



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/14/2002	
<b>PROJ ID:</b> P003563		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Animal Feed	<b>Project Costs (US\$M)</b>	310.3	52.73
<b>Country:</b> China	<b>Loan/Credit (US\$M)</b>	150	22.42
<b>Sector(s):</b> Board: RDV - Animal production (97%), Agricultural marketing and trade (3%)	<b>Cofinancing (US\$M)</b>	NA	NA
<b>L/C Number:</b> L4001			
	<b>Board Approval (FY)</b>		96
<b>Partners involved :</b> none	<b>Closing Date</b>	12/31/2002	12/31/2001
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Nalini B. Kumar	John R. Heath	Alain A. Barbu	OEDST
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
<p>The major rationale for the project was to support and facilitate the modernization and expansion of China's animal feed industry. The project had four objectives: " (a) the alleviation of supply constraints of critical feed ingredients; (b) improving and expanding the utilization of agro-industrial by-products for use as high-quality livestock feeds; (c) improving the organizational efficiency of the feed sector through specialization and integration, and (d) the restructuring of project enterprises to effect greater corporate efficiency and commercialization ." (SAR page 14.) The project objectives were based on the findings of a major World Bank study on the animal feed sector that preceded project identification. At the time of the study and at the onset of project preparation modernization was expected to be based on Ministry of Agriculture initiatives . At appraisal when the project was redesigned from a directed loan operation to a demand driven financing operation the loan size was left unchanged . This and other critical issues were then addressed when the Agricultural Bank of China (ABC) was made the financial intermediary in 1998. The project was renegotiated and presented to the Board on a no objection basis in 1998. The original objectives remained unchanged despite the change of the implementing agency .</p>			
<b>b. Components</b>			
<p>The original project included 7 components: integrated feed and livestock production, feed additive manufacture, feed processing equipment, enhanced protein feed product synthesis, integrated protein feed crop production, feed commodity wholesale marketing and feed sector strengthening . The first six components comprised a number of enterprises while the seventh component supported the establishment of the Ministry of Agriculture Feed Industry Center. After re-negotiation the project enterprises were grouped into 3 components. During the mid term review (MTR) the project scope was expanded to finance not only feed production but also procurement of livestock by vertically integrating project enterprises .</p>			
<b>c. Comments on Project Cost, Financing and Dates</b>			
<p>The project was identified in April 1993 and appraised in February 1995. The MTR took place in October 1999. The project was to close on December 31 2002 but closed one year before schedule on December 31 2001. Original project costs were estimated to be US \$ 310.3 million of which the IBRD loan was to be US \$ 150 million. However after re-negotiation the project costs were re-estimated at US\$ 60.7 million of which the IBRD loan was to be US \$ 25.2 million. Two loan cancellations totaling US \$ 127.5 million were made. Actual total project cost was US \$ 52.7 million with IBRD financing at US \$ 22.4 million (43 percent of total cost).</p>			
<b>3. Achievement of Relevant Objectives:</b>			
<p>Despite the disbursement of only 15 percent of the original loan amount the project was successful in achieving the qualitative objective of sector modernization . In addition, quantitative targets set at MTR were achieved . The rate of return for the project as a whole at the ICR stage is estimated at 28 percent. .</p>			
<b>4. Significant Outcomes/Impacts:</b>			
<ul style="list-style-type: none"> <li>• The project promoted private sector participation in the animal feed sector in China;</li> <li>• It facilitated the development of a regulatory and policy framework for the feed sector at the central level and provided technical support to the sector through the national feed industry center;</li> </ul>			

- The project also promoted qualitative structural change in the sector;
- It improved the access of livestock owners to improved feeds and aquaculture production and eased critical supply shortages;
- The project has acted as a model for other domestic producers in terms of its quality products and corporate management;

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

Poor quality at entry. The original loan size did not reflect the lack of demand for high quality feed nor the risk from switching from a directed loan operation to a financial intermediation operation .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	The ES rates outcome as satisfactory since the project was successful in meeting the qualitative objectives of sector strengthening and modernization set at the appraisal stage and the quantitative targets at MTR. However this was a difficult call on the basis of a desk review since it is hard to establish an equivalency between the qualitative indicators presented in the SAR (Annex 3.2) and the ICR. The ICR guidelines clearly note that if a project is restructured because of a faulty project design, the assessment of outcome should be related to the original objectives.
<b>Institutional Dev .:</b>	High	High	
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Unsatisfactory	Bank performance is rated unsatisfactory because of the unrealistic quality at entry and poor choice of the financial intermediary. The loan size did not reflect the lack of demand for high quality feed nor the riskiness of switching to a financial intermediary operation.
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	Borrower performance is rated satisfactory but this is a marginal call. The quality at entry and choice of the financial intermediary was poor. On the other hand ABC adopted a sustained and positive approach throughout the project period and displayed substantial project ownership.
<b>Quality of ICR :</b>		Unsatisfactory	

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 lessons identified by the ICR are important . Two lessons from the ICR are repeated here (i) **Evaluate competitiveness of foreign currency denominated loans for sub -borrowers** : This is especially true when the major investment items (equipment and works) are locally available and major project outputs are destined for the domestic market. Under such circumstances, foreign exchange risk and more competitive local currency loans make the use of dollar denominated loans inappropriate . Moreover, given the volatility of the financial market, project implementation delays may reduce project viability drastically . (ii) **Chose the financial intermediary based on their local knowledge and, if developing a new relationship, do your due -diligence** : Due diligence should cover the intermediary's prior sector and regional experience . If possible, evaluate the quality of the staff in the intermediary who would be involved in selecting the sub-borrowers. Staff assigned for sub-borrower development may have excellent understanding in one sector but be deficient in a specialized sector such as the animal feed sector . ABC's prior experience in implementing four Bank-supported rural credit projects and its improved loan appraisal criteria and risk management skills made the project viable after a disastrous start .

The ES adds another lesson: In time cancellation of a large percentage of the loan amount in response to country

conditions can avoid significant wastage of resources while contributing to reduced debt burden . In the case of the China Animal Feed project, the Agriculture Bank of China acted wisely in requesting cancellation of the major loan amount.

**8. Assessment Recommended?**  Yes  No

**Why?** For two reasons: (i) To verify the outcome, institutional development and sustainability impact . (ii) to verify whether the project was able to achieve the qualitative objectives set out at the appraisal stage .

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

ICR guidelines clearly note that if a project is restructured because of a faulty project design, the assessment of outcome should be related to the original objective. The ICR for the Animal Feed project notes that the rating of the achievement of objective is based on the project achieving the SAR qualitative objective of sector modernization and the quantitative targets set at MTR. However the SAR objective of modernization and expansion of the animal feed industry is general enough to support a wide range of qualitative targets. The ICR (i) fails to meaningfully explain how the qualitative achievements of the project at the ICR stage are related with the modernization objectives as they were set out at the SAR stage; and (ii) it fails to establish an equivalency between the qualitative indicators presented in the SAR (Annex 3.2) and the ICR. Hence the ICR is rated unsatisfactory because it fails to give a complete picture of project performance.