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**Report No. 15251**

**IMPLEMENTATION COMPLETION REPORT**

**CHINA**

**FIFTH INDUSTRIAL CREDIT PROJECT  
(LOAN 3075-CHA)**

**DECEMBER 26, 1995**

Environment and Municipal Development Operations Division  
China and Mongolia Department  
East Asia and Pacific Regional Office

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## **CURRENCY EQUIVALENTS**

Currency Unit = Yuan (Y)

1989	\$1 = Y 3.76
1990	\$1 = Y 4.78
1991	\$1 = Y 5.36
1992	\$1 = Y 5.42
1993	\$1 = Y 5.73
1994	\$1 = Y 8.50

## **FISCAL YEAR OF BORROWER**

January 1 - December 31

## **WEIGHTS AND MEASURES**

Metric System

## **ABBREVIATIONS AND ACRONYMS**

ADB	- Asian Development Bank
CIB	- China Investment Bank
ERR	- Economic Rate of Return
FRR	- Financial Rate of Return
GOC	- Government of China
MOF	- Ministry of Finance
PBC	- People's Bank of China (Central Bank)
PCBC	- People's Construction Bank of China
TVEs	- Township and Village Enterprises
SAR	- Staff Appraisal Report

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# **IMPLEMENTATION COMPLETION REPORT**

## **CHINA**

### **FIFTH INDUSTRIAL CREDIT PROJECT**

**(LOAN 3075-CHA)**

#### **PREFACE**

This is the Implementation Completion Report (ICR) for the Fifth Industrial Credit Project in China, for which a loan in the amount of \$300 million equivalent (Loan 3075-CHA) was approved on May 30, 1989 and made effective on October 31, 1989.

The Loan was closed on December 31, 1994 as scheduled. Final and full disbursement took place on April 20, 1995.

This ICR was prepared by Mr. Carlo A. Punsalan, Task Manager, EA2EM and reviewed by Ms. Katherine Sierra, Chief, EA2EM and Mr. Yo Kimura, Project Adviser, EA2DR. The implementing agency also evaluated the project, and their findings are included.

Preparation of this ICR was begun during the Bank's final supervision and completion missions in October 1994 and March 1995, respectively. The report is based on material in the project file. The borrower contributed to preparation of the ICR by providing data and information, its own evaluation of the project's execution, and comments on the draft ICR.



# **IMPLEMENTATION COMPLETION REPORT**

## **CHINA**

### **FIFTH INDUSTRIAL CREDIT PROJECT (LOAN 3075-CHA)**

#### **EVALUATION SUMMARY**

##### **Introduction**

1. In 1981, the China Investment Bank (CIB) was established through a special charter approved by the State Council and was one of the first new institutions in what was expected to be an increasingly competitive and efficient financial system in China. At the time the Fifth Industrial Credit Project (CIB V) was approved in 1989, the Bank had already provided \$645.6 million in four credit lines to CIB. These four industrial credit projects were to basically assist in the institutional development of CIB and to augment its foreign currency resources for financing the restructuring and technical upgrading of light industrial enterprises. Loan 3075-CHA (the subject of this ICR) was for \$300 million, and it aimed to continue to support the development of CIB into an autonomous, efficient, viable and sound financial intermediary in industrial finance. Because of the expertise it has acquired in project financing and appraisal, CIB also became an active participant (as financial intermediary or financial agent) in relending Bank Group funds in several other projects. These projects involve Bank funds amounting to \$2,070 million; loans in which CIB absorbs the full credit risks amount to about \$1,215 million or 60 percent, the balance is on a financial agency basis, i.e., no credit risk to CIB.

##### **Project Objectives**

2. The project was to: (a) continue institutional strengthening of CIB in both its traditional and new areas of activity and thus enable it to carry out its operations efficiently and prepare itself effectively to meet the changing needs of its clients and operate in the emerging competitive environment; (b) expand and diversify CIB's resource base; and (c) provide funds for investment in the modernization and restructuring of light industry and remove the sector's operational bottlenecks. In particular, the project was expected to enhance the role and capacity of CIB so that it would be more responsive to the rapidly changing financial sector environment in China.

3. The project had two components: (a) a line of credit (\$299 million) for the financing of small- and medium-size restructuring projects in light industry with the

following subcomponents: (i) onlending for the import of modern equipment and technology (\$244 million); (ii) working capital financing (\$50 million); and (iii) equity investments, including equipment leasing (\$5 million); and (b) technical assistance (\$1.0 million) to support a training program for CIB's staff in existing and new financial products and services and import of computer hardware and software for CIB's proposed electronic data processing system and related training. Both the physical and institutional objectives of the project were substantially achieved.

### **Implementation Experience and Results**

4. Project implementation went as planned, taking five years for disbursement. There were 200 subloans with an average subloan of \$1.2 million (net of four subloans for working capital and equity/ leasing investments), which is in line with the average for the four previous credit lines to CIB but lower than the average estimated at appraisal of \$1.5 million. The average maturity of the subloans was about five years, which is less than the seven-year average expected during project appraisal. There were 41 subloans (20 percent) "above the free limit" (i.e., subject to prior Bank review and approval) accounting for \$119 million or 48 percent of the total subloans. During appraisal, 21 percent of subloans by number and 50 percent by amount were estimated to be above the free limit and a total of 200 subloans was projected. Subloans to nonstate enterprises comprised 26 percent of the total, which is well above the allocation of at least 10 percent agreed during appraisal; sectoral distribution was more even than previous loans to CIB with textiles accounting for only 19 percent (compared to 27 percent under CIB IV); the geographic distribution was also evenly spread among its branches (below 10 percent each) except for the Shandong branch (16 percent) and Guangdong branch (14 percent). Subloans for working capital numbered 46, resulting in an average subloan of about \$1.1 million.

### **Summary of Findings, Future Operations, and Key Lessons Learned**

5. Under the project, the Bank played a particularly significant role in initiating diversification of CIB's products and resources. For the first time, the Bank's credit line could be utilized for working capital loans, equity investments, and leasing operations. These have helped CIB to promote new financial products, with working capital loans now mainstreamed in its operations. CIB was able also to diversify its resources both in foreign currency but mainly in domestic currency in the form of deposits. Through the review of subprojects, the Bank assisted CIB in improving its appraisal standards, particularly in marketing and financial aspects. The Bank also provided significant inputs in the development of CIB's manual for working capital financing and equity investments. Bank supervision missions contributed to CIB's focusing on its supervision and collection efforts, which led to the adoption of multiyear collection targets. In 1994, the Bank was instrumental in helping to maintain CIB as a separate financial institution against a government desire to dissolve CIB by absorbing it into the People's Construction Bank of China (PCBC). The Bank's approach was to preserve the institutional development of CIB that was achieved after prolonged efforts. In July 1994, the People's Bank of China (PBC) approved CIB's new charter as a commercial bank

under PBC supervision and CIB became a fully-owned and separate subsidiary of PCBC. Overall, the Bank was quite supportive and contributed to some major developments in CIB's operations under the project.

6. CIB implemented the project satisfactorily and fully utilized the loan proceeds by the original closing date, which is an improvement since the closing dates of the previous four Bank loans had to be extended by one year. However, during project implementation, CIB's operations suffered from deteriorating loan collections and rising arrears, resulting in a decline in profitability. Lagging repayment of CIB's loans was largely due to onlending terms that required borrowers to assume the foreign exchange risk of borrowing hard currency. The devaluation of the renminbi from an average Y 3.76 to the dollar in 1989 to Y 8.50 in 1994 meant that any borrower not involved in export industries and therefore not earning foreign exchange was faced with about a doubling of the loan repayment burden in local currency terms. These problems were compounded by uncertainties created during the proposed dissolution of CIB. Now, the major uncertainties on CIB's future role in 1994 have been cleared. CIB has a new charter providing more independence and has initiated "transformation" measures for improved and more efficient operations, including a focus on loan repayments. Its success and sustainability hinge to a large part on its ability to diversify its products and services and at the same time continue to improve repayment levels on its existing portfolio. With its new mandate, institutional independence, and full support of PCBC/PBC, CIB's new management team should be in a stronger position to implement needed changes in CIB, which should lead to improved and sustainable operations in the future. Project sustainability, which had been a concern during supervision, is now rated as likely given the government's clarification of CIB's role.

7. The project outcome is rated as satisfactory. The project substantially met its major objectives, both with respect to lending—204 light industrial enterprises were helped to upgrade their technology and modernize manufacturing facilities and 46 enterprises received short-term working capital—and institutional development—CIB has in place a computer center partly financed under the loan and has trained its staff in new activities. CIB was successful in mobilizing additional resources, especially deposits, which grew by about 50 percent per year (nominal) since 1990. The development results are expected to be realized and sustained albeit a few of the assisted enterprises are currently facing difficulties due mainly to evolving reforms towards a market economy. Furthermore, with its new mandate and institutional setup, CIB is now better poised to become an autonomous financial institution that would provide meaningful and competitive financial services.

8. In future, CIB is expected to make further progress toward becoming a commercial bank under the direction of its Board of Directors and PCBC, and under the supervision of PBC. It continues to restructure its organization and operations, as appropriate for a market-based commercial bank. In 1995, CIB consolidated its operations and initiated actions on its "transformation" toward its new goals and objectives.

9. The following lessons were learned from the project:
- (a) Despite some notable progress, CIB continues to experience problems rooted in issues besetting the macroeconomy and the overall financial sector. Recognition of this, coupled with the opportunities presented by China's recently more receptive environment for banking system reform signaled by passage of a Banking Law and a Central Bank Law, led to a shift in Bank strategy. Reform of the banking system's overall policy and regulatory environment is now central to our financial sector strategy. While direct assistance to some key players in China's banking system continues, policy and institutional change at both the banking sector and individual bank levels dominates our attention.
  - (b) CIB's reluctance to use foreign experts limited the degree of institutional change realized under the project. In future operations, including the Financial Sector Development Project now being prepared, we will take a different approach to training. A "twinning" arrangement between a local bank and a respected international commercial bank has been found to be a more acceptable means of transferring commercial banking skills to banks in command economies. When foreign technical experts must be used, it is crucial to gain the borrower's total understanding and acceptance of such assistance prior to project implementation.

# IMPLEMENTATION COMPLETION REPORT

## CHINA

### FIFTH INDUSTRIAL CREDIT PROJECT (LOAN 3075-CHA)

#### PART I. IMPLEMENTATION ASSESSMENT

##### A. PROJECT OBJECTIVES AND DESCRIPTION

1. **Background.** In 1981, the China Investment Bank (CIB) was established through a special charter approved by the State Council and was one of the first new institutions in what was expected to be an increasingly competitive and efficient financial system in China. At the time the Fifth Industrial Credit Project (CIB V) was approved in 1989, the Bank had already provided \$645.6 million in four credit lines to CIB. These four industrial credit projects<sup>1</sup> were to assist in the institutional development of CIB and to augment its foreign currency resources for financing the restructuring and technical upgrading of light industrial enterprises. Loan 3075-CHA (the subject of this ICR) was for \$300 million, and aimed to continue to support the development of CIB into an autonomous, efficient, viable and sound financial intermediary in industrial finance. Because of the expertise it has acquired in project financing and appraisal, CIB also became an active participant (as financial intermediary or financial agent) in relending Bank funds in several provincial and sector projects, e.g., two projects in Tianjin in 1989 and 1993, Shanghai Industrial Development Project in 1991, Rural Industrial Technology Project (SPARK) in 1990, Beijing Environment Project in 1992, Medium Cities Project in 1992, Southern Jiangsu Environment Project in 1993 and more recently in three Ozone Depleting Substances Projects. These projects involve Bank Group and Global Environment Facility resources amounting to \$2,070 million; loans in which CIB absorbs the full credit risks amount to about \$1,215 million or 60 percent; the balance is on a financial agency basis, i.e., no credit risk to CIB.

2. **Project Objectives.** The project was to: (a) continue institutional strengthening of CIB in both its traditional and new areas of activity and thus enable it to carry out its operations efficiently and prepare itself effectively to meet the changing needs of its clients and operate in the emerging competitive environment; (b) expand and diversify

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<sup>1</sup> Project Performance Audit Report, China—China Investment Bank (Loans 2226, 2434, 2659-CHA and Credits 1313, 1491, 1663-CHA), Report No. 9945 dated October 3, 1991; PCR on the Fourth Industrial Credit Project (CIB IV) dated May 25, 1994.

CIB's resource base; and (c) provide funds for investment in the modernization and restructuring of light industry and removing the sector's operational bottlenecks. In particular, the project was expected to enhance the role and capacity of CIB so that it could be more responsive to the rapidly changing financial sector environment in China.

3. **Project Description.** The project had two components:

- (a) a line of credit (\$299 million) for the financing of small- and medium-size restructuring projects in light industry with the following subcomponents:
  - (i) lending for the import of modern equipment and technology (\$244 million);
  - (ii) working capital financing (\$50 million); and
  - (iii) equity investments, including equipment leasing (\$5 million).
- (b) technical assistance (\$1.0 million) to support the implementation of a training program for CIB's staff in existing and new financial products and services, and import of computer hardware and software for CIB's proposed electronic data processing system and related training.

4. The People's Republic of China was the borrower of the Bank Loan. The proceeds were lent to CIB for 20 years including a grace period of 5 years, with CIB allowed to roll over the funds. CIB's subloans were normally not to extend beyond 7 years, and in no case more than 12 years. CIB repaid the Government at the Bank's variable interest rate; the subborrowers paid CIB a variable rate equal to the Bank rate plus a minimum spread of 1.5 percent and carried the exchange risk between the Bank's currency pool and the yuan.

5. **Eligibility Criteria of Subloans.** All subprojects financed out of the Bank Loan were to meet the following eligibility criteria: (a) subprojects to be in the manufacturing sector and have minimum financial and economic rates of return of 12 percent; (b) subprojects in basic and heavy industries normally not to be eligible; (c) aggregate subloans to a single enterprise not to exceed \$20 million equivalent; (d) borrowing enterprises/companies to have satisfactory projected financial operations and position. Under the project, CIB's free-limits<sup>2</sup> were: \$4.0 million for its branches in Shanghai, Tianjin, Jiangsu, Zhejiang, and Hebei, \$2.0 million for Hubei, Fujian, Liaoning, Anhui, Shandong, Heilongjiang, Beijing, Hunan, Jilin, Guangdong, Shenyang, Dalian, Qingdao, and Guangzhou, and \$1.0 million for the other 12 branches.

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<sup>2</sup> Free limit is an amount of subloan for which prior Bank approval is not required.

## B. ACHIEVEMENT OF PROJECT OBJECTIVES

6. **Physical Objectives.** The objectives of the project were substantially achieved. CIB utilized the industrial credit component fully and for the first time within the original closing date; this component financed modern equipment for 204 enterprises in the light industry sector. CIB continued the use of its appraisal manual designed with the assistance of the Bank; this manual is widely used among many major financial institutions in China and has become a useful standard on how to appraise an industrial project. Under the project, CIB began to computerize some of its operations, starting with loan accounting and financial accounts. The project also provided continuing training assistance to CIB staff, particularly in new areas of operations such as lease financing, equity investments, and working capital loans. About 26 percent of the credit component was onlent to nonstate enterprises (joint ventures, cooperatives, and township and village enterprises—TVEs), which exceeded the agreed minimum of 10 percent and was a positive development. As agreed, CIB also continued to diversify its resource base, raising foreign currency resources close to \$1.0 billion (46 percent from deposits and 54 percent from other sources including bilateral and syndicated loans, and bonds) this is more than was projected. More importantly, CIB has raised substantial domestic funds through deposits and loans, which accounted for about 70 percent of total resources in 1994 (compared to 56 percent in 1988). CIB also diversified its products and services and, under the project, it initiated lease financing, equity investments and working capital loans. The working capital loan component (para. 14), although small in amount, catalyzed the development of such loans, which are now a mainstream financial product and constitutes a major portion of CIB's portfolio.

7. **Institutional Objectives.** The project provided additional technical assistance funds to continue CIB's development into an efficient and effective organization able to compete in a changing environment. In July 1994, the People's Bank of China (PBC) approved CIB's new charter which essentially confirmed that CIB would be a PBC-approved and supervised institution. Furthermore, its charter permitted CIB to be organized as a "limited liability" company, clearly defined CIB as a wholly-owned subsidiary of the People's Construction Bank of China (PCBC), and made CIB directly responsible for its operations and branches which heretofore were responsible more to PCBC's branches rather than CIB's head office. CIB's new charter ensured that CIB would remain an independent financial institution, which in 1994 was threatened by a proposed "amalgamation" into PCBC. At present, CIB has sufficient trained staff and a new management structure intent on making CIB an efficient commercial bank. However, continuing technical assistance may be required to accelerate and ensure this transformation. One crucial factor that affects CIB's operations and sustainability is the quality of its portfolio (para. 18). It would need to improve its debt service capacity through: (a) intensive collection efforts on its existing portfolio; (b) enhanced profitability from cost reduction measures and more diversified products and services, and (c) continuous strengthening of its capital base.

### C. IMPLEMENTATION RECORD AND MAJOR FACTORS AFFECTING THE PROJECT

8. **Loan Effectiveness and Implementation Schedule.** The project was approved by the Bank on May 30, 1989; the Loan and Project Agreements were signed on July 21, 1989 and became effective on October 31, 1989. The loan was closed as scheduled on December 31, 1994 ; this was in contrast to the previous four loans that were all extended by a year. (Annex B contains the amounts disbursed for individual subprojects as of May 31, 1995.)

9. **Subloans and Investments.** As indicated above, implementation of the project was over five years as scheduled. There were 200 subloans with an average subloan of \$1.2 million (net of subloans for working capital and equity investments), which is in line with the average for the four previous credit lines to CIB but lower than the average estimated at appraisal of \$1.5 million. The average maturity of the subloans was about five years, which is less than the seven-year average expected during project appraisal. There were 41 subloans (20 percent in number) "above the free limit" (i.e., subject to prior Bank review and approval) accounting for \$119 million or 48 percent of the total subloans. During appraisal, 21 percent by number and 50 percent by amount were estimated to be above the free limit and a total of 200 subprojects was projected. Subloans to nonstate enterprises (joint ventures, town/village enterprises, and cooperatives) comprised 26 percent of the total, which is well above the allocation of at least 10 percent agreed during appraisal; sectoral distribution was more even than previous loans to CIB, with textiles accounting only for 19 percent (compared to 27 percent under CIB IV). The geographic distribution was also evenly spread, with each branch having less than 10 percent of the total except for Shandong branch (16 percent) and Guangdong branch (14 percent)—the main branches of Liaoning, Jiangsu, Hubei accounted for relatively high shares of 9 percent, 7 percent, and 6 percent, respectively. Subloans for working capital numbered 46, resulting in an average subloan of about \$1.1 million (para. 14).

10. **Subproject Implementation.** Implementation of subprojects was basically satisfactory. As of December 31, 1994, there were 165 (84 percent) subprojects in operation and 32 (16 percent) were still under construction. Out of the total subprojects in operation, 84 (50 percent) were completed on schedule, 28 (17 percent) were delayed for up to six months, 17 (10 percent) were delayed for 6 to 12 months, and 5 (3 percent) were delayed for one to two years. By comparison, the on-time completion of subprojects was 72 percent for CIB II, 42 percent for CIB III, and 63 percent for CIB IV. Some of the common and major causes of delays included: shortage of and delay in the provision of counterpart funds owing mainly to increased local currency costs, change in project design to implement the project within the budget, which proved to be lower than actual costs during procurement, delayed delivery of equipment and installation difficulties.

11. Of the 165 completed subprojects, 110 subprojects (67 percent) were operating at over 70 percent of capacity, 19 subprojects (12 percent) at 50 percent-70 percent of capacity and 36 subprojects (21 percent) at below 50 percent of capacity. This experience is slightly better than the subprojects under CIB IV. However, the reasons for the low capacity utilization remained the same and included: (a) inadequate working capital due to

higher prices of inputs; (b) operational difficulties with new and imported equipment; and (c) low and declining domestic market demand for certain products. Based on the above figures, 55 subprojects (those operating at 70 percent of capacity and below) could be incurring losses or at best breaking even. This performance is also reflected in the overall deterioration of CIB's arrears situation (para. 18) and repayment experience of the subprojects under CIB V (para. 12).

12. **Repayment Experience.** The following table summarizes the collection and arrears situation of 168 subprojects under CIB V as of December 31, 1994. Repayment experience under the project indicates a reasonably high overall collection ratio of 83 percent although the "on-time" collection is at 72 percent. These ratios were slightly lower than those for CIB IV but are higher than the average experience of CIB's total portfolio of long-term loans. However, arrears under the project amounted to Y 48 million equivalent or 6.8 percent of the total arrears at the end of 1994; 33 companies or about 3 percent of the total number of companies in CIB's long-term portfolio were in arrears.

**COLLECTION AND ARREARS POSITION: SUBPROJECTS UNDER LOAN 3075-CHA  
(AS OF DECEMBER 31, 1994)**

	Number of Subprojects	Principal and Interest (Y million)	
		Foreign Currency	Local Currency
1. Cumulative Amount Due	168	250.76	33.37
2. Cumulative Amount Paid	135	207.88	27.86
3. Amount of Arrears	33	42.88	5.51
4. Amount Paid on Time	127	179.04	24.22
Ratios ( percent):			
2/1	80.4	82.9	83.5
3/1	19.6	17.1	16.5
4/1	75.6	71.4	72.6

Note: 32 subprojects are still under construction and 31 subprojects have fully repaid subloans.

13. **Economic and Financial Rates of Return.** Based on a sample of 15 fully repaid CIB subloans, a comparison of ex-ante and ex-post financial rates of return (FRR) shows that ten subprojects had lower than originally estimated FRRs, but these were still at 15-35 percent. Ex-post FRRs of five subprojects were equal to or slightly higher than original estimates. Based on a sample of five subprojects, ex-post ERRs are close to the original estimates at 24 percent and higher. These comparative FRRs/ERRs would probably be representative of the subprojects operating at a profit. However, the implementation and arrears situations for the subprojects under CIB V (paras. 10-12) could mean lower (if not

negative) ex-post rates of return for several subprojects. For example, 55 enterprises were operating below 70 percent of capacity, and either probably would be incurring losses or at the break-even level. Furthermore, there were 33 companies (20 percent of completed subprojects) that had arrears with CIB and 32 subprojects (16 percent of total) were still under construction and not operating.

14. **Working Capital Subloans.** \$50 million of the loan was utilized for 46 working capital subloans and divided as follows: \$11.12 million for 16 companies in light industry, \$11.80 million for 9 textile companies, \$9.70 million for 8 electronics companies, \$8.28 million for 5 machinery companies, and \$9.1 million for 8 companies in trade, chemicals, metals, and the packaging industry. Of the 46 subloans, 18 (39 percent) subloans have been repaid; of the balance, one company is having difficulties in repayment and the others are continuing to repay the interest but not the principal. These subloans were subject to the Bank's review and approval, which added to the processing time. This was necessary since it was the first time such loans were to be provided by CIB—in fact, the Bank assisted in developing CIB's manual and procedures for working capital loans. Overall, this component has been instrumental in making working capital loans a major financial product of CIB, and in several cases has assisted companies to improve operations and overall repayment to CIB.

15. **Technical Assistance (TA) Component.** This component was for the purchase of a minicomputer (UNISYS A6F) that (including software) cost \$755,000, of which \$700,000 was from Loan 3075-CHA and the balance was financed by CIB out of its own foreign currency resources. The computer was installed in 1989 and has been in use for CIB's statements of accounts, loans, financial projections of income and expenses, and international settlements. During project implementation, CIB's reporting to the Bank was satisfactory, with progress reports prepared and submitted on time. However, much still needs to be done in terms of coordination and use of the information for CIB's internal use and corporate planning. Information gathering and use remains compartmentalized, and better coordination and consolidation are required. Expanded use of the facility is ongoing to further improve CIB's overall management information system.

16. The second portion of the TA component was for continuing staff training. This involved 55 staff members in 16 courses in banking management, international settlements/finance, and financial seminars. These were excellent courses. However, CIB needs foreign training in project supervision and problem projects in view of the adverse trend in CIB's portfolio quality. The Bank had emphasized this need repeatedly. Moreover, contrary to plans originally agreed, there were no foreign experts hired to assist CIB in the aspects of marketing analysis, financial analysis, environment and subsector studies. Closer monitoring and planning of training activities should have been done by the Bank to ensure implementation of a more balanced and appropriate training program.

17. **Financial/Operational Performance of CIB.** A comparative summary of CIB's financial and operational performance during 1989-94 is shown in Annex C. In terms of profitability, actual performance was much below the projections and there was a declining

trend, largely due to growth in arrears and collection difficulties. Lagging repayment of CIB's loans has been largely due to onlending terms that require borrowers to assume the foreign exchange risk of borrowing hard currency. The devaluation of the renminbi from an average Y 3.76 to the dollar in 1989 to Y 8.50 in 1994 meant that any borrower not involved in export industries and therefore not earning foreign exchange was faced with about a doubling of the loan repayment burden in local currency terms. However, actual expansion of its assets was much higher than projected; e.g., at end 1994, CIB deposits totaled Y 13.9 billion, which was not anticipated in the projections. These deposits funded a substantial volume of short-term working capital loans amounting to Y 13.4 billion. Actual long-term borrowings in both local and foreign currency were also much higher than projected. With much lower actual net profits, CIB's equity did not increase as much as projected and its debt/equity ratio exceeded the original agreed level (five times) at about 5.63 times at the end of 1994. This was also due in large part to the unification of the exchange rates starting in January 1994, resulting in devaluation of the Yuan. In June 1994, the Bank agreed to increase the debt/equity limit to 7:1, which is still considered appropriate for CIB's operations. As of the end of 1994, CIB's total assets were Y 44.0 billion or \$5.2 billion. As indicated previously, CIB's success and sustainability hinge on its ability to diversify its products and services while continuing to improve repayment levels on its existing portfolio.

18. **Arrears Position.** CIB's arrears have grown from Y 228 million in 1990 to Y 709 million in 1994, which as a percent of total long-term loans was equivalent to 5.3 percent, up from 3.3 percent in 1990. Growth of arrears in 1994 was a record high of 178 percent over that of 1993. While arrears are still reasonably low particularly in relation to total assets (only 1.6 percent), CIB needs to contain their increasing trend and make adequate provisions. As of the end of 1994, CIB's provisions for doubtful debts amounted to Y 531 million which is equivalent to 75 percent of its arrears balance and appears adequate. These provisions could be considered adequate as general reserves equivalent to 2 percent of the outstanding loan portfolio meet the project covenant. In future, CIB needs to review and adjust, as necessary, the level of its provisions to include "specific" provisions based on the status of each loan account. During project implementation, arrears and collection problems became major issues for CIB, which is now implementing measures to address this problem, including collection targets. These need to be reviewed and/or intensified since its collection performance in 1994 was well below targets.

#### **D. PROJECT SUSTAINABILITY**

19. The project is likely to be sustainable. CIB has finally been given operational autonomy as a wholly owned subsidiary of PCBC with a new Charter as a commercial bank approved by PBC and registered as a limited liability company with a smaller and more manageable Board of Directors. In 1995, CIB started to implement its "transformation" into a market-oriented commercial bank starting with the appointment of a new president. It will be focusing on raising domestic resources from "term" deposits, improved asset/liability management, and intensive collection measures. With the leadership of PCBC and supervision by the PBC, CIB's operations are expected to improve and to be sustainable.

### **E. BANK PERFORMANCE**

20. Under the project, the Bank played a particularly significant role in initiating diversification of CIB's products and resources. For the first time, the Bank's credit line was utilized for working capital loans, equity investments, and leasing operations. These have helped CIB to promote new financial products which have now been mainstreamed in its operations, particularly working capital loans. CIB was also able to diversify its resources, both in foreign currency and in domestic currency deposits. Through the review of subprojects, the Bank assisted CIB in improving its appraisal standards, particularly in marketing and financial aspects. The Bank also provided significant inputs in the development of CIB's manual for working capital and equity investments. The Bank's supervision missions urged CIB to focus on its supervision and collection efforts and prompted CIB's collection strategy and multiyear collection targets. In 1994, the Bank was instrumental in helping to maintain CIB as a separate financial institution against a seemingly strong government desire to absorb CIB into PCBC. However, close monitoring and planning of training activities should have been done by the Bank to ensure implementation of a more balanced and appropriate training program. Yet, overall, the Bank was quite supportive and contributed to development of CIB's operations.

### **F. BORROWER PERFORMANCE**

21. CIB implemented the project satisfactorily and fully utilized Loan 3075-CHA by the original closing date, which is an improvement over the four previous Bank projects whose closing dates had to be extended by one year. During implementation, CIB's operations continued to suffer due to deteriorating loan collections and rising arrears, and uncertainties about its future role. These uncertainties have now been cleared. CIB has a new charter providing more independence, and has initiated "transformation" measures for improved and more efficient operations including a focus on loan repayments. With its new mandate, operational autonomy, and full support of PCBC/PBC, CIB's new management team should be in a stronger position to implement needed changes, which should lead to improved and sustainable operations in the future.

### **G. ASSESSMENT OF OUTCOME**

22. The project outcome is rated as satisfactory. The project has substantially met all of its major objectives. With the Bank's credit line, CIB financed and assisted 204 projects in light industry--upgrading their technology and modernizing manufacturing facilities--and provided 46 enterprises with short-term working capital. CIB also has in place a computer center partly financed under the loan and has trained its staff in new activities. These staff will be critical in CIB's future development. The project's development objectives are expected to be realized and sustained, although a few of the assisted enterprises are currently facing difficulties due mainly to evolving reforms toward a market economy. With its new mandate and institutional setup, CIB is now

better poised to become an autonomous financial institution providing competitive financial services.

#### **H. FUTURE OPERATIONS**

23. In the future, CIB is expected to operate as a commercial bank under the direction of its Board of Directors and PCBC and under the supervision of PBC. It is currently restructuring its organization and operations to become a market based commercial bank. In 1995, CIB expected to consolidate its operations and initiate actions on its "transformation" towards its new goals and objectives. On the Bank's side, there are no plans for a follow-up project. However, CIB could participate in Bank projects for which participating financial institutions are needed, provided it meets the criteria for participation.

#### **I. LESSONS LEARNED**

24. The following lessons were learned from the project:

- (a) Despite some notable progress, CIB continues to experience problems rooted in issues besetting the macroeconomy and the overall financial sector. Recognition of this, coupled with the opportunities presented by China's recently more receptive environment for banking system reform signaled by passage of a Banking Law and a Central Bank Law, led to a shift in Bank strategy. Reform of the banking system's overall policy and regulatory environment central to our financial sector strategy. While direct assistance to some key players in China's banking system continues, policy and institutional change at both the banking sector and individual bank levels dominates our attention.
- (b) CIB's reluctance to use foreign experts limited the degree of institutional change realized under the project. In future operations, including the Financial Sector Development Project now being prepared, we will take a different approach to training. A "twinning" arrangement between a local bank and a respected international commercial bank has been found to be a more acceptable means of transferring commercial banking skills to banks in command economies. When foreign technical experts must be used, it is crucial to gain the borrower's total understanding and acceptance of such assistance prior to project implementation.

**PART II. STATISTICAL TABLES**

**TABLE 1: SUMMARY ASSESSMENTS**

<b>A. Achievement of Objectives</b>	Substantial	Partial	Negligible	Not Applicable
Macroeconomic Policies				X
Sector Policies		X		
Financial Objectives		X		
Institutional Development		X		
Physical Objectives	X			
Poverty reduction				X
Gender concerns				X
Other social objectives				X
Environmental Objectives			X	
Public Sector Management		X		
Private Sector Development		X		
Other (Specify)				
<b>B. Project Sustainability</b>	Likely		Unlikely	Uncertain
	X			
<b>C. Bank Performance</b>	Highly Satisfactory		Satisfactory	Deficient
Identification			X	
Preparation Assistance			X	
Appraisal			X	
Supervision			X	
<b>D. Borrower Performance</b>				
Preparation			X	
Implementation			X	
Covenant Compliance			X	
Operation			X	
<b>E. Assessment of Outcome</b>			X	

**TABLE 2: RELATED BANK LOANS/CREDITS**

Loan/Credit No. Title	Purpose	Year of Approval	Status
Ln 2226-CHA/ Cr.1313-CHA First Industrial Credit Project (\$ 71.5 million)	To assist CIB in meeting the need for foreign exchange for industrial financing, improving investment efficiency, and organizing and improving CIB's capacity for project design, selection, appraisal and technology transfer.	1983	Completed
Ln 2434-CHA/ Cr.1491-CHA Second Industrial Credit Project (\$183.2 million)	To continue the institutional building efforts of the first project, including expanding branches, assist in appraisal of larger projects and meet CIB's resource requirements.	1984	Completed
Ln.2659-CHA/ Cr.1663-CHA Third Industrial Credit Project (\$103.6 million)	To assist CIB in financing productive facilities and resources in China that will contribute to the economic and social development of the country; to provide CIB with funds needed to develop its operations and carry out its Charter and Statement of Policy and Strategy.	1986	Completed
Ln.2783-CHA/ Cr.1763-CHA Fourth Industrial Credit Project (\$300 million)	To assist the government in promoting and implementing technology upgrading and modernization in industry, to build up sound institutions and procedures for project appraisal and investment financing and to improve intermediation practices; specifically, to continue institutional assistance to CIB and provide a general line of credit for industry.	1987	Completed

**TABLE 3: PROJECT TIMETABLE**

Steps in Project Cycle	Date Planned	Date Actual/Latest Estimate
Identification	n.a.	n.a.
Preparation	April 1988	April 1988
Appraisal	January 1989	January 1989
Negotiations	April 1989	April 17-21, 1989
Board Presentation	May 1989	May 30, 1989
Signing	June 1989	July 21, 1989
Effectiveness	September 1989	October 31, 1989
Project Completion	December 31, 1992	December 31, 1993
Loan Closing	December 31, 1994	December 31, 1994

**TABLE 4: LOAN/CREDIT DISBURSEMENTS: CUMULATIVE ESTIMATED AND ACTUAL  
(\$ million)**

Bank Fiscal Year and Semester	Estimated Cumulative	Actual Cumulative	Actual % of Estimated
1990 December 31, 1989	15.0	28.8	192.0
June 30, 1990	15.0	48.2	321.0
1991 December 31, 1990	54.0	78.1	145.0
June 30, 1991	96.0	101.2	105.4
1992 December 31, 1991	150.0	100.5	67.0
June 30, 1992	192.0	98.5	51.3
1993 December 31, 1992	219.0	104.6	47.8
June 30, 1993	252.0	145.6	57.8
1994 December 31, 1993	270.0	165.9	61.4
June 30, 1994	285.0	207.4	72.8
1995 December 31, 1994	300.0	299.2	99.7
June 30, 1995	300.0	300.0	100.0

The last disbursement was made on April 20, 1995.

**TABLE 5: KEY INDICATORS OF PROJECT IMPLEMENTATION**

The Project is essentially a credit line to CIB and as such the main indicators of project implementation are the commitment and closing dates. The subloan commitment date (project completion) was extended by one year to December 31, 1993 but the loan was closed as scheduled on December 31, 1994 compared to four previous credit lines whose closing dates were all extended by one year.

**TABLE 6: KEY INDICATORS FOR PROJECT OPERATIONS**

The key indicators for project operations provided in the SAR were in terms of projected loan operations and financial performance of CIB, level of provisions for doubtful debts, and debt/equity ratios. The comparison of projected and actual results is indicated in Annex D.

**TABLE 7: STUDIES INCLUDED IN PROJECT**

n.a.

**TABLE 8: PROJECT COSTS/FINANCING SOURCES**

During appraisal, the total project costs were estimated at \$460 million equivalent including a foreign currency cost of \$300 million (Bank loan). No complete data are available on actual costs of the subprojects. However, based on a limited sample of subprojects (as in other previous credit lines), CIB's portion averaged 62 percent (52 percent in foreign currency financing and 10 percent in local currency). The enterprises provided on average about 38 percent of project requirements. Based on these averages, the project costs of CIB V are estimated as follows:

	Amount (\$ Million)	Percent of Total Investments
Total investments	469.0	100.0
(foreign currency)	(244.0)	(49.2)
(local currency)	(225.0)	(51.8)
CIB Loans	291.0	62.0
(foreign currency)	(244.0)	(52.0)
(local currency)	(47.0)	(10.0)
Enterprise Funds	178.0	38.0

**TABLE 9: ECONOMIC AND FINANCIAL COSTS AND BENEFITS**

No financial rate of return (FRR) or economic rate of return (ERR) for the whole project was calculated at appraisal because this was an IDF operation. However, FRRs and ERRs were calculated by CIB for the individual subprojects. These were required to be above 12 percent, according to the Project Agreement. Based on a sample of 15 fully repaid subloans, a comparison of ex-ante and ex-post FRRs shows that the subprojects had lower than originally estimated FRRs but these were still at 15 to 35 percent. Ex-post FRRs of five subprojects were equal to or slightly higher than original estimates.

Based on a sample of five fully-repaid subprojects, ex-post ERRs are close to the original estimates at 24 percent or higher.

**TABLE 10: STATUS OF LEGAL COVENANTS**

Section	Covenant Type	Present Status	Fulfillment Date	Original Description of Covenant	Comments
<b>Project Agreement</b>					
3.02	Financial	C		long-term debt/equity ratio of no more than 5:1	In June 1995, debt/equity ratio increased to 7:1
3.05	Financial	C	12/31/92	diversification of CIB's funding sources	
3.06	Financial	C	12/31/92	minimum provisions for doubtful debts at 2% of portfolio	

**TABLE 11: BANK RESOURCES: STAFF INPUTS**

Stage of Project Cycle	Actual	
	Weeks	\$
Through Appraisal	69.0	n.a.
Appraisal to Board	11.7	n.a.
Board to Effectiveness	1.0	n.a.
Supervision	123.0	n.a.
Completion	3.0	n.a.
<u>Total</u>	<u>207.7</u>	<u>n.a.</u>

**TABLE 12: BANK RESOURCES: MISSIONS**

Stage of Project Cycle	Month/Year	No. of Persons	Days in Field	Staff Skills Represented	Performance Rating		Types of Problems
					Implementation Status	Development Impact	
Through Appraisal	09/88	3	19	Finance	n.a.	n.a.	n.a.
	02/89	3	12	Finance	n.a.	n.a.	n.a.
Appraisal through Board Approval	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Board Approval through Effectiveness	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Supervision	10/90	3	14	Finance, Civil Eng.	1	1	M
	10/91	3	12	Finance, Economic	1	1	M
	11/92	2	7	Finance	1	1	M
	03/93	1	10	Finance	2	2	M/F
	10/94	1	7	Finance	2	2	I/M/F
Completion	03/95	1	2	Finance	2	2	M/F

I = Implementation; M = Management; F = Finance.



## **ANNEX A: BORROWER'S CONTRIBUTION TO THE ICR**

### **SUMMARY OF BORROWER'S EVALUATION AND PROJECT IMPACT**

#### **Project Background and Objective**

1. From 1987 to 1989, CIB's business achieved speedy development. So, such topics as institutional development, interbank competition and shortage of fund resources were not new any more for CIB. In order to raise the competitive status in the financial circle, CIB was enthusiastically absorbing funds from various channels. At the same time, it was also hoped that CIB could continue to get support from the World Bank, particularly, in respect of CIB's institutional expansion and new financial instruments, as well as service development.

2. The objective of this project was to continue to enhance the competency of CIB's current and burgeoning business, to enlarge and diversify CIB's resource mobilization and to provide investment finance for the technological renovation of industrial enterprises.

#### **Implementation of the Industrial Projects**

3. Under the fifth credit line, 197 industrial projects in all were financed. Among them, 165 projects have been put into operation (including 31 paid-up projects), accounting for 84 percent of the total. Projects delayed for putting into operation: 50 accounting for 25 percent of the total projects and 30 percent of those projects which have been put into operation. The reasons for delay:

- (a) The procurement from abroad was not on schedule. For instance, because of commercial negotiation the imported equipment was not delivered on time.
- (b) The domestic equipment delayed in delivery.
- (c) The preliminary preparation could not be carried on as planned due to land acquisition, relocation, and so on.
- (d) The enterprise's self-financed funds were not available.

4. Most of the projects' production capacity reached its designing requirements, but there are 36 projects with their actual production capacity below 50 percent. The reasons are:

- (a) The equipment can not satisfy its full capacity due to insufficient working capital.
- (b) The changing of domestic and overseas market led to sluggish and stockpiled products.
- (c) The equipment production capacity was not aligned, i.e. there existed "bottlenecks" in technological processing.

Under the Fifth Credit Line: the technological renovation projects accounted for the most among the total, exceeding 95 percent both by number and by amount.

5. From the sectors of the enterprises supported, the state-owned ones occupied a dominant position, but it descended in proportion, compared with the previous WB credit line. In the course of implementing this Fifth Credit Line, CIB attached importance to provide a larger support for the two types of economic entities that have been prevalent in recent years in China—joint venture and collectively-owned enterprises (including TVEs) which exceeded 25 percent both by number and by amount.

6. The industrial projects covered 17 sectors, among them, the textile, light, machinery and electronic industry occupied a larger proportion both by number and by amount, because these four sectors are Chinese traditional sectors and were export-oriented and conformed to CIB's policy statement. Besides, along with the swift development of China's automobile industry in recent years, CIB also gave certain support to equipment manufacturing in communications and transportation sectors. The wide sector coverage cut down CIB's loan risks to some degree.

7. Repayment analysis of the subprojects was done by CIB. Most of the Fifth Credit Line subborrowers entering into repayment period could repay the loans on time, but a few delayed the repayment. The major factors:

- (a) The construction period extended, leading to the inability to generate benefit as planned, which resulted in the delayed repayment.
- (b) The subprojects were short of working capital, leading to insufficient running of the machine, and the economic benefit declined.
- (c) The enterprises cut down the funds used for repayment and used the funds for maintaining its normal production for lack of working capital.
- (d) Foreign exchange rate changes led to project investment cost increase, and encumbered debt burden upon enterprises.

(e) The comprehensive economic benefit of the enterprises was bad.

8. The ex-post Cost-and-Benefit Analysis was done on 15 typical projects among the paid-up ones. Through the analysis and comparison between the projected and actual benefit of projects, it is shown that the actual benefit is generally lower than the projected, which is due to the tremendous changes in foreign exchange rate and price system. Even so, the FIRR is still above the standard level, and the enterprises possess good solvency.

### **Implementation of Working Capital Loans**

9. Working capital loans totaling \$50 million made in 1991-93, under the Fifth Credit Line, were thoroughly reviewed and approved. During the nearly four years of implementation, 46 working capital loans in all were approved, amounting to \$53.50 million. According to the "Project Agreement", CIB got reimbursement of \$50 million from the World Bank, the difference was met with CIB's own resources.

10. During the loan commitment period, as the market interest rate in US dollar money market once decreased to a fairly low level, the World Bank interest rate of working capital loans was 2 percent higher than the market interest rate. The enterprises were reluctant to bear the higher interest rate burden, and they turned to the market to raise low-cost foreign currency funds. Therefore, the examination and approval of the World Bank Working Capital Loans was greatly influenced. From 1991 to the end of 1992, CIB hardly examined and approved any working capital loan applications.

11. Working capital loans financed four sectors: textile, light, electronics and machinery industries. This conformed to the sector distribution of CIB's fixed-assets loans. But, analysis on each loan shows that the loan amount for light and textile industry was a small size with an average of \$910,000, while for sectors other than light and textile, the average loan size was \$1.44 million. Most of the loans for the textile industry were approved before 1990; after 1990, CIB no longer extended working capital loans to textile sector, and this cannot be separated from the changes in CIB's loan priority.

12. From the analysis of the enterprise type, it is easily seen that the working capital loans were mainly given to state-owned enterprises and joint-ventures invested by both foreign and Chinese parties. Among the 46 loans, state-owned enterprises numbered 35, amounted to \$41.72 million, accounting for 78 percent; joint-ventures numbered 12, which amounted to \$11.28 million, accounting for 21 percent, one loan to a collectively-owned enterprise, which amounted to \$500,000, accounted for less than 1 percent. The loan allocation was identical with CIB's operation guideline.

13. CIB's working capital loan collection record shows that by the end of 1994, of the 46 loans, 17 loans had been collected, totaling \$27.62 million, or 52 percent of the total loans. Among the uncollected loans, there was only one loan (\$1 million) which had the difficulty to repay.

### **Implementation of Equity Investment and Leasing**

14. **Equity Investment.** Under the Fifth Credit Line, there were two equity investment projects, amounting to \$2.15 million, of which China International Leasing Corp., Ltd. accounted for \$1.65 million invested in the type of shareholding-increasing, and Wuhun Yuan Wei Food Ltd. accounted for \$500,000.

15. Both of these two equity investment projects are joint-ventures invested by both Chinese and foreign parties: International Leasing Corp., Ltd., a nonbanking financial institution, and Wuhan Yuan Wei Food Ltd., a food processing enterprise.

16. **Leasing Business.** CIB approved two financial leasing projects under the credit line. The approved amount was \$2,779,000. All the disbursements have been completed by the end of December 1994. The two projects are still under construction. The status of implementation is as follows:

- (a) **Guangdong Maoming Glass Steel Project:** By the end of November 1994, the aggregate disbursement of the project was \$2,085,000 and Y 14,750,000. The project's main workshop and its aligned basic facilities have been completed. The imported equipment is being installed and the aligned domestic equipment will be delivered in June 1995. The project will be put into trial operation in the second half of the year.
- (b) **Xian Aviation Engine Machinery Factory:** By the end of December 1994, the accumulated disbursement was \$694,000. The imported equipment is under installation. The construction period of the project was delayed for four months. Although the project has not been put into operation formally, yet the comprehensive economic benefit of the enterprise is good, and it repaid \$122,000 of rent on time. After it is put into operation, the estimated net incremental profit will be Y 3,280,000 every year. The loan will be paid-up within 2.5 years.

17. The underestimation on various difficulties and risks during implementation and the shortage of matching funds for project construction extended the construction period. Therefore, the quality and level of appraisal report should be improved, and its practicality, authenticity and accuracy should be raised.

### **Staff Training**

18. According to the stipulation under the Fifth Credit Agreement, \$300,000 was provided for CIB's staff training and the availability period was from October 10, 1992 to December 31, 1994. But the credit training funds under the Fourth Credit Line were not disbursed until June 30, 1993, so the actual period of funding the training under the Fifth Credit Line was from June 30, 1993 to December 31, 1994. Up to December 31, 1994, 16 training projects were completed, the aggregate disbursement was \$300,000; 53 persons were sent abroad for training. The training courses are: Banking Management,

International Settlement, International Finance, Project Management, Financial Market, Computer, Swift System and so on. In addition, two foreign environmental protection experts were invited to China to hold training classes twice and 48 management staffs within CIB system were trained.

19. With the use of the training funds under the credit line, CIB trained department managers and technical personnel. In the meantime, CIB strengthened the training in banking, project and financial management as well as securities and the international business. Through training, CIB improved its management level, enhanced the cooperation and understanding with international financial market, fostered a group of specialists with commercial banking management knowledge and operational techniques.

#### **Implementation of Computer Aid Program**

20. **The Selection of Computer.** In 1987, along with its business development, CIB's computerization accelerated. For this, CIB used the T/A funds under the fifth WB credit line to introduce mini-computers of UNISYS A6F. The total price of the equipment was \$755,000 (for hardware \$410,000 and for software \$345,000). Of the \$755,000, \$700,000 was disbursed from the credit line, and \$55,000 from CIB's own capital.

21. The A6F mini-computers were put into operation on July 28, 1989. After the installation of the computers, CIB's Computer Center designed the management software for "Balance Sheet", "Loan Statement", "Financial Plan for Income and Expense", "Project Reimbursement", "International Statement", etc.

22. The introduction of the mini-computers played a decisive role in setting up CIB's computer center, raised the operational knowledge level of the computer staffs and laid a good foundation for CIB's computer application in the future.

#### **THE REFORM OF CIB IN 1994**

23. CIB's structural reform is one part of China's financial system reforms. The core of reform is that CIB functions as a commercial bank, and is formally included in the supervisory system of PBC as other commercial banks.

24. The features of CIB's new Charter:

- (a) CIB as a limited liability corporation is a subsidiary financial enterprise fully owned by the People's Construction Bank of China (PCBC).
- (b) CIB is an independent legal entity, possessing autonomous administration and assuming sole responsibility for its profit and loss.
- (c) In terms of its business, CIB is subject to the leadership, demonstration, supervision, coordination and check of the People's Bank of China.

- (d) CIB business coverage is expanded.
- (e) The relationship between the Head Office of CIB and the branches is clearly defined. CIB will carry out the first-level legal entity system, that is, the Head Office of CIB is the overall leading institution within the banking system, and plays a leadership role over its branches in business, personnel and financial affairs. CIB branches will develop their business within the authorization limits set by the Head Office.
- (f) The functions of the Board of Directors and the President are made clear. The Board of Directors is responsible to PCBC.

The Board consists of nine directors and Wang Qi-shan, President of PBC, is the Chairman. The first session of the new CIB Board was convened on December 22, 1994.

### **Top Management and the Functional Divisions**

25. The management team of the newly-restructured CIB is composed of five senior officers. Liu Da-wei, the President, presides at overall work; Qin Ke-rang, Deputy Executive President, is responsible for Planning and Treasury Dept., Inspection and Control Dept., International Dept., and Supervision Dept.; Sun Xiao-fan, Deputy Executive President, is responsible for Domestic Funding Dept., Credit Dept., Computer Center and General Affairs Dept.; Li Zhong-nan, assistant to the president, assists the president to take charge of Executive Office, Business Development Dept., and Auditing Dept.; Zhang Chang-zhi, assistant to the president, assists the president to take charge of Accounting Dept., Personnel and Training Dept., and Banking Dept.

### **Overall Evaluations and Comments**

26. It is gratifying to note that the Fifth Credit Line closed its account on schedule, the only one, among the five WB industrial loans to CIB, meeting the requirement of on-time closing. For this, it could not be separated from CIB's effective measures taken in the disbursement of the loan including: (a) restructured its internal business divisions, and strengthened the disbursement management of projects under construction; (b) closely monitored project disbursement, and timely made use of the undisbursed balance to fill up new projects; and (c) appointed an officer specifically from the project department to manage the disbursement of the Fifth Credit Line, and to exchange information with accounting department regularly.

27. In light of its experiences in implementing the subprojects under the Loan, CIB is prepared to initiate the following measures: restructuring loan priority, and focusing on borrowers' comprehensive benefit rather than project benefit; strengthening guarantee measures, demanding property collateral mainly instead of credit guarantee; financing aligned working capital and rectifying the policy of granting fixed asset loan merely to supplying comprehensive aligned loans.

28. The World Bank stipulated that the review, approval, disbursement and reimbursement of working capital loans should be conducted in accordance with the procedures for fixed-assets loans. That is, CIB's approval on every working capital loan should be subject to the World Bank's confirmation which allows the disbursement documents be submitted to the World Bank for reimbursement. But the working capital loan is quite different from the fixed-assets loan, that is, the enterprise's demand for it is urgent, which needs a simple and efficient procedure for review and approval. If the time taken for reviewing and confirming extends too long, it will delay the enterprises using of the loan. In the course of waiting for the World Bank's confirmation, many of the working capital loan applications were canceled by enterprises of their own accord. The practices proved that: such an operating procedure should be revised. The World Bank may consider to decentralize the examination and approval authority for working capital loans to CIB, and omit the confirmation procedure. When applying for being reimbursed, it will be enough for CIB to submit only a list of the related disbursement documents to the World Bank.

29. CIB gained some experience about CIB's equity investment operations and would make the following proposals:

- (a) Under the World Bank Credit, the proportion of equity investment should be enlarged to over \$10 million, in order that CIB could conduct comprehensive and multiple-channel investment to minimize or decentralize risks and raise the investments benefit as a whole.
- (b) Fund investment should be developed. That is to take the World Bank-provided equity investment line as fund, and manage and operate it by CIB in terms of fund.
- (c) To add equity investment to present enterprises (with certain capital background, market prospect and high credit) and avoid the equity investment to newly-constructed enterprises.

30. On training of CIB staff, it is hoped that, in the future, CIB could strengthen the training cooperation with the World Bank in respect of commercial banking management, western financial accounting, international financial market, financial derivative instruments and so on. It is also hoped that the World Bank could regularly run senior seminars of banking management for managers of CIB Head Office and presidents of branches.



## ANNEX B: LIST OF SUBPROJECTS/SUBLOANS—AMOUNTS DISBURSED

Subloan No.	Name Of Subproject	Amount Disbursed (\$)
A-1	Xiangfan Bedsheet Mill	2,892,719.38
A-2	Shenyang Blanket Factory	2,754,704.58
A-3	Xin Hui Synthetic Fiber Factory	5,758,444.19
A-4	No. 5 Northwest Cotton Mill	4,971,639.34
A-6	Long Feng Piano Co.	3,696,000.00
A-7	Xin-Jian Shihezi Bayi Wool Mill	2,927,000.00
A-8	Liuzhou Mini Car Plant	2,100,000.00
A-10	Jingshi Silk-Spun Mill	2,867,000.00
A-11	Hohhot Synthetic Detergent Factory	1,403,600.00
A-12	Beijing No.8 Chemical Plant Project	2,988,700.00
A-13	The Anyang Bicycle Corporation	2,906,219.97
A-15	The Anhui Wuhu No.3 Radio Factory	2,039,425.51
A-16	Harbin Drawn-Work Factory	1,793,500.00
A-17	The Shenyang Gourmet Powder Plant	3,410,000.00
A-18	Hainan International Green Island Shoe Co.	1,624,310.60
A-20	Shenzhen Tianma Microelectronics Co.	2,875,335.15
A-21	Anhui Fabric And Canvas Factory	5,253,000.09
A-22	Guilin Gear Factory	1,210,000.00
A-23	Tsingtao Beer	3,124,000.00
A-26	No.18 Metal Cons Co & 3s Die Casting	2,671,068.16
A-27	Jilin Chemical Factory	3,000,127.64
A-28	Guangzhou Strip Mill	6,444,000.00
A-29	No. 1 Cotton Mill	2,000,000.00
A-30	Hong Sheng Telecommunication Equip.	1,479,000.00
A-31	Hubei Switchgear Factory	1,978,270.00
A-32	Yulin Diesel Factory	2,900,000.00
A-33	Tangshan Coking Factory-0ven	5,436,000.00
A-34	Xinxiang General Silk Mill	2,702,652.92
A-36	Shanghai Transformer	2,453,000.00
A-38	Zhaojie Shoes Co.	2,310,000.00
A-39	Zhalantun Pulp And Paper Mill	3,388,714.67
A-40	Zhao Zhuang Rubber Plant	2,165,000.00
A-43	Shishou Auto Part Factory	2,338,000.00

Subloan No.	Name Of Subproject	Amount Disbursed (\$)
A-44	Guilin Tire Factory	2,970,000.00
A-45	Wuhan Cable Corp.	2,225,000.00
A-47	Hubei Hongqi Cable Works	1,836,000.00
A-48	Fushan No. 5 Radio Plant	2,574,000.00
A-49	Hawson Ceramics Co. Ltd.	2,835,021.62
A-50	Lin County Grain And Oil Co.	1,537,667.51
A-51	Cixi Light Industry Plastic Gen. Co.	5,298,000.00
A-52	Guangdong Maoming Glass Factory (Leasing)	2,085,000.00
<b>Total A-Subloans</b>		<b>119,222,121.33</b>
B-2	Hangzhou Silk Screening & Dyeing Factory	910,274.05
B-3	Ming Shi Dyeing Mill Co.	611,849.23
B-4	No. 10 Jinan Cotton Mill	147,883.77
B-5	Zhen Jiang No. 3 Plastic Plant	487,900.00
B-6	No. 3 Wei Fang Cotton Mill	1,125,000.00
B-7	Jinan Textile Machinery Mft.	1,423,746.52
B-8	Dalian Refractor Factory	409,590.69
B-10	Wujin Electronic Instruments & Mat.	483,700.00
B-12	Qingdao Laoshan Lace Factory	934,024.88
B-13	Yunyang Car Shifter Fork Factory	1,134,127.06
B-15	Shandong Printing & Dyeing Mill	1,057,999.90
B-16	Baoding No. 2 Chemical Plant	2,865,400.00
B-17	Shanghai Toothpaste Factory	2,477,030.22
B-18	Rongcheng Leather Shoe Factory	1,670,000.00
B-19	Zhuzhou Chemical Plant	1,096,001.28
B-20	Wuxi No 3 Rubber Factory	1,756,116.03
B-21	Xinhui Fiber Chromomere Factory	796,900.00
B-22	Chifeng Electric Fac Anshan Elect Potte	572,086.53
B-23	Hailer Fur Plant	64,568.23
B-24	Guangzhou Gas Appliance	300,046.17
B-26	Anshan Hongqi Tractor	930,000.00
B-28	Xinjiang Shihezi Foosm Dis.	527,879.41
B-29	Yingchun Embroidery	296,000.00
B-30	Lushun Municipal Construction Bureau	795,000.00
B-31	Yangzhou Blanket Factory	530,000.00
B-32	Yangzhou Worsted Textile Mill	424,025.30
B-33	Hangzhou Winery	594,000.00
B-34	Nanjing Friction Mtrl.	5,544.16
B-36	Wuxi Fuel Injection Equipment Factory	134,186.00

Subloan No.	Name Of Subproject	Amount Disbursed (\$)
B-38	Benxi Lubrication Material Factory	228,503.89
B-40	Yueyang Paper Mill	1,000,000.00
B-41	Yueyang Steel Ball Factory	372,101.97
B-42	Chang Chun Electric Tool Factory	916,028.23
B-43	Shenyang General War Knitting Mill	686,105.46
B-44	Shenyang Plainlg Plant	458,140.97
B-45	Tianjin No 3 Perfume Factory	360,091.12
B-46	Anhui Vinyl Factory	300,000.00
B-47	Dye Factory Of The Jilin Chemical Ind	740,000.00
B-48	Hangzhou Cutting Tool General Plant	1,720,000.00
B-49	Ningbo Artificial Fur Factory	1,070,000.00
B-50	Chengzhou Wangheng Instrument Factory	653,000.00
B-52	Agricultural Production Material Company	112,481.31
B-53	Zhuhai Doument Shipyard Factory	350,000.00
B-54	Fushun Auto Electrical Motor Factory	1,733,000.00
B-55	Fushun Xiangyu Industry Company	755,044.79
B-56	China Travel Agency	754,920.00
B-57	Shenyang General Tire Factory	783,000.00
B-60	Hanguang Electron Plant	797,800.00
B-61	Zhen Ping Hosiery Mill	460,000.00
B-62	Xinyu Iron & Steel Works	1,000,000.00
B-64	Hefei No. 1 Plastic	505,000.00
B-66	Wuhan Electric Cable and Wire Factory	1,046,000.00
B-68	Suzhou Projection Tube Factory	1,203,270.00
B-69	Taiyuan Stainless Product Ind.	989,000.00
B-70	Taichang No 2 Agricultural Machinery Plant	36,246.00
B-71	North China Pharmacefunds	57,546.80
B-74	Shanghai Jie Fan Plastic Product Factory	1,723,295.33
B-75	Jin Zhou Electromagnetic Wire Factory	300,000.00
B-76	Liaoning No 2 Radio Factory	600,000.00
B-77	Qingdao No 25 Garment Factory	105,009.70
B-78	Qingdao Woolen Garment Factory	718,433.84
B-80	Dalian Edmin Tannery Co.	1,496,000.00
B-81	Xianwei Leather Co, Ltd.	420,000.00
B-83	Harbin Hualong Leather	22,079.04
B-84	Bengbu Shonhe Embroidery	476,088.64
B-85	Lisheng Pharmaceut. Factory	280,000.00
B-86	Tianjin Industrial	168,492.18
B-87	Qingbo Electric Freezer	1,283,000.00
B-88	Xinyi Rosin Factory	761,029.45

Subloan No.	Name Of Subproject	Amount Disbursed (\$)
B-89	Qingdao Board Factory	42,822.54
B-91	Yuefeng Plastic Co.	757,000.00
B-92	Wujin Third Radio Funds	216,445.44
B-93	Dongguan Tr Bearing Factory	593,000.00
B-94	Xinhui Shipyard	994,000.00
B-95	Beijing Copper Wire Factory	184,107.55
B-96	Dalian Jiaxing Clothing Ornament	1,470,000.00
B-97	Qingdao Lock Factory	485,127.48
B-98	Xinhou Beiyue Decorative Matrl.	459,500.00
B-99	Changchun Textile Mill	340,129.38
B-100	Jilin Paper Mill	747,000.00
B-101	Yangzhou Dahua Towel	2,000,000.00
B-102	Maanshan Steel Wire Rope Factory	1,980,047.93
B-103	Wuxi Hongguang Glassworks	1,211,000.00
B-104	Beijing Woolen Knitting Group Firm	295,004.76
B-106	Hangzhou Bush Bearing Factory	543,000.00
B-108	Yingkou Chemical Fiber Plant	1,490,019.94
B-109	Anshan Steel Furniture Factory	391,100.00
B-112	Liling Wooden Furniture Factory	932,000.00
B-113	Zhe Qiang Daily Necessity Co.	200,000.00
B-114	Rong Cheng First Shoe Factory	597,000.00
B-115	Anshan Cooler Plant	503,825.03
B-116	Beijing Tool Works	883,015.66
B-117	Hai Yang Leather Shoe Plant	291,800.00
B-118	Chongqing Changjiang Printing Co. Ltd.	462,000.00
B-119	Wuxi Plastic Factory	2,963,000.00
B-120	China No. 1 Pencil Factory	411,200.00
B-121	Tianjin Lead Pencil Factory	121,000.00
B-122	Shanghai Yuejin Electronic Works	1,111,000.00
B-123	Jiangmen Paper Mill	564,000.00
B-124	Wuxi Silk Printing And Dyeing Mill	284,014.00
B-125	Xinhui Weibao Paper Making Co., Ltd.	324,000.00
B-126	Hualin Rubber Factory	1,702,000.00
B-127	Wuhu No.2 Radio Factory	473,000.00
B-128	Shanghai Guangzhou Global Shoes Co. Ltd.	104,200.00
B-129	Mudanjiang Fourth Medicine Factory	1,250,000.00
B-130	Taihe Electric Industry Co. Ltd.	105,000.00
B-131	Shunsheng Plastisol Co.	1,495,559.44
B-132	Jinping Stainless Steel Products Co.	357,000.00
B-133	Hua Zhong Equipment Factory	1,215,500.00

Subloan No.	Name Of Subproject	Amount Disbursed (\$)
B-134	Chong Chao Electronic Ind. Co. Ltd.	766,500.00
B-135	Ri Zhao No. 3 & Hongkong Ji Yi Co.	1,046,300.00
B-136	Wendeng Embroidering Factory	370,200.00
B-137	Qunli Radio Equipment Factory	533,400.00
B-138	Shanghai No.2 Electronic Component Factory	347,812.54
B-139	Hangzhou Southeast Chemical Plant	2,216,000.00
B-140	Jinan General Light-Ind. Chem. Factory	263,084.51
B-141	Tongliao No. 1 Wool Mill	806,300.00
B-142	Wuxi Radio Component Factory	547,979.66
B-143	Zhu Cheng No. 1 Woolen Textile Factory	219,500.00
B-145	Shanghai Intl. Leasing Co. Ltd. (Equity Investment)	1,650,000.00
B-146	Shanghai Xinfeng Printing & Dyeing	1,853,874.64
B-147	Rizhao Luda Motor Making Parts	610,232.32
B-148	Huawei Plastic Ind. Co.	307,963.93
B-149	Jiangjing Pharmaceutical Ltd.	502,500.00
B-150	Wuzhou Storage Battery	600,000.00
B-151	Beijing No. 9 Semiconductor	315,399.85
B-152	Tianjin Fuda Plastic Product Co.	400,000.00
B-153	Shuangyashan Red Mudplastics Co.	470,000.00
B-154	Shenyang Tannery	1,467,000.00
B-155	Jiamusi Jiaweiya Co. Ltd.	602,000.00
B-156	Shandong Rongcheng Fishset Plant	1,498,939.39
B-158	Hunan Taoyuan Textile & Print. Mill	950,000.00
B-159	Tianjin No. 24 Plastic Factory	275,000.00
B-160	Tianjin No. 7 Plastic Factory	562,000.00
B-161	Shenyang Weighing Apparatus	1,329,032.65
B-162	Tianjin Emery Cloth And Abrasive Paper	1,500,000.00
B-163	Nangong Great Wall Knitting	605,000.00
B-164	Taoyuan Textile Printing	490,000.00
B-166	Qinzhou Decorative Brickyard	320,000.00
B-167	Weifang Huayi Clothing Co.	462,000.00
B-169	Taian Beihong Food Co. Ltd.	658,400.05
B-170	Yizheng Piston Ring Factory	2,014,900.00
B-171	Jilin City Wooden Furniture Factory	685,000.00
B-172	Changchun Neptune Electronics	1,460,000.00
B-174	Qingyun Industry Corporation	1,000,000.00
B-175	Xin Hui Carpet Factory	1,493,991.48
B-176	Siping Special Automobile Factory	797,000.00
B-177	Qingdao Radiator Factory	1,022,000.00
B-178	Anhui Shengquan Beer	880,000.00

Subloan No.	Name Of Subproject	Amount Disbursed (\$)
B-179	Fuzhou Textile And Printing Mill	500,000.00
B-180	Dongying Shengde Manufacture Pitcher	1,380,000.00
B-181	Chaozhou City Chaosheng Min. Elec.	400,000.00
B-182	Foshan Plastics Factory No. 4	629,000.00
B-183	Wuhan Yuanwei Food Co. (Equity Investment)	501,012.52
B-184	Shunde Feiting Knitting Co.	838,000.00
B-185	Yantai Gahara Med. Products	1,404,000.00
B-186	Gaomi Longgao Ceramics	1,252,000.00
B-187	Wuxi Silk Knitting	2,950,000.00
B-188	Huizhou Virtue Clothes Industry	2,751,047.63
B-189	Xian Mach. Factory (Leasing)	694,000.00
	<b>Total B-Subloans</b>	<b>129,749,378.47</b>
	<b>Total Subloans</b>	<b>248,971,499.80</b>
	Working Capital Subloans	50,000,000.00
	Computerization Project	697,684.16
	Consultancy And Training	299,849.19
	Revolving Fund	30,966.85
	<b>Total Amount Disbursed</b>	<b>\$300,000,000.00</b>

*Note:* The number of subloans is 204, of which 4 subloans were for equity or leasing operations. A total of 243 subprojects were submitted, of which 39 were either canceled, withdrawn, or transferred: 28 A-subloans and 11 B-subloans.

## ANNEX C: CIB—COMPARATIVE (ACTUAL AND PROJECTED) FINANCIAL STATEMENTS FOR YEARS ENDING DECEMBER 31, 1989-94

(Y million)

	ACTUALS						PROJECTED					
	1989	1990	1991	1992	1993	1994	1989	1990	1991	1992	1993	1994
<b>Income Statements</b>												
Total Income	630.33	855.21	881.43	1,094.43	1,758.27	2,635.26	566.30	721.40	1,019.10	1,378.50	n.a.	n.a.
Total Expenses	470.28	736.43	764.91	969.30	1,616.87	2,524.12	341.10	475.70	598.30	872.70	n.a.	n.a.
Net Income before Inc. Tax	160.05	118.78	116.52	125.12	141.40	111.14	212.80	233.10	397.40	478.00	n.a.	n.a.
Income Taxes	97.63	72.46	71.08	76.33	82.01	65.53	117.10	128.20	218.60	262.90	n.a.	n.a.
Net Income	62.42	46.32	45.44	48.80	59.38	45.61	95.70	104.90	178.80	215.10	n.a.	n.a.
<b>Balance Sheet Statements</b>												
Cash/ due from banks	935.91	1,801.96	1,929.47	2,425.33	4,090.73	7,724.27	752.90	497.10	317.20	440.50	n.a.	n.a.
Current assets	2,018.80	3,653.51	4,568.37	5,685.64	6,814.34	11,314.58	1,735.60	2,026.50	2,757.90	4,139.70	n.a.	n.a.
Investment Loans:												
-local currency	1,598.36	1,615.22	1,565.15	1,719.84	2,414.50	3,117.57	1,675.90	2,126.80	2,506.40	2,845.40	n.a.	n.a.
-foreign currency	4,529.74	5,346.79	5,616.38	5,703.83	6,594.88	10,254.15	3,511.20	4,727.50	6,012.50	7,424.30	n.a.	n.a.
-Working Capital loans	1,014.76	2,144.86	4,297.94	8,401.13	9,848.55	13,428.00	186.00	515.00	996.50	1,710.80	n.a.	n.a.
Total Investment Loans	7,164.35	9,106.87	11,479.47	15,824.79	18,857.93	26,799.72	4,650.10	6,150.70	7,443.70	8,710.10	n.a.	n.a.
less: Accu. Provisions	21.49	109.28	109.28	227.99	376.98	531.25	43.00	88.40	152.30	239.60	n.a.	n.a.
Net Investment Loans	7,142.86	8,997.59	11,370.19	15,596.80	18,480.95	26,268.47	4,607.10	6,062.30	7,291.40	8,470.50	n.a.	n.a.
Long-term Investments	14.88	17.41	26.68	98.40	205.30	256.25	14.00	42.70	81.50	134.20	n.a.	n.a.
Net Fixed Assets	10.70	15.50	27.97	34.27	125.91	199.39	7.00	15.00	31.10	63.10	n.a.	n.a.
Other Assets	830.11	830.78	1,331.02	2,451.41	4,279.51	5,967.36	206.60	261.90	351.00	423.60	n.a.	n.a.
<b>TOTAL ASSETS</b>	<b>10,017.35</b>	<b>13,514.79</b>	<b>17,324.23</b>	<b>23,866.51</b>	<b>29,906.00</b>	<b>44,006.06</b>	<b>6,570.30</b>	<b>8,408.40</b>	<b>10,512.90</b>	<b>13,231.10</b>	<b>n.a.</b>	<b>n.a.</b>
Deposits:												
-local currency	613.00	939.68	1,651.63	4,044.41	7,511.10	10,173.07	0.00	0.00	0.00	0.00	n.a.	n.a.
-foreign currency	745.62	927.73	1,331.23	2,090.32	2,132.92	3,820.30	0.00	0.00	0.00	0.00	n.a.	n.a.
Total current Liabilities	2,344.51	4,033.66	5,300.54	9,569.28	14,821.20	22,622.25	1,373.40	1,962.50	2,643.30	3,697.00	n.a.	n.a.
Long-term Debts:												
-local currency	620.00	1,355.81	2,853.56	3,567.28	2,011.48	2,561.06	795.00	895.00	875.00	845.00	n.a.	n.a.
-foreign currency	4,197.15	5,245.22	5,622.09	5,991.98	7,029.84	10,283.67	2,585.90	3,372.50	4,382.40	5,536.80	n.a.	n.a.
Total Long-term Debts	4,817.15	6,601.03	8,475.65	9,559.25	9,041.32	12,844.73	3,380.90	4,267.50	5,257.40	6,381.80	n.a.	n.a.
Other liabilities	1,146.34	1,059.12	1,702.51	2,906.24	4,243.26	6,259.26	287.50	295.00	300.00	375.00	n.a.	n.a.
Equity	1,709.34	1,748.53	1,845.53	1,831.75	1,800.22	2,279.83	1,528.50	1,883.40	2,312.20	2,777.30	n.a.	n.a.
<b>TOTAL LIAB. &amp; EQUITY</b>	<b>10,017.34</b>	<b>13,442.33</b>	<b>17,324.23</b>	<b>23,866.53</b>	<b>29,906.00</b>	<b>44,006.06</b>	<b>6,570.30</b>	<b>8,408.40</b>	<b>10,512.90</b>	<b>13,231.10</b>	<b>n.a.</b>	<b>n.a.</b>
<b>RATIOS:</b>												
Current Ratio (X)	1.29	1.44	1.67	1.47	1.12	1.09	1.26	1.03	1.04	1.12	n.a.	n.a.
Long-term debt/equity ratio (X)	2.85	3.78	4.59	5.22	5.02	5.63	2.21	2.27	2.27	2.30	n.a.	n.a.
Acc. Provisions/gross loan portfolio (%)	0.30	1.20	0.95	1.44	2.00	1.98	0.83	1.29	1.79	2.33	n.a.	n.a.
Net Income/Equity (%)	3.65	2.65	2.46	2.66	3.30	2.00	6.26	5.57	7.73	7.74	n.a.	n.a.
As % of total assets:												
-total income	6.29	6.33	5.09	4.59	5.88	5.99	8.62	8.58	9.69	10.42	n.a.	n.a.
-net income	0.62	0.34	0.26	0.20	0.20	0.10	1.46	1.25	1.70	1.63	n.a.	n.a.
-administrative/other expense	0.21	0.16	0.15	0.19	0.15	0.10	0.35	0.27	0.22	0.17	n.a.	n.a.

*Note:* Equity and loan portfolio are net of provisions for doubtful debts in calculating debt/equity ratio). Current maturities of long-term loans have been classified in current assets in projected figures. Current assets includes working capital loans in calculating current ratio - actual figures.

*Sources:* Actual CIB audited financial statements and Staff Appraisal Report for CIB V for projected data (made up to only 1992).





IMAGING

Report No: 15251  
Type: ICR