT DESIGN

4.3 The project would build on the economic reform measures already initiated within the system in such areas as: enterprise management; diversification of ownership, with participation of collectives, private and foreign funded enterprises; introduction of the shareholding system; improvement of selected industries with advanced and new technology; and development of marketing and distribution systems. As the state farms are not managed as a unitary system, various provinces have adopted enabling
TABLE 4.1: PROJECT MONITORING INDICATORS

<table>
<thead>
<tr>
<th>Project Objective</th>
<th>Key Performance Indicators</th>
<th>Baseline (Yr 1)</th>
<th>Int Yr (Yr 3)</th>
<th>Mid-Term (Yr 4)</th>
<th>Int Yr (Yr 6)</th>
<th>ICR</th>
<th>Risks and Critical Assurances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise reform</td>
<td>Input Indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bank loan funds disbursed ($M cumulative)</td>
<td>- 22.5</td>
<td>86.3</td>
<td>141.3</td>
<td>150</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of subloan proposals approved</td>
<td>- 15</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of subprojects completed</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>30</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Output Indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of subprojects in operation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>35</td>
<td>Timely provision of counterpart funds</td>
</tr>
<tr>
<td></td>
<td>No. of subprojects shifting social burden to government administrative entity</td>
<td>- 10</td>
<td>15</td>
<td>25</td>
<td>35</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Impact Indicators</td>
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<tr>
<td></td>
<td>No. of enterprises with full autonomy (14 management rights)</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>25</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of enterprises organized as LLC or LLSHC</td>
<td>- 2</td>
<td>15</td>
<td>25</td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CTICED reform</td>
<td>Input Indicators</td>
<td></td>
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<tr>
<td></td>
<td>Person-months of TA completed</td>
<td>- 20</td>
<td>6</td>
<td>6</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Output Indicators</td>
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<tr>
<td></td>
<td>Interest and fee income from project ($M)</td>
<td>- 0.4</td>
<td>5.9</td>
<td>10.0</td>
<td>13.0</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Impact Indicators</td>
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</tr>
<tr>
<td></td>
<td>Improvement in efficiency as measured by collection performance on nonentrusted portfolio (%)</td>
<td>83</td>
<td>85</td>
<td>91</td>
<td>93</td>
<td>95</td>
<td></td>
</tr>
</tbody>
</table>

environments for economic reform at a different pace, and even different farms within provinces have not progressed at the same rate. It is not realistic, therefore, to set uniform targets for all participants with respect to further reform during the project period. Instead, the project will be a driving force to move each participating farm and enterprise to the next major level of reform in key areas, i.e., legal and capital structure, management system, managerial and financial autonomy, or separation of commercial and social functions. The business plan, on which participation in the project would be predicated, will clearly state the beneficiary’s reform objectives for the project period. With these reforms agreed, the project would assist the subborrower to finance the modernization, retooling, specialization or diversification required for it to realize its commercial and financial objectives. To assure that Bank lending would not be seen as a government subsidy in the eyes of the subborrowers and that subproject selection would be based on commercial criteria, the Bank and Government decided that onlending would be carried out through a financial intermediary. With the introduction of CTICED, enterprises would be subjected to the hard budget constraints imposed by commercial lending criteria and government would be able to effect cost recovery.

C. PROJECT DESCRIPTION

4.4 State Farms. The proposed project would support policy and institutional reform, already in place and evolving, and technological modernization. The enterprises to be assisted by the project have common characteristics and constraints on which project
management and objectives are based. However, they are engaged in a wide range of commodities and activities, and the project needs to accommodate this diversity if it is to be effective. Consequently, investments under the project are likely to cover, inter alia, the following major production activities: dairy development, crop production, food and beverage processing, industrial products, pharmaceutical and traditional Chinese medicine, textiles, wholesale markets, and wood processing. Limitations are defined as, on the Chinese side, any activity forbidden by Chinese law, and on the Bank side, by investments in tobacco and urban real estate speculation. Subproject proposals were put forth by their sponsors on the basis of what they saw as their best commercial opportunities—whether it was expansion of an already successful enterprise or a new endeavor which had been studied for its market potential, its financial result and its affordability. In order to be eligible, an enterprise or its sponsor, in the case of new endeavors, would have to be a legal entity registered with the local Commerce Bureau, show satisfactory financial performance for the past three years, and demonstrate commitment to the enterprise reform process with a stated program outlining specific steps and the time frame within which they would be accomplished. Subproject fixed asset investment would be limited to twice the preproject fixed assets of the sponsoring enterprise; post investment debt/equity ratio would not exceed 4:1; enterprises (or sponsors, in the case of new enterprises) would contribute at least 30 percent of the project cost as equity and have assurances of the availability of remaining funding requirements and adequate working capital. For new activities, enterprises would show that they have access to the required expertise. Subloans would be made to the operating level, i.e., the enterprise or enterprise group itself. Eligibility criteria are detailed in Annex 3A.

4.5 CTICED. CTICED is a financially sound organization with a committed and well-educated group of staff. However, its experience in long-term lending is limited, and there is a need to continue the development work begun under the IDF grant in terms of skills, procedures and organization if CTICED is to become a significant long-term lender. The assistance received by CTICED under the IDF grant consisted of three levels: staff training, development and codification of procedures, and review and strengthening of the internal organization of credit operations. CTICED has put into place some of the consultants’ recommendations, such as the Credit Review Committee, and plans to implement the new MIS system; other work is still under review. CTICED will complete the review and make an assessment of additional areas of human resources, procedures and internal organization which need strengthening; this will form the basis for the technical assistance program under the proposed project (Annex 4).

4.6 The technical assistance package ($0.5 million) would include training programs for staff in project analysis, supervision and portfolio management; development and adoption of a strategic plan for CTICED, development and application of a credit manual, standardized loan documentation, and policies and procedures for disbursements and external audits, and further development of a management information system (MIS); strengthening of CTICED’s organization in the areas of credit and internal audit operations, and provision of equipment for the program. An assurance was obtained at
negotiations that CTICED would prepare a time-bound implementation plan for the program and submit it to the Bank for approval by September 1, 1998 and thereafter carry out the agreed program.

D. STATUS OF PREPARATION

4.7 During preparation the Bank reviewed more than 100 subproject proposals and with CTICED developed a pipeline of about 50 potential projects, ranking them on the basis of status of preparation and likelihood of financial and technical viability. By negotiations, CTICED had completed review, analysis and acceptance of 10 subprojects. The initial group of ten subprojects currently being analyzed by CTICED is shown in Table 4.2, with selected indicators of financial performance. These potential subborrowers have passed preliminary screening for acceptable historical performance of the enterprise or the sponsor, availability of self-contribution, creditworthiness of the enterprise or sponsor, and the technical and financial viability of their proposed subproject. Their business plans are being studied for the clarity of a market strategy and enterprise reform measures to be taken, and financial performance is being confirmed with local tax and finance bureaus. In cases where subprojects show strong potential, but where one or two ratios are outside the eligibility criteria, CTICED would make a considered effort to identify any “policy burden” which may have been borne by the enterprise and led to its poor financial situation (but which has been removed) or it may agree with the sponsors to undertake restructuring, e.g., additional capital contribution for reduction of debt.

**TABLE 4.2: PRELIMINARY REVIEW OF INITIAL TRANCHES OF SUBPROJECTS**

<table>
<thead>
<tr>
<th>Name of enterprise</th>
<th>Product</th>
<th>Preproject Profitability</th>
<th>Efficiency</th>
<th>Liquidity</th>
<th>Total Investment</th>
<th>FRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maoming Land Reclam</td>
<td>Building Material</td>
<td>2.06</td>
<td>0.03</td>
<td>15.48</td>
<td>0.86</td>
<td>77.35</td>
</tr>
<tr>
<td>Guangdong Malt Sugar</td>
<td>Malt Sugar</td>
<td>2.56</td>
<td>0.11</td>
<td>4.28</td>
<td>2.65</td>
<td>31.4</td>
</tr>
<tr>
<td>Guangdong Infant’s Diaper</td>
<td>Light Industrial</td>
<td>2.30</td>
<td>0.15</td>
<td>2.30</td>
<td>1.16</td>
<td>23.34</td>
</tr>
<tr>
<td>XinAnMeng Land Reclam</td>
<td>Farm Work</td>
<td>0.86</td>
<td>0.08</td>
<td>1.75</td>
<td>1.65</td>
<td>109.75</td>
</tr>
<tr>
<td>Guangbei State Farm</td>
<td>Dairy</td>
<td>1.70</td>
<td>0.08</td>
<td>3.85</td>
<td>1.04</td>
<td>40.64</td>
</tr>
<tr>
<td>Xiaodong Quick Frozen Factory</td>
<td>Vegetable Processing</td>
<td>1.00</td>
<td>0.10</td>
<td>3.99</td>
<td>1.09</td>
<td>29.25</td>
</tr>
<tr>
<td>Gaizhou Chemical Fertilizer</td>
<td>Chemical Fertilizer</td>
<td>0.32</td>
<td>0.05</td>
<td>14.63</td>
<td>1.14</td>
<td>54.89</td>
</tr>
<tr>
<td>XueLong Group Co.</td>
<td>Textiles</td>
<td>2.15</td>
<td>0.07</td>
<td>7.28</td>
<td>0.93</td>
<td>191.41</td>
</tr>
<tr>
<td>Nanyanghu State Farm</td>
<td>Dairy</td>
<td>1.60</td>
<td>0.15</td>
<td>1.62</td>
<td>1.16</td>
<td>94.95</td>
</tr>
<tr>
<td>Dashahu Machinery Factory</td>
<td>Machine</td>
<td>1.40</td>
<td>0.05</td>
<td>2.08</td>
<td>1.29</td>
<td>93.00</td>
</tr>
</tbody>
</table>

\[a\] Profitability as measured by ratio of profit:sales.
\[b\] Efficiency as measured by ratio of sales:inventory.
\[c\] Liquidity as measured by ratio of current assets:current liabilities.

E. IMPLEMENTATION SCHEDULE

4.8 The project is expected to become effective by July 1, 1998 and will be implemented over a period of five years with a completion date of June 30, 2003 and
Loan closing on June 30, 2004. About 40 percent of the Loan will be committed in the first year of implementation and the remainder during the second and third years. Enterprise repayments would begin to accrue to CTICED during the third year of implementation (2000) and would be available for recycling into new investments of a similar nature. An implementation schedule is shown in Annex 6B.

F. COST ESTIMATES

4.9 Based on a projected Bank Loan of $150 million, the estimated cost of the project is $300 million (Y 2,490 million), with a foreign exchange component of about $135.15 million or about 45 percent of total project costs. Cost estimates for the line of credit component are based on estimates of the initial 50 subproject proposals submitted. Costs of the anticipated categories of subloans by type of activity and Technical Assistance for CTICED are shown below (Table 4.3). These figures are indicative of the magnitude of funds to be used for various activities and serve to show that CTICED would not be overextended in any one particular sector. Cost estimates for the TA component are based on current costs of international consultants, and off-the-shelf equipment prices in China. The exchange rate used to convert base cost estimates is Y 8.3 to $1.

TABLE 4.3: ESTIMATED PROJECT COST

<table>
<thead>
<tr>
<th>Component</th>
<th>Y million</th>
<th>$ million</th>
<th>% Foreign</th>
<th>% of exchange</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Local</td>
<td>Foreign</td>
<td>Total</td>
<td>Local</td>
<td>Foreign</td>
</tr>
<tr>
<td>Line of Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food Processing</td>
<td>342.40</td>
<td>280.10</td>
<td>622.50</td>
<td>41.25</td>
<td>33.75</td>
</tr>
<tr>
<td>Textiles/Garments</td>
<td>224.10</td>
<td>273.90</td>
<td>498.00</td>
<td>27.00</td>
<td>33.00</td>
</tr>
<tr>
<td>Industrial Products</td>
<td>298.80</td>
<td>199.20</td>
<td>498.00</td>
<td>36.00</td>
<td>24.00</td>
</tr>
<tr>
<td>Wood Processing</td>
<td>205.40</td>
<td>168.10</td>
<td>373.50</td>
<td>24.75</td>
<td>20.25</td>
</tr>
<tr>
<td>Other</td>
<td>296.35</td>
<td>197.50</td>
<td>493.85</td>
<td>35.70</td>
<td>23.80</td>
</tr>
<tr>
<td>TA for CTICED</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultants</td>
<td>0.84</td>
<td>2.90</td>
<td>3.74</td>
<td>0.10</td>
<td>0.35</td>
</tr>
<tr>
<td>Equipment</td>
<td>0.42</td>
<td>0.00</td>
<td>0.42</td>
<td>0.05</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>1,368.30</td>
<td>1,121.70</td>
<td>2,490.00</td>
<td>164.85</td>
<td>135.15</td>
</tr>
</tbody>
</table>

G. FINANCING

4.10 The proposed IBRD Loan of $150 million would contribute about 50 percent of total project cost. The Loan would finance 100 percent of the foreign exchange requirements plus 9 percent of local costs (Table 4.4). The project's sponsoring enterprises are expected to finance, from their own internal sources, not less than 30 percent of investment costs. Domestic banks would provide about 20 percent of investment costs. Individual subborrowers would be responsible for obtaining domestic
loans from local banks with whom they have been clients; CTICED would require written confirmation of the local bank’s intention as part of the necessary documentation for loan approval.

**TABLE 4.4: PROJECT FINANCING PLAN**

($ million)

<table>
<thead>
<tr>
<th>Source</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>14.85</td>
<td>135.15</td>
<td>150.00</td>
<td>50</td>
</tr>
<tr>
<td>Domestic banks</td>
<td>60.00</td>
<td>-</td>
<td>60.00</td>
<td>20</td>
</tr>
<tr>
<td>Sponsoring enterprises</td>
<td>90.00</td>
<td>-</td>
<td>90.00</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>164.85</strong></td>
<td><strong>135.15</strong></td>
<td><strong>300.00</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.11 The Government of China and CTICED have selected LIBOR-based US dollar single currency loan terms for the project in order to facilitate management of the foreign exchange risk of their borrowing by more closely matching the currency of their liabilities with that of their net trade flows, about 75 percent of which are US dollar-denominated. They selected the LIBOR-based product in order to preserve the full maturity of the loan, compared to the fixed rate option which would have resulted in a 15-year loan. The Borrower judges that it can manage that interest rate risk.

**H. PROCUREMENT**

4.12 Procurement procedures will follow Bank Guidelines for Procurement under IBRD Loans and IDA Credits (dated January 1995 and revised in January and August 1996 and September 1997). CTICED will satisfy itself that goods and services to be purchased are for the subprojects and that procurement follows procedures acceptable to the Bank, outlined in Annex 5. Procurement of equipment using ICB procedures will utilize the China Model Bidding Documents, developed in consultation with the Bank and based on the Bank’s Standard Bidding Documents, and a domestic preference of 15 percent of the CIF price or actual customs duty, whichever is lower, would be given to local manufacturers. All contracts exceeding $10 million equivalent will be advertised in the UN Development Business and/or well known technical magazines, newspapers and trade publications of wide international circulation.

4.13 CTICED and the State Farms Bureau would select three specific officials with relevant professional experience to form a Procurement Team to ensure smooth implementation of the State Farms Project and full compliance with the requirements in the Guidelines for Procurement under IBRD Loans and IDA Credits (“Procurement Guidelines”). The Team, led by a representative of the World Bank Onlending Department of CTICED, would:
(a) designate import and export companies to provide support services as Procurement Agencies for the import, and these agencies may also, at the discretion of CTICED, assist with specific cases of domestic procurement;

(b) confirm procurement methods for each subproject, in accordance with the Bank’s Guidelines, and oversee their implementation;

(c) assist the subborrower and the Procurement Agency with document preparation, and bid solicitation and evaluation, for those subprojects procuring goods or materials through ICB;

(d) participate in important commercial negotiations and assist in arrangements for contract signing; and

(e) inform the Bank of any problems concerning procurement and will submit relevant documents to the Bank.

4.14 Works. Works, including mainly factory buildings, factory roads, environmental protection works, site preparation and landscaping, estimated to cost between $5.0 and $10.0 million equivalent would be procured on the basis of national competitive bidding following procedures acceptable to the Bank. Works estimated to cost more than $10 million will be procured under ICB procedures, and works estimated to cost less than $5.0 million would be procured based on obtaining price quotations from three qualified contractors.

4.15 Goods. Integrated equipment lines for any single subproject estimated to cost more than $5.0 million equivalent (excluding proprietary packages) would be procured under ICB procedures. Proprietary items would be procured under direct contracting. All procurement for other goods estimated to cost less than $5.0 million equivalent will be procured by the subproject beneficiaries following shopping procedures acceptable to the Bank. Details on procurement procedures are contained in Annex 5. An assurance was obtained that these procedures will be followed.

4.16 Consultants. Training and technical assistance valued at $450,000 will be undertaken under the Project. The employment of consultants would be in accordance with the Bank’s “Guidelines Selection and Employment of Consultants by World Bank Borrowers” (January 1997, revised September 1997). Consulting firms would be procured in accordance with quality- and cost-based selection (QCBS) procedures as outlined in the Guidelines, except for CTICED’s institutional strengthening, which may be procured through single-source selection in the interest of continuity of technical assistance. Services of individual consultants would be procured in accordance with the Guidelines’ procedures for selection of individuals. Contracts for consultant services would be based on the standard form of contract for consultant services issued by the Bank.
4.17 **Bank Review.** All goods and works contracts costing $5.0 million or more (including all ICB contracts), all proprietary items, all consultancy contracts for CTICED’s technical assistance program (regardless of cost), and all consultancy contracts for subprojects in excess of $100,000 for firms and $50,000 for individuals would be subject to the Bank’s prior review. For all other contracts, Bank supervision missions will conduct ex-post reviews on a sampling basis. Contracts for prior review would be in English; contracts in Chinese to be financed by the Bank would have a title page, outline of contents and summary in English.

I. DISBURSEMENT

4.18 CTICED subloans would finance no more than 50 percent of the total cost of subprojects (excluding the cost of land). Disbursements from the Bank loan would be made at 100 percent of subloan amounts disbursed by CTICED; disbursements for CTICED’s consultant services would be at the rate of 100 percent of expenditures and for CTICED’s equipment, at the rate of 100 percent of foreign expenditures for direct imports, 100 percent of the local, ex-factory cost for locally manufactured items, and 75 percent of expenditures for other items procured locally.

4.19 Statement of Expenditure (SOEs) would be required for disbursements to be made against (a) payments made under subloans, (b) expenditures for CTICED’s office equipment, and (c) expenditures for consultants’ services provided under contracts awarded to individuals costing less than $50,000 equivalent and for CTICED’s training. In order to provide for efficient disbursement of the Loan, a Special Account in US dollars with an authorized allocation of $10.0 million (based on four months of average disbursements) will be opened, in a bank acceptable to the Bank. Applications for replenishment of the Special Account would be submitted monthly, or whenever the Special Account is drawn down to 50 percent of its initial deposit, whichever comes first. Retroactive financing is proposed for up to $10.0 million (67 percent of the loan) for payments made by CTICED under subloans and for expenditures for technical assistance incurred after December 1, 1996 and prior to the signing of the Loan Agreement, contingent upon Bank approval of the subprojects and procurement consistent with the Procurement Guidelines. December 1, 1996 has been used as the cutoff date since loan signing had originally been expected in early 1997, but was delayed due to slow government processing of the project. Expenditures incurred earlier than 180 days prior to Bank receipt of CTICED’s request for subloan approval or withdrawal authorization would not be eligible for financing under the Loan.

4.20 It is estimated that the project would be completed by June 30, 2003 and that the closing date would be June 30, 2004. Disbursement experience in China, including the agribusiness and credit sectors, has been favorable and better than the Bank Group average. The project disbursement profile is essentially in line with that for specific investment loans in China. The estimated disbursement schedule is presented in Annex 6A.
J. ACCOUNTS AND AUDITS

4.21 Financial management for the project will be the responsibility of the financial intermediary CTICED, which will establish and monitor accounts related to the project in accordance with the guidelines set out in Annex 7. CTICED will engage auditors acceptable to the Bank, on terms of reference also acceptable to the Bank, to conduct an annual audit of both project accounts and CTICED’s consolidated accounts. Draft Terms of Reference for the annual external audit of CTICED are given in Annex 8. The audit would comprise financial statements presented both for CTICED itself and for CTICED on a consolidated basis and supporting documents showing degree of compliance with all major financial requirements of regulatory agencies, CTICED’s compliance with all terms and covenants contained in the Loan and Project Agreements for the proposed project, and a list of all wholly or partially owned subsidiaries in which CTICED has an ownership investment. The audit report would also include an audit of CTICED’s accounts related to the proposed project to assure that the accounts are maintained separately from its other loan accounts and that they properly record the receipt and disbursement of project proceeds by each subproject, both annual and cumulative. The audit report should contain a separate opinion on whether, based on documentation and internal controls, statements of expenditure can be relied upon to support related withdrawals from the loan. All audit reports should be submitted to the Bank not later than six months after the end of the fiscal year. An assurance to this effect was obtained during negotiations.

K. ENVIRONMENTAL IMPACT

4.22 Environmental Impact Assessment. The types of enterprises now being considered are generally of small to medium scale with pollution control requirements which can generally be met through the application of widely available and relatively simple control technologies. Therefore, the Bank designated an environmental impact B-rating to the project. In line with procedures for loans through financial intermediaries, for which subproject details are not known at the time of project appraisal and which usually consist of many small investments, which seldom require full environmental impact assessments (EIAs), the Bank decided that the initial environmental documentation would consist of an Environmental Review. The State Farms Bureau selected, after obtaining bids from various environmental institutions, the Chinese Research Academy for Environmental Science (CRAES), affiliated with the National Environmental Protection Agency (NEPA), to prepare the Environmental Review, meeting both the Bank’s and Government’s initial environmental assessment requirements. The Environmental Review was submitted to the Bank for assessment and found satisfactory prior to appraisal. The document summarizes the findings and conclusions of separate environmental impact assessments for 34 sample subprojects (SFB’s list of subprojects to be considered for financing by CTICED); it critically reviews all environmental control proposals and, in many cases, recommends design modifications and operational changes to ensure compliance with relevant national environmental standards. It also outlines the monitoring and management procedures
which enterprises will be required to implement under relevant laws and regulations (Annex 10).

L. RESETTLEMENT

4.23 Of the 50 subproject proposals reviewed during preappraisal, none has land acquisition which would involve resettlement of people or affect negatively existing sideline or main incomes. Most subprojects are expected to utilize vacant land within the confines of the sponsoring state farm or existing industrial zones developed by city or county governments. For any developments, it would be necessary to provide a resettlement plan, if resettlement occurs or land acquisition impacts on incomes. Assurances were obtained during negotiations that in such cases, a resettlement plan meeting principles and procedures satisfactory to the Bank would be required as a condition of subloan approval by CTICED and where more than 200 persons are affected, the Bank's prior approval of such plans would be required. Guidelines for resettlement are detailed in Annex 11. During implementation, the Project Oversight Office in FECC would have prime responsibility for monitoring resettlement activities.
5. ORGANIZATION AND MANAGEMENT

A. PROJECT ORGANIZATION AND MANAGEMENT

5.1 The main elements of project management will be the World Bank Loan Onlending Department within CTICED and a Project Oversight Office within MOA's Foreign Economic Cooperation Center (FECC). A detailed description of the roles and responsibilities of CTICED, and the Project Oversight Office is contained in Annex 3, and summarized below.

5.2 CTICED. As the financial intermediary, CTICED will be responsible to make subloan decisions under the project, disburse funds, collect repayment, supervise borrowers' performance, oversee procurement and would bear full credit risk. Subloan approval within CTICED will follow established internal procedures, but documentation, project analysis, field work and supervision will be carried out by the World Bank Loan Onlending Department following procedures developed in consultation with the Bank (Annex 3A). Assurances were obtained that CTICED would maintain the department for subloan appraisal and supervision with functions, staffing and resources acceptable to the Bank and that it will make subloans in accordance with policies and procedures acceptable to the Bank.

5.3 Project Oversight Office. A Project Oversight Office has been established within MOA's FECC to ensure smooth transition to project implementation and to facilitate communication and cooperation among participating agencies. The Project Oversight Office will provide policy guidance for project implementation, monitor project implementation, provide technical support in subproject identification, preparation and supervision, and serve as a communications link with the Bank on nonfinancial aspects of the Project. It will have prime responsibility for monitoring implementation of resettlement plans and reporting on these activities to the Bank. Its operations will be funded by an annual levy of 0.1 percent on the outstanding balance of subloans. Assurances were obtained at negotiations that the Project Oversight Office will be maintained with functions, staffing and resources acceptable to the Bank.

5.4 The subprojects would be implemented by farms and enterprises, under the guidance and general supervision of the provincial (or municipal) State Farm Bureaus or Agribusiness Corporations.

B. FINANCIAL MANAGEMENT

5.5 World Bank Loan Onlending Department within CTICED. This department will perform the intermediation functions required by the project unless and until such time as all of CTICED's credit operations are reorganized. To process subprojects in a
timely manner, it is estimated that the equivalent of about 30 additional positions will be required. Some of this represents additional demand on existing senior managers, which will have to be provided by delegation of their existing work, but most consists of additional analytical and processing capacity in the responsible credit department. CTICED has a recruitment and secondment plan which will meet that need as well as the continuing need for supervision, collection and lending of reflows. Financial intermediation shall be managed in accordance with the operating procedures and onlending terms and conditions presented in Annex 3A. The department will be responsible for the appraisal of all subproject proposals and the supervision and collection of all subloans. A commercial bank, acceptable to the Bank, will be proposed in which to hold the Special Account, from which withdrawals will be made by CTICED against certified disbursements under approved subloans and procurement documents.

5.6 Flow of Funds. The Bank loan to China would be on standard Bank terms, with 20 years maturity including five years grace period. The Government has requested that the loan be denominated in a single currency—the US dollar—and that it bear a variable interest rate. The Ministry of Finance (MOF) would make available the proceeds of the Loan to CTICED at the same interest rate as incurred by MOF, with a repayment period of 15 years, including a five-year grace period. Assurances were obtained at negotiations that the borrower would onlend the proceeds of the Loan to CTICED under a subsidiary loan agreement on terms and conditions satisfactory to the Bank, including those set out above. Conclusion of the subsidiary loan agreement would be a condition of loan effectiveness.

5.7 CTICED’s Financial Performance. In terms of its overall operations, CTICED would maintain a ratio of current assets to current liabilities of not less than 1.2 to 1, a ratio of equity to risk-weighted assets of not less than 8 percent, a ratio of arrears to loan portfolio of not more than 15 percent, and a ratio of equity investments to equity of not more than 30 percent. Each year before July 31, CTICED would forecast and report to the Bank whether it would meet these ratios for the current and next year. In the event that the quarterly reports (para. 5.15) or the July 31 forecasts indicate failure to maintain these ratios, CTICED would take all necessary measures to meet them, including adjustments of the levels of its deposits, the levels of its lending or of the structure or levels of its interest rates and other financial charges. Assurances were obtained at negotiations to this effect.

5.8 Borrower and Activity Eligibility. To be eligible to receive a loan under the project, a state farm enterprise will be expected to demonstrate creditworthiness and a commitment to enterprise reform. To that end, an applicant must satisfy the criteria outlined in Annex 3A and summarized below:

(a) Must be within the SFS (defined as an enterprise of which at least 20 percent of its voting stock or other proprietary interest is controlled by the SFB of MOA or by a governmental agency or enterprise operating under SFB’s supervision) and operating in a province included in the project;
(b) Should be part of the group or enterprise that will actually operate project facilities;

(c) Have legal identity;

(d) Have independent management structure and mandate;

(e) Have separate accounts and financial statements, maintained in the prescribed format for SOEs (by MOF).

(f) Either the subproject or, if a new enterprise, its sponsor must demonstrate satisfactory financial performance for at least the previous three years, as evident in financial statements following the MOF format. This would normally mean adequate solvency to meet current liabilities in a timely manner in existing operations, and a debt/equity ratio of not more than 3:1.

(g) Either the subborrower or the sponsor must have been in existence and engaged in similar operations for not less than three years. If a new activity is proposed, there must be assurances of an available source of the required expertise.

(h) In the case of an existing enterprise, demonstrate commitment to the enterprise reform process by identifying proposed changes in corporate structure, management, social burden arrangements, or other structural or operating changes that are in line with the objective of the reform.

(i) Not be in default on credit obligations.

5.9 An activity to receive funding under the project must satisfy the following criteria:

(a) It must be presented as part of a business plan demonstrating a good understanding of the commercial, technical, financial and organizational aspects of the subproject;

(b) A subproject’s fixed asset investment not to exceed the equivalent of twice the preproject total fixed assets of the sponsors;

(c) Equity contribution to project costs of not less than 30 percent, up to one half of which may be in the form of existing assets which are essential to the investment;

(d) Postinvestment debt/equity ratio, defined as most recent long-term debt/equity ratio adjusted by project financing plan, not to exceed 4:1;

(e) Assurance of availability of other investment capital requirements;
(f) Assurance of availability of adequate working capital;

(g) Projected satisfactory financial performance; and

(h) Environmental Impact Assessments and Environmental Monitoring Plans approved by the local or national Environmental Protection Agency.

5.10 **Onlending Terms.** Subloans would be made in dollars, renminbi or both. Because not all subborrowers need foreign exchange to carry out the project or have foreign exchange earning capacity for repayment, CTICED is expected to make available to the end-users about 20 percent of the Bank loan in local currency. For these subloans, the interest rate would be at the prevailing CTICED rate for loans of similar maturity. As noted in Chapter I, these onlending rates are set by PBC and adjusted from time to time; the current interest rate structure is 8.64 percent for investment loans up to and including one year, 9.9 percent for loans between one year and five years, and 10.53 percent for loans with a maturity greater than 5 years. CTICED would be responsible for the foreign exchange risk associated with these subloans, and the margin between the onlending rate and the cost of loan proceeds incorporates a spread to cover cross-currency movements. For subloans denominated in foreign exchange, the interest rate charged to subborrowers would be at the variable rate at which funds are onlent to CTICED by MOF plus an operating margin of at least 2.4 percent. The subborrower would bear the foreign exchange risk on these loans. CTICED would also be allowed to levy fees for special services and functions pertaining to loan appraisal as necessary, in accordance with established practice.

5.11 In line with other World Bank intermediation projects in China, the proposed project has followed the “cost plus” approach, in which the onlending rate for loans denominated in US dollars is determined by the actual cost of capital (the IBRD loan) plus an operating margin designed to cover administrative costs (1.2 percent), bad debt reserves (0.5 percent), profit margin (0.5 percent), and project management costs (0.1 percent for CTICED and 0.1 percent for SFB). The current onlending rate for foreign exchange loans would be about 9.0 percent, with all foreign exchange risk borne by the user. These onlending rates are positive in real terms, based on World Bank projections of domestic inflation of 2.0 percent for 1998, 4.8 percent in 1999, 5.0 percent in 2000, and 5.5 percent for 2002-04. The Bank will continue to monitor closely the level and structure of interest rates as part of the ongoing sectoral policy dialogue and nonlending services program with Government.

5.12 Subloan maturity would not normally exceed seven years and may include a grace period of up to 24 months. The Bank would consider on a case by case basis requests for extension of these maturities. Within these limits, the governing factor in determining the maturity on any specific subloan shall be the nature of the subproject and its projected cash flow, as determined by CTICED. CTICED may require the borrower to comply with special conditions on a subloan to mitigate specific weaknesses in what is otherwise a sound investment proposal. CTICED will require collateral for its subloans consistent
with its practices for similar enterprise activities outside the project. Further details of onlending terms are presented in Annex 3A.

5.13 **Maximum Amount of Subloans and Free Limits.** Subloans, either singly or in combination with outstanding loans to any one subborrower, would not exceed $20 million. CTICED would submit the first five subprojects to the Bank. Thereafter, it would proceed independently to approve all subprojects except subloans larger than $5.0 million and the first two subloans to be approved each year. **Assurances were obtained during negotiations that CTICED would make subloans in accordance with the onlending terms and following eligibility requirements acceptable to the Bank (Annex 3A).**

5.14 **Appraisal Reports.** CTICED will be responsible for appraisal of subprojects and for preparing subloan appraisal reports. CTICED would provide full appraisal reports for those subprojects requiring Bank approval and summaries for those that are below the free limit of $5.0 million. The subloan appraisal reports will document the borrower and activity eligibility and the enterprise background, and will include an evaluation of the marketing program and the appropriateness of the technology, calculations of financial returns and a summary of the Environmental Impact Assessment, and the Baseline Survey of Sponsors’ Enterprise Reform Status (Annex 3B). A detailed outline of the subproject appraisal reports is given in Annex 8.

5.15 **Reporting Requirements.** CTICED would submit quarterly reports comprising the following: its unaudited financial statement (including the ratios of current assets to current liabilities, arrears to loan portfolio, and equity investments to equity); subloan approvals and disbursements made during the quarter; arrears and collection rates of loans made by CTICED for the two preceding calendar quarters. **Assurances were obtained at negotiations that these reports would be submitted within 30 days of the end of the quarters. In addition, CTICED would provide annually by March 31 a summary of its evaluation of each subproject's performance and by July 31 on its own financial performance using an agreed set of ratios (para. 5.7). Reporting requirements are detailed in Annex 7.**

5.16 Subproject management teams will maintain records of expenditures on civil works, equipment and materials for submission to CTICED. **Assurances were obtained at negotiations that CTICED would impose the following reporting conditions on all subloans: all subborrowers would (i) maintain consolidated accounts for the entire enterprise which would be audited by independent auditors acceptable to the Bank, and submitted to CTICED (and if so requested, to the Bank) within six months of the close of the financial year; and (ii) maintain separate accounts to monitor subproject progress.**

5.17 **Loan Recovery and Reflows.** CTICED will be solely responsible for loan recovery, in accordance with individual terms and conditions it negotiates with individual subproject sponsors. Funds onlent by MOF to CTICED will be repayable to MOF in 15 years; CTICED will, therefore, be able to relend recovered loan proceeds for similar subprojects.
C. ENVIRONMENTAL MONITORING AND MANAGEMENT

5.18 New Subprojects. The selection of subprojects to be financed under this loan will be an ongoing process as new subprojects will be brought forward as the project is implemented. For this reason it has been necessary to establish procedures to be followed in the environmental assessment and implementation of future projects (Annex 10).

5.19 As part of subproject documentation, the subborrower will prepare a brief tabulated summary of the project in Chinese and in English, which will identify the principal characteristics of the project in terms of: (a) its purpose and basic technical characteristics; (b) the biophysical characteristics of the location in which the project is to be implemented; (c) the prevailing standards applicable in the project area; (d) volumes and characteristics of raw materials to be used; (e) the volumes and characteristics of materials to be released (with and without attenuation); (f) the mitigation or attenuation procedures that are to be adopted and their effectiveness; (g) the monitoring procedures that are to be adopted; and (h) the costs of the environmental mitigation equipment and procedures that are to be employed. This document will be prefaced by a brief statement of intent and will be signed by the project sponsors and CTICED. Based on this summary, CTICED will include conditions for compliance in the loan agreement with the project sponsors.

5.20 Monitoring Procedures During Implementation. All subprojects will establish a structure for an environmental management and monitoring unit before any construction activities are undertaken. At each subproject a Vice Director, or staff member of equivalent status will be responsible for the overall management of the environmental programs. The number of staff assigned specific environmental responsibilities depends primarily on the size of the subproject.

5.21 The responsibilities of the staff will include: (a) monitoring of the ambient air quality; (b) recording of fuel sources, quantities and quality; (c) monitoring of effluent water stream volumes and quality; (d) monitoring of downstream impacts of released water; (e) the review of the solid waste disposal procedures and destinations; (f) monitoring of workplace conditions; (g) review of plant health and safety procedures; (h) monitoring of environmental protection equipment to ensure that it is maintained in good operating condition; and (i) maintenance of records of baseline environmental parameters. The local environmental protection stations (at county or city level) will undertake independent spot inspections to ensure the compliance of the plant. They may also be called upon by the plants to assist with the specialized monitoring activities, such as stack sampling.

5.22 To ensure compliance with the approved environmental impact mitigation or attenuation measures during construction and installation and during ongoing operations, the following procedures would be instituted: (a) the provincial environmental bureaus have a mandate for the enforcement of environmental regulations and standards and will generally be responsible for these activities; (b) CTICED will hire environmental experts
to undertake an annual survey, carried out at random on a representative sampling of the subprojects; the experts will report on the degree of compliance during construction and ongoing operations and describe problems that are being encountered. Assurances were obtained at negotiations that CTICED would employ, by March 1, 1999, environmental experts acceptable to the Bank to carry out annual environmental audits and that their reports would be provided to the Bank by December 31 each year.

5.23 Reports on the environmental conditions in the plants will be submitted on a monthly basis to the appropriate county or city environmental protection bureaus. The provincial environmental bureaus will also be appraised quarterly of the environmental conditions associated with the operation of the plants. Summary environmental reports will be submitted by subborrowers to CTICED on a six-monthly basis for review. These will document the levels of compliance achieved by the plants, describe the situations in which it has not been possible to achieve compliance and the measures that are to be taken to ensure that the national standards are adequately met.

5.24 PBC issued a directive to financial intermediaries in February 1995 on the topic of environmental protection. It called on lending institutions to incorporate natural resource conservation and pollution control into their criteria for loan approval and to link compliance with national guidelines to disbursement of funds. This means that loans should not be approved until the appropriate level EPB reviews and approves the EIA, that funds should be stopped if the subborrower does not follow the approved design of the environmental facilities, and that working capital loans should not be extended to the enterprise until the environmental facilities are put into operation. The document also suggests favorable consideration, subject to the intermediary’s credit principles and the enterprise’s repayment capability, for projects (and enterprises) which (a) focus on pollution reduction and integrated waste recovery and reuse and (b) face reduced production due to compliance with existing environmental requirements. Since the PBC directive was issued, CTICED has adopted the principles set forth therein as their own and includes EIA approval as one of their basic requirements for eligibility, without exception. Assurances were obtained at negotiations that subloans will only be made by CTICED for subprojects whose environmental assessment report has been approved by the EPB with jurisdiction over that subproject.

D. MONITORING, EVALUATION AND REPORTING

5.25 Project progress will be documented at two levels: first, the institutional performance of CTICED (the project portfolio, collection performance) as set out in Annex 7 and second, the physical and financial progress of the individual subprojects. Subproject sponsors would provide information on progress to CTICED, who would share this information with SFB through the Project Oversight Office in FECC. CTICED would forward this to the Bank, along with reports on its institutional performance. CTICED will prepare periodic progress reports for the Bank on the overall impact, economic and financial benefits of the project. An understanding was reached that SFB will, through periodic consultations coinciding with Bank supervision missions, keep the
Bank informed of its progress in implementing the "3-100s" program and other reform measures and their impact on the SFS and that it would provide annual consolidated income statements and balance sheets for the system as a whole within six months of the close of each fiscal year.
6. BENEFITS, JUSTIFICATION AND RISKS

A. BENEFITS

6.1 Major benefits would be achieved from the project in three different areas. First, about 50 participating enterprises would improve their profitability, efficiency and market competitiveness with the adoption of reform programs emphasizing management autonomy, diversified ownership, and removal of social burdens and establishment of clear commercial objectives. For some, technological modernization would allow product restructuring and expanding markets in response to consumer demand. Others, as newly established activities, would develop production programs based on market surveys and exploit market strategies. Most of these enterprises are expected to become Limited Liability Companies using boards of directors to hold management accountable for achieving enterprise objectives and granting maximum management autonomy in achieving those objectives. All enterprises would be in compliance with the country’s environmental regulations and thus, would not be contributors to industrial pollution in the countryside. Second, the state farms sector would take the lead in introducing and demonstrating appropriate scale and technology in rural industry with improved efficiency, diversified ownership and reformed management. Third, CTICED would develop as a commercial lending institution and improve its capacity to provide long-term lending to the agricultural/rural sector. Through the project, it would sharpen its skills in evaluating subproject proposals on the basis of financial, economic and technical viability and making commercial lending decisions which would minimize its own financial risk in supporting such proposals. Other benefits include a substantial number of employment opportunities, and higher earnings of owners of enterprises, both private and public sector investors.

B. COST RECOVERY

6.2 Cost recovery would depend principally on the rate of subloan repayment by project sponsors to CTICED. Given the combination of intensive technical and financial evaluation of subproject proposals, as well as stringent evaluation and creditworthiness investigations, this rate is expected to be at least 95 percent. To protect itself against default of the sponsor, CTICED has required collateral in the form of mortgages or loan guarantees from an acceptable guarantor.

C. FINANCIAL ANALYSIS

6.3 In consideration of the delegation of investment decisions to CTICED, the Bank has not preselected or formally preappraised subprojects. It has, however, assisted CTICED in reviewing the initial pipeline of 50 subprojects. In addition, the Bank independently carried out financial analysis of nine subprojects from the original
The FRRs were calculated to be 19 percent for area development (one subproject), an average of 20 percent for textiles/garments (four subprojects), 33 percent for industry (one subproject), an average of 23 percent for food processing (three subprojects) and 50 percent for dairy development (one subproject). The FRRs and the results of sensitivity analyses are shown in Annex 12. Where sensitivity analysis indicated that changes in key parameters (such as increased investment costs, lower product prices, and implementation delays) result in extreme fluctuation of the FRR, CTICED was advised to consider restructuring the subproject, reducing the size of the subloan or exploring alternative ways of reducing its risk.

A cash flow projection for CTICED was prepared in order to evaluate the impact of project activities on its liquidity and solvency. As illustrated in Annex 2, CTICED is expected to build up a cumulative cash surplus of $12.3 million over 15 years, the repayment period of the Bank loan to MOF. This includes the cost of Bank debt servicing, all management and administration expenses, but excludes taxes and the additional revenue accruing from short-term cash management.

**D. ECONOMIC ANALYSIS**

The economic rates of return (ERRs) of the nine subprojects analyzed above were calculated on prices and conversion factors described in Annex 12. The economic prices for traded inputs and outputs were based on World Bank price projections or border price equivalents. Economic analyses have yielded more favorable results than FRRs, mainly because of the high rate of taxation applied to enterprises in China.

**E. RISKS**

Risk factors have been identified at the level of the state farms system, individual subprojects and the financial intermediary for the project, CTICED, and the following describes their likelihood and the measures that have been incorporated into the project to minimize their impact.

**Commitment to Reform.** The impetus for economic reform of state farms may diminish or individual subprojects may renege on their reform plans. China's economic reform measures have proceeded at a gradual and sustainable pace over the past 15 years, and it is not likely that the country will reverse course. As long as this is established as the trend or goal, state farms will not likely waiver in its commitment to this objective. An understanding was reached that SFB would continue to keep the Bank informed on the progress of its own reform program. To emphasize the importance of economic reform, the eligibility criteria for individual subprojects to be selected have included

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Since the analysis was done in 1996, some enterprises have dropped out of the project voluntarily or postponed their investment schedule; some still await government approval of their proposals; and several were rejected by CTICED because they were unable to meet its subloan eligibility criteria. Therefore, the list of subprojects shown in Annex 12 is not the same as Table 4.2, which represents CTICED's current proposal for the first tranche of subloans under the project, and is only provided as an example of the types of subloans that CTICED may extend.
Business Plans with detailed reform proposals; these have not only been endorsed by the provincial bureaus, but selection would be limited to those enterprises that have prepared convincing plans and that have shown commitment to the reform process with evidence of already initiating reforms.

6.8 **Commercial Risks of Agribusiness.** Subproject proposals would contain market studies, and evaluation of the proposals for selection of those to be financed includes a determination of the adequacy of the studies. There is always a risk in agribusiness, but this would be minimized by selection of subprojects with well-developed market strategies, based on reasonable expectations of market demand, knowledge of their competitors and identification of the market niche they expect to occupy. The introduction of new technology into an enterprise increases its risk, but in these cases, the subproject would be required to have access to a reliable source of appropriate expertise.

6.9 **Repayment Capacity.** Part of CTICED’s lending procedures include securing legal guarantees, either from another entity such as an established enterprise or a bank, or as a mortgage on the subborrower. Creditworthiness of enterprises and sponsors would be confirmed by review of their audited financial statements, prior to the project as part of subproject selection, and on a continuing basis, as part of the subborrower’s reporting requirements. Thus, in the event of default, CTICED could call the guarantee or invoke the mortgage rights.

6.10 **CTICED’s Institutional Capacity to Implement the Project.** Prior to startup of the project, CTICED began implementing a program of technical assistance identified by the Bank as being requisite for implementation. Project appraisal was contingent on selection of the primary consultants. CTICED would follow the Operating Procedures which have been developed for the project to ensure adequate criteria for lending operations, processing and supervision. Covenants have been included to assure that the Bank would have the opportunity to continuously monitor CTICED’s performance through submission of subproject appraisal reports for Bank approval.
7. AGREEMENTS REACHED AND RECOMMENDATION

7.1 At negotiations, assurances were obtained from the Borrower that:

(a) CTICED would carry out a technical assistance program acceptable to the Bank; it would prepare a time bound implementation plan by September 1, 1998 for Bank approval and thereafter carry out the program (para. 4.6).

(b) procurement procedures acceptable to the Bank would be followed (para. 4.15);

(c) CTICED would engage auditors acceptable to the Bank and submit audit reports not later than six months after the end of the fiscal year (para. 4.21);

(d) a resettlement plan meeting principles and procedures satisfactory to the Bank would be required as a condition of subloan approval by CTICED, and where more than 200 persons are affected, the Bank’s prior approval of such plans would be required (para. 4.23);

(e) CTICED would maintain a department for subloan appraisal and supervision with functions, staffing and resources acceptable to the Bank and will make subloans in accordance with policies and procedures acceptable to the Bank (para. 5.2);

(f) the Project Oversight Office in FECC of MOA will be maintained with functions, staffing and resources acceptable to the Bank (para. 5.3);

(g) the borrower would onlend the proceeds of the Loan to CTICED under a subsidiary loan agreement on terms and conditions satisfactory to the Bank (para. 5.6);

(h) CTICED would maintain a ratio of current assets to current liabilities of not less than 1.2 to 1, a ratio of arrears to loan portfolio of not more than 15 percent, a ratio of equity to risk-weighted assets of not less than 8 percent, and a ratio of equity investments to equity of not more than 30 percent; CTICED would, by July 31 of each year, forecast and report to the Bank whether it would meet these ratios for the current and next year; and in the event that the quarterly reports or the July 31 forecasts indicate failure to maintain these ratios, CTICED would take all necessary measures to meet them, including adjustments of the levels of its deposits,
the levels of its lending or of the structure or levels of its interest rates and other financial charges (para. 5.7).

(i) CTICED would make subloans in accordance with the onlending terms and following eligibility requirements acceptable to the Bank (para. 5.13);

(j) CTICED would submit quarterly reports on financial management within 30 days after the end of the quarter; in addition, CTICED would provide by March 31 annually a summary of its evaluation of each subproject’s performance and by July 31 on its own financial performance (para. 5.15);

(k) CTICED would impose the following reporting conditions on all subloans: all subborrowers would (i) maintain consolidated accounts for the entire enterprise which would be audited by independent auditors acceptable to the Bank, and submitted to CTICED (and if so requested, to the Bank) within six months of the close of the financial year; and (ii) maintain accounts concerning amounts and details of the withdrawals from loan accounts and use of loan funds (para. 5.16);

(l) CTICED would employ, by March 1, 1999, environmental experts to carry out annual environmental audits acceptable to the Bank and their reports would be provided to the Bank by December 31 each year (para. 5.22); and

(m) subloans will only be made by CTICED for subprojects whose environmental assessment report has been approved by the EPB with jurisdiction over that subproject (para. 5.24).

7.2 At negotiations, understandings were reached that:

(a) SFB will, through periodic consultations coinciding with Bank supervision missions, keep the Bank informed of its progress in implementing the “3-100s” program and other reform measures and their impact on the SFS and that it would provide annual consolidated income statements and balance sheets for the system as a whole within six months of the close of each fiscal year (para. 5.25).

7.3 Signing of a Subsidiary Loan Agreement between the Borrower and CTICED would be a condition of loan effectiveness.

7.4 Subject to the above, the proposed project would be suitable for a US Dollar single-currency loan of $150.0 million to the People’s Republic of China. The loan would be for a term of 20 years, including a grace period of 5 years, at the Bank’s standard variable interest rate for LIBOR-based US Dollar denominated single currency loans.
ANNEX 1: THE STATE FARM SYSTEM

Background

1. Organization. The state farms are a set of agriculture-based entities which, in aggregate, can be relied upon to provide a mechanism for leading the way and for gauging the effect of national agricultural/rural policies. Strictly speaking, to call this a system is a misnomer because collectively they are not managed as a unitary system, with some subordinate to the central government and others, to local governments. Currently, there are five definable sets of players in this “system” as shown in the Organizational Chart (Figure 1) and summarized below:

(a) the central-level State Farms Bureau (SFB) in the Ministry of Agriculture (MOA), representing the interests and past investments of the central government and mainly concerned with the state farms in the five border provinces (Xinjiang, Heilongjiang, Yunnan, Hainan and Guangdong) and two of Inner Mongolia’s bureaus (Hailar and Dayangshu State Farm Bureaus);

(b) the provincial-level bureaus/departments/agribusiness corporations reporting directly to the central government (the provincial state farm bureaus in the four border provinces—Xinjiang, Heilongjiang, Hainan and Guangdong);

(c) the provincial-level (also including prefectural, county and municipal) bureaus/departments/agribusiness corporations reporting directly to their own local government and receiving only general guidance from the central-level SFB;

(d) the actual state farms themselves—some 2,200 of them, spread out over 28 provinces and seven major cities; and

(e) the enterprises—about 40,000 subsidiary enterprises involved in industry, trade, transportation and construction, with a variety of “owners” which include individual farms, prefectural and provincial bureaus, and “the State.”

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1 Xinjiang has three types of state farms: those under the Agriculture, Industry and Commerce Corporation (AICC), which reports to MOA; others reporting to the provincial Animal Husbandry Bureau and still others reporting to the Agriculture Bureau. Statistics for the three different types are shown separately by MOA.
2. **The Extent of the State Farm System (SFS).** The SFS supports a population of some 12 million people, of whom about 5.0 million are staff and workers and another 1.3 million are retired workers. Population distribution ranges from 17,800 in Shanxi to 2.2 million in the Xinjiang AICC. The gross output value of agriculture and industry (GVAI/O) of the system in 1995 (in constant 1990 values) was ¥ 89.0 billion, of which 36 percent came from agriculture and 64 percent from industry. The top three industries and
their contribution to the total value of industrial production are food processing, 27 percent, machinery manufacturing, 11 percent, and the textile industry, 12 percent.

3. State farms occupy some 39 million ha (out of China’s total land area of 960 million ha); arable land amounts to 4.7 million ha (out of 95.6 million ha) and another 2 million ha is unclaimed, but potentially arable. State farm holdings within the provinces range from as little as 23,000 ha (Zhejiang) to as much as 13,000,000 ha (Xinjiang Animal Husbandry). Xinjiang alone, including the AICC, the Agriculture and Animal Husbandry components, has more than half the total land area of the SFS, though Heilongjiang has the greatest proportion of the arable land (1.9 million ha or 44 percent of the total arable land). The SFS has 7 universities and colleges, 43 specialized schools and 12,200 medical facilities. In the context of the national economy, the SFS provides 2.7 percent of the nation’s total rural output value of agriculture and industry, and includes 1 percent of the total population, and a slightly higher percentage of the rural population. However, the SFS provides about 80 percent of the national production of rubber (with almost 400,000 ha of planted area), 10 percent each of sugar, wool, cotton and prawns, and 30 percent of the milk products.

Roles and Functions of the SFS

4. **Origin.** The system of State Farms originated from the feudal military tradition of “tunken” literally meaning “to station troops and open up wasteland for food and grain production.” This tradition has been adopted by incoming dynasties since ancient times. Throughout history, successive dynasties have organized agricultural production on state owned land under the direct supervision of the “state” with the following objectives: to provide garrison troops with food and, thereby, decrease the budgetary burden of maintaining armed forces; to strengthen frontier defenses, particularly in remote areas and those areas to which no guaranteed supply routes could be maintained; to strengthen discipline within the army during times of peace; to serve as collection points for banished political dissidents where they could be gainfully employed in agricultural production; to increase government revenue; to maintain control and social stability in those areas dominated by ethnic minorities; as sites for the settlement of demobilized soldiers; and to develop the regional economies. The existing SFS was established more or less on these principles in 1949, with administrative responsibility shifting in the intervening years from the Ministry of Agriculture (MOA) to its own ministry (the State Reclamation Ministry) to a system of dual leadership with MOA, through its State Farms Bureau, and the provincial governments.

5. **Present Situation:** After nearly 50 years, what started out as an exercise replicating the “tunken” system has now emerged into a subset of SOEs, with very particular characteristics. Their origin and subsequent evolution reflects a major difference between Chinese state farms and Eastern Europe/Former Soviet Union state farms, which were collectivized from private holdings. Because they were traditionally located in unsettled and “wasteland” areas, state farms in China have been charged with heavy social obligations: housing, schooling from nursery school to university, medical
care, lifetime employment, pensions and other services to employees and their dependents. In addition, they were held responsible for providing their own infrastructure—roads, communication, transportation and other public facilities—and to pay for public security services. In some cases, the state farms had to keep judicial departments, land administrations, industry and commerce administrations, and environmental protection services with little or no government compensation. Particularly in the northern and western border provinces (Heilongjiang, Xinjiang and Yunnan), many of the farms are still located in isolated areas, distant from major commercial centers with, even today, less well developed transportation and communication services. On the other hand, farms established around major cities—Shanghai, Beijing, Tianjin—are well-positioned geographically to focus their business strategies on urban markets, not only for the agricultural goods they can supply, but also for the industrial and service sector needs which they can fulfill. Provincial highway improvements over the last decade (particularly in Guangdong, Hainan, Yunnan and Jiangsu) have greatly improved access to markets and allowed state farms to shift from monocrop agriculture (rubber for the first three and cotton for the fourth) to diversified agriculture and industry.

6. In comparison with rural villages, agricultural production on state farms in 1995 showed some very positive aspects:

- a higher level of mechanization,
- higher productivity (8.8 tons of grain per laborer as compared to 1.11 tons for the average farmer—mainly due to the size of holding);
- a higher specialization level of the 2,200 farms—43.5 percent—are specialized grain farms, 23.3 percent livestock farms, 7 percent rubber farms, 7 percent tea farms and 10 percent fruit farms; and
- a stronger technical force with 11 technical personnel per 10,000 laborers, compared with 1.5 technical persons per 10,000 farmers (at the county level);

Status of Reforms

7. Since 1979, a series of reform programs have been taken place across the entire SFS. Major reforms in the past included introduction of financial contracting system; household farm practice; enterprise contract responsibility system; integration of agriculture, industry and trade; and experiments on shareholding, social sector reform, and reform of export-oriented operations. In 1993, the SFS adopted the new financial accounting system and many bureaus were restructured by downsizing and shifting surplus staff into newly created commercial enterprises. Most recently, SFS has developed its “3-100s” program under which it will address enterprise reform, with plans for modernization of management and formation of enterprise groups. The status of reforms, along with short and medium-term objectives, is summarized in a Matrix of Government Reform Programs for the SFS (Table 1).
### TABLE 1: MATRIX OF GOVERNMENT REFORM PROGRAMS FOR STATE FARM SYSTEM

**Overall Objective:** This matrix is to reflect reform targets of State Farm System in China on major reform areas of State Farm Bureau Restructuring Program, State Farm Enterprise Reform and Marketization Steps.

<table>
<thead>
<tr>
<th>Reform Areas</th>
<th>Present Situation</th>
<th>Short Term Targets (ninth 5-year plan period)</th>
<th>Long Term Targets (year 2001 to year 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. State Farm Bureau Restructuring Program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Restructuring of MOA's SFB</td>
<td>Comprising 17 divisions with main responsibilities shifted from direct involvement in enterprises' operations to indirect regulation and control.</td>
<td>Remain a central government agency with more efficient and further retrenched administration.</td>
<td>Remain a central government agency.</td>
</tr>
<tr>
<td>2. Restructuring of Provincial SFBs</td>
<td>Program continuing; 13 provincial SFBs turned into SFAC(^1) by December 1995.</td>
<td>Most SFACs granted authority to manage their state-owned assets; other SFBs still in process of streamlining administrative structure and shifting responsibilities.</td>
<td>All SFBs turned into commercial corporations and their government functions eliminated.</td>
</tr>
<tr>
<td>3. Services by Central SFB to Provincial SFBs</td>
<td>Provide sectoral services(^2) to all SFBs with special responsibilities(^3) to &quot;big five&quot;.</td>
<td>Continue provision of sectoral services, maintain financial and planning relations with the &quot;big five&quot;. Administrative functions remain with the provincial governments.</td>
<td>Provide services with diminishing functions in financial and planning administration.</td>
</tr>
<tr>
<td>B. State Farm Enterprise Reform</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Transformation of Management Mechanism</td>
<td>14 rights specified in the State Council's &quot;Regulations on Transforming the Management Mechanisms of State-Owned Industrial Enterprises&quot; of 1992 mostly granted to state farm enterprises.</td>
<td>Experiments still going on with SFB's detailed implementation measures.</td>
<td>All state farm enterprises granted the 14 rights and subject to market competition.</td>
</tr>
<tr>
<td>2. Ownership Diversification</td>
<td>SOE still the dominant force accounting for 80 percent of SFB's GNP in 1995.</td>
<td>Nonstate ownership to expand to 30 percent of GNP.</td>
<td>Co-existence and full competition of any types of ownership.</td>
</tr>
</tbody>
</table>

\(^1\) Denoting State Farm Agribusiness Corporation, State Farm Agriculture, Industry and Commerce Corporation or State Farm Group Corporation.

\(^2\) Sectoral services include policy guidance, intergovernmental coordination, sectoral statistics etc. for all SFBs.

\(^3\) Including appointment of Xinjiang SFB director, review, supervision and approval of investment programs, budgetary allocation etc. for five big SFBs.

\(^4\) Including SFBs of Xinjiang, Heilongjiang, Hainan, Guangdong and Yunnan.
<table>
<thead>
<tr>
<th>Reform Areas</th>
<th>Present Situation</th>
<th>Short Term Targets (ninth 5-year plan period)</th>
<th>Long Term Targets (year 2001 and year 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Corporatization</td>
<td>By 1995, 198 limited liability companies, 20 shareholding companies (including 14 registered on stock market), 823 shareholding cooperatives and 1208 state-owned but privately-run enterprises in existence.</td>
<td>Existing state farm enterprises restructured into and all new state farm enterprises set up as either a limited liability co. or a shareholding co. Ltd. in accordance with Industrial Enterprise Law (1988) and Corporate Law (1993).</td>
<td>Complete incorporation of all state farm enterprises.</td>
</tr>
<tr>
<td>4. Separation of Government Function from Enterprise Function</td>
<td>Separation is still in progress at various stages.</td>
<td>Government functions basically separated; most enterprises' productive and operational activities no longer subject to government interference.</td>
<td>Full separation of Government function from enterprise function and no direct involvement of government in managing enterprises.</td>
</tr>
<tr>
<td>5. 3-100s Program</td>
<td>SFB-wide program launched in 1994 and commence of implementation in 1995 by SFB.</td>
<td>Program completed and experience available from demonstrative state farm enterprises.</td>
<td>Successful experience extended to all state farm enterprises wherever relevant.</td>
</tr>
<tr>
<td>- Modern Enterprise System</td>
<td>48 enterprises selected to participate in SFB-sponsored program and 17 others in provincial government-sponsored experiments.</td>
<td>Complete SFB's own experiment and collect experience from participating state farm enterprises in provincial government-sponsored programs.</td>
<td>Extend to cover all state farm enterprises.</td>
</tr>
<tr>
<td>- Enterprise Group</td>
<td>23 enterprises selected to participate in SFB-sponsored program.</td>
<td>All participating state farm enterprise groups restructured or set up in accordance with requirement of modern enterprise system.</td>
<td>Experimental experience extended to all state farm enterprises.</td>
</tr>
<tr>
<td>- Production Base</td>
<td>166 enterprises selected to participate in SFB-sponsored program.</td>
<td>Bases established.</td>
<td>Experience extended where relevant.</td>
</tr>
<tr>
<td>6. Accounting System</td>
<td>New accounting system generally adopted with variations.</td>
<td>New system followed without exception with public disclosure of audited balance sheets and income statements.</td>
<td>Full implementation for all state farm enterprises.</td>
</tr>
<tr>
<td>7. Social Security</td>
<td>Some state farms participating in programs sponsored by local governments while some in programs by provincial SFBs.</td>
<td>Most employees covered by a safety net whenever available from either SFB program or local government; no social security obligations and government burden imposed on new enterprises.</td>
<td>Unify SFB programs with provincial and national programs; full responsibilities shifted away from state farm enterprises.</td>
</tr>
<tr>
<td>Reform Areas</td>
<td>Present Situation</td>
<td>Short Term Objectives (ninth 5-year plan period)</td>
<td>Long Term Targets (year 2001 to year 2010)</td>
</tr>
<tr>
<td>-------------</td>
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</tr>
<tr>
<td>- Pension</td>
<td>Some state farm employees at present participating in social pension reform (pooling); 17 SFBs participating and 55 percent of state farm employees covered.</td>
<td>80 percent of SFBs participating in and 80 percent of state farm employees covered by an established social pension program (pooling).</td>
<td>All state farm enterprises of all SFBs to participate in and all employees covered by social pension programs (pooling).</td>
</tr>
<tr>
<td>- Medical Care</td>
<td>State farm employees share medical expenses and certain progress made in most state farms with some participating in local medical insurance programs.</td>
<td>Continue experiments; participate in local programs with their branches set up within state farms; over 50 percent of state farm employees covered;</td>
<td>Medical care reform programs continued and extended to cover over 80 percent of employees by 2010.</td>
</tr>
<tr>
<td>- Housing</td>
<td>90 percent of housing sold to or built by state farm employees.</td>
<td>100 percent of housing sold to or built by state farm employees.</td>
<td>Full commercialization of housing.</td>
</tr>
<tr>
<td>- Unemployment</td>
<td>Most uncovered due to unavailability of such programs locally or unwillingness to participate because of current negligible low unemployment rate of state farm enterprises.</td>
<td>Provide income maintenance during transition; participate in government-sponsored program whenever available.</td>
<td>All state farm employees covered by established unemployment programs.</td>
</tr>
<tr>
<td>- Education</td>
<td>Children mostly under mandatory education under the obligation of state farms with little or no government financial support.</td>
<td>80 percent of financial support from government for state farm schools with social access and cost-sharing arrangement made between state farms and government for other schools.</td>
<td>Government gradually to take over full obligation.</td>
</tr>
</tbody>
</table>

C. Marketization Steps

1. Subsidy Removal
   - Subsidies mostly removed; special fund directed only to recognized poverty farms in border areas.
   - All state farms subject to income tax with a certain portion returned to eligible enterprises; retain financial support to poverty farms in border areas.
   - Eliminate operational subsidies; exceptions only for those with poverty alleviation objectives; state farms subject to market competition for resources.

2. Price Deregulation
   - Deregulation of prices continuing; among SFS's major products, only pasteurized milk, cotton, grain still under government price control in some way.
   - Reduce scope of price control.
   - Complete deregulation of prices.

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5 Referring to schools whose jurisdiction extends outside the state farm.
8. **Household Farm System (HFS).** The HFS was developed from the household production responsibility system which was widely practiced on the state farms during early years of the rural reform period. It was only officially recognized in 1983 and has developed very rapidly ever since. By the end of 1989, HFS spread all over the state farms in the country and the total number of household farms reached 1.18 million, involving more than 80 percent of the total employees engaged in agriculture and livestock production in the entire SFS. Under this system, land is assigned to individual families for various durations (5-30 years); small and medium size farm machinery and tools are leased or sold to the families; and after the contractual obligations (taxes, contract sales, remittances) are fulfilled, all the remaining crops are at the full disposal of the family farms. Some family farms are set up with complete independence in operation, while most are still subject to certain controls, such as unified planting plans to meet the needs of crop rotation and operation of irrigation systems. The size of the holding varies from 1 ha in the south to up to 20 ha in Heilongjiang.

9. **Financial Contracting System (FCS).** To encourage efficiency and to reduce the need for government subsidies, FCS was first introduced in 1979. The Ministry of Finance and provincial financial bureaus signed agreements with the MOA and its provincial bureaus, the latter in turn signed agreements with the state farms. In principle, the bureaus and farms were to practice independent accounting and be responsible for their own profits and losses; profits could be retained for production expansion; capital deficiency could be supplemented by bank loans; and all state farm enterprises were exempted from income tax. More important, the agreements provided for either a remittance of fixed amounts of profit to the government or fixed subsidies to be provided by the Government, depending on the specific circumstances. Contracts were renewed in 1986 and 1991 with some modifications, the main modification providing cessation of or a steadily decreasing subsidy from the government; the last contract expired in 1995. After the introduction of the FCS, the SFS turned from twelve consecutive years of loss-making to profit generation, with an annual growth rate of over 12 percent.

10. **Enterprise Contract Responsibility System.** The contract responsibility system was introduced into the SFS for nonagricultural enterprises in 1985 on an experimental basis and was widely adopted as one of major reform programs in 1987. The objective of this reform was aiming at improving enterprise efficiency and employee wages by linking them closely together. Under the reform, the contractors at all levels were given greater responsibilities and granted more authority, accordingly. In more and more cases,
enterprise managers were selected competitively, employees signed contracts, and salaries and bonuses were based on performance. Although this reform is still ongoing, its principles have been broadly recognized.

11. **Shareholding System.** During 1987 and 1989, experiments with shareholding were initiated in 17 enterprises in Xinjiang, Guangdong and Heilongjiang, with the enterprise and its staff being the shareholders. By the end of 1992, the experiment had extended to 103 enterprises (in industry, agriculture, foreign trade, commerce, tourism, transportation, and construction) in nine State Farms Bureaus including Shanghai, Fujian, Hainan and Guangzhou and Chongqing cities. The system was practiced in four major forms, i.e., (a) the enterprise and its staff as shareholders (60, accounting for 58 percent); (b) enterprise staff as the sole shareholders (31, accounting for 31 percent); (c) the enterprise as a legal person and shareholder of another enterprise (10, accounting for 10 percent); (d) shareholding company registered on stock market with tradable stocks (2, accounting for 2 percent). All these four forms accorded with the stipulations of the government’s “Guideline on Limited Liability Companies” and “Measures on the Experiment of Shareholding Enterprises” both promulgated in May 1992. With the opportunities afforded by the Company Law (1993), more enterprises entered into the reform and by mid-1997, there were 439 limited liability companies, 138 shareholding companies (including 14 listed on the stock exchanges), 730 shareholding cooperatives and 1,208 state-owned, but privately-run enterprises within the “system.”

12. **Integration of Agriculture, Industry and Trade.** After 1978, the central government encouraged the state farms to switch from concentrating only on agricultural production to developing industry and trade as a means to improve the SFS economy. By 1991, industry and trade accounted respectively for 37.1 percent and 17.2 percent of the SFS’s total gross domestic product and industry accounted for 57.4 percent of the total industry and agriculture output value. By 1992, the agriculture to industry ratio in total industry and agriculture output value was at the level of 40:60 for the SFS, but this was still behind the same ratio for the overall rural economy of 35:65 in 1992 and 25:75 estimated for 1993. In 1994, the format of the financial statements submitted to SFB was changed and no longer required the province to disaggregate the income statement into categories. SFB estimates, however, that the ratio between agriculture and industry was in the range of 40:60 in 1996.

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3 Shareholding Cooperatives were first formalized by an MOA Order No. 14, “Temporary Provisions for Farmers’ Shareholding Cooperative Enterprises” in 1990 and later a “Circular of MOA on Promoting and Perfecting the Shareholding Cooperative System in TVEs” in 1992. The first document defined as farmers’ shareholding cooperative enterprises organized voluntarily by more than three households with shares in the form of capital, technology, labor or in kind, to be engaged in productive and operational activities. The later document provided further clarification: a shareholding cooperative enterprise is an enterprise legal entity organized by laborers or investors according to charter or agreement, with shares in the form of capital, technology, land use right or in kind, to be engaged in productive, operational or service activities (e.g., construction, transportation, commerce, catering, etc.). It also expanded eligible shareholders as TVEs, enterprises, social legal entities and foreign investors.
13. **Export-oriented operations.** The SFS regards export-oriented operations as one of the major reforms in its system and the new growing point for further economic development. By the end of 1995, 1,210 Sino-foreign joint ventures, cooperative firms and solely foreign-invested enterprises were in operation. In the same year, the SFS provided a total of Y 7.8 billion worth of products for export, with 195 enterprises each providing over $1 million worth. By 1996, 45 enterprises have been granted direct import and export rights. There are 94 enterprises within the SFS with export volumes of Y 10 million each. In addition, border trade increased dramatically. Establishment of economic development zones is another strategy the SFS is pursuing, with at least 40 zones in operation now. The SFS has opened up 59 overseas enterprises in 12 countries and expects to expand that number in the future. The rationale for these overseas investments is that international experience would not only enable the SFS to enjoy greater foreign exchange earnings, and ease financial constraints, but would provide gains in terms of technology, competitiveness and foreign market access. The right to import and export, of the 14 autonomous management rights, is the one most enterprises lack, both in terms of state farms enterprises and SOEs.

14. **Accounting and Auditing.** In mid-1993, the SFS adopted the new financial accounting system as a part of an overall financial system reform initiated by the government. The main differences between traditional Chinese accounting practices and international practices relate to (a) the approach for determining and accounting for equity and for separating those items accounted for through special funds that relate to liabilities, such as the provision for payments to employees; (b) the need to include construction in progress and related liabilities in the accounts, which were only included after construction has been completed; (c) the introduction of the concept for provision against probable losses, such as provision for bad debts and for stating inventories at the lower of cost and net realizable value; (d) the need to deduct general administrative expenses allocated to products not sold from operating income during the year the expense items incurred; (e) the need to treat overhaul costs as capital expenditure; and (f) the need for recording sales on an accrual basis. These differences have been generally addressed in the new regulations. An important consequence of this change is the more transparent identification of ownership by recognizing explicitly (1) the state, mostly for its past investment, (2) the enterprise proper, i.e., retained earnings, and (3) other investors, including workers.

15. The financial statements of the SFB still have significant shortcomings which restrict their usefulness. Firstly, the farms and enterprises under SFB supervision are not managed as a unitary system and accounts, even though in a prescribed format, are aggregated, not consolidated, i.e., the statements represent a compilation of data submitted by individual farms and enterprises to the provincial/municipal bureaus without netting out transactions within and between farms. Secondly, the farm and enterprise data are compiled by the local bureaus and submitted to SFB, mainly for national planning purposes. Auditing of the units under MOA control is undertaken by the State Audit Administration and of the other units, by the provincial/municipal audit agencies. Analyses of the financial statements from 1989 to 1994 were made during...
project preparation and preappraisal; these are available in the project files (Annex 14),
along with the financial statements of 1995 and 1996.

16. **Restructuring the Bureaus.** Under the government’s restructuring program of
1992/93, the State Farms Bureau (SFB) was downsized, with some staff assigned to
subsidiary enterprises and its responsibilities shifted from micromanagement to
macroplanning. The SFB in MOA now comprises 19 divisions (Figure 1), with about 100
staff; two centers (South Subtropical Crop Center and Green Food Development Center)
and one company (Green Food Development Company). SFB’s main responsibilities
have been shifted from direct involvement in enterprises’ operations to indirect regulation
and control through overall planning, policy, coordination, service, auditing of the “big
four” by a branch office of the State Audit Administration in MOA, and supervision. For
example, the SFB has developed a year 2000 production plan for grain, cotton and
rubber, based on the plans submitted by the provincial bureaus. This plan is neither a
centrally mandated production nor a procurement plan, but more like an indicative target.
A Policy and Regulation Division within the SFB has prepared policy proposals for State
Council review on a number of issues including household responsibilities (production
fee and living fee to be assumed by individual households, instead of farm), social
insurance and education, and relations with local governments. In its coordinating role,
the SFB attempts to mediate in issues between state farms and (a) local government (e.g.,
land disputes), and (b) other departments (e.g., Ministry of Foreign Trade and Economic
Relations for export rights). As more farms and enterprises develop shareholding systems
and increasingly commercialize their operations, SFB expects additional coordination
tasks in the future.

17. **Social Sector Reform.** The social sector reform in the SFS is aiming at separating
the social obligations from enterprise operations. The obligations generally speaking
cover pension, housing, medical insurance, unemployment compensation, education,
infrastructure, and public security. Significant experiments in this sector have been
accomplished, such as pension and housing reforms.

18. **Pension Reform.** Until 1991, the SFS adopted the same type of pensions system
as other SOEs, i.e., enterprises themselves were directly responsible for providing
pensions based on age, seniority, etc. In 1991, the State Council issued the “Decision on
Pension System Reform for Enterprise Employees” which applied to all SOEs (in both
urban and rural areas), including the SFS, and also applied in principle to all urban
collective-owned enterprises, but not to government agencies and rural areas (including
township and village enterprises) which would be under separate reform programs
formulated respectively by the Ministry of Personnel and Ministry of Civil Affairs. Under
the provisions of the Decision, provincial governments are expected to establish pension
funds contributed jointly by the provincial government, enterprises and individuals; the
funds are to be pooled on a county (or city) basis. Currently there are established pension
funds in 22 provinces, involving 85 million workers and 17 million retirees, and about 15
of these provinces have carried the program one step further by setting up the pension
funds on provincial level. The government’s ultimate goal is to accumulate and distribute the fund nationwide at an undetermined date.

19. To bring State Farms in line with the government’s long-term goal of universal pension coverage, state farms and state farm enterprises were allowed, in exceptional cases and subject to approval of the respective provincial government, to establish their own pension fund pooled within the SFS at provincial bureau level. At present, pension provisions for retirees starting revolutionary work before 1949 (founding of People’s Republic of China) are covered by the central government. According to recent State Farm statistics, most of the provincial state farm bureaus, though at their initial stages, have followed the government’s reform program with some participating in the pension programs sponsored by local governments and others establishing their own separate pension pools. The motivation of taking different approaches in the reform is rooted largely in the reluctance to share heavier pension obligations but benefit less from the program. A few bureaus as a whole e.g., Inner Mongolia, Jiangxi, Hunan, Shandong have yet to initiate either type of pension program. While some farms, as the grassroots units, have not arranged to participate even when their provincial bureaus have selected one or the other programs, and according to MOA’s incomplete statistics, about 55 percent of state farm employees in service and 70 percent of retired employees are covered by a pension program. Effective January 1, 1996, temporary and seasonal workers with contract duration greater than three months (e.g., about 60 percent of the rubber tappers on Hainan state farms are peasants hired under the contract responsibility system) are covered under the pension system. The major constraint to complete coverage is the lack of a national pension scheme and, pending this, the lack of all the provinces/municipalities to adopt locally based provincial schemes. Still, the aim is to have 80 percent of all employees covered by the year 2000 and ultimately 100 percent participation.

20. **Housing Reform.** The government’s objective of housing reform is to shift all responsibility for rental housing from enterprises to commercial housing companies by late 1990s. Unlike SOEs which have a difficult time in accomplishing this, state farms have already sold 95 percent of their apartments and housing to staff and workers. While housing for bureau officials in urban areas was a little longer to be reformed, this has been accomplished in most areas by now. In both rural and urban areas, though, considerable subsidization has taken place, with existing housing being sold at well below market or replacement value, and new housing generally offered at partial cost. An example is reported for Hainan Xilian State Farm, where a 60 percent cost recovery of new apartments is anticipated with purchasers being offered a 20 percent discount for cash or zero percent interest rate for two-year financing. SFB aims to complete the sale of housing during the Ninth Five Year Plan (1996-2000).

21. **Medical Insurance.** An insurance system is being promoted for medical care, but its acceptance has been accomplished on a much smaller scale. At present, most state farms practice one or the other of two major medical insurance experiments: (1) the state farm provides each employee with a small cash allowance (depending on its economic
capability and the employee’s age, seniority, length of service) for medical care in
addition to their regular monthly pay; or (2) the state farm keeps an annual budgetary
allotment for each employee for their medical expenses. In both cases, the state farms
provide for medical expenses up to the annual limit; in serious cases, where the cost is far
beyond the employee’s ability to cover, the state farm does step in with additional funds.
Virtually all state farms have their own clinics; the five border provinces have complete
medical care facilities with well-equipped hospitals; SFBs in other provinces have
contracts, either formal or informal, with local government hospitals for care of staff and
workers when this is at a level which their own facilities cannot provide. The short-term
goal of SFB is to have 50 percent of state farm employees covered under local medical
insurance programs by the year 2000, with 80 percent coverage within the next decade.

22. Unemployment Insurance. This is an area where the SFS has no plans. The
government launched an unemployment insurance program in April 1993 to demand
localities to augment their unemployment benefits coverage. The program’s ultimate goal
is to extend unemployment insurance to include all urban employees who lose their jobs,
regardless of whether they work for state-owned, collective, foreign-funded or private
businesses. Now six kinds of involuntary layoffs from state-owned businesses are eligible
for protection including employees from bankrupt firms, merged firms and restructured
firms. The funds distributed to the jobless come from government budgetary allocations
and corporate contributions. At present, the SFS is neither covered by the program nor
considering any serious measures in this respect, largely due to its negligible
unemployment rate. With further reforms of the system, however, excess staff would
inevitably be trimmed off the enterprise payrolls, and where government programs are
available, staff would be eligible to participate.

Reform Priorities for Future

23. Enterprise reform still lies at the heart of all reform efforts in China, including the
SFS. The policy framework for state farms enterprise reform (but not the farms
themselves) was established with the promulgation of the State Council’s “Regulations
on Transforming the Management Mechanisms of State-Owned Industrial Enterprises”
(July 23, 1992) and the extension of these regulations to enterprises within the SFS. The
State Council’s Regulations provided more detail (than earlier promulgations) in
transferring several major operating and management rights from the government to
enterprises. Based on the Regulations, the SFB drafted detailed implementation measures
for the SFS expanding the coverage to include not only enterprises, but also the
individual farms, constitute the basic policy position vis-à-vis the SFS, for both the big
Five and the provincial state farms. The provinces are progressing at various paces as
they adapt to the socialist market economy. The essence of the SFB’s implementation
measures is that the farms and enterprises should not only concentrate on production, but
also marketing of their products, and their commercial and financial activities should reflect responsible management of the State assets, e.g., no speculation. 4

24. The Bureaus. The goal at the provincial level is to turn all state farms into enterprises and bureaus into business corporations and to ultimately eliminate all government functions from bureaus and shift these to the provincial government. So far, 16 bureaus (Beijing, Tianjin, Liaoning, Jiangsu, Shanghai, Anhui, Hubei, Gansu, Shaanxi, Guangdong, Guangxi, Yunnan, Ningxia, Guangzhou Chongqing and Jiangxi) have been renamed as State Farms Agribusiness Corporations. During the transition period, government’s administrative functions are still being assigned to either the restructured bureaus (smaller in staff number) or the agribusiness corporations.

25. Enterprises. Within the enterprises, reform emphasis would be put on adopting the 14 autonomous management rights and conforming to the Company Law with registration as limited liability or shareholding companies. Associated changes in this respect would be selection of managers by more transparent and competitive procedures, rather than appointment by the provincial bureau or by the farm leaders; contractual arrangements with workers, rather than assurance of lifetime employment for “cadres”, and recruitment and selection of employees by the enterprise manager, rather than assignment by the bureau; 5 and distribution of after-tax profits at the discretion of the enterprise manager or owners, within the limits of the priorities established under the Provision on Enterprise Finance, which became effective on July 1, 1993, along with the Enterprise Accounting Code.

26. Ownership Diversification. With state ownership still as the main principle, the SFS would pursue a more diversified ownership pattern. The shareholding system would be extended. Special importance would be attached to Sino-foreign joint ventures and cooperative production enterprises. Experiments on shifting of ownership from state to nonstate entities would be continued through merging, selling or leasing out some state assets to collectives and employees.

27. The “3-100s” Program. This is the State Farms Bureau’s latest reform program, which sets goals for modernization of State Farms, bringing them into compliance with the New Operating Mechanism (1993) and the 14 Autonomous Management Rights for SOEs. Under this program, the first “100” would be aimed at developing 100 modern enterprises, the second would be for establishment of 100 enterprise groups, and the third

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4 A literal translation, using phrases often seen in interpretations of state documents is: “... would be turned into commodity production and operation units that operate independently, take responsibility for their own profits and losses, develop on their own, and practice self-restraint to convert themselves into commercially responsive entities and enable themselves to meet market demands.”

5 There is also a role for the Workers’ Assembly in confirming the selection of the enterprise manager. The Workers’ Assembly comprises members elected by and representing the factory workers. The Workers’ Assembly is organized not only at the grass roots level but at various levels of government up to central level.
would be for establishing 100 seed and livestock breeding enterprises, bringing modernization to these traditional activities.

28. **Modern Enterprises.** The Chinese definition of a modern enterprise focuses on property rights, clear definition of rights and responsibilities, separation of government function from the enterprise, and "scientific" management. The "3-100s" program includes the following aspects:

(a) Defining asset ownership. In accordance with the relevant state regulations, all enterprises under the experiment must revalue their assets, define asset ownership, evaluate creditor's rights and liabilities, quantify the total assets in occupation, determine total capital, and register state-owned assets.

(b) Identification of main investor. The main investor of state-owned assets is determined by the state or provincial government. The relevant state farm units, if authorized, would act on the government’s behalf as main investors to manage the state-owned assets but would not play any government function.

(c) Determination of corporate type. According to the "Company Law," most experimental enterprises will be transformed into Limited Liability Companies with shareholders from multiple legal persons, and a few will be transformed into Shareholding Companies Ltd. Some large-sized state farms with diversified operations may become enterprise groups.

(d) Establishment and improvement of organizational and management structure. Appropriate organizational and management structures should be established in all experimental enterprises in accordance with the "Company Law," which would include shareholder's assembly, board of directors, and board of supervisors.

(e) Improvement of financial and accounting system. "Enterprise Financial General Rules," "Enterprise Accounting Criterion" and other relevant state regulations should be adhered to.

(f) Establishment of new labor, personnel and wage system. The earlier status system, identifying state cadres and employees with different responsibilities and privileges, will be abolished. Contractual

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6 Limited liability company indicates the corporate entity whose capital is contributed by more than one shareholder, with each shareholder assuming limited liabilities over the company with his contributed capital and the company assuming liabilities over its debts with all its assets.

7 Shareholding Co. Ltd. indicates the corporate entity whose registered capital is exclusively consisted of equal-amount shares or is financed through the issuance of shares (or share warrants).
arrangements will apply to both managers and workers. Wages and bonuses will be decided by the experimental enterprises themselves.

(g) Improvement of labor union and democratic management. Democratic management will be realized through the employee’s assemblies or labor unions, to be consulted in all decision-making processes for important matters concerning operation, regulation and employees’ benefits.

29. **Enterprise Groups.** The purpose of enterprise group experiment is to speed up structural adjustment, optimize resource reallocation, give full play to state farm enterprises’ collective advantage and comprehensive functions, improve economy of scale and competitive capability of state farm enterprises. The enterprise groups already established before the experiment (about 30) are also required to make improvements in accordance with the requirements of the modern enterprise system. The first group of 23 enterprises on MOA’s list are scattered in 17 provinces. Although various types of enterprise groups may be considered and practiced, three main types are encouraged at present:

(a) Enterprise group transformed from an entire provincial state farm bureau. Subject to provincial government’s approval (except Xinjiang, Heilongjiang, Guangdong and Hainan), SFBs with mature conditions are encouraged to become group companies of their respective enterprise groups.

(b) Enterprise group established with large- or medium-sized production or distribution enterprise of great strength as its core. A two-step approach may be followed if core enterprises are hard to find. The first step is to form a joint economic entity without using the name of “Enterprise Group” but following its standard practices and the second step is to register as an enterprise group when the core enterprise develops.

(c) Enterprise group transformed from an entire state farm. This type of enterprise group may first operate within the original state farm territory and conduct mergers, leases and contractual operations with other enterprises when conditions are mature.

30. **Fine Seed and Breeding Animal Farms.** The purpose to constructing fine seed and breeding animal farms is to make the most of SFS’s wealth of resources and technology to industrialize and integrate research, production, processing and sales so as to improve agricultural economic returns. The first group of 166 farms on MOA’s list are widely dispersed over 27 provinces covering almost whole mainland China except Fujian, Guizhou and Tibet. The list includes:

(a) **Crops.** 127 farms were selected for crop seed production including corn, cotton, sorghum, sunflower, melon, vegetable, sugar beet, sugarcane, rice, wheat, barley, rapeseed, soybean, coarse bean, green manure, forage grass,
special crops, coffee, cinnamon, flower, and qingke barley (a highland barley grown in Tibet and Qinghai).

(b) **Fruits.** Nine farms were selected for fruit seed production including banana, mango, longan, litchi, Australia nuts, apple, peanut, plum, carambola and citrus.

(c) **Livestock.** 25 farms were selected for breeding animal production including dairy cattle, beef cattle, pig, sheep, goat, deer, chicken and duck.

(d) **Aquaculture.** Five farms were selected for aquacultural production including fish, shrimp and fresh water turtle.

31. **Progress to Date with the “3-100s” Program.** The objectives with relevance to the present project would be those for enterprise modernization and enterprise group establishment. In 1995, 48 enterprises were selected to participate in the program encompassing either an entire farm, a branch of the farm or an enterprise. An example of this is the Xilian State Farm which has obtained approval for trial in both agricultural and industrial operations to turn its timber complex into a group corporation and the Dong Feng branch farm to be categorized as a modern enterprise. The Dong Feng branch encompasses 800 ha of land within Xilian, with a population of 1,500 and its main activity hinges on 10,000 mu of rubber. Both the farm and the timber complex are scheduled for state asset evaluation in the near future and will be turned into shareholding companies, with 50 percent of the shares held by the state, 25 percent for sale to staff and workers, and 25 percent to be sold to foreign investors. One of the main changes to be adopted is that all staff and workers would be contracted for fixed terms, whereas under the old system only workers were on contracts and “cadres” always had permanent positions.

32. Numerous enterprise groups have been set up in the past, and an additional 23 have been targeted for establishment. By combining several enterprises under one corporation umbrella, State Farms hopes to strengthen their ability in the market. Some enterprise groups would be based on specialized production (e.g., rubber, dairy, Xilian timber). Several provincial bureaus have set up enterprise groups with an integrated scope of business, e.g., Shanghai State Farms Agriculture, Industry and Commerce Group Corporation and Guangdong’s Agribusiness Corporation, which comprise several unrelated enterprises linked together on the basis of their capital contribution. Other forms of enterprise groups would be branch companies, with a parent company in total control, and holding companies, with the largest company controlling. Based on mutual interests, logical connections and on a voluntary basis, enterprise groups would be encouraged to break the present administrative and geographic boundaries and bring about true incentives to boost their economies of scale and improve their international competitiveness. Past government efforts to link enterprises together under the umbrella of an Enterprise Group have frequently either met with resistance, or operated as a group
in name only because there was no particular benefit to individual enterprises; they were referred to as "forced marriages."
ANNEX 2: CHINA TRUST AND INVESTMENT CORPORATION FOR ECONOMIC DEVELOPMENT STATISTICS

Table 1: Consolidated Balance Sheet
Table 2: Consolidated Income Statement
Table 3: Consolidated Balance Sheet Ratios
Table 4: Analysis of Arrears—Trust Loans (Foreign Exchange)
Table 5: Analysis of Arrears—Trust Loans & Leases (Y)
Table 6: Aging of Arrears—Trust Loans (Foreign Exchange)
Table 7: Aging of Arrears—Trust Loans & Leases (Y)
Table 8: Loan Collection Rates—Trust Loans (Foreign Exchange)
Table 9: Loan Collection Rates—Trust Loans & Leases (Y)
Table 10: Risk Weighted Assets/Capital Adequacy
Table 11: Liabilities and Assets Ratios
Table 12: Financial Impact of Project on CTICED
## Table 1: CTICED Consolidated Balance Sheet (As of December 31)

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<th></th>
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<td>Intangible Assets</td>
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<td>Total Other Assets</td>
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<td>347.6</td>
<td>547.2</td>
<td>537.0</td>
<td>510.0</td>
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<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>9,594.9</td>
<td>13,968.6</td>
<td>18,662.3</td>
<td>15,693.0</td>
<td>15,587.7</td>
</tr>
</tbody>
</table>

| **LIABILITIES & EQUITY** |      |      |      |      |      |
| Inter-Bank Loans        | 161.4| 32.7 | 291.0 | 83.0 | 33.0 |
| Accts. Payable          | 648.9| 794.8| 802.9 | 2,027.6| 1,905.7|
| Short-Term Deposits     | 55.0 | 218.5| 271.2 | 97.7 | 28.5 |
| Short-Term Bank Loans   | 0.0 | 522.0| 2,065.5| 1,215.8| 2,116.3|
| Other                   | 865.3| 3,181.4| 4,764.5| 5,405.4| 4,702.8|
| Total Current Liabilities | 865.3| 3,181.4| 4,764.5| 5,405.4| 4,702.8|
| Long-Term Liabilities   |      |      |      |      |      |
| Entrusted Deposits      | 5,927.3| 7,670.1| 10,678.9| 7,266.8| 8,168.2|
| Long-Term Deposits      | 1,078.3| 216.4| 185.9 | 195.1 | 182.8 |
| Long-Term Loans         | 640.0| 782.3| 970.9 | 892.3 | 508.1 |
| Total Long-Term Liabilities | 7,645.6| 9,410.9| 12,354.5| 8,531.0| 8,911.6|
| **TOTAL LIABILITIES**   | 8,510.9| 12,592.3| 17,119.1| 13,936.4| 13,614.4|
| Equity                  |      |      |      |      |      |
| Paid-In Capital         | 999.4| 1,149.6| 1,039.2| 1,075.9| 1,087.6|
| Capital surplus         | 846.6| 0.0 | 96.1 | 95.4 | 99.1 |
| Retained Earnings       | 846.6| 107.8| 151.6 | 308.9 | 349.5 |
| Including Public Welfare Fund | 0.0 | 0.0 | 26.5 | -37.9 | -44.6 |
| Minority Owners Equity  | 0.0 | 0.0 | 2.2 | 28.1 | 0.0 |
| Undistributed Profits   | 0.0 | 118.6| 254.3 | 248.4 | 437.1 |
| **TOTAL EQUITY**        | 1,084.0| 1,376.0| 1,543.4| 1,756.6| 1,973.3|
| **TOTAL LIABILITIES & EQUITY** | 9,594.9| 13,968.3| 18,662.3| 15,693.0| 15,587.7|
### TABLE 2: CTICED INCOME STATEMENT
(As of December 31)
Unit: Million Yuan

<table>
<thead>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>INCOME</td>
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<td></td>
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<td></td>
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<td>Interest on Loans</td>
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<td>45.8</td>
<td>151.9</td>
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<td>257.6</td>
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<td>Interest on Interbank Loans</td>
<td>38.0</td>
<td>15.5</td>
<td>62.9</td>
<td>11.7</td>
<td>108.7</td>
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<td>Fees &amp; Commissions</td>
<td>51.8</td>
<td>21.1</td>
<td>215.0</td>
<td>40.0</td>
<td>68.5</td>
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<td>Profit on Investments</td>
<td>43.3</td>
<td>17.6</td>
<td>107.4</td>
<td>20.0</td>
<td>160.7</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>212.0</td>
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<td>0.1</td>
<td>0.0</td>
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<td>Total Income</td>
<td>245.7</td>
<td>100.0</td>
<td>537.2</td>
<td>100.0</td>
<td>807.5</td>
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<td></td>
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</tr>
<tr>
<td>Interest</td>
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<td>69.2</td>
<td>187.1</td>
<td>54.4</td>
<td>271.2</td>
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<td>30.5</td>
<td>51.0</td>
<td>14.8</td>
<td>89.2</td>
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<td>0.3</td>
<td>105.8</td>
<td>30.8</td>
<td>231.8</td>
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<td>100.0</td>
<td>343.9</td>
<td>100.0</td>
<td>592.2</td>
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<td>193.3</td>
<td>215.3</td>
<td>217.3</td>
<td>261.6</td>
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<td>19.2</td>
<td>44.2</td>
<td>52.2</td>
<td>75.3</td>
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<td>Profit After Taxes</td>
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<td>174.1</td>
<td>171.1</td>
<td>165.1</td>
<td>186.3</td>
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<td>Nonoperating Income</td>
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<td>-7.9</td>
<td>-3.0</td>
<td>-2.7</td>
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<td>4.8</td>
<td>10.6</td>
<td>-27.6</td>
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<td>TOTAL PROFIT</td>
<td>126.0</td>
<td>174.6</td>
<td>167.9</td>
<td>172.6</td>
<td>156.0</td>
</tr>
<tr>
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<td>------------</td>
<td>------------</td>
<td>------------</td>
<td>------------</td>
<td>------------</td>
</tr>
<tr>
<td><strong>WORKING CAPITAL</strong></td>
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<tr>
<td>Current Assets</td>
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<td>4,099.62</td>
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<td>7,597.30</td>
<td>6,723.60</td>
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<td>Less: Current Liabilities</td>
<td>865.26</td>
<td>3,181.32</td>
<td>4,764.80</td>
<td>5,405.40</td>
<td>4,702.80</td>
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<td>Net Working Capital</td>
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<td>918.30</td>
<td>2,332.40</td>
<td>2,191.90</td>
<td>2,030.80</td>
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<td>1.29:1</td>
<td>1.5:1</td>
<td>1.4:1</td>
<td>1.4:1</td>
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<td><strong>EQUITY AS % OF TOTAL ASSETS</strong></td>
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<td></td>
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<tr>
<td>Total Equity</td>
<td>1,084.11</td>
<td>1,376.00</td>
<td>1,516.90</td>
<td>1,718.80</td>
<td>1,973.30</td>
</tr>
<tr>
<td>Total Assets (a)</td>
<td>3,826.90</td>
<td>6,329.50</td>
<td>8,504.20</td>
<td>9,074.20</td>
<td>8,263.90</td>
</tr>
<tr>
<td>Percentage</td>
<td>28.3%</td>
<td>21.7%</td>
<td>17.8%</td>
<td>18.9%</td>
<td>23.9%</td>
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<td><strong>LONG-TERM DEBT TO EQUITY</strong></td>
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<td>1,376.05</td>
<td>1,516.90</td>
<td>1,718.80</td>
<td>1,973.20</td>
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<td>Multiple</td>
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<td>1.3X</td>
<td>1.1X</td>
<td>0.7X</td>
<td>0.4X</td>
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<td><strong>RETURN ON PAID-IN CAPITAL</strong></td>
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<tr>
<td>Paid-in Capital</td>
<td>999.36</td>
<td>1,149.62</td>
<td>1,039.20</td>
<td>1,075.90</td>
<td>1,087.60</td>
</tr>
<tr>
<td>Net Profit After Tax</td>
<td>125.87</td>
<td>174.61</td>
<td>167.90</td>
<td>172.60</td>
<td>156.00</td>
</tr>
<tr>
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<td>12.6%</td>
<td>15.2%</td>
<td>16.2%</td>
<td>16.0%</td>
<td>14.3%</td>
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<td><strong>RETURN ON AVERAGE TOTAL ASSETS</strong></td>
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<td>Beginning Total Assets</td>
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<td>3,826.90</td>
<td>6,329.50</td>
<td>8,504.20</td>
<td>9,074.20</td>
</tr>
<tr>
<td>Ending Total Assets</td>
<td>3,826.90</td>
<td>6,329.50</td>
<td>8,504.20</td>
<td>9,074.20</td>
<td>8,263.90</td>
</tr>
<tr>
<td>Average Total Assets</td>
<td>3,212.95</td>
<td>5,078.20</td>
<td>7,416.85</td>
<td>8,789.20</td>
<td>8,669.05</td>
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<tr>
<td>Net Profit After Tax</td>
<td>126.00</td>
<td>174.60</td>
<td>167.90</td>
<td>172.60</td>
<td>156.00</td>
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<td>Return on Assets Employed</td>
<td>3.9%</td>
<td>3.4%</td>
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<td>2.0%</td>
<td>1.8%</td>
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</table>

/\ Excludes long-term entrusted loans.
/\ Excludes long-term entrusted deposits.
### TABLE 4: CTICED ANALYSIS OF ARREARS

**TRUST LOANS**
(Foreign Exchange US$ million)

<table>
<thead>
<tr>
<th></th>
<th>12/31/93</th>
<th>12/31/94</th>
<th>12/31/95</th>
<th>12/31/96</th>
<th>12/31/97</th>
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</thead>
<tbody>
<tr>
<td>A: Total Arrears</td>
<td>1.70</td>
<td>10.53</td>
<td>12.89</td>
<td>12.36</td>
<td>10.59</td>
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<tr>
<td>B: Total Principal &amp; Interest Outstanding</td>
<td>130.80</td>
<td>143.61</td>
<td>120.68</td>
<td>145.74</td>
<td>118.84</td>
</tr>
<tr>
<td>C: Total Number of Loans Outstanding</td>
<td>72</td>
<td>78</td>
<td>72</td>
<td>75</td>
<td>74</td>
</tr>
<tr>
<td>D: Number of Loans in Arrears</td>
<td>10</td>
<td>33</td>
<td>18</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Percent: Loan Amounts in Arrears (A/B)</td>
<td>1.30%</td>
<td>7.33%</td>
<td>10.68%</td>
<td>8.48%</td>
<td>8.91%</td>
</tr>
<tr>
<td>Percent: Number of Loans in Arrears (D/C)</td>
<td>13.89%</td>
<td>42.31%</td>
<td>25.00%</td>
<td>18.67%</td>
<td>20.27%</td>
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</table>

### TABLE 5: CTICED ANALYSIS OF ARREARS

**TRUST LOANS & LEASES**
(Million Yuan)

<table>
<thead>
<tr>
<th></th>
<th>12/31/93</th>
<th>12/31/94</th>
<th>12/31/95</th>
<th>12/31/96</th>
<th>12/31/97</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Total Arrears</td>
<td>15.00</td>
<td>301.10</td>
<td>287.50</td>
<td>344.53</td>
<td>184.41</td>
</tr>
<tr>
<td>B. Total Principal &amp; Interest Outstanding</td>
<td>1,673.00</td>
<td>2,384.00</td>
<td>2,968.00</td>
<td>1,931.60</td>
<td>1,182.13</td>
</tr>
<tr>
<td>C. Total Number of Loans Outstanding</td>
<td>230</td>
<td>249</td>
<td>225</td>
<td>780</td>
<td>891</td>
</tr>
<tr>
<td>D. Number of Loans in Arrears</td>
<td>26</td>
<td>95</td>
<td>79</td>
<td>314</td>
<td>259</td>
</tr>
<tr>
<td>Percent: Loan Amount in Arrears (A/B)</td>
<td>0.90%</td>
<td>12.63%</td>
<td>9.69%</td>
<td>17.84%</td>
<td>15.60%</td>
</tr>
<tr>
<td>Percent: Number of Loans in Arrears (D/C)</td>
<td>11.30%</td>
<td>38.15%</td>
<td>35.11%</td>
<td>40.26%</td>
<td>29.07%</td>
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</tbody>
</table>
### TABLE 6: CTICED AGING OF ARREARS

**LOANS**

*(Foreign Exchange US$ million)*

<table>
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<tr>
<th>Time Frame</th>
<th>12/31/93</th>
<th>Amount</th>
<th>%</th>
<th>12/31/94</th>
<th>Amount</th>
<th>%</th>
<th>12/31/95</th>
<th>Amount</th>
<th>%</th>
<th>12/31/96</th>
<th>Amount</th>
<th>%</th>
<th>12/31/97</th>
<th>Amount</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>1 to 3 months</td>
<td>1.25</td>
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<td>4.55</td>
<td>43.2</td>
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<td>8.09</td>
<td>62.8</td>
<td></td>
<td>5.50</td>
<td>44.8</td>
<td></td>
<td>4.54</td>
<td>42.9</td>
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</tr>
<tr>
<td>4 to 6 months</td>
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<td>2.00</td>
<td>19.0</td>
<td>1.40</td>
<td>10.9</td>
<td></td>
<td>3.10</td>
<td>25.2</td>
<td></td>
<td>.46</td>
<td>23.2</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>7 to 12 months</td>
<td>0.45</td>
<td>26.5</td>
<td></td>
<td>2.41</td>
<td>22.9</td>
<td></td>
<td>2.20</td>
<td>17.1</td>
<td></td>
<td>2.50</td>
<td>20.3</td>
<td></td>
<td>1.72</td>
<td>16.2</td>
<td></td>
</tr>
<tr>
<td>13 to 24 months</td>
<td>0</td>
<td>1.57</td>
<td>14.9</td>
<td>1.20</td>
<td>9.3</td>
<td></td>
<td>1.19</td>
<td>9.7</td>
<td></td>
<td>1.34</td>
<td>12.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 24 months</td>
<td>0</td>
<td>0</td>
<td></td>
<td>0</td>
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<td>0</td>
<td></td>
<td>0.53</td>
<td>5.0</td>
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<tr>
<td><strong>Totals</strong></td>
<td>1.70</td>
<td>100.0</td>
<td></td>
<td>10.53</td>
<td>100.0</td>
<td></td>
<td>12.89</td>
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<td></td>
<td>12.36</td>
<td>100.0</td>
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<td>10.59</td>
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</table>

### TABLE 7: CTICED AGING OF ARREARS

**LOANS & LEASES**

*(Million Yuan)*

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>12/31/93</th>
<th>Amount</th>
<th>%</th>
<th>12/31/94</th>
<th>Amount</th>
<th>%</th>
<th>12/31/95</th>
<th>Amount</th>
<th>%</th>
<th>12/31/96</th>
<th>Amount</th>
<th>%</th>
<th>12/31/97</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3 months</td>
<td>10.0</td>
<td>66.7</td>
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<td>140.00</td>
<td>46.5</td>
<td></td>
<td>121.12</td>
<td>42.1</td>
<td></td>
<td>135.80</td>
<td>39.4</td>
<td></td>
<td>74.71</td>
<td>40.5</td>
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<td>4 to 6 months</td>
<td>0.70</td>
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<td></td>
<td>56.00</td>
<td>18.6</td>
<td></td>
<td>77.22</td>
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<td></td>
<td>71.00</td>
<td>20.6</td>
<td></td>
<td>31.90</td>
<td>17.3</td>
<td></td>
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<tr>
<td>7 to 12 months</td>
<td>3.00</td>
<td>20.0</td>
<td></td>
<td>33.00</td>
<td>11.0</td>
<td></td>
<td>67.00</td>
<td>23.3</td>
<td></td>
<td>92.80</td>
<td>26.9</td>
<td></td>
<td>40.96</td>
<td>22.2</td>
<td></td>
</tr>
<tr>
<td>13 to 24 months</td>
<td>1.30</td>
<td>8.7</td>
<td></td>
<td>72.00</td>
<td>23.9</td>
<td></td>
<td>22.18</td>
<td>7.7</td>
<td></td>
<td>26.00</td>
<td>7.5</td>
<td></td>
<td>20.31</td>
<td>11.0</td>
<td></td>
</tr>
<tr>
<td>Over 24 months</td>
<td>0</td>
<td>0</td>
<td></td>
<td>0</td>
<td>0</td>
<td></td>
<td>18.90</td>
<td>5.5</td>
<td></td>
<td>16.53</td>
<td>9.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>15.00</td>
<td>100.0</td>
<td></td>
<td>301.00</td>
<td>100.0</td>
<td></td>
<td>287.52</td>
<td>100.0</td>
<td></td>
<td>344.50</td>
<td>100.0</td>
<td></td>
<td>184.41</td>
<td>100.0</td>
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</table>
TABLE 8: CTICED LOAN COLLECTION RATES

LOANS

(Foreign Exchange - US$ million)

<table>
<thead>
<tr>
<th></th>
<th>12/31/93</th>
<th>12/31/94</th>
<th>12/31/95</th>
<th>12/31/96</th>
<th>12/31/97</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Arrears-Beginning Balance</td>
<td>1.70</td>
<td>1.70</td>
<td>10.53</td>
<td>12.89</td>
<td>12.36</td>
</tr>
<tr>
<td>B. Current Maturities</td>
<td>6.94</td>
<td>44.09</td>
<td>67.20</td>
<td>69.90</td>
<td>61.95</td>
</tr>
<tr>
<td>C. Total Due (A+B)</td>
<td>8.64</td>
<td>45.79</td>
<td>77.73</td>
<td>82.79</td>
<td>74.31</td>
</tr>
<tr>
<td>D. Actual Collections</td>
<td>6.94</td>
<td>35.26</td>
<td>64.84</td>
<td>70.43</td>
<td>63.72</td>
</tr>
<tr>
<td>E. Arrears-Ending Balance</td>
<td>1.70</td>
<td>10.53</td>
<td>12.89</td>
<td>12.36</td>
<td>10.59</td>
</tr>
<tr>
<td>F. Collection Rate (D/C)</td>
<td>80.32%</td>
<td>77.00%</td>
<td>83.42%</td>
<td>85.07%</td>
<td>85.75%</td>
</tr>
</tbody>
</table>

TABLE 9: CTICED LOAN COLLECTION RATES

LOANS & LEASES

(Million Yuan)

<table>
<thead>
<tr>
<th></th>
<th>12/31/93</th>
<th>12/31/94</th>
<th>12/31/95</th>
<th>12/31/96</th>
<th>12/31/97</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Arrears-Beginning Balance</td>
<td>2.30</td>
<td>15.00</td>
<td>301.10</td>
<td>287.50</td>
<td>344.53</td>
</tr>
<tr>
<td>B. Current Maturities</td>
<td>690.00</td>
<td>1,700.00</td>
<td>1,065.60</td>
<td>1,102.69</td>
<td>735.58</td>
</tr>
<tr>
<td>C. Total Due (A+B)</td>
<td>692.30</td>
<td>1,715.00</td>
<td>1,068.70</td>
<td>1,390.19</td>
<td>1,080.11</td>
</tr>
<tr>
<td>D. Actual Collections</td>
<td>677.30</td>
<td>1,414.00</td>
<td>911.20</td>
<td>1,002.39</td>
<td>895.70</td>
</tr>
<tr>
<td>E. Arrears-Ending Balance</td>
<td>15.00</td>
<td>301.00</td>
<td>287.50</td>
<td>344.53</td>
<td>184.41</td>
</tr>
<tr>
<td>F. Collection Rate (D/C)</td>
<td>97.83%</td>
<td>82.44%</td>
<td>85.26%</td>
<td>72.10%</td>
<td>82.93%</td>
</tr>
</tbody>
</table>
# Table 10: CTICED Risk Weighted Assets/Capital Adequacy

**December 31, 1996 and 1997**

Unit: Million Yuan

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Balance Sheet Data</th>
<th>Risk-Weighted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Deposits</td>
<td>1,103.3</td>
<td>1,298.6</td>
</tr>
<tr>
<td>Inter-Bank Loans</td>
<td>419.5</td>
<td>115.4</td>
</tr>
<tr>
<td>Accounts Receivable (Net)</td>
<td>513.0</td>
<td>935.3</td>
</tr>
<tr>
<td>Short-Term Investments</td>
<td>470.8</td>
<td>211.3</td>
</tr>
<tr>
<td>Short-Term Loans</td>
<td>1,884.3</td>
<td>1,500.3</td>
</tr>
<tr>
<td>Securities</td>
<td>2,109.3</td>
<td>791.3</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>1,097.0</td>
<td>1,871.5</td>
</tr>
<tr>
<td>Long-Term Entrusted Loans &amp; Investments</td>
<td>6,618.8</td>
<td>7,323.8</td>
</tr>
<tr>
<td>Long-Term Loans (Net)</td>
<td>271.7</td>
<td>210.0</td>
</tr>
<tr>
<td>Long-Term Investments (Net)</td>
<td>559.7</td>
<td>689.1</td>
</tr>
<tr>
<td>Long-Term Leases</td>
<td>67.0</td>
<td>35.3</td>
</tr>
<tr>
<td>Fixed Assets (Net)</td>
<td>41.7</td>
<td>95.9</td>
</tr>
<tr>
<td>Deferred Assets</td>
<td>28.2</td>
<td>37.3</td>
</tr>
<tr>
<td>Other Assets</td>
<td>500.1</td>
<td>425.4</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>8.7</td>
<td>47.3</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>15,693.1</td>
<td>15,587.7</td>
</tr>
</tbody>
</table>

| CAPITAL | | |
|---------|---------------------|
| Core Capital (Paid-In Capital) | 1,075.8 | 1,087.6 | 1,075.9 | 1,087.6 |
| Supplementary Capital | | |
| Surplus | 95.4 | 99.1 | 95.4 | 99.1 |
| Retained Earnings | 308.9 | 349.5 | 308.9 | 349.5 |
| Minority Owners Equity | 28.1 | 0.0 | 28.0 | 0.0 |
| Undistributed Profit | 248.4 | 437.1 | 248.4 | 437.1 |
| **TOTAL/ADJUSTED CAPITAL** | 1,756.6 | 1,973.3 | 1,756.6 | 1,973.3 |

| CAPITAL ADEQUACY RATIO | | |
|------------------------|---------------------|
| Nominal Ratio (1) | 11.19 | 12.66 |
| Risk Weighted Ratio (2) | 24.85 | 30.04 |

**Notes:**

(1) Calculated in accordance with requirements of the People's Bank of China.
(2) Calculated in accordance with the Basle Agreement.
### Table 11: CTICED Liabilities and Assets Ratios

<table>
<thead>
<tr>
<th>Item</th>
<th>Standard</th>
<th>End of 1996</th>
<th>End of 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total equity/Assets /a</td>
<td>&gt;=8%</td>
<td>17.80%</td>
<td>18.90%</td>
</tr>
<tr>
<td>of which, Key equity/Equity</td>
<td>&gt;=50%</td>
<td>98.34%</td>
<td>98.84%</td>
</tr>
<tr>
<td>Commissioned (loan+investment)/Commi. deposits</td>
<td>&lt;=1</td>
<td>0.91</td>
<td>0.89</td>
</tr>
<tr>
<td>Commissioned loan/Total equity</td>
<td>&lt;=20%</td>
<td>5.28</td>
<td>5.56</td>
</tr>
<tr>
<td>Lending/Deposit (self-fund operation)</td>
<td>&lt;=75%</td>
<td>111.08%</td>
<td>157.39%</td>
</tr>
<tr>
<td>Investment/Equity (Long-term)</td>
<td>&lt;=30%</td>
<td>21.46%</td>
<td>19.77%</td>
</tr>
<tr>
<td>Investment/Equity (Short-term)</td>
<td>&lt;=40%</td>
<td>17.43%</td>
<td>13.65%</td>
</tr>
<tr>
<td>Reserve ratio</td>
<td>&gt;=5%</td>
<td>36.97%</td>
<td>50.07%</td>
</tr>
<tr>
<td>Current ratio-self-fund operation (not including leasing)</td>
<td>&lt;=30%</td>
<td>7.98%</td>
<td>11.30%</td>
</tr>
<tr>
<td>Interbank borrowing/Key equity</td>
<td>&lt;=1</td>
<td>0.07</td>
<td>0.03</td>
</tr>
<tr>
<td>Ratio of arrears</td>
<td>&lt;=15%</td>
<td>17.83%</td>
<td>15.60%</td>
</tr>
<tr>
<td>Single borrower ratio</td>
<td>&lt;=30%</td>
<td>3.99%</td>
<td>3.79%</td>
</tr>
<tr>
<td>Guarantees</td>
<td>&lt;=10%</td>
<td>0.02%</td>
<td>0.02%</td>
</tr>
</tbody>
</table>

/a Excludes entrusted assets.
### Table 12: Financial Impact of Project on CTICED
($ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Yr 1</th>
<th>Yr 2</th>
<th>Yr 3</th>
<th>Yr 4</th>
<th>Yr 5</th>
<th>Yr 6</th>
<th>Yr 7</th>
<th>Yr 8</th>
<th>Yr 9</th>
<th>Yr 10</th>
<th>Yr 11</th>
<th>Yr 12</th>
<th>Yr 13</th>
<th>Yr 14</th>
<th>Yr 15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Inflow</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts From Loan Proceeds</td>
<td>9.40</td>
<td>30.00</td>
<td>46.90</td>
<td>43.00</td>
<td>18.50</td>
<td>2.20</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Sub-Loan Repayments</td>
<td>0.44</td>
<td>2.29</td>
<td>7.47</td>
<td>16.72</td>
<td>27.70</td>
<td>36.87</td>
<td>42.52</td>
<td>44.76</td>
<td>43.00</td>
<td>37.92</td>
<td>32.63</td>
<td>32.61</td>
<td>28.73</td>
<td>23.38</td>
<td>16.52</td>
</tr>
<tr>
<td>Principal (See Next Page)</td>
<td>0.00</td>
<td>1.56</td>
<td>6.68</td>
<td>15.08</td>
<td>23.83</td>
<td>30.05</td>
<td>32.91</td>
<td>31.62</td>
<td>26.79</td>
<td>22.67</td>
<td>24.79</td>
<td>23.24</td>
<td>20.08</td>
<td>15.10</td>
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<tr>
<td>Interest (See Next Page)</td>
<td>0.44</td>
<td>5.91</td>
<td>10.05</td>
<td>12.63</td>
<td>13.04</td>
<td>12.47</td>
<td>11.85</td>
<td>11.38</td>
<td>9.95</td>
<td>7.82</td>
<td>5.49</td>
<td>3.31</td>
<td>1.42</td>
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</tr>
<tr>
<td><strong>Total Inflow</strong></td>
<td>9.84</td>
<td>32.29</td>
<td>54.37</td>
<td>59.72</td>
<td>46.20</td>
<td>42.52</td>
<td>44.76</td>
<td>43.00</td>
<td>37.92</td>
<td>32.63</td>
<td>32.61</td>
<td>28.73</td>
<td>23.38</td>
<td>16.52</td>
<td></td>
</tr>
<tr>
<td><strong>Cash Outflow</strong></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursements on First 50 Subloans</td>
<td>9.40</td>
<td>30.00</td>
<td>46.90</td>
<td>43.00</td>
<td>18.50</td>
<td>2.20</td>
<td>0.00</td>
<td>0.00</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Disbursements on Reflow Subloans</td>
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<td>0.00</td>
<td>0.00</td>
<td>1.25</td>
<td>5.50</td>
<td>12.73</td>
<td>20.57</td>
<td>26.42</td>
<td>29.33</td>
<td>28.59</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Disbursements on All Subloans</td>
<td>9.40</td>
<td>30.00</td>
<td>46.90</td>
<td>44.25</td>
<td>24.00</td>
<td>14.93</td>
<td>20.57</td>
<td>26.42</td>
<td>29.33</td>
<td>28.59</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adm Costs (1.2% after full dev't)</td>
<td>1.08</td>
<td>2.15</td>
<td>2.15</td>
<td>1.47</td>
<td>1.57</td>
<td>1.47</td>
<td>1.35</td>
<td>1.28</td>
<td>1.25</td>
<td>1.27</td>
<td>1.27</td>
<td>1.00</td>
<td>0.70</td>
<td>0.42</td>
<td>0.18</td>
</tr>
<tr>
<td>Project Management</td>
<td>0.02</td>
<td>0.08</td>
<td>0.17</td>
<td>0.24</td>
<td>0.26</td>
<td>0.24</td>
<td>0.23</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
<td>0.17</td>
<td>0.12</td>
<td>0.07</td>
<td>0.03</td>
<td>0.00</td>
</tr>
<tr>
<td>Principal</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>10.93</td>
<td>11.62</td>
<td>12.44</td>
<td>13.31</td>
<td>14.24</td>
<td>15.23</td>
<td>16.30</td>
<td>17.44</td>
<td>18.66</td>
<td>19.97</td>
</tr>
<tr>
<td>Interest (incl. prov'n for com. fee)</td>
<td>0.33</td>
<td>1.71</td>
<td>4.40</td>
<td>7.55</td>
<td>9.70</td>
<td>10.42</td>
<td>9.73</td>
<td>8.92</td>
<td>8.05</td>
<td>7.12</td>
<td>6.12</td>
<td>5.06</td>
<td>3.92</td>
<td>2.69</td>
<td>1.39</td>
</tr>
<tr>
<td><strong>Total Outflow</strong></td>
<td>10.82</td>
<td>33.94</td>
<td>53.62</td>
<td>53.50</td>
<td>35.53</td>
<td>38.00</td>
<td>43.51</td>
<td>49.27</td>
<td>52.15</td>
<td>51.42</td>
<td>22.52</td>
<td>22.17</td>
<td>21.85</td>
<td>21.57</td>
<td>21.36</td>
</tr>
<tr>
<td>Change in Cash Position: Annual</td>
<td>(0.98)</td>
<td>(1.64)</td>
<td>0.75</td>
<td>6.22</td>
<td>10.67</td>
<td>1.07</td>
<td>(0.99)</td>
<td>(4.51)</td>
<td>(9.15)</td>
<td>(13.51)</td>
<td>10.11</td>
<td>10.43</td>
<td>6.88</td>
<td>1.82</td>
<td>(4.84)</td>
</tr>
<tr>
<td>Cumulative</td>
<td>(0.98)</td>
<td>(2.62)</td>
<td>(1.88)</td>
<td>4.34</td>
<td>15.01</td>
<td>16.08</td>
<td>15.09</td>
<td>10.58</td>
<td>1.43</td>
<td>(12.08)</td>
<td>(1.98)</td>
<td>8.46</td>
<td>15.34</td>
<td>17.15</td>
<td>12.32</td>
</tr>
</tbody>
</table>

**Notes:**
1. Based on borrowing rate of 7.0% including provision for commitment fee.
2. Interest rate for subloans @ 9.4%
3. All subloans assumed to be in US dollars; 2-year grace + 5 years; Reinvestment assumed to be 80% after 1 year; 90% after 2. Tenth year term 2+4; no new lending after year 10.
4. Cumulative cash surplus equivalent to 8% of loan value assumes no loan failures.
5. Year 1 is calendar 1998, assumes effectiveness 7/98; calculation does not include retroactive financing.
<table>
<thead>
<tr>
<th>Year</th>
<th>Principal Outstanding</th>
<th>Collection on Year 1 Loans</th>
<th>Collection on Year 2 Loans</th>
<th>Collection on Year 3 Loans</th>
<th>Collection on Year 4 Loans</th>
<th>Collection on Year 5 Loans</th>
<th>Collection on Year 6 Loans</th>
<th>Collection on Year 7 Loans</th>
<th>Collection on Year 8 Loans</th>
<th>Collection on Year 9 Loans</th>
<th>Collection on Year 10 Loans</th>
<th>Total Principal Collected</th>
<th>Total Interest Paid</th>
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<tbody>
<tr>
<td></td>
<td>P</td>
<td>int</td>
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<td>1.86</td>
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<td>Yr 11</td>
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<td>0.00</td>
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**Supporting Projections**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow Sensitivity ($ million)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Yr 1</td>
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<tr>
<td></td>
<td>20% of Repayments 12 months late</td>
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<tr>
<td>Change in Cash Position</td>
<td>0.00</td>
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<tr>
<td>Operating expenses doubled</td>
<td>0.44</td>
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TABLE 13: CHINA TRUST AND INVESTMENT CORPORATION FOR ECONOMIC DEVELOPMENT
FUNCTIONAL ORGANIZATION STRUCTURE

<table>
<thead>
<tr>
<th>Department/Office</th>
<th>Responsible Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the President</td>
<td>President</td>
</tr>
<tr>
<td>Party Committee Office</td>
<td></td>
</tr>
<tr>
<td>Enterprise Administration Department</td>
<td>Assistant to the President</td>
</tr>
<tr>
<td>International Plaza*</td>
<td></td>
</tr>
<tr>
<td>CTICED Real Estate Dev. Co.*</td>
<td></td>
</tr>
<tr>
<td>Vice President</td>
<td></td>
</tr>
<tr>
<td>Entrusted Loan Department</td>
<td></td>
</tr>
<tr>
<td>Administration Department</td>
<td></td>
</tr>
<tr>
<td>Beijing Runmong Econ. Dev. Ltd.*</td>
<td></td>
</tr>
<tr>
<td>Executive Vice President</td>
<td></td>
</tr>
<tr>
<td>Internal Audit Department</td>
<td></td>
</tr>
<tr>
<td>Planning &amp; Statistics Department</td>
<td></td>
</tr>
<tr>
<td>Securities Department</td>
<td></td>
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<tr>
<td>Shanghai Securities Department</td>
<td></td>
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<tr>
<td>Beijing Securities Department</td>
<td></td>
</tr>
<tr>
<td>Shenzhen Securities Department</td>
<td></td>
</tr>
<tr>
<td>Wuhan Securities Department</td>
<td></td>
</tr>
<tr>
<td>Tianjin Securities Department</td>
<td></td>
</tr>
<tr>
<td>Beijing Xizhimen Securities Dept.</td>
<td></td>
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<tr>
<td>Vice President</td>
<td></td>
</tr>
<tr>
<td>Credit Department</td>
<td></td>
</tr>
<tr>
<td>Beijing CTICED Prop. Admin. Co.*</td>
<td></td>
</tr>
<tr>
<td>Beijing Lingchuan High-Tech Dev. Co*</td>
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<tr>
<td>Vice President</td>
<td></td>
</tr>
<tr>
<td>Credit Department Two</td>
<td></td>
</tr>
<tr>
<td>Accounting &amp; Finance Department</td>
<td></td>
</tr>
<tr>
<td>Beijing CTICED Econ. &amp; Trade Co.*</td>
<td></td>
</tr>
<tr>
<td>Vice President</td>
<td></td>
</tr>
<tr>
<td>Personnel Department</td>
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</tr>
<tr>
<td>Assistant to the President</td>
<td></td>
</tr>
<tr>
<td>World Bank Onlending Dept.</td>
<td></td>
</tr>
<tr>
<td>Consultant Department</td>
<td></td>
</tr>
</tbody>
</table>

* Subsidiaries.
ANNEX 3A: OPERATING PROCEDURES FOR PROJECT LENDING THROUGH THE CHINA TRUST AND INVESTMENT CORPORATION FOR ECONOMIC DEVELOPMENT

Background

1. The Government of China and the World Bank have agreed to the designation of the China Trust and Investment Corporation For Economic Development (CTICED) as the financial intermediary for the State Farms Commercialization Project. CTICED’s World Bank Onlending Department would be responsible for appraisal and supervision of subloans and for an annual audit of compliance with environmental regulations. To represent its strategic interest in lending to the state farms sector, MOA has established a Project Oversight Office in its Foreign Economic Cooperation Center (FECC), a unit of MOA which oversees its foreign-funded projects. The purpose of the present document is to set out the terms and conditions under which loan proceeds would be onlent to eligible beneficiaries, the procedures under which subloans will be processed, and the role of each agency in those procedures.

2. The credit facilities under this project are intended to support investments by State Farms which form part of a business plan aimed at improving the enterprise’s ability to function effectively in a socialist market economy. Furthermore, the project is intended to support enterprises which have undertaken, or wish to undertake, reforms which improve their market responsiveness and financial viability. To that end, CTICED will take a staged approach to subproject evaluation, in which it will not only evaluate candidates which appear to satisfy normal commercial criteria without further assistance, but will also offer assistance to candidates which are deficient in one manner or another but which undertake a restructuring or development program to remove that constraint. Special procedures have been adopted to complete appraisal of the subprojects which have been developed during earlier stages of project preparation.

Onlending Terms and Conditions

3. Except as the World Bank may otherwise agree in consultation with CTICED and PMO, the following terms and conditions will apply to subloans under this Project:
Borrower Eligibility

4. To be eligible to receive a loan under the State Farms Commercialization Project, an applicant must satisfy the following criteria:

(a) Must be within the SFS (defined as an enterprise of which at least 20 percent of the voting stock or other proprietary interest is controlled by the SFB of MOA or by a governmental agency or enterprise operating under SFB’s supervision) and operating in a province included in the project.¹

(b) Should be part of the group or enterprise that will actually operate project facilities. Project proceeds should not be used to create a financial interest in an enterprise on behalf of a central or provincial bureau or corporation.

(c) Must have legal identity. Need not be a shareholding company, but must be a legal person, with articles or a charter which explicitly permit it to borrow in its own name.

(d) Must have independent management structure and mandate. The subborrower’s managers must have clear operating autonomy, and there should be a regular mechanism such as budget reviews or annual meetings at which supervising entities make their views known. Where management weaknesses are evident, specific arrangements need to be described for providing special support.

(e) Must have separate financial statements and accounts.

(f) Satisfactory financial performance for at least the previous three years, as demonstrated in financial statements following established formats. This would normally mean:

(i) adequate solvency to meet current liabilities in a timely manner in existing operations; and

(ii) debt/equity ratio of not more than 3:1.

If circumstances outside the control of the sponsor led to inferior performance in the past, but this does not jeopardize future performance, an explanation should be given.

¹ At this time, all provinces, autonomous regions and directly administered municipalities other than Xinjiang would be eligible for inclusion in the project. A full separation of commercial and other functions of Xinjiang’s state farm administration would be a prerequisite to lending to any state farm enterprise in Xinjiang.
(g) Either the subborrower or a member of subborrowing group or sponsor must have been in existence and engaged in similar operations for not less than three years. If a new activity is proposed, there must be assurances of an available source of required expertise.

(h) Demonstrate commitment to the enterprise reform process by identifying proposed changes in corporate structure, management, social burden arrangements, or other structural or operating changes that are in line with the objective of the reform. Describe how and when these changes are planned to be implemented. A new enterprise (i.e., established after September 1995) would have no obligations for schools, clinics, housing or government-imposed burden and employees would be covered by established pension programs; existing enterprises would have already made provisions for joining an established pension program, and have action plans for unloading its housing and other social obligations and government burdens. The extent to which the enterprise enjoys or proposes to gain the 14 management rights would be an important aspect of its enterprise reform plan, as would plans for official registration as a limited liability company or shareholding company.

(i) Not be in default on credit obligations.

Activity Eligibility

5. To be eligible to receive a loan under the State Farms Commercialization Project, an activity must satisfy the following criteria:

(a) It must be presented as part of a business plan in the agreed format, predicated on realistic market analysis and strategy.

(b) Project fixed asset investment not to exceed the equivalent of two times the preproject total fixed assets of the sponsors. Exceptions would be considered in the case of smaller sponsors, provided there is evidence that they would be able to management the expanded operations and that it would not jeopardize financial stability.

(c) Equity contribution to project costs of not less than 30 percent, up to one half of which may be in the form of existing assets which are essential to the investment.

(d) Postinvestment debt/equity ratio, defined as most recent long-term debt/equity ratio adjusted by project financing plan, not to exceed 4:1.

(e) Assurance of availability of other investment capital requirements. Sponsors should be able to show written commitments for sources of local
funding other than equity. The financial statements of the sponsor should demonstrate the availability of proposed equity.

(f) Assurance of availability of adequate working capital. Commitments from financiers should be available, but in addition, needs should be demonstrated in terms of the expected cash shortfalls in actual production and marketing cycles.

(g) Projected financial performance satisfactory:

(i) debt service cover, debt/equity ratio

(ii) profitability, net income in relation to sales, total assets and equity.

(iii) solvency—current and quick ratios.

(h) Environmental Impact Assessments and Environmental Monitoring Plans approved by the local or national Environmental Protection Agency.

Loan Security

6. CTICED will require collateral for its subloans under this project consistent with its practices for similar enterprise and activities outside the Project.

Foreign Exchange Risk

7. Subloans may be denominated in foreign exchange, in renminbi or in a combination thereof. Foreign exchange risk shall be borne by the subborrower in the case of subloans or portions thereof denominated in foreign exchange, and by CTICED for the foreign exchange equivalent of amounts disbursed, in the case of subloans or portions thereof denominated in renminbi.

Interest Rate and Other Charges

8. For subloans denominated in foreign exchange, the interest rate to be charged to subborrowers under the project shall be the rate at which funds are lent to CTICED plus an operating margin sufficient to cover administrative costs, reserve, and profit margin.

9. For subloans denominated in renminbi, the interest rate shall be the prevailing rate for term loans at the time a subloan is approved.

10. All subprojects will also be charged a project management fee, at the rate of 0.1 percent of outstanding loan balances, to be used for the operations of the Project Oversight Office. This fee shall be charged and collected at the same time as interest charges, but shall be separately recorded by CTICED, and placed in a separate account in the name of FECC. These funds shall be used only by the Project Oversight Office, and
only to accomplish the functions established for it in the present statement of operating procedures.

11. In addition, CTICED may levy fees for the following specific purposes:

   (a) Application fee: This fee will be waived for subloan applications made by the list of candidates identified by SFB as having satisfied preliminary technical and financial evaluation during the preparation of the State Farms Commercialization Project.

   (b) Applicable loan registration fees;

   (c) Applicable security registration fees;

   (d) Fees for such other professional services as CTICED may deem necessary to complete the evaluation or documentation of the subloan;

   (e) Applicable late fees, charged in accordance with CTICED’s normal practice;

   (f) Recovery costs, as required, and provided under law, in the event of delinquency or default on the subloan.

Loan Maturity

12. Subloan maturity would not normally exceed seven years, unless otherwise agreed with the Bank, and may include a grace period of up to 24 months, during which loan interest will be paid. Within these limits, the governing factor in determining the maturity and the grace period on any specific subloan shall be the nature of the project and its projected cash flow as determined by CTICED.

Special Conditions

13. CTICED may require the borrower to comply with special conditions on a subloan to mitigate specific weaknesses in what is otherwise a sound investment proposal. Such conditions will normally have the effect of ensuring that available resources of the enterprise are preserved for the interest of the project investment. They may include, but are not limited to, the following:

   (a) Limitations on the distribution of earnings;

   (b) Limitations on expenditures for employee social welfare perquisites;

   (c) Limitations on the disposition of fixed assets or the acquisition of new fixed assets;

   (d) Conduct of banking services with a designated bank;
(e) Limitations on borrowing from other sources;

(f) Requirement to maintain management and business policies acceptable to CTICED; and,

(g) Requirements to maintain certain financial factors of the borrower’s business at specified levels, such factors including but not limited to working capital and owners’ equity.

Special Provisions For the Initial Pipeline

14. SFB, in cooperation with the World Bank, developed a pipeline of projects which satisfied the sector objectives of the Project, and which appeared, generally, to be technically and commercially sound. The credit worthiness of sponsors and financial viability of proposed activities were only partially examined, and there was a range of quality among these proposals. Under the project, priority was given to completing the evaluation of these subprojects, and special arrangements were made to ensure adequate attention to the potential they represented.

Coordination During Project Implementation

15. CTICED and Project Oversight Office will continue to meet regularly during Project implementation. Each agency will continue to serve the functions described below.

(a) The Project Oversight Office would:
   (i) facilitate consultations between all members and the sponsors;
   (ii) provide background and explanations on technical and sector issues in respect of each proposal;
   (iii) assist sponsors to respond to requests from CTICED;
   (iv) ensure that all reasonable measures are explored to qualify sponsors for project participation and that time frames for compliance are reasonable and understood.

(b) The World Bank Onlending Department of CTICED would:
   (i) review technical and commercial aspects of proposals and request points of correction or clarification;
   (ii) examine investment costs, operating projections and cost and price assumptions to form a preliminary assessment of viability;
(iii) examine sponsor credit worthiness, including not only conventional financial measures, but giving due weight to local government support and other factors that are significant in the Chinese context.

(iv) identify specific weaknesses in applications which are determined not to be ready for immediate processing, and recommend remedial measures, where possible, to remove the constraint.

(v) advise sponsors in writing of the status of their applications.

16. The following tasks will also be undertaken:

(a) Subproject Identification. Both agencies may identify new subprojects, to replace those that do not materialize from the initial pipeline, and to avail of reflow funding.

(b) Subproject Processing. CTICED will maintain a pipeline list which records all subprojects being evaluated, their stage of processing, and remaining issues. This list will be updated regularly and made available to the Project Oversight Office on a confidential basis for use in their official duties.

(c) Subproject Supervision. Both agencies, in consultation with the Bank, will agree on information that should be requested of subborrowers on a regular basis, and on a normal cycle for site supervision. The Project Oversight Office will monitor the implementation of resettlement plans.

Special Account

17. A Special Account, equivalent to 120 days of estimated average requirements, would be established in a commercial bank designated by MOF, drawn on by CTICED, and periodically replenished, as disbursement documentation is submitted to the Bank to account for funds previously placed in the Account.

Identification

18. Both the Project Oversight Office and CTICED have the right to identify subprojects for consideration to replace those of the initial group which do not go forward, or to be funded from reflows during the life of the Project. In the event that CTICED proposes a subproject, the Project Oversight Office will review the proposal against the established eligibility criteria and raise specific objection or agree to including the proposal in the pipeline within a period of one month.
Preparation

19. Proposal preparation is the responsibility of the sponsors. CTICED will be responsible to ensure that sponsors know the eligibility criteria and the supporting documentation that is required, and may provide additional assistance at its discretion. The Project Oversight Office is in a good position to assist in project preparation, and will be expected to do so to the extent that the sponsors request.

Appraisal

20. This is exclusively the responsibility of CTICED, and is intended to provide the basis for the lending decision. CTICED will prepare an appraisal report in a format to be agreed with the Bank.

Negotiations

21. This is also exclusively the function of CTICED, and may include covenants unique to a subproject which are intended to reduce credit risk or promote the commercial success of the venture.

Approval

22. This is the exclusive responsibility of CTICED, which will apply agreed eligibility and creditworthiness criteria in making its decision. However, the prior approval of the World Bank will also be required for the first five subloans under the project, for the first two subloans to be approved each year, for subloans in excess of $5.0 million, and for any subloan for which an exception to the established terms and conditions is proposed.

Procurement

23. A Procurement Management Team would be established to ensure smooth implementation of the project and full compliance with the requirements in the Guidelines for Procurement under IBRD Loans and IDA Credits (dated January 1995 and revised January and August 1996 and September 1997). Detailed procedures are outlined in Annex 5.

Disbursement

24. Disbursement will be made by CTICED from the Special Account, against documents specified in the subloan agreement. CTICED will retain all supporting documentation for periodic inspection by the World Bank. Wherever possible, disbursements should be made directly to suppliers.
Monitoring and Supervision

25. It is the responsibility of CTICED to provide adequate monitoring and supervision to maximize the prospects of loan recovery. A reporting schedule with formats will be provided to each subborrower, and a schedule of regular site visits established from time to time. These measures will be closely coordinated with the SFB members of the Task Force (see above).

Collection

26. CTICED is responsible for subloan collection, in accordance with the repayment schedule and remedies contained in the subloan agreement.
ANNEX 3B: BASELINE SURVEY OF SPONSORS’ ENTERPRISE REFORM STATUS

1. General Information

1.1 Enterprise name: ____________________________________________

1.2 Address: __________________________________________________

1.3 Name and title of person responsible for supplying the answers in this questionnaire:

Name________________________ Title________________________

Tel:________________________ Fax:________________________

1.4 Code of principal industry in which this enterprise is classified (4 digit SIC code):

________________________

1.5 List your three principal products and their percent of the firm’s sales revenue:

No. 1 product (four-digit SIC)_______/______ %;

No. 2 product (four-digit SIC)_______/______ %;

No. 3 product (four-digit SIC)_______/______ %.

1.6 Date production in this enterprise began: year_______

1.7 Enterprise size: (check one)

(a) large __

(b) medium __

(c) small __

1.8 Relation of government affiliation (supervising authority)(check one):

(a) Central __
1.9 Give Name of Supervising Authority
Name: ________________________________

2. Governance System

A. Form Of Ownership

2.1 What is the current form of ownership? (check one):
(a) Noncorporatized State Enterprise
(b) Corporatized State Enterprise

Of which:
(i) Limited Liability Shareholding Company:
(ii) Limited Liability Company:

What year did the company take this corporatized form ______?

2.2 Is this company listed and traded on a stock exchange?
yes ______ no ______

If yes, which exchange? ________________

When did the listing start? ________________

2.3 Does the firm have any joint venture relationships? yes____ no____

(If yes, answer (a) or (b) or both)

(a) Domestic joint ventures? yes____ no____

If (a): Who are your major partners (check as appropriate)

SOEs____ TVEs____ Other Collectives____ Private businesses____
Others (specify)________________________
(b) Sino-Foreign joint ventures? yes____ no____

If (b): Who are your major foreign partners?

Company: Nationality: % of Ownership:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

2.4 Who are your major shareholders; please mark percentage of ownership?

(a) Supervising authority: ____ %

(b) Other state or government agencies (e.g., State Asset Administration Bureau) (specify name of agency): ____ %

(c) Other state-owned firms: ____ %

(d) Nonstate owned domestic firms: ____ %

(e) Employees (excluding Managers): ____ %

(f) Managers: ____ %

(g) Domestic private individuals: (nonemployees) ____ %

(h) Foreign firms or individuals: (nonemployees) ____ %

(i) State-owned banks or financial intermediaries ____ %

2.5 The type of shares held are:

(a) “A” shares ____ %

(b) “B” shares ____ %

(c) “H” shares ____ %

(d) other ____ %
B. Decision Making Authority

2.6 As of June 1994, indicate the degree of implementation of the "14 Autonomous Management Rights" in your enterprise, where: 1=fully implemented, 2=somewhat implemented, 3=not implemented.

(a) Production autonomy____
(b) Pricing autonomy____
(c) Selling autonomy____
(d) Purchasing autonomy____
(e) Right to export/import____
(f) Investment autonomy____
(g) Use of retained earnings____
(h) Disposal of assets____
(i) Engage in mergers/acquisitions____
(j) Right to hire labor____
(k) Right to manage personnel____
(l) Determination of wages and bonuses____
(m) Right to decide on organizational structure____
(n) Right to refuse nonregulated government collections____

2.7 Are your company's assets currently administered by a State Asset Administration Bureau?

yes ______ no ______

If yes, at which government level is this bureau:

Center______ Provincial______ Municipality______ County______ District______

2.8 Please mark with an "X", except in 3.9 (c), where yuan values should be indicated, if your company has made any major asset sales to nonstate interests, including private (domestic or foreign) interests, in the period 1991-95.
2.9 What influence do workers have over the following decisions?

Rank by the following:

A = no influence; B = some influence; C = considerable influence

(a) Appointing the enterprise's leadership
(b) Hiring and firing workers
(c) Setting wages and bonuses
(d) Allocating workers within the factory
(e) Allocating housing
(f) Decisions regarding large investments

2.10 Rank your three (3) most important management objectives:

No.1 ___ No.2 ___ No.3 ___

(a) increase output, expand scale
(b) increase profit
(c) create job opportunities for employees' dependent
(d) increase employees' incomes
(e) fulfill contract target

(f) upgrade enterprise

(g) use local resources

(h) survive (find ways to deal with current financial difficulties)

C. Board Of Directors (If applicable; do not skip.)

2.11 Do you have a Board of Directors? yes____ no____

If yes: How many members does it have? ______

2.12 How were the Board members selected/appointed?:

(a) Appointed by the supervisory authority____

(b) Selected by a group of shareholders____

(c) Elected by all shareholders____

(d) Other (specify)____

2.13 Who are the Board’s members? (How many members of the Board represent these groups)?:

(a) The Management: ______

(b) The Employees: ______

(c) Your Supervising Authority: ______

(d) State Authorities: ______

(e) Provincial Authorities: ______

(f) Local Authorities: ______

(g) Foreign owners/partners: ______

(h) Banks: ______

(i) Other domestic firms: ______

(j) Others (specify____________________): ______
2.14 How many meetings has the Board held between January 1995 and December 1996? __________

2.15 Overall, how much influence does the Board have on the following activities/decisions of the firm: (1 = Extensive day to day influence; 2 = Limited influence; 3 = Very Little influence)

Activities/Decision

Hiring labor? __________
Who to dismiss or lay off? __________
Setting Wages/Bonuses? __________
What Products to produce? __________
How much to produce? __________
Who to Sell to? __________
How to set prices? __________
Approval of individual investment projects? __________
On Levels and Use of Social Funds? __________
On approving Joint ventures? __________

D. Management Contracts (If applicable; do not skip.)

2.16 Are you now operating under a management Contract Responsibility System?

yes ___ no ___

(a) How many years is your current contract? __________
(b) In what year did it take effect? __________
(c) In what year will it expire? __________
(d) How many years was your previous contract? __________

2.17 Please indicate the type of your current management contract:

(a) Profit contract __________
(b) Leasing contract __________
2.18 Contractor(s) of the enterprise is: (check one)

(a) Director or other person (specify)

(b) Management group (specify)

(c) All personnel

(d) Other (explain)

2.19 With whom is the management contract:

(a) With the supervising authority?

(b) With the Board of Directors?

(c) Other (Specify)

2.20 How was the General Manager (or Director) of the enterprise selected/appointed:

(a) Appointed by the supervisory authority

(b) Recruited from the outside

(c) Selected through auction

(d) Elected by the employees council

(e) Other (specify)

2.21 Is the pay (wage and bonus) of the General Manager (or Director) tied to the enterprise's performance (e.g., the firm's profits)? yes no

E. Holding Or Group Companies (If applicable; do not skip.)

2.22 Are you part of a holding or group company?

yes no

If yes, what date was the holding or group company formed?

Name of the holding or group company:

2.23 How many separate companies are in your holding or group company?
2.24 List three (3) top companies in the holding or group company and their locations and main product lines below:

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Main product (four-digit SIC):</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

2.25 Does your company have any subsidiaries?

yes: ____ no: ____

If Yes:

How Many? ______

Main Locations? ___________________________

What are their main product lines (4 digit SIC)? ___________________________

2.26 Are there “labor service companies” affiliated with your enterprise?

yes: ____ no: ____

If Yes:

How Many? ______

What are their main product lines (4 digit SIC)? ___________________________

As of June 1994, how many persons worked in these labor service companies?__________

Do these labor service companies sell their outputs to companies other than your enterprise? yes____ no____

Are these labor service companies treated as “independent accounting units”? yes____ no____

3. Social Services

A. Overall Perspective

3.1 What kind of benefits/compensations do workers receive from the enterprise? (Circle each category applicable)
(a) Enterprise-supplied housing

   (i) permanent assistance

   (ii) temporary (communal housing)

(b) Kindergarten and preschool

(c) Transportation allowance

(d) Maternity benefits

(e) Canteen with reduced prices

(f) Clinic and/or Hospital

(g) Predismissal allowance

(h) Stadium, Fitness Center, etc.

(i) Food Store with low prices

(j) Sick pay

(k) Assistance with housing rents

(l) Other forms of housing (enterprise-provided down payment and dormitories) construction loans, help with the repayment of bank housing loan

(m) Child care allowance/facilities

(n) Vacation with pay

3.2 Total enterprise expenditures on social programs:

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total enterprise expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) education</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) health care</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) housing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.3 Since 1995 have you altered significantly the provision of these social services?

yes no

If yes, specify which type of service and what type of change has taken place by using letters (a) to (d) for each type of service below:

(a) Reduced level of service
(b) Passed responsibility for providing the service to a government agency
(c) Began to charge a “user fee” for the service
(d) No change

1. Enterprise-supplied housing:
   a. Permanent
   b. Temporary (communal housing, dormitories)

2. Kindergarten and preschool

3. Transportation allowance

4. Maternity benefits

5. Canteen with reduced prices

6. Clinic and/or Hospital

7. Predismissal allowance

8. Stadium, Fitness Center, etc.

9. Food Store with low prices

10. Sick pay

11. Assistance with housing rents

12. Other forms of housing assistance (enterprise-provided down payment construction loans, help with the repayment of bank housing loan)

13. Child care allowance/facilities

14. Vacation with pay
3.4 From now through 1998 do you plan to alter significantly the provision of these social services?

yes ____ no ____

If yes, specify what type of change is planned to take place using letters (a) to (d) in front of each type of service below:

(a) Reduce level of service

(b) Pass the responsibility for providing the service to a government agency

(c) Charge a “user fee” for the service

(d) No change

1. Enterprise-supplied housing
   a. Permanent
   b. temporary (communal housing, and dormitories)

2. Kindergarten and preschool

3. Transportation allowance

4. Maternity benefits

5. Canteen with reduced prices

6. Clinic and/or Hospital

7. Predismissal allowance

8. Stadium, Fitness Center, etc.

9. Food Store with low prices

10. Sick pay

11. Assistance with housing rents

12. Other forms of housing assistance (enterprise-provided down payment construction loans, help with the repayment of bank housing loan)

13. Child care allowance/facilities

14. Vacation with pay
B. Pension Issues

3.5 What is the age distribution of the pensioner population by number of pensioners?

<table>
<thead>
<tr>
<th>Total number of pensioners of all ages</th>
<th>1992</th>
<th>1993</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of pensioners:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>less than 60 years old</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>61 to 70 years old</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>71 to 80 years old</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>older than 80 years old</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.6 What is the size distribution of the pensioner population by pension level?

<table>
<thead>
<tr>
<th>Number of pensioners being paid pensions</th>
<th>1992</th>
<th>1993</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 100 yuan per month</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>between 101 and 300 yuan per month</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>between 301 and 700 yuan per month</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>greater than 900 yuan per month</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.7

<table>
<thead>
<tr>
<th>1. What has been the average retirement age?</th>
<th>1992</th>
<th>1993</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. How many new pensioners in each year?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. How many new pensioners retired before normal retirement age?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.8 In 1995, what percentage of ALL pensioners received:

(a) disability ______%  
(b) old age/retirement ______%  
(c) survivors’ benefits ______%  

3.9

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) What is the expected average age of new pensioners for each of the next five years?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) How many new pensioners are expected to retire in each of the next five years?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) How many of new pensioners are expected to retire before normal retirement age in each of the next five years?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.10 (a) Please briefly describe the specific pension benefit formula used to compute the pension payment for a NEW pensioner.

__________________________________________________________________________

(b) What is the base to which this formula is applied?

_____ 1. final wage only

_____ 2. final wage + bonus

_____ 3. average wage over the last _______ years of the worker’s employment

_____ 4. average wage + bonus over the last _______ years of the worker’s employment

_____ 5. Other __________________________________________

(c) What indexation formula for cost-of-living increases is being used, if any, to adjust pension levels and how frequently are adjustments made?
3.11 Does a worker who quits or is laid off from the firm retain his/her pension benefits?

yes _____ no _____

3.12 Is the firm participating in a pension pool with other enterprises?

yes _____ no _____

(a) If yes, what other types of firms or organizations are in the pool?

SOEs _____ TVEs _____ Other Collectives _____ Private firms _____

Other businesses (specify) __________ Nonbusiness organizations (specify) __________

(b) If yes, who manages the pension pool:

district government _____ county government _____ municipal government ____

provincial government _____ other entity (specify) __________

(c) If yes, in 1993, which statement best describes the balance of payments between the enterprise and the pension pool? (please check one)

paid more to the pool than received from the pool _____

paid less to the pool than received from the pool _____

payments and receipts were about balanced _____

3.13 (a) How many employees are assigned to spend most of their time administering the firm’s pension records, payments or other related tasks? _______

(b) What are the estimated annual costs for administering the firm’s pension program? (yuan) _______

3.14 Do “contract” employees contribute to a pension fund that is separate from “permanent” employees?

yes _____ no _______
C. Housing

3.15

<table>
<thead>
<tr>
<th>(a) How many persons occupy housing constructed or maintained by the enterprise? Of which:</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. employees of the enterprise</td>
</tr>
<tr>
<td>ii. pensioners of the enterprise</td>
</tr>
<tr>
<td>iii. persons unrelated to the enterprise</td>
</tr>
<tr>
<td>(b) How many housing units does the enterprise maintain?</td>
</tr>
<tr>
<td>(c) What is the total floor space (square meters) of the housing units maintained by the enterprise?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>year</th>
<th>1993</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
</table>

3.16 Have you, or are you planning to, transfer your housing units to be managed by an independent real estate management company?

(a) Yes, we have done so. (year completed _____________)

(b) Yes, we are planning to do so. (year to begin _____________)

(c) No.

3.17 What are your plans concerning housing assistance for new housing for employees? (mark as appropriate)

(a) Continue the housing construction program, same volume

(b) Continue the housing construction program, reduced volume

(c) Price discounts for housing purchases

(d) Other forms of assistance (specify) _____________

(e) Discontinue all new housing programs
### 3.18

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) How many square meters of your housing have been purchased by tenants?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) What is the average sales price of housing sold to tenants (per square meter)?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) What is the total cost of housing construction (per square meter)?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) What is the total cost of housing maintenance (per square meter)?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 3.19

<table>
<thead>
<tr>
<th>How many units of housing do you expect to sell in each of the next four years? (square meters)</th>
<th>1996</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
</table>

### D. Health Care

### 3.20

<table>
<thead>
<tr>
<th>What is the total expenditure on health benefits? Of which: (a) Sickness (illness and injury) benefit (b) Maternity benefit (c) Other health benefits</th>
<th>1993</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
</table>
3.21 Are the expenditures for your enterprise's health care benefits pooled with other enterprises or nonbusinesses?

(a) With whom: SOEs____ Collectives____ Private firms____ Other businesses____ Nonbusiness organizations____

(b) Managed by whom: County government____ Municipal government____ Provincial government____ Other entity (specify)________________

3.22 (a) How many employees are assigned to spend most of their time administering the firm's health insurance records, payments or other related tasks? __________

(b) What are the estimated costs for administering the firm's health insurance program? (yuan) ________

3.23 Are there copayments by employees into the health insurance fund?

yes ______ no _______

Modification of survey form designed by H. Broadman (ECSPE).
ANNEX 4: TECHNICAL ASSISTANCE FOR CTICED

Introduction

1. This annex' is intended to serve the following purposes:

(a) Update Bank staff and CTICED management on the status of technical assistance in relation to the program discussed by a Bank preparation mission in September 1995 and communicated to CTICED on November 20, 1995.\(^2\)

(b) Provide factual input and an impact assessment concerning technical assistance provided to CTICED through the Institutional Development Fund (IDF) grant, financed by the Bank.

(c) Provide a point of departure for preparing a technical assistance program and implementation plan to be agreed between CTICED and the Bank.

2. During project preparation, training in project analysis was provided by staff and consultants of the World Bank. Thereafter, consultants engaged under the IDF grant provided support in the areas of training, procedures and organization. That support, referred to as Phase I of the technical assistance program, is now complete. Further assistance will be funded by CTICED and by the World Bank from loan proceeds.

Technical Assistance Needs Identified During Project Preparation

3. The headings in this section are based on the components of the technical assistance program outlined in the November 20, 1995 letter from the Bank to the President of CTICED.

(a) Training

(i) Course on project analysis—completed

(ii) Follow-up workshop—completed

(iii) Course on loan supervision—to be conducted

---

1. This annex is based on an attachment to the Minutes of Negotiation, entitled Status of CTICED Technical Assistance.

2. That program was presented by the Bank as "the minimum that must be undertaken by CTICED in order to acquire the requisite capacity to implement the State Farms project."
(iv) Follow-up short courses—three-day courses in marketing, business plans and accounting have been conducted. Additional courses will be organized throughout Phase 2.
(v) On-the-Job Training—an ongoing process.

(b) Procedures Development
(i) Credit Manual—a credit manual was draft during Phase 1, in consultation with concerned units of CTICED. It has yet to be reviewed and adopted.
(ii) Revision of legal documents—The following new documents have been drafted by the World Bank Onlending Department in consultation with CTICED's attorney: Onlending Agreement, Mortgage Agreement, and Guarantee Agreement. The review and adoption of these documents has yet to be completed.
(iii) Management Information System—An MIS program, developed by Qinghua University, has been adopted as an initial system. CTICED needs and the suitability of the program were reviewed by a consultant under the IDF grant (Guan Lian, 2 weeks), and the system will begin operation in early 1998. Guan will return later in the year to review results during the initial period and propose changes as appropriate. Any specific MIS needs for the Bank-financed project will be addressed following agreement on reporting requirements.

(c) Internal Organization
(i) Review of organization of credit organizations—Changes were introduced in 1997 to consolidate credit operations in fewer departments. During Phase 1, consultants made additional proposals, which have yet to be considered by the new senior management of CTICED. This is expected to be done as part of an overall organization review by the new President in 1998.
(ii) Development of credit review function—A Credit Review Committee has been established, consisting of the senior managers of the company, and it is supported by a Credit Review Group presently assigned to the Office of the President. During Phase 1, consultants developed procedures for credit review.

Assessment of Phase 1 of the Technical Assistance (IDF Grant)

4. In the context of the overall technical assistance program present in the November 20, 1995 letter, an IDF grant was provided by the Bank for specific activities. Those activities and the actual achievements under the grant are summarized below:
(a) Institutional Reorganization

(i) Consolidate credit operations—Some consolidation has been accomplished and consultants have made proposals for additional changes. CTICED wishes to continue to keep foreign exchange and local currency operations separate, but will consider the consultants’ recommendations in the context of an overall review by the new management.

(ii) Reorganize lending operations—being addressed in the context of (i) above.

(iii) Establish Credit Review Department—To date, a Credit Review Group has been established in the Office of the President. Further development of this capacity into a department will be considered on the basis of experience with that group and as lending volume increases.

(iv) Establish Corporate Services Department—This activity was to have been undertaken by the other beneficiary of the IDF [China Agricultural Development Trust and Investment Corporation (CADTIC), which was dissolved in 1997]. Only the CTICED portion of the original IDF proposal was implemented. It would be useful to note that some of the corporate services envisaged for CADTIC clients are provided to CTICED clients by the World Bank Onlending Department in the context of subproject preparation and appraisal.

(v) Development strategies to ensure capital adequacy and liquidity—The principal monitors of these factors by senior management will be the MIS and monthly reports to the People’s Bank of China.

(vi) Improve asset and liability management—Overall management of assets and liabilities is the responsibility of the Planning and Fund Management Department. This topic did not receive priority under Phase 1.

(vii) Staff training and workshops—Three-day courses were held in marketing, business plans and accounting. In addition, consultants conducted workshops on project appraisal, using two subloan applications as case studies. Training materials were developed during this period which will have broader application.

(b) Modernization of accounting systems

(i) Develop accounting procedures for conversion to accrual accounting—No manual has been prepared to date, but conversion to an accrual system has been completed. The need for a manual for accounting will be addressed in para. 5 below.

(ii) Staff training and workshops—A three-day course in accounting for project analysts was held during Phase 1.
(c) Strengthening corporate risk management
   (i) Develop new loan processing procedures—These are reflected in the draft Credit Manual.
   (ii) Develop new Credit Review system and procedures—a credit review document was prepared by the consultants under Phase 1, but has not yet been reviewed and adopted.
   (iii) Development a Management Information System—A new system will be launched early in 1998 and will be reviewed by a specialized consultant following an initial period of operations.

(d) Development of a corporate services capacity
   (i) This activity was to have been carried out by the other beneficiary of the IDF grant.

Remaining Tasks to Complete TA Commitment

5. Remaining tasks to complete the November 20, 1995 program

(a) Training
   (i) Short course on project supervision
   (ii) On-the-job training and short courses as part of all consultants’ assignments.

(b) Procedures development
   (i) Review credit manual, amend as required, and implement an adoption plan including training and monitoring.
   (ii) Review legal documents following first batch of project subloans and expand/revise as necessary.
   (iii) Implement MIS, review after initial operations, and revise as required.

(c) Internal organization
   (i) Organization of Credit operations—Formal review of consultants’ proposals and fixed schedule to complete overall review by new President and adoption of revised structure.
   (ii) Credit Review—Review performance of present arrangement after one year and determine what additional measures, if any, are required.

6. Follow-up to IDF grant activities

(a) Review proposals for changes to lending operations, develop position on best innovations, establish implementation plan.

(b) Consider additional measures to systematically insure capital adequacy and liquidity.
(c) Review fund management capacity to insure efficient resource utilization.

(d) Accounting
   (i) Determine status of program to develop stand accounting practices for financial institutions.
   (ii) Determine the adequacy of these for CTICED’s needs
   (iii) Identify any additional accounting requirements and establish plan to meet these needs.

7. Additional training, procedural or organization needs to be identified by CTICED—these may include:

   (a) Assessment of additional areas of human resources, procedures or internal organization that needs strengthening.

   (b) Assessment of priority among the tasks identified above

Proposed Technical Assistance Program and Implementation Plan

8. This program should be based on the remaining work and additional areas of development identified in the preceding sections. It should be presented on a task by task basis, with a brief description of each task, draft terms of reference for its completion, and a draft statement of qualifications of the specialists to be engaged to assist with the task.

9. The implementation plan should contain a proposed schedule of activities over the first two years of the project, together with a preliminary budget.

10. It was agreed at negotiations that CTICED would prepare a time-bound implementation plan for the technical assistance program financed under the project by September 1, 1998 and would carry out a program acceptable to the Bank.
ANNEX 5: PROCUREMENT PROCEDURES

A THE PROCUREMENT MANAGEMENT TEAM

Establishment of Procurement Management Team

1. CTICED and the Project Oversight Office (FECC) would select three specific officials with relevant professional experience to form a Procurement Team to ensure smooth implementation of the State Farms Project and full compliance with the requirements in the Guidelines for Procurement under IBRD Loans and IDA Credits dated January 1995 and revised in January and August 1996 and September 1997 ("Procurement Guidelines") and Guidelines for Selection of Consultants by World Bank Borrowers dated January 1997 and revised in September 1997 ("Consulting Guidelines"). The Team would be led by a representative of the World Bank Onlending Department of CTICED.

Responsibilities of the Procurement Team

2. The Team may designate import and export companies to provide support services as Procurement Agencies for the import, in light of the concerned covenants of Guidelines for Selection of Bidding Agencies for World Bank loan as well as the Project Agreement of the State Farms Commercialization loan. These agencies may also, at the discretion of CTICED, assist with specific cases of domestic procurement.

3. The Team is responsible for making the procurement policy and plan of CTICED for the State Farms Commercialization Project.

4. The Team will cooperate closely with the Procurement Agencies, assist and control the procurement procedure in strict compliance with the regulations in the Procurement Guidelines, and assure fairness, objectivity and transparency of the procurement process.

5. The Team is responsible to confirm procurement methods for each subproject, in accordance with the Project Agreement, and will oversee their implementation. In the event of dispute or exceptional circumstances concerning either the selection or the application of procurement procedures, the Team will be responsible to seek an authoritative ruling, either from World Bank procurement specialists or the competent domestic authority, depending on which governing guideline is at issue.

6. In the event that prequalification is considered appropriate by virtue of the size and complexity of a particular contract, the Team will assist the subborrower and Procurement Agencies in prequalification of bidders.
7. To those subprojects that will use ICB, the Team will assist the subborrower and the Procurement Agency with document preparation, and bid solicitation and evaluation, so as to ensure smooth implementation of the bidding work.

8. The Team is responsible for providing to the World Bank Onlending Department of CTICED, the proper documentation to support withdrawals from the Special Account, timely application for replenishment of the Special Account, and for documentation and action with respect to other forms of withdrawal such as direct payment that may be appropriate for specific contracts.

9. The Team will participate in important commercial negotiations and assist in arrangements for contract signing.

10. The Team will inform the Bank of any problems concerning procurement and will submit relevant documents to the Bank.

11. The Team is responsible for training of the procurement staff of subborrowers.

B. OPERATING PROCEDURES FOR INTERNATIONAL COMPETITIVE BIDDING (ICB)

Special Requirements

12. Contracts for goods which are grouped into packages estimated to cost the equivalent of $5 million or more each and contracts for works estimated to cost the equivalent of $10 million or more shall be procured on the basis of ICB.

13. CTICED will ensure that the procedures stipulated by the Procurement Guidelines are followed.

14. Subborrowers will use the model bidding documents which have been agreed between the Bank and the Government.

15. CTICED will, with the assistance of the Procurement Agencies, provide procurement plans and will assist the procurement agency to prepare bidding documents, which will conform to Bank guidelines and international conventions.

Procurement Procedures for ICB

16. Subborrowers will be responsible for the preparation of technical specifications of goods to be procured, with the assistance of a design institute where appropriate. In the event that a design institute with recognized relevant qualifications is not used in the development of these specifications, CTICED may request verification of their suitability from an independent expert source.

17. The Subborrower will complete the technical specification part of the bidding documents with the assistance of the Procurement Agency, and a design institute as appropriate. Subborrowers must clearly identify those features of material or equipment
to be purchased which are essential in deciding whether a bid is substantially responsive to the specifications.

18. The Procurement Agency will be responsible for completing the Commercial portions of the bidding documents.

19. The Subborrower shall submit the technical specification and other portions of the bidding documents, as required, to the Machinery and Equipment Import Authorization Office (MEIAO) and other authoritative departments for approval.

20. An Evaluation Committee will be established, with representatives from the Subborrower, the design institute, the Procurement Agency and the Procurement Team. CTICED may also appoint one or more technical experts according to the nature of the procurement.

21. The Evaluation Team will formulate the evaluation criteria, which shall be clear and readily determinable. They shall be related to the performance and service factors identified by the Subborrower and, where applicable, shall conform to international standards.

22. The Procurement Agency shall submit the procurement opportunity documents to the Bank for its approval.

23. The Procurement Agency will advertise the procurement opportunity in the national press or official gazette, and sell the bidding documents to respondents. All contracts exceeding $10 million equivalent will be advertised in the UN Development Business and/or well-known technical magazines, newspapers and trade publications of wide international circulation.

24. The Evaluation Committee will meet to evaluate bids according to the established criteria and weighing specified in the bid documents. The Committee may ask for clarification of specific point in bids, but no material changes to bids may be made at this stage.

25. The Procurement Agency will write an evaluation report on behalf of the Evaluation Committee and submit it to MEIAO, if required, and the Bank for approval.

26. The Procurement Committee will advise the Subborrower of the requisite approvals and assist with arrangement of contract and payment documents.

C. OPERATING PROCEDURES FOR NATIONAL COMPETITIVE BIDDING (NCB)

Special Requirements

27. Works estimated to cost more than the equivalent of $5 million and less than $10 million will be procured on the basis of NCB.
28. In the event of large, complex or unusual contracts, CTICED may prequalify bidders. In the event that contractors from other provinces are not well represented in the province of the proposed work, CTICED will take measures to ensure that the list of suppliers receiving an invitation to bid includes a nationally representative sample. Prequalification will be done on the basis of pass/fail criteria, with a solicitation advertised in the national press and prequalification instructions and an evaluation matrix sufficient to demonstrate the technical skill, equipment, capacity and experience to undertake the proposed work.

**Procurement Procedures for NCB**

29. Subborrowers will be responsible for providing a detailed description of the works to be undertaken and, with the assistance of the Procurement Agency or the design institution, prepares bidding documents in accordance with the standard model adopted by the Bank and the Government.

30. The Project Manager of CTICED verifies the content and the cost estimate of the work.

31. An Evaluation Committee will be established by the Procurement Agency or the design institute, consisting of representatives of the subborrower, the procurement agency or the design institute, and experts nominated by CTICED.

32. The Evaluation Team will formulate the evaluation criteria.

33. In the event that the contract value is estimated to exceed the equivalent of $5 million, CTICED will submit the tender documents and proposed evaluation matrix to the Bank for approval prior to solicitation.

34. The Subborrower, with the assistance of the Procurement Agency or the design institute, as required, will advertise the bid invitation in the national press or, in the case of prequalified bidders, distributes the bid documents to prequalified bidders.

35. The Evaluation Committee will carry out its evaluation of proposals and prepare a report and recommendation for award.

36. CTICED will review and accept this report and authorize the subborrower to conclude a purchase contract.

37. The subborrower will be responsible for completing site preparation measures in a timely manner.

**D. OPERATING PROCEDURES FOR INTERNATIONAL AND LOCAL SHOPPING**

38. Equipment packages in any single subproject estimated to cost less than $5.0 million will be procured on the basis of evaluation and comparison of quotations solicited from at least three qualified suppliers.
39. A Procurement Agency may be designated by CTICED to assist with the procurement of goods in this category.

40. CTICED may use a centrally developed list of eligible suppliers which will be renewed periodically by CTICED. Subborrowers may select potential suppliers from this list for solicitation of quotations, or they may identify other potential suppliers. In the latter case, CTICED may request evidence that the nominees are eligible.

**Procurement Procedures For Shopping**

41. Subborrowers will provide a detailed shopping list to CTICED, including technical specifications of goods to be procured.

42. Subborrowers also submit their shopping lists, as required, to MEIAO for approval.

43. Subborrowers prepare solicitation documents, with the assistance of the design institute or Procurement Agency, as required, in accordance with a model agreed between CTICED and the Bank.

44. In the event that the goods to be procured are not widely used and standard in nature, the subborrower and the Procurement Agency will prepare a brief list of evaluation criteria. Otherwise, price shall be considered the essential factor in the award. Award will be made to the lowest evaluated bidder.

45. The Procurement Agency will invite quotations from at least three suppliers as outlined in para. 38 above.

46. Under the supervision of CTICED, the Procurement Agency and the Subborrower will evaluate the quotations and select a supplier to be awarded the contract.

**E. OPERATING PROCEDURES FOR DIRECT CONTRACTING**

**Special Requirements**

47. Goods of a proprietary nature; goods procured as an extension of an existing contract; and, goods that must be purchased from the original supplier to be compatible with existing equipment will be procured on the basis of direct contracting.

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1 This shall consist of a simplified and shortened version of the model document for Local Competitive Bidding.
Procurement Procedures for Direct Contracting

48. The Subborrower will provide a detailed shopping list and documentation to establish the eligibility of the purchase for this form of procurement, according to the Procurement Guidelines and the Project Agreement.

49. CTICED will verify the eligibility of the contract for this form of procurement, confirm the adequacy of the contract documentation, and verify the suitability of the supplier.

50. CTICED will submit the contract documentation and its own assessment to the Bank for approval.

51. Upon receipt of Bank approval, CTICED will authorize the Subborrower to negotiate with the supplier, with the assistance of the Procurement Agency as required, and to sign the required contracts.

F. PROCUREMENT OF SMALL WORKS

Special Requirements

52. Works estimated to cost less than $5.0 million per contract will be procured on the basis of fixed price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. Procedures for small works shall conform to those prescribed for shopping.

G. EMPLOYMENT OF CONSULTANTS

53. Consultant firms will be selected following QCBS procedures in accordance with the Bank’s Consulting Guidelines, unless single-source procedures for CTICED’s technical assistance program are agreed in advance by the Bank. Individual consultants should be engaged in accordance with Section 5 of the Consulting Guidelines.

54. Contracts for employment of consultants under Part A of the project (subloans) estimated to cost $100,000 or more for firms and $50,000 for individuals would be subject to the Bank’s prior review. With respect to consultants engaged for CTICED’s technical assistance program, all contracts would be subject to prior review. Following solicitation and before award of contract, CTICED will provide to the Bank copies of proposals received, the evaluation report, and the draft contract. Contracts for prior review would be in English; contracts in Chinese to be financed by the Bank would have a title page, outline of contents and summary in English. The Bank’s model contract for the employment of consultants will be used by CTICED.
## ANNEX 6A: SCHEDULE OF DISBURSEMENTS

<table>
<thead>
<tr>
<th>Bank/IDA fiscal year</th>
<th>Semester ($)</th>
<th>Cumulative ($)</th>
<th>Project (%)</th>
<th>Bank Profile (%)</th>
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<td></td>
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<td>First</td>
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<td>86.3</td>
<td>57.5</td>
<td>54</td>
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<td>Second</td>
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<td>72.9</td>
<td>66</td>
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<td>First</td>
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<tr>
<td><strong>2003</strong></td>
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<td>98.5</td>
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<td>Second</td>
<td>2.2</td>
<td>150.0</td>
<td>100.0</td>
<td>94</td>
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/a Disbursement profile for agriculture.

Expected project completion: 06/30/03
Expected loan closing: 06/30/04
# ANNEX 6B: IMPLEMENTATION SCHEDULE

<table>
<thead>
<tr>
<th>World Bank Loan</th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
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<td>Subloans #1 - 5</td>
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<td></td>
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<tr>
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<tr>
<td>Subloans #10 - 13</td>
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<td>D</td>
<td>B</td>
<td>E</td>
<td>A</td>
<td>D</td>
<td>B</td>
<td>E</td>
<td>A</td>
<td>D</td>
<td>B</td>
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<td>D</td>
<td>B</td>
<td>E</td>
<td>A</td>
<td>D</td>
<td>B</td>
<td>E</td>
<td>A</td>
<td>D</td>
<td>B</td>
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<td>B</td>
<td>E</td>
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<td>D</td>
<td>B</td>
<td>E</td>
<td>A</td>
<td>D</td>
<td>B</td>
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<tr>
<td>Subloans #22 - 25</td>
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<td>D</td>
<td>B</td>
<td>E</td>
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<td>D</td>
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<td>D</td>
<td>B</td>
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<td>D</td>
<td>B</td>
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<td>D</td>
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<td>E</td>
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<td>D</td>
<td>B</td>
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<td>A</td>
<td>D</td>
<td>B</td>
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<td>Subloans #33 - 34</td>
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<td>D</td>
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<td>B</td>
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<td>A</td>
<td>D</td>
<td>B</td>
</tr>
<tr>
<td>Subloans #35</td>
<td>A</td>
<td>D</td>
<td>B</td>
<td>E</td>
<td>A</td>
<td>D</td>
<td>B</td>
<td>E</td>
<td>A</td>
<td>D</td>
<td>B</td>
</tr>
<tr>
<td>Cumulative disbursements (US$ million)</td>
<td>22.5</td>
<td>63.8</td>
<td>109.3</td>
<td>141.3</td>
<td>150.0</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

A - CTCED Approval of Subloans  
D - Begin disbursements  
R - Begin Repayment

**Effective date:** (07/01/98)  
**Completion date:** (06/30/03)  
**Closing date:** (06/30/04)
ANNEX 7: PERIODIC REPORTING REQUIREMENTS OF THE CHINA TRUST AND INVESTMENT CORPORATION FOR ECONOMIC DEVELOPMENT

1. CTICED shall submit the following periodic reports to the Bank. Unless otherwise noted, each such report shall be authenticated by CTICED's Internal Auditor and certified by its President. In the event the Bank has a reasonable need to require changes from time to time in its periodic reporting requirements it will so notify CTICED in writing.

Quarterly Reports

2. Loan Approvals and Disbursements. Provide a detailed listing by individual subborrowers showing loan approvals and loan disbursements for each in a format similar to the one shown in the Table 1. Such reports should be prepared as of the end of each quarter and submitted to the Bank within 30 days following the close of each quarter with a copy provided to the Project Oversight Office in MOA's FECC.

3. Financial Statements. Provide internally prepared (unaudited and unconsolidated) financial statements for CTICED consisting of a balance sheet and an income statement prepared in a format comparable to CTICED's annual audited statements. The report should also set out (a) the ratio of current assets to current liabilities, (b) the ratio of arrears to loan portfolio, (c) the ratio of equity to risk weighted assets, and (d) the ratio of equity investment to equity. Terms are defined in paragraph 9. Such statements should be submitted to the Bank within 30 days following the close of each fiscal quarter ending March 31, June 30 and September 30.

4. Status of Arrearages and Collection Rates. Provide data summarizing arrearages and collection rates for direct loans (excluding entrusted loans) and leases which should show the respective data for the current quarter and the previous quarter in a format similar to the one shown in Table 2. Such reports should be prepared as of March 31, June 30, September 30 and December 31 of each year and submitted to the Bank within 30 days following those dates with a copy provided to the Project Oversight Office.

5. The term "amounts" used in the tables should include both interest and total principal balances due of the loans and leases outstanding and should be displayed separately for those in Y and $ or other foreign currencies.

6. Additionally, separate tables should be provided for all of CTICED's trust loans/leases outstanding and also separately for each individual project funded by
external development institutions such as The World Bank, the Asian Development Bank, etc.

**Annual Reports**

7. **Subproject Performance.** By March 31 of each year CTICED as a part of 'its ongoing' monitoring of subproject performance, will furnish the Bank for each Investment Enterprise and Investment Project financed under this project a copy of its previous annual audit. Each said report will be accompanied by a summary report, prepared by CTICED World Bank Onlending Department, of CTICED’s evaluation of the subproject’s performance in relation to projected performance and a report on its compliance with major loan covenants or other remedial measures which may have been imposed on the subproject by CTICED. Copies of such reports shall also be provided to the Project Oversight Office.

8. **Forecast of Ratios.** CTICED should, on the basis of its forecast, determine whether it would meet the following ratios in the current year and the next following year and provide this information to the Bank by July 31 of each year:

   (a) current assets: current liabilities of not less than 1.2:1;
   (b) arrears: loan portfolio of not more than 15 percent;
   (c) equity: risk weighted assets of not less than 8 percent; and
   (d) equity investment: equity of not more than 30 percent.

If it determines that it would not meet the ratios, or if the quarterly financial statements indicate that it does not, then CTICED should take all measures to meet the requirements.

**Definitions**

9. The following definitions will apply:

   **Current Assets**—cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year, but excluding assets related to entrusted operations;

   **Current Liabilities**—all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends, but excluding liabilities related to entrusted operations.

   **Arrears**—the total amount of principal and interest due and payable under loans made by CTICED which remains uncollected from time to time.
Loan Portfolio—the sum of the total principal amount of loans made by CTICED outstanding from time to time and the total amount of interest and other charges due and payable under said loans which remains uncollected from time to time;

Equity—the sum of the total unimpaired paid-up capital, retained earnings and reserves of CTICED not allocated to cover specific liabilities;

Risk Weighted Assets—the total amount of all assets of CTICED weighted with regard to the expected risk of each such asset, in accordance with guidelines acceptable to the Bank.
Table 1: Loan Approvals and Disbursements—World Bank State Farms Project
(Y'000, $'000)

<table>
<thead>
<tr>
<th>Name of Subproject Entity</th>
<th>Amount Approved</th>
<th>Amount Disbursed</th>
<th>Total Disbursed</th>
<th>Undisbursed</th>
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<tbody>
<tr>
<td></td>
<td>Date Approved</td>
<td>Current Quarter</td>
<td>Current Quarter</td>
<td>to Date</td>
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<tr>
<td></td>
<td></td>
<td>Y $</td>
<td>Y $</td>
<td>Y $</td>
</tr>
</tbody>
</table>

Quarter Ended__________

Totals

---

ANNEX 7
REPORT FORMATS—ARREARAGES AND COLLECTION RATES
(State all amounts in 000’s Y/$)

TABLE 2: LOANS/LEASES IN ARREARS (category)/a

<table>
<thead>
<tr>
<th>Quarter Ended</th>
<th>Previous Quarter Y</th>
<th>$</th>
<th>Current Quarter Y</th>
<th>$</th>
</tr>
</thead>
</table>

A. Total Amounts in Arrears at End of Period
B. Total Amounts of all Loans/Leases Outstanding
C. Total Number of Loans/Leases Outstanding
D. Number of Loan/Lease in Arrears
   Percent: Loans/Lease Amounts in Arrears (A/B)
   Percent: Number of Loans/Leases in Arrears (D/C)

TABLE 3: AGING OF AMOUNTS OF LOANS/LEASES IN ARREARS (category)

<table>
<thead>
<tr>
<th>Previous Quarter</th>
<th>Current Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts</td>
<td>% of Total</td>
</tr>
<tr>
<td>Amounts</td>
<td>% of Total</td>
</tr>
<tr>
<td>Y</td>
<td>$</td>
</tr>
<tr>
<td>Y</td>
<td>$</td>
</tr>
</tbody>
</table>

1 to 3 months
4 to 6 months
7 to 12 months
13 to 24 months
Over 24 months
Totals

TABLE 4: LOAN/LEASE COLLECTION RATES (category)

<table>
<thead>
<tr>
<th>Previous Quarter</th>
<th>Current Quarter</th>
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</thead>
<tbody>
<tr>
<td>Amounts</td>
<td>% of Total</td>
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<td>Amounts</td>
<td>% of Total</td>
</tr>
<tr>
<td>Y</td>
<td>$</td>
</tr>
<tr>
<td>Y</td>
<td>$</td>
</tr>
</tbody>
</table>

A. Total Amounts in Arrears—Beginning of Period
B. Amounts Due During Period
C. Total Amounts Due During Period (A+B)
D. Actual Amounts Collected During Period
E. Total Amounts in Arrears—End of Period
   Percent: Collection Rate (D/C)

/a Separate tables should be provided for each category, i.e., all trust loans/leases (consolidated)—WB State Farms Commercialization Project, etc.
ANNEX 8: SUBLOAN APPRAISAL REPORT OUTLINE

1. Executive Summary

(a) The Subborrower. Indicate the legal name and address, date of establishment, ownership and legal status and location of the project/enterprise.

(b) The Project. Describe the type of industry, principal product(s), designed capacity and project implementation plan.

(c) Estimated project cost by major components and financing plan by source.

(d) Goods to be procured and planned source(s), i.e., import/domestic.

(e) Basic Terms and Conditions of the Subloan. Indicate amounts in dollars and renminbi, relative interest rates, repayment period (including grace period, if any) and guarantor/collateral security.

(f) Special Restrictive Covenants to be Included in the Loan Agreement. Describe any special requirements to be imposed on the borrower such as maintaining working capital, owner’s equity at specified levels or restrictions on fixed asset expenditures, distribution of enterprise profits, etc.

(g) Summary Evaluation of the Project. Summarize technical feasibility, marketing/competitive strategies, management capacities, economic soundness and financial viability, and environmental considerations.

(h) Conclusions and recommendations.

2. Borrower and Activity Eligibility. State whether the subborrower adequately satisfies all the borrower and activity eligibility requirements in the project’s Onlending Terms and Conditions. Describe any deficiencies and their magnitude together with remedial measures to be taken.

3. Enterprise Background

(a) Describe enterprise sponsors, organization and management, credit history, and the degree of experience of project management in the subject industry. Also, indicate the synergistic relationship of the proposed project activity to previous business activities of the borrower.
(b) Summarize the historical management and financial performance of the enterprise and append consolidated financial statements for the three previous years.

4. Marketing Aspects

(a) **Target Market.** Identify the target market(s) for the project’s output (domestic/export/captive consumption). Carefully evaluate their current demand/supply relationships, the performance of other producers engaged in the same/similar market(s) and the competitive marketing advantages or disadvantages anticipated.

(b) **Marketing Program/Strategies.** Determine the reasonableness of the project’s proposed marketing/distribution channels, pricing strategies and other competitive elements related to each market and carefully evaluate the potential financial risks involved.

5. Technical Aspects

(a) Describe the project site and location, plant and other facilities, required machinery and equipment, raw material requirements and adequacy of supplies and alternate sources, production process and program manpower requirements (especially technical) and sources, implementation schedule, quality control program, and if applicable, pollution/environmental control measures to be employed.

(b) Describe the appropriateness of the technology involved in the project vis-à-vis the existing level of technological development of the subject industry. In case of pioneering industries, technical collaboration arrangements, or the lack thereof, should also be evaluated.

(c) Evaluate the adequacy and competency of the proposed project’s technical staff. Identify real or potential technical inadequacies and sources of qualified technical assistance/training.

6. Financial Aspects

(a) **Project Cost.** Evaluate the project’s components in terms of their adequacy to achieve the planned project capabilities/outputs and the costs thereof for each of the components.

(b) **Financing Plan.** Identify each of the project’s funding components by source and amount, differentiated by $ and Y, together with the timing of disbursement/investment of funds for each source. Also, carefully evaluate the capability and reliability of each source to provide their respective funding in accordance with the schedule.
(c) **Financial Viability.** On the basis of reasonable assumptions for the project, develop and append projections of income and cash flows, including appropriate sensitivity analyses of critical factors, and carefully evaluate the project’s financial performance (risk analysis) with emphasis on internal rate of return and debt service coverage.

(d) **Consolidated Enterprise Viability.** On the basis of the most reasonable projected financial performance of the proposed project, combined with similar reasonable projections for the other components of the borrower’s enterprise, develop and append consolidated balance sheets, income statements and cash flow projections. Provide a similar careful analysis of the consolidated enterprise’s financial performance (risk analysis) especially in relation to its internal rate of return and consolidated debt service coverage.

7. **Environmental Aspects.** Assess the negative impact of the project on the environment and describe pollution and environmental controls to be employed, as appropriate (referring to the summary report of EIA assessment). Note any conditions for compliance.

8. **Economic Aspects.** Describe the project’s contributions to the economy and provide quantifiable data such as foreign exchange earnings, net value added, employment generation, financial rate of return (FRR), etc. If resettlement is involved, describe plans for relocation or payment.

9. **Conclusions And Recommendations**

   (a) **In Draft Appraisal Documents:**

      (i) Issues emerging from preliminary appraisal.

      (ii) Changes and additional information requested from applicant;

      (iii) Status of follow-up work.

   (b) **In Final Appraisal Report:**

      Recommendations including special provisions or conditions to be attached to the Loan.

10. **Appendices To Be Attached**

    (a) Historical financial statements for the consolidated enterprise (balance sheets and income statements) for the previous three years, including ratio analysis.
ANNEX 8

(b) Five-year projections for the project of income statements and cash flows, including appropriate sensitivity analyses of critical factors, ratio analysis and calculations of internal rate of return and debt service coverage.

(c) Five-year projected balance sheets, income statements and cash flow statements for the enterprise's consolidated operations [as described in 6(d)], including calculation of the consolidated internal rate of return and debt service coverage.

(d) Environmental Protection Clearance.

(e) Organizational structure of the project and the enterprise.

(f) Marketing plan.

(g) Physical layout of the project.

(h) Copy of Guaranty and/or fixed asset collateral security agreement, if any.

(i) EIA summary report.

(j) Baseline Survey of Sponsor's Enterprise Reform Status (Annex 3B).
ANNEX 9: TERMS OF REFERENCE FOR THE ANNUAL EXTERNAL AUDIT OF CHINA TRUST AND INVESTMENT CORPORATION FOR ECONOMIC DEVELOPMENT

1. The China Trust and Investment Corporation for Economic Development (CTICED) shall engage the services of an external and independent auditor satisfactory to The World Bank (Bank) to perform annual audits of CTICED. Such audits shall be in accordance with the minimum requirements set forth in this TOR and shall be submitted to the Bank as soon as available, but in any case not later than six months after the end of each fiscal year of CTICED.

2. At least ninety (90) days prior to the commencement of each such annual audit CTICED shall provide to the Bank the name of the proposed external auditor, including a statement as to its qualifications, and a proposed Scope of Work to be required for that audit for the Bank’s concurrence. In the event the Bank has a reasonable need to request a change in the proposed auditor or changes in the scope of the audit or changes in this TOR, the Bank shall promptly notify CTICED of such changes in writing.

3. The annual audit will be performed in accordance with internationally accepted auditing standards, and in conformance with the laws of China, and shall include such tests of CTICED’s accounts and records to allow the auditor to express an Auditor’s Opinion, without significant qualifications or exceptions, as to whether the financial statements and supporting information fairly present the financial position and the results of operations for the period covered by the audit. Said Auditor’s Opinion should also confirm that the financial statements and supporting information presented is on a basis consistent with that of the previous annual audit, with any significant exceptions being disclosed.

4. At a minimum the audit report shall consist of the following financial statements presented in an internationally accepted format. Each such statement shall be presented both for CTICED itself and for CTICED on a consolidated basis. Such consolidated statements shall consolidate CTICED with all of its wholly-owned subsidiaries or other entities with appropriate elimination of intercompany assets, liabilities and investments.

   (a) A Balance Sheet presented in comparative format with the previous fiscal year, with accompanying (attached) footnotes describing principal policies regarding, amongst other things, fixed asset valuation and depreciation method(s), loan loss provisioning which also includes a summary of additions to loan loss reserves and amounts of loans charged off and recovered during the period, other provisioning or reserve requirements of regulatory authorities, details concerning long-term borrowings including
sources and terms, method(s) used in determining any fixed asset reevaluations, bases for foreign exchange conversions, disclosure of all significant contingent liabilities, disclosure of all off-balance-sheet assets and liabilities, methods used in intercompany eliminations, etc.

(b) An **Income Statement** (Profit & Loss Statement), presented in comparative format with the previous fiscal year, in sufficient detail to clearly show all major sources of income and all major expense categories including a statement which clearly shows the detailed distribution of net profits, after tax.

(c) A **Statement of Changes in Financial Condition**, presented in comparative format with the previous fiscal year, which clearly shows the major categories of sources and uses of funds during the period.

(d) A **Statement of Expenditures** under the Special Account showing disbursements to subprojects within that year.

(e) A **Management Letter** to CTICED’s President which clearly defines deficiencies noted by the auditors during the course of the audit in relation to accounting policies, practices, procedures, internal controls especially in regard to cash receipts and disbursements, and safekeeping of records.

5. The annual audit report shall also include an audit of CTICED’s accounts related to the State Farms Commercialization Project to assure that the accounts are maintained separately from its other loan accounts and also verifies the adequacy of the system to properly record the receipt and disbursement of project proceeds by each subproject, both annual and cumulative. The audit report should contain a separate opinion on whether, based upon documentation and internal controls, statements of expenditures (SOEs) can be relied upon to support related loan withdrawals from the Bank or the Special Account established pursuant to the Loan Agreement between the Bank and the People’s Republic of China.

6. In addition to the aforementioned financial statements the annual audit shall also provide at least the following supporting statements and/or schedules all of which should be presented in a comparative format with the previous fiscal year:

7. A summary statement showing amounts of additions and deletions during the period for all categories of Owner’s Equity including adequate explanatory footnotes, bases for changes to satisfy regulatory (legal) requirements, etc.

8. A schedule showing degree of compliance with all major financial requirements of regulatory authorities in regard to, amongst other things, liquidity, capital adequacy, loan/deposit ratios, loan loss provisions, interbank borrowing/lending, single-borrower loan limit, etc.
9. A statement reporting on CTICED's compliance with all terms and covenants contained in the Project Agreement between the Bank and CTICED.

10. A list of all wholly and partially owned subsidiaries, agencies or other entities, including amongst others, real estate and securities exchanges, both domestic and foreign, in which CTICED has an ownership investment and showing for each the amount of such investment and the percentage of the total ownership held by CTICED.

11. **Status of Arrearages and Collection Rates.** The following tables summarizing arrearages and collection rates for all trust loans (excluding entrusted loans) and leases should be provided and presented in a comparative format with the previous fiscal year. The term “amounts” as used in the tables should include both interest and total balances due of the loans and leases outstanding and which should be displayed separately for those in Y and $ or other foreign currencies. Additionally, separate tables should be provided for loans/leases outstanding and displayed separately for those in Y, $, etc. and also separately for each individual project funded by external development institutions such as The World Bank.

### TABLE 1: LOANS/LEASES IN ARREARS

| A. Total Amounts in Arrears at End of Period |
| B. Total Amounts of all Loans/Leases Outstanding |
| C. Total Number of Loans/Leases Outstanding |
| D. Loans/Leases in Arrears |
|   | Percent: Loan/Lease Amounts in Arrears (A/B) |
|   | Percent: Number of Loans/Leases in Arrears (D/C) |

### TABLE 2: AGING OF AMOUNTS OF LOANS/LEASES IN ARREARS

<table>
<thead>
<tr>
<th>Amounts</th>
<th>% of Total</th>
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<tbody>
<tr>
<td>1 to 3 months</td>
<td></td>
</tr>
<tr>
<td>4 to 6 months</td>
<td></td>
</tr>
<tr>
<td>7 to 12 months</td>
<td></td>
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<tr>
<td>13 to 24 months</td>
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<tr>
<td>Over 24 months</td>
<td></td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
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</table>
### Table 3: Loan/Lease Collection Rates

<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
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<tbody>
<tr>
<td>A. Total Arrears—Beginning of Period</td>
<td></td>
</tr>
<tr>
<td>B. Amounts Due During Period</td>
<td></td>
</tr>
<tr>
<td>C. Total Amounts Due During Period (A+B)</td>
<td></td>
</tr>
<tr>
<td>D. Actual Amounts Collected During Period</td>
<td></td>
</tr>
<tr>
<td>E. Total Arrears—End of Period (C-D)</td>
<td></td>
</tr>
<tr>
<td>Percent: Collection Rate (D/C)</td>
<td></td>
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</tbody>
</table>

12. A list of all wholly and partially owned departments, subsidiaries, agencies or other entities, including amongst others, real estate and securities exchanges, both domestic or foreign, in which CTICED has an ownership investment and showing for each the amount of such investment and the percentage of the total owner investment held by CTICED.
ANNEX 10: ENVIRONMENTAL IMPACT MONITORING

1. **Introduction.** Environmental monitoring procedures have been prescribed that should be followed by each of the projects. The purpose of these is to ensure that the subprojects initially meet and continue to adhere to national standards. These have been established by the National Environmental Protection Agency (NEPA) and are reflected in the EIAs for each of the subprojects. The monitoring plan also fulfills the requirements of the Bank’s OD 4.01.

2. The selection of subprojects to be financed under this loan will be an ongoing process. To date, EIAs have been undertaken on 34 subprojects already presented as candidates for financing. It is expected, however, that new subprojects will be brought forward as the project is implemented.

3. As part of subproject documentation, the subborrower will prepare a brief tabulated summary of the project in Chinese and in English, which will identify the principal characteristics of the project in terms of: (a) its purpose and basic technical characteristics; (b) the biophysical characteristics of the location in which the project is to be implemented; (c) the prevailing standards applicable in the project area; (d) volumes and characteristics of raw materials to be used; (e) the volumes and characteristics of materials to be released (with and without attenuation); (f) the mitigation or attenuation procedures that are to be adopted and their effectiveness; (g) the monitoring procedures that are to be adopted; and (h) the costs of the environmental mitigation equipment and procedures that are to be employed. This document will be prefaced by a brief statement of intent and will be signed by the project sponsors and CTICED.

4. It is understood that CTICED will include conditions for compliance in the loan agreement with the project sponsors. It is suggested that this summary provide the basic information on which compliance will be assessed.

5. The following procedure has been adopted to ensure the sponsor’s compliance with the approved environmental impact mitigation or attenuation measures during construction and installation and during ongoing operations: (a) the provincial environmental bureaus have a mandate for the enforcement of environmental regulations and standards and will generally be responsible for these activities; (b) CTICED will employ environmental experts, acceptable to the Bank by March 31, 1999 to undertake an annual survey; this will be carried out at random and include a representative sampling of the subprojects; the experts will report on the degree of compliance during construction and ongoing operations and describe problems that are being encountered.

6. **Monitoring Procedures.** All subprojects will establish a structure for an environmental management and monitoring unit within the proposed development before
any construction activities are undertaken. At each subproject a Vice Director, or staff member of equivalent status will be responsible for the overall management of the environmental programs. The number of staff assigned specific environmental responsibilities depends primarily on the size of the subproject. In most subprojects between two and four appropriately qualified people will be recruited. Additional specific training will be provided to the environmental staff to ensure that they are fully conversant with the procedures required.

7. The responsibilities of the staff will include: (a) the monitoring of the ambient air quality; (b) the recording of fuel sources, quantities and quality; (c) the monitoring of effluent water stream volumes and quality; (d) the monitoring of downstream impacts of released water; (e) the review of the solid waste disposal procedures and destinations; (f) the monitoring of workplace conditions, including such aspects as dust levels, noise, and gas emissions; (g) the review of plant health and safety procedures, including the condition of fire equipment and other fire prevention measure; (h) the monitoring of environmental protection equipment to ensure that it is maintained in good operating condition; and (i) the maintenance of records of baseline environmental parameters including rainfall, wind direction and speed, temperature, relative humidity, and other parameters that might be required at individual sites. The local environmental protection stations (at county or city level) will undertake independent spot inspections to ensure the compliance of the plant. They may also be called upon by the plants to assist with the specialized monitoring activities, such as stack sampling.

8. Reports on the environmental conditions in the plants will be submitted on a monthly basis to the appropriate county or city environmental protection bureaus. The provincial environmental bureaus will also be appraised quarterly of the environmental conditions associated with the operation of the plants. Summary environmental reports will be submitted on a six-monthly basis for review by CTICED. These will document the levels of compliance achieved by the plants, describe the situations in which it has not been possible to achieve compliance and the measures that are to be taken to ensure that the national standards are adequately met.

9. The indicators to be applied in monitoring the various environmental parameters are based on their most easily observed and representative characteristics as well as the relative severity of their impacts. The frequency of sampling should be established on the basis of the variability of the parameters. Each plant will therefore refine sampling frequencies for the major indicators as the project proceeds and they build up a better understanding of the operating characteristics. The principal indicators to be applied and sampling frequencies are discussed in the following paragraphs.

10. **Steam Boiler Air Emissions.** The principal air emission to be monitored are SO₂ and particulate (fly ash). Permissible levels for these are established on the basis of regulation GB3095-82. Most of the subprojects with coal-fired furnaces are required to meet category II standards for stack emissions which are:
The relevant ambient air quality standards that should be achieved are:

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<tr>
<td>SO\textsubscript{2}</td>
<td>0.15 mg/Nm\textsuperscript{3} (daily average)</td>
<td></td>
</tr>
<tr>
<td>Particulates</td>
<td>0.30 mg/Nm\textsuperscript{3} (daily average)</td>
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</table>

11. Emission monitoring should be achieved in the first instance by ground-level measurement of SO\textsubscript{2} and particulate. The most effective manner of achieving this for SO\textsubscript{2} is through the downwind placement of sulfation candles consisting of small, vented aluminum boxes containing filter paper impregnated with SO\textsubscript{2}-sensitive lead dioxide. Particulate may be measured through the downwind establishment of high-volume samplers. Measurements may be taken biweekly or monthly and a total of up to 12 stations should be established for each plant. These approaches are cheap to operate, but are unspecific and register contamination from all impinging sources in addition to the target plant. Provided that the general ambient air quality remains above permitted levels, they provide an adequate monitoring approach. If ambient air quality levels fall below acceptable levels, it will become necessary for the in-stack monitoring procedures to be adopted. These are more complex and costly, but it is likely that the local Environmental Monitoring Stations have the equipment and expertise to undertake this type of monitoring. Emission concentrations in the stack or at ground level will be significantly influenced by the levels of S and aluminosilicates in the coal, by the efficiency of the scrubbing equipment, by the addition of additives such as lime and by the combustion efficiency.

12. Emissions of other toxic gasses are also regulated under GBO97-82. Formaldehyde releases are a potential issue in the three medium-density fiber board subprojects but their design reduces concentrations around the plants to well below the permitted 50 mg/m\textsuperscript{3}. Benzene releases are also a potential issue associated with the paint baking process in the Hubei Dashahu Machine Plant and the Wolfram Pulse Argon Arc Welder Technical Transformation project but design releases are below permissible levels. Specific monitoring procedures are not contemplated, but checks of ambient levels will be made by environmental staff at regular intervals.

13. **Solid Wastes.** In all subprojects having coal-fired furnaces the volumes and destination of clinker and fly ash will be recorded. Complete analysis will be undertaken annually to determine the ammonium acetate extractable and water-soluble components of these materials. These should include determinations for: Al, As, B, Ca, Cd, Cr, Cu, K, Mo, Mn, Mg, Na, P, S. These analyses are particularly important where these wastes are to be used as roadbed material, frequently not covered with an asphalt layer. These ash materials should under no circumstances be used as soil additives for agriculture.

14. **Liquid Effluents.** The standards for liquid effluent releases are described under regulation GB3835-88. The volumes and quality of all liquid effluents will be recorded
on a weekly basis. The streams contributing to the major release stream, or contributing to a waste treatment facility will be sampled individually. This will be done so as to maintain a record of the various waste stream characteristics and provide the basis for recording the effects of changes to operational procedures on liquid waste generation. The waste stream leaving any treatment facility will also be sampled. The analysis of water samples should include BOD, COD, pH, Cl', Cn', and volatile phenols. Where high heavy metal, oils, or organic solvent concentrations are considered likely to occur, specific analyses will be included for these compounds.

15. **Dust.** Dust levels in industrial facilities are regulated under GB3095-82. Specific control measures are included in the designs for all the wood products subprojects to collect dust from milling and sanding operations. Records will be maintained of the volumes of materials entrapped in the dust bag filters in order to ensure the consistency of these systems.

16. **Noise.** Noise levels are regulated under a variety of law depending on the source and the location of the source. Industrial boundary noise levels are regulated under GB12348-90 and noise in urban areas is regulated under GB3096-82 (93). Noise will be generated from mechanical sources such as crushers, grinders, high pressure pumps, separating screens, looms, sewing machines, electric saws, machine tools, pressing machines and polishing machines. It will also be generated from aerodynamic sources such as compressors, blowers, exhaust fans and turbine exhausts. Control measures have been prescribed for each specific noise source. Measures include vibration absorption, isolation of noise sources, use of noise mufflers, use of noise absorbing materials and the physical protection of workers. Noise levels will be monitored and the use of protective gear will be enforced by the plants.

17. **Health and Safety Procedures.** The environmental staff will be responsible for ensuring compliance with the regulations governing the use of protective equipment and clothing in factory premises. This will include the instruction of supervisory and workshop staff and the making of spot checks to ensure that the regulations are being respected. The monthly reports will indicate any serious accidents or other health problems that might have resulted from the operation of the plants.

18. **Baseline Climatic Conditions.** Each plant will maintain a full record of climatic conditions. It is not expected, however, that they will establish individual climatic stations, but rather that they should depend on local climatological services to provide this information.
ANNEX 11: RESETTLEMENT GUIDELINES FOR PROJECT IMPLEMENTATION

Introduction

1. The State Farms Commercialization Project is designed to support enterprise reform on state farms through provision of a line of credit through China Trust and Investment Corporation for Economic Development (CTICED) for establishment of new enterprises or technological modernization of existing enterprises. It is expected that the project will finance about 35 subprojects in about 12-15 provinces and municipalities. CTICED and the Bank have jointly reviewed the technical and financial viability of a number of proposed subprojects as part of project preparation. However, CTICED will be responsible for final selection, appraisal and approval of all subprojects to be financed under the project.

2. Based on the Government’s and Bank’s review of the first tranche of subprojects proposed for financing, it appears that none of the proposed investments would involve acquisition of land that is currently used by households for agriculture, aquaculture, or other income generating activities. However, since the final selection of subprojects will be made by CTICED during project implementation, it is possible that subprojects may involve land acquisition. Therefore, the Chinese Government and the World Bank have agreed on the following guidelines to ensure equitable and effective treatment of resettlement issues under the Project.

Legal Framework

3. As reviewed in a recent World Bank Report on involuntary resettlement in China (Report No. 1 1641-CHA), Chinese laws and regulations now generally meet the requirements of the World Bank Operational Directive on resettlement and the resettlement guidelines of the Organization for Economic Cooperation and Development. The major laws and regulations that bear on resettlement under the Project include the following:


   (b) The “Land Administration Law” (1986) and related amendments (1988) require that incomes and assets be protected during resettlement and that affected communities be consulted during the project design stage. In addition, resettlers are given the specific right to challenge resettlement
decisions in the courts. The law gives affected cities, counties, and collectives responsibility for implementing resettlement and provides guidance on resettlement principles, organization, and compensation. Provinces are required to draw up implementing regulations that conform to the national legislation, which define more precisely resettlement procedures and compensation for various types of land and other property. Provinces may also give cities and counties the right to enact additional resettlement regulations conforming to national and provincial laws. These local laws have gained added significance with the decision of the State Council in 1992 and the previous blanket exemption of national projects from local resettlement regulations.

(c) National regulations pertaining to urban resettlement were published in 1984 and laid out administrative procedures for urban land acquisition and compensation. They serve as enabling regulations for municipalities, which then developed resettlement procedures and compensation arrangements appropriate to their situation. The "Administrative Regulations for House Removal in Cities" (1991) introduced updated and more comprehensive regulations for urban resettlement. This regulation specifies (a) consultation requirements, including public announcements of the proposed project, to be followed by individual consultation with affected households; (b) grievance procedures; and (c) the principle of full replacement value for expropriated housing, whether owned or rented.

Resettlement Principles for the Project

4. The Chinese Government and the Bank have agreed on the following principles for resettlement under the project:

(a) Involuntary resettlement will be avoided or minimized where feasible; to this end, subborrowers of project funds will explore all viable alternative project designs.

(b) All resettlement activities will conform to existing Chinese laws and regulations at the national, provincial, city and county levels.

(c) Affected persons will be consulted during the planning and implementation of resettlement activities. In particular, they will be informed of the resettlement plans and their options and legal rights prior to the initiation of any resettlement activity; institutionalized arrangements will be established to facilitate communication during the planning and implementation of resettlement; and an effective and well-understood grievance process will be developed.

(d) Affected persons will be resettled within their original village whenever possible. If this is not possible, they will be resettled as close as possible to
their original village. The principles for selecting relocation sites will be: (i) within the same village, (ii) to adjacent villages within the same xiang; (iii) other villages within the same xiang; (iv) to adjacent xiangs; (v) other xiangs within the same counties; and (vi) adjacent counties.

(e) Affected persons will be resettled in similar livelihoods. Where possible, agriculture workers will be resettled with agricultural jobs; industrial workers will be resettled with industrial jobs. If this is not possible, affected persons will be ensured suitable employment in an endeavor other than that of their previous employment, and will receive retraining where necessary to render them suitable for such employment.

(f) Affected persons will be resettled as groups whenever possible to reduce social disruptions.

(g) Valuation of lost assets will be made at full replacement cost.

(h) The total level of compensation will ensure that affected persons experience no deterioration in their living standards, income earning capacity, and production levels as a result of their resettlement.

Implementation Arrangements

5. Organizational Responsibilities. The Project Oversight Office in FECC will have overall responsibility for supervising and monitoring the implementation of all resettlement plans. The Project Oversight Office will be assisted by the local resettlement authorities, comprising the local Land Administration Bureaus, Land Valuation Bureaus, Village, Municipal, Township or County government with authority over the subproject site. The subprojects’ management teams will be responsible for the preparation and approval process, and monitoring of resettlement plans. These teams will act on behalf of the subprojects’ sponsoring enterprises. The implementation of all resettlement plans will be subject to the approval and clearance of such plans by the relevant local authorities. SFB will coordinate closely with these authorities with respect to the monitoring of approved resettlement plans.

6. Where resettlement will be part of a subproject proposal, CTICED would approve subloans conditional on submission by the subproject sponsor of a resettlement plan meeting principles and procedures satisfactory to CTICED, local authorities, the Project Oversight Office and the Bank. The resettlement plan’s scope would be consistent with agreed upon guidelines, based on the broad criteria outlined in paras. 8 and 9, and incorporated in CTICED’s subloan processing procedures.

7. Resettlement Plans. A resettlement plan will be prepared for each and every subproject that involves land acquisition or displacement of people. The content and level of detail of the resettlement plan will vary with the magnitude of the resettlement.
8. When more than 200 individuals are affected in a subproject, a comprehensive resettlement plan for that subproject will be prepared that addresses the following issues:

   (a) organizational responsibilities;
   (b) community participation and integration with host populations;
   (c) socioeconomic survey;
   (d) legal framework;
   (e) alternative sites and selection;
   (f) valuation of and compensation for lost assets;
   (g) land tenure, acquisition, and transfer;
   (h) access to training, employment, and credit;
   (i) shelter, infrastructure, and social services;
   (j) environmental protection and management;
   (k) implementation schedule, monitoring, and evaluation; and
   (l) detailed cost estimates.

9. When 200 or less individuals are affected in a subproject, a summary resettlement plan for that subproject will be prepared that addresses the following issues:

   (a) organizational responsibilities;
   (b) community participation and integration with host populations;
   (c) valuation of and compensation for lost assets;
   (d) implementation schedule, monitoring, and evaluation; and
   (e) detailed cost estimates.

10. **World Bank Review of Resettlement Plans.** The World Bank’s prior approval will be required for any resettlement plan for a subproject in which more than 200 persons are affected. All other resettlement plans will be subject to ex-post review by World Bank supervision missions.

11. **Sources of Funding for Resettlement.** No funds will be made available in the project budget for the funding of resettlement costs. These costs will be primarily borne by the subproject’s sponsor or the subproject itself. The enterprise or agency responsible for funding will, as part of the necessary documentation for loan approval, show proof to CTICED that it has designated the necessary funds to support the financial cost of such a plan and that the disbursement of these funds is time-bound to the implementation schedule prepared for the plan. The determination of resettlement costs will be based on the principles of land acquisition and resettlement, and will be implemented in accordance with existing local land administration and other resettlement laws, as interpreted. Where relevant, local government agencies may contribute to resettlement costs by providing assets lost as the result of land acquisition such as the provision of new or alternate housing, or land.

12. **Monitoring and Evaluation.** A resettlement monitoring structure, in accordance with ODs 4.30 (monitoring infrastructure) and 10.70 (monitoring indicators and targets) will be set up as part of the overall project management infrastructure and will comprise,
in hierarchical order, the Project Oversight Office as the project’s chief monitoring coordinator, in collaboration with CTICED. The Project Oversight Office will receive approved resettlement plans, other relevant data, and progress reports directly from the subproject’s management team. Resettlement monitoring will provide an early warning system for project managers via the Project Oversight Office, which would ensure information objectivity through direct, in-house monitoring. A channel for settlers to make known their needs would be established, from the local authorities or the subproject monitoring unit, directly to the Project Oversight Office. Monitoring progress reports would be submitted by subproject management units to the Project Oversight Office and CTICED, as part of the routine semiannual subproject progress reporting. During the first year of subproject implementation, the Project Oversight Office will have the right, where warranted, to request more frequent progress update reports. Base line and implementation socioeconomic surveys on resettlement plans involving over 200 persons will be carried out to compare the without- and with-subproject effects of resettlement on affected persons. Bank review of the monitoring progress will be at semiannual intervals during the first year of subproject implementation and annually thereafter, throughout the project’s implementation period.

13. Monitoring indicators to be reported to the Bank will include:

(a) Date of approval of resettlement proposals and compliance with the Guidelines.
(b) Confirmation that subproject monitoring structure is in place.
(c) Confirmation that communications channel for affected persons to and from the Project Oversight Office is in place.
(d) Target date(s) for expected resettlement benefits to settlers.
(e) Target date for replacement of land, where applicable.
(f) Date(s) of occupation of new or replacement housing.
(g) Confirmation of equal replacement value of housing or land.
(h) Confirmation and date(s) of allocation of replacement jobs.
(i) Confirmation of amount of replacement salaries/income.
(j) Confirmation and date(s) of job retraining, where relevant.
### ANNEX 12: FINANCIAL AND ECONOMIC ANALYSIS

#### TABLE 1: CONVERSION FACTORS FOR INVESTMENT, INPUTS AND OUTPUTS

<table>
<thead>
<tr>
<th>Investment</th>
<th>CF</th>
<th>Major Inputs</th>
<th>CF</th>
<th>Major Outputs</th>
<th>CF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Works</td>
<td>1.12</td>
<td>Standard Conversion Factor (SCF) a</td>
<td>1.00</td>
<td>Net Export a</td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>1.09</td>
<td>Labor - Unskilled labor b</td>
<td>1.00</td>
<td>Canned Food c</td>
<td>1.15</td>
</tr>
<tr>
<td>Equipment and Machinery b</td>
<td>1.10</td>
<td>General labor d</td>
<td>1.20</td>
<td>Shirt d</td>
<td>1.00</td>
</tr>
<tr>
<td>Material</td>
<td>1.00</td>
<td>Skilled labor e</td>
<td>1.30</td>
<td>Down garment e</td>
<td>1.00</td>
</tr>
<tr>
<td>Vehicles</td>
<td>1.00</td>
<td>Fuel e</td>
<td>1.00</td>
<td>Other down product e</td>
<td>1.00</td>
</tr>
<tr>
<td>Import Duties/VAT/Taxes</td>
<td>0.00</td>
<td>Power e</td>
<td>1.10</td>
<td>Jersey e</td>
<td>1.00</td>
</tr>
<tr>
<td>Transportation - Railway</td>
<td>1.07</td>
<td>Water e</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Road</td>
<td>0.96</td>
<td>Major repairs e</td>
<td>1.10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Training/Study Tour</td>
<td>1.22</td>
<td>Marketing expenses e</td>
<td>1.22</td>
<td>Net Import e</td>
<td></td>
</tr>
<tr>
<td>Overseas Training/Study Tour</td>
<td>1.00</td>
<td>General overhead e</td>
<td>1.22</td>
<td>Crystal glass board e</td>
<td>1.00</td>
</tr>
<tr>
<td>Local Consultant</td>
<td>1.22</td>
<td>Cotton e</td>
<td>1.08</td>
<td>Juice e</td>
<td>1.11</td>
</tr>
<tr>
<td>International Consultant</td>
<td>1.00</td>
<td>Malt e</td>
<td>0.79</td>
<td>Down-proof cloth e</td>
<td>1.50</td>
</tr>
<tr>
<td>Survey/design/mntrng/sprvsn/mngt</td>
<td>1.22</td>
<td>Rice e</td>
<td>1.11</td>
<td>Artificial silk e</td>
<td>1.30</td>
</tr>
<tr>
<td>Increase Power Capacity</td>
<td>1.10</td>
<td>Sugar e</td>
<td>0.53</td>
<td>Milk powder e</td>
<td>0.74</td>
</tr>
<tr>
<td>Technical Transfer Fee</td>
<td>1.20</td>
<td></td>
<td></td>
<td>Potato chip e</td>
<td>0.95</td>
</tr>
<tr>
<td>Other</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*a* Based on World Bank Commodity Prices, February, 1996. Others are actual CIF/FOB China port prices (data from "China Customs Statistics Yearbook 1994") and adjusted to 1995 prices.

*b* For locally made machinery and equipment procured locally.

*c* SCF=Official exchange rate/shadow exchange rate=1.

*d* For hard-to-separate labor.

*e* Based on actual status of these commodities in 1994.
### TABLE 2: SUMMARY OF FRR

<table>
<thead>
<tr>
<th>Component and Subproject</th>
<th>CITICED Base</th>
<th>Investment Increase 10%</th>
<th>Price Decrease 10%</th>
<th>Cost Increase 10%</th>
<th>Price &amp; Cost + Delay 10%</th>
<th>Production Delay 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Case %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Project</td>
<td>24.0%</td>
<td>21.5%</td>
<td>7.6%</td>
<td>14.4%</td>
<td>-4.2%</td>
<td>17.6%</td>
</tr>
<tr>
<td>1. Food Processing</td>
<td>23.3%</td>
<td>20.9%</td>
<td>8.6%</td>
<td>14.4%</td>
<td>-2.2%</td>
<td>17.6%</td>
</tr>
<tr>
<td>102. Hubei Huazhong Can &amp; Drink Corp.</td>
<td>28.6%</td>
<td>26.3%</td>
<td>2.6%</td>
<td>9.1%</td>
<td>-21.0%</td>
<td>22.7%</td>
</tr>
<tr>
<td>107. Yunnan Lianyi Food Factory (Potato Chips)</td>
<td>23.8%</td>
<td>24.8%</td>
<td>22.2%</td>
<td>13.2%</td>
<td>18.8%</td>
<td>5.9%</td>
</tr>
<tr>
<td>109. Zhejiang Qianjiang Beer Group Corp. (Beer)</td>
<td>19.8%</td>
<td>20.5%</td>
<td>18.2%</td>
<td>10.2%</td>
<td>15.6%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2. Dairy Development</td>
<td>50.7%</td>
<td>46.8%</td>
<td>28.3%</td>
<td>36.4%</td>
<td>12.1%</td>
<td>35.6%</td>
</tr>
<tr>
<td>201. Shandong Guangbei Dairy Development</td>
<td>47.6%</td>
<td>46.8%</td>
<td>28.3%</td>
<td>36.4%</td>
<td>12.1%</td>
<td>35.6%</td>
</tr>
<tr>
<td>5. Textile Development</td>
<td>20.2%</td>
<td>17.8%</td>
<td>-2.3%</td>
<td>7.3%</td>
<td>-28.5%</td>
<td>14.1%</td>
</tr>
<tr>
<td>502. Hubei Wuhan Antarctic Peak (Group) Co. (Down Garment)</td>
<td>22.4%</td>
<td>20.0%</td>
<td>9.1%</td>
<td>15.8%</td>
<td>1.4%</td>
<td>17.1%</td>
</tr>
<tr>
<td>504. Jiangsu Cotton Spinning &amp; Knitting Mill</td>
<td>28.2%</td>
<td>32.2%</td>
<td>30.1%</td>
<td>-4.9%</td>
<td>6.8%</td>
<td>-37.4%</td>
</tr>
<tr>
<td>505. Jiangsu Meierzi Garment (Group) Company</td>
<td>20.1%</td>
<td>19.7%</td>
<td>18.6%</td>
<td>-21.5%</td>
<td>-12.6%</td>
<td>-60.0%</td>
</tr>
<tr>
<td>507. Jiangxi Gongqing Textile Factory</td>
<td>24.7%</td>
<td>22.2%</td>
<td>13.6%</td>
<td>19.5%</td>
<td>7.7%</td>
<td>18.9%</td>
</tr>
<tr>
<td>7. Industry</td>
<td>32.9%</td>
<td>29.8%</td>
<td>20.5%</td>
<td>27.9%</td>
<td>15.0%</td>
<td>25.4%</td>
</tr>
<tr>
<td>703. Guangdong Micro-crystal Glass Decoration Board</td>
<td>29.4%</td>
<td>32.9%</td>
<td>29.8%</td>
<td>20.5%</td>
<td>27.9%</td>
<td>15.0%</td>
</tr>
<tr>
<td>8. Area Development</td>
<td>19.3%</td>
<td>16.7%</td>
<td>14.7%</td>
<td>18.8%</td>
<td>14.1%</td>
<td>14.6%</td>
</tr>
<tr>
<td>801. Yunnan Tourism</td>
<td>13.2%</td>
<td>19.3%</td>
<td>16.7%</td>
<td>14.7%</td>
<td>18.8%</td>
<td>14.1%</td>
</tr>
</tbody>
</table>

### TABLE 3: SUMMARY OF ERR

<table>
<thead>
<tr>
<th>Component and Subproject</th>
<th>Base Case %</th>
<th>Investment Increase 10%</th>
<th>Price Decrease 10%</th>
<th>Cost Increase 10%</th>
<th>Price &amp; Cost + Delay 10%</th>
<th>Production Delay 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project</td>
<td>53.7%</td>
<td>49.6%</td>
<td>39.4%</td>
<td>45.5%</td>
<td>30.8%</td>
<td>40.2%</td>
</tr>
<tr>
<td>1. Food Processing</td>
<td>45.4%</td>
<td>42.2%</td>
<td>33.5%</td>
<td>38.3%</td>
<td>26.0%</td>
<td>35.2%</td>
</tr>
<tr>
<td>102. Hubei Huazhong Can &amp; Drink Corp.</td>
<td>36.8%</td>
<td>34.1%</td>
<td>12.9%</td>
<td>18.1%</td>
<td>-6.4%</td>
<td>29.6%</td>
</tr>
<tr>
<td>107. Yunnan Lianyi Food Factory (Potato Chips)</td>
<td>46.5%</td>
<td>43.0%</td>
<td>36.6%</td>
<td>40.9%</td>
<td>30.8%</td>
<td>36.4%</td>
</tr>
<tr>
<td>109. Zhejiang Qianjiang Beer Group Corp. (Beer)</td>
<td>48.5%</td>
<td>45.0%</td>
<td>40.6%</td>
<td>45.2%</td>
<td>37.1%</td>
<td>37.0%</td>
</tr>
<tr>
<td>2. Dairy Development</td>
<td>38.7%</td>
<td>35.8%</td>
<td>21.9%</td>
<td>26.0%</td>
<td>8.4%</td>
<td>27.5%</td>
</tr>
<tr>
<td>201. Shandong Guangbei Dairy Development</td>
<td>38.7%</td>
<td>35.8%</td>
<td>21.9%</td>
<td>26.0%</td>
<td>8.4%</td>
<td>27.5%</td>
</tr>
<tr>
<td>5. Textile Development</td>
<td>66.3%</td>
<td>61.3%</td>
<td>47.6%</td>
<td>55.6%</td>
<td>36.5%</td>
<td>48.2%</td>
</tr>
<tr>
<td>502. Hubei Wuhan Antarctic Peak (Group) Co. (Down Garment)</td>
<td>31.0%</td>
<td>28.4%</td>
<td>21.0%</td>
<td>24.9%</td>
<td>14.6%</td>
<td>24.8%</td>
</tr>
<tr>
<td>504. Jiangsu Cotton Spinning &amp; Knitting Mill</td>
<td>69.2%</td>
<td>65.2%</td>
<td>29.7%</td>
<td>40.2%</td>
<td>4.6%</td>
<td>50.6%</td>
</tr>
<tr>
<td>505. Jiangsu Meierzi Garment (Group) Company</td>
<td>31.9%</td>
<td>30.5%</td>
<td>-6.5%</td>
<td>0.0%</td>
<td>-38.2%</td>
<td>25.3%</td>
</tr>
<tr>
<td>507. Jiangxi Gongqing Textile Factory</td>
<td>81.3%</td>
<td>75.1%</td>
<td>68.3%</td>
<td>76.3%</td>
<td>63.3%</td>
<td>59.9%</td>
</tr>
<tr>
<td>7. Industry</td>
<td>53.7%</td>
<td>49.4%</td>
<td>43.8%</td>
<td>49.4%</td>
<td>39.5%</td>
<td>41.5%</td>
</tr>
<tr>
<td>703. Guangdong Micro-crystal Glass Decoration Board</td>
<td>53.7%</td>
<td>49.4%</td>
<td>43.8%</td>
<td>49.4%</td>
<td>39.5%</td>
<td>41.5%</td>
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<tr>
<td>8. Area Development</td>
<td>40.4%</td>
<td>36.9%</td>
<td>36.1%</td>
<td>39.9%</td>
<td>35.6%</td>
<td>31.6%</td>
</tr>
<tr>
<td>801. Yunnan Tourism</td>
<td>40.4%</td>
<td>36.9%</td>
<td>36.1%</td>
<td>39.9%</td>
<td>35.6%</td>
<td>31.6%</td>
</tr>
</tbody>
</table>
# ANNEX 13: SUPERVISION PLAN

<table>
<thead>
<tr>
<th>Proposed Dates (mo/yr)</th>
<th>Activities</th>
<th>Expected Skill Requirements</th>
<th>Staff input (SWs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>04/98</td>
<td><strong>Project Launch Workshop</strong>&lt;br&gt;review procurement, financial management, auditing and reporting and CTICED procedures</td>
<td>Task Manager&lt;br&gt;Disbursement specialist&lt;br&gt;Auditor&lt;br&gt;Procurement specialist&lt;br&gt;Banking specialist</td>
<td>10</td>
</tr>
<tr>
<td>09/98</td>
<td><strong>Supervision Mission</strong>&lt;br&gt;Supervision team will review CTICED’s subloan appraisals, procurement documentation, accounting</td>
<td>Task Manager&lt;br&gt;Banking specialist&lt;br&gt;Financial Analyst&lt;br&gt;Agribusiness specialist</td>
<td>8</td>
</tr>
<tr>
<td>03/99</td>
<td><strong>Supervision Mission</strong>&lt;br&gt;Supervision team will review CTICED’s subloan appraisals, procurement documentation, accounting; site visit to selected subprojects</td>
<td>Task Manager&lt;br&gt;Banking specialist&lt;br&gt;Financial Analyst&lt;br&gt;Agribusiness specialist&lt;br&gt;Environmental specialist</td>
<td>10</td>
</tr>
<tr>
<td>03/00</td>
<td><strong>Supervision Mission</strong>&lt;br&gt;Supervision team will review CTICED’s subloan appraisals, procurement documentation, accounting; reform plan of enterprises; site visit to selected subprojects</td>
<td>Task Manager&lt;br&gt;Banking specialist&lt;br&gt;Financial Analyst&lt;br&gt;Agribusiness specialist</td>
<td>10</td>
</tr>
<tr>
<td>03/01</td>
<td><strong>Mid-Term Review</strong>&lt;br&gt;As above and timing of implementation</td>
<td>Task Manager&lt;br&gt;Banking specialist&lt;br&gt;Financial Analyst&lt;br&gt;Agribusiness specialist&lt;br&gt;Environmental specialist</td>
<td>10</td>
</tr>
<tr>
<td>03/02 and 03/03</td>
<td><strong>Supervision Mission</strong>&lt;br&gt;Supervision team will review CTICED’s loan recovery; accounting, reform progress of enterprises; site visit to selected subprojects</td>
<td>Task Manager&lt;br&gt;Banking specialist&lt;br&gt;Agribusiness specialist</td>
<td>10</td>
</tr>
<tr>
<td>03/04</td>
<td><strong>ICR Mission</strong></td>
<td>Task Manager&lt;br&gt;Banking specialist&lt;br&gt;Agribusiness specialist&lt;br&gt;Environmental specialist</td>
<td>10</td>
</tr>
</tbody>
</table>
ANNEX 14: SELECTED DOCUMENTS AND DATA AVAILABLE IN THE PROJECT FILE


    (c) Financial statements, 1995 and 1996.


5. Preappraisal Mission Summary Reports (Guangdong, Hainan, Hubei, Jiangsu, Jiangxi, Yunnan, Zhejiang), December 1995.


8. CTICED Annual Reports including audited financial statements, 1995 and 1996.