



<b>1. Project Data:</b>		<b>Date Posted :</b> 05/04/2001	
<b>PROJ ID:</b> P003533		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Tianjin Second Industrial Project	<b>Project Costs (US\$M)</b>	199	159
<b>Country:</b> China	<b>Loan/Credit (US\$M)</b>	150	105
<b>Sector(s):</b> Financial Sector Development	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L3572			
	<b>Board Approval (FY)</b>		93
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/2000	06/30/2000
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>

## 2. Project Objectives and Components

### a. Objectives

The project had two general objectives: (a) support to the Tianjin Municipal government in carrying out sub-sector policy reforms, such as: liberalization of investment, production, and pricing; improvements in the foreign trade regime; increased labor mobility; social security, and housing reforms, and promotion of industries where Tianjin has a comparative advantage; and b) a set of enterprise reforms, such as: corporatization, improvements in the contract responsibility system, reorganization of sub-sectors, introduction of modern management systems and procedures, and promotion of joint ventures; both with the ultimate objective of improving the efficiency and profitability of enterprises. Of the five more specific objectives of the project, four focused on policy and enterprise reforms and on institutional development, and one was the modernization and restructuring of subsectoral enterprises. The project was part of the Bank's assistance in the implementation of the GOC's industrial restructuring program.

### b. Components

The project had two components. A financial assistance component included a loan of \$ 134.5 million for the restructuring of enterprises in five industrial sub-sectors: machine tools, construction equipment, auto parts, electronic components, and electric motors. This line of credit was to be onlent through participating financial intermediaries (PFIs) to enterprises of the Tianjin Government. However, the component was revised later, and the line of credit was significantly reduced to \$ 98 million due to the withdrawal of some PFIs and the reduction of sub-sectors from five to three: electronic components and electric motors were dropped. The second component of the project was technical assistance of \$ 15.5 million to finance equipment, computer hardware and software, staff training, and consultancy services for strengthening of PFIs. This component was also revised and reduced to \$ 7 million because the government used other sources of funds and because of fewer sub-sectors covered by the project.

### c. Comments on Project Cost, Financing and Dates

Original costs were estimated to be \$ 199 m, of which the financial assistance component accounted for \$ 169 m and the technical assistance component for \$ 16 m with \$ 14 m unallocated. Since the costs were revised later, the actual total cost of the project decreased to \$ 159 m of which \$ 151 m was a financial assistance component and \$ 8 m technical assistance.

## 3. Achievement of Relevant Objectives:

The achievement of subsector policy reforms and of enterprise reforms was satisfactory. By 1998, the Tianjin Municipal Government (TMG) had been implementing the program of redeployment of surplus labor and had established the redeployment center where job retraining was to be provided for displaced workers. Additionally, all non-viable enterprises and products have been closed (through mergers and bankruptcies) or discontinued, 10 large enterprises were financially restructured (which included debt equity swaps and debt write-off of Y22 billion), private ownership was allowed in 115 state owned enterprises (SOEs), and 15 enterprises were listed on the stock market. The objective of strengthening institutional infrastructure (strategic planning, systems development, support services, human resource development) was also achieved.

However, further reforms of enterprises themselves with the objective of making them more efficient, competitive, financially viable, and profitable have not been fully achieved due to their weak performance (low capacity utilization, serious marketing, management and technical problems). Additionally, only three subsectors (machine tools,

construction equipment, and auto parts) were restructured, of which one underwent only limited restructuring. In the end, the bulk of the Bank loan proceeds went to four major subprojects. Two of these, absorbing 60 % of the proceeds, are now experiencing serious marketing and financial problems. Hence, the overall achievement of project objectives is rated unsatisfactory at the time of project completion. Nevertheless, there is a good chance that, as marketing and markets improve, these enterprises will turn around over time, and join the other successful subprojects. On the basis of this and of the successful policy and enterprise reforms, which (in line with the central government's reform program) are unlikely to be reversed, the sustainability of the project's achievements is rated as likely.

#### 4. Significant Outcomes/Impacts:

1. Restructuring took place in three sectors, with some enterprises being closed and products discontinued.
2. A technical center, established under the project, has improved technology, information capability of the enterprises, and management functions including strategic planning.

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

The Bank did not pay adequate attention to the persistent marketing problems, underestimated the difficulties in changing management culture in SOEs, and continued financing of industrial restructuring projects in China without waiting for the results of earlier approved projects. Among other things, the disappointing results follow from the extraordinarily ambitious objectives for a relatively small loan in a very large industrial sector.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Unsatisfactory	Unsatisfactory	
<b>Institutional Dev.:</b>	Substantial	Substantial	
<b>Sustainability:</b>	Likely	Likely	OED rates the sustainability of the project as "likely" because the reforms and institutional changes achieved are unlikely to be reversed, and they are given a larger weight than the accomplishments on the production side. The sustainability of the latter, by themselves, would be rated unlikely.
<b>Bank Performance:</b>	Satisfactory	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:

1. When designing operations, the Bank should give full recognition to the complexity of country conditions: this would help avoid overoptimism.
2. In countries where "marketing" expertise is relatively undeveloped, high priority should be given to developing market research institutes, a good statistical data base and management training.
3. In many World Bank borrowers, banks need to train their staff in project finance and credit risk analysis, and bank managers should be held accountable for their investment decisions.

8. Assessment Recommended? ☐ Yes ☒ No

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

The quality of the ICR is satisfactory although it contains excessive detail which draws the readers' attention away from the main issues.