



1. Project Data :
OEDID: C2186
Project ID: P003529
Project Name: Rural Industrial Technology (SPARK) Project
Country: China
Sector: Other Finance
L/C Number: L3274, C2186, TF27230
Partners involved : Japanese Grant Facility
Prepared by : David Greene (consultant), OEDCR
Reviewed by : Roger Robinson
Group Manager : Ruben Lamdany
Date Posted : 08/18/1998

2. Project Objectives, Financing, Costs and Components :
The objective of China's SPARK Program was to assist in the transfer of technical and managerial knowledge from the more advanced sectors of the economy to non-state owned rural enterprises (town and village enterprises, TVEs). A Bank loan for US\$ 50 million and a credit of US\$ 64.3 million were approved toward the end of 1990 to provide institutional and financial support to rural enterprises in three project areas . The Japanese Grant Facility provided about US\$ 2.3 million to finance technical assistance . The project had two main components: the technical assistance component (10% of project costs) financed upgrading SPARK training centers, design of a TVE-oriented technology information system and development of a MIS system for SPARK program offices throughout China; the credit component (90% of project cost) provided loans through participating financial intermediaries for modernizing enterprises.

3. Achievement of Relevant Objectives :
The technical assistance component was implemented successfully . As a result, rural non-state enterprises gained access to technical and marketing information, consulting services and training . A computerized network provides technical, economic and marketing information to TVEs . A MIS was set up for the national SPARK program and the three project areas . Technical evaluation training was provided to staff of SPARK offices . Training was also provided to participation financial institutions . Under the credit component US\$ 251 million was lent for modernization of 108 rural non-state enterprises.

4. Significant Achievements :
About 15 successful sub-projects contributed to diffusion of technical and managerial expertise to non-project beneficiaries. These have led to integration of related industries through the SPARK program . The training centers financed evolved into key institutions for the SPARK program .

5. Significant Shortcomings :
The results of the credit component were not satisfactory . Project evaluation and supervision by financial institutions was inadequate, partly as a result of shortcomings in China's financial, enterprise and legal system . Only about 38% of commercial sub-projects were operating profitably at the time of ICR preparation, yet some of these were not repaying their loans. The overall repayment rate was only about 18% of principal due and 31% of accrued interest. Loan repayment does not seem to be a major feature of enterprise culture .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Highly Unsatisfactory	Unsatisfactory	The ICR rates the TA component as highly satisfactory and credit component as highly unsatisfactory . Given the positive contribution of the TA part, OED has rated the overall project as unsatisfactory .

Institutional Dev .:	Partial	Modest	
Sustainability :	Uncertain	Uncertain	
Bank Performance :	Satisfactory	Unsatisfactory	Design of the project was deficient in that a full recognition of the poor legal and regulatory environment which was not conducive to sustainable lending . Furthermore the involvement of multiple target groups and financial institutions acerbated project management . Finally, the long gap between project appraisal and effectiveness meant that initial observations about the economic and financial situation had changed substantially .
Borrower Perf .:	Highly Satisfactory	Satisfactory	While the government was strongly committed to upgrading the SPARK training centers, stronger attention should have been given to the legal and regulatory environment surrounding the flow of credit to town and village enterprises .
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

As a result of the experience of this project and others involving lines of credit, Government and the Bank concluded that generic issues related to the financial and enterprise sectors need to be resolved before committing to projects involving lending to rural enterprises through financial institutions .

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The ICR is satisfactory.