



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/09/2004	
<b>PROJ ID:</b> P003646		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Chongqing Industrial Pollution Control And Reform Project	<b>Project Costs (US\$M)</b>	402.38	22.06
<b>Country:</b> China	<b>Loan/Credit (US\$M)</b>	170.0	3.85
<b>Sector(s):</b> Board: UD - Other industry (96%), Sub-national government administration (3%), Other social services (1%)	<b>Cofinancing (US\$M)</b>	232.38	18.21
<b>L/C Number:</b> L4045			
	<b>Board Approval (FY)</b>		96
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/2002	06/30/2003
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Kris Hallberg	Roy Gilbert	Alain A. Barbu	OEDST

**2. Project Objectives and Components**

**a. Objectives**  
The Staff Appraisal Report states the following project objectives :

(a) To achieve a significant reduction in pollution and restructure productive facilities in the iron and steel industry in the municipality of Chongqing.

(b) To establish a strategy and prepare a long-term plan to achieve a major reduction in pollution for the whole industrial sector by, *inter alia*, increasing the effectiveness of Chongqing's environmental regulatory framework and pollution management capacity.

(c) To initiate a pilot effort to assist industrial enterprises in other industrial sectors to restructure their productive facilities, control pollution, and transform themselves into modern corporations .

**b. Components**

- An industrial relocation component for the Chongqing Special Steel Company (CSSC) (cost estimate at appraisal: \$105.85 million; actual: \$0).
- An industrial relocation component for the Chongqing Iron and Steel Group Company (CISCG) (appraisal estimate: \$69.04 million; actual: \$0).
- A line of credit for industrial enterprises to finance restructuring and pollution control (appraisal estimate: \$165 million; actual: \$0).
- An environmental monitoring system (appraisal estimate: \$27.49 million; actual: \$22.06 million).
- Support for the Labor Redeployment Center (appraisal estimate: \$1.06 million; actual: \$0).
- Technical assistance to strengthen environmental regulation and innovation in state asset management (appraisal estimate: \$0.75 million; actual: \$0).

**c. Comments on Project Cost, Financing and Dates**  
At the request of the Government, a large share of the loan was cancelled (\$166.149 million out of the \$170 million loan) in five cancellations in 1999-2000. Declining demand, falling international prices, and excess capacity in the steel industry worsened the financial outlook for CISGC and CSSC, and they were closed without the construction of the new plants. The Line of Credit was cancelled because participating banks could provide local currency financing at lower interest rates (partly a result of the East Asia financial crisis). The labor re-employment support component was cancelled, again due to the ready availability of local currency at low interest rates . After cancellations, Bank financing (totalling \$3.85 million) was limited to the environmental monitoring component of the project . The project closing date was extended six months to enable delivery and installation of environmental pollution control equipment (the delays were attributed to the SARS outbreak).

**3. Achievement of Relevant Objectives:**

- The first objective (replacing old, polluting plants with new, less-polluting ones, thus reducing pollution per unit of steel produced -- was not achieved. Total pollution declined, but this was due to a fall in steel production (old

- plants were closed for reasons external to the project), not because less-polluting technologies were employed.
- The second objective (increasing the effectiveness of environmental regulation by the Chongqing Environmental Protection Bureau (CEPB) was partially achieved. CEPB established a monitoring system covering new businesses and projects, and compliance with reform targets was highly satisfactory for enterprise registration and environmental impact assessment, and enforcement of inspections.
  - The third objective (restructuring and pollution reduction in non-steel industries) was not achieved, due to the slow progress in divestiture and corporatization of SOEs and the cancellation of the project's credit component.

**4. Significant Outcomes/Impacts:**

The main positive impact of the project was the more rigorous enforcement of pollution control standards.

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

After cancellations, only 2 percent of project funds were utilized. The project partially achieved only one of its three objectives (increasing the effectiveness of environmental regulation). However, the ICR rates Institutional Development Impact as "modest", suggesting that the sustainability of this outcome is uncertain.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Unsatisfactory	Two of the three major project objectives, which accounted for the overwhelming majority of project costs, were not achieved: restructuring and pollution reduction of productive facilities in the steel industry, and the reduction of pollution and modernization of industrial enterprises in other sectors. Some other project activities (e.g., the re-deployment of surplus labor) were achieved as the result of Government actions outside of the project.
<b>Institutional Dev.:</b>	Modest	Modest	
<b>Sustainability:</b>	Likely	Likely	
<b>Bank Performance:</b>	Satisfactory	Satisfactory	Bank performance from identification through appraisal was satisfactory. However, during 1999-2001, when the Bank temporarily halted project implementation, the Bank did not succeed in promoting a constructive and proactive dialogue with the Borrower on how to overcome the financial constraints of CISGC. Project continuity was also affected negatively by changes in task management (there were six different task managers over the life of the project). Overall, however, Bank performance was satisfactory.
<b>Borrower Perf.:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR:</b>		Satisfactory	

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

**7. Lessons of Broad Applicability:**

- The combination of environmental objectives with enterprise performance objectives complicated some parts of the project. For example, the eligibility criteria for restructuring assistance focused on companies' pollution problems rather than on the technical, financial, and economic merits of their proposals. The placing of policy considerations above commercial ones may have contributed to the cancellation of this component.
- The design of the line of credit -- both its pricing and its currency demonination -- were not flexible enough to adapt to changing conditions in financial markets. The terms of such financing ought to be responsive to changing competitive conditions and the dynamics of relevant product markets.

**8. Assessment Recommended?**  Yes  No

**9. Comments on Quality of ICR:**

The ICR is of good quality. It does a good job of reporting on project performance indicators, comparing targets with achievements. However, it places too much emphasis on the achievement of pollution targets that were due to plant closures rather than the replacement of these plants as the project had intended.

