



Country Partnership Strategy

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People's Republic of China
2008–2010

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 7 February 2008)

Currency Unit	–	yuan (CNY)
CNY1.00	=	\$0.139099
\$1.00	=	CNY7.18910

ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
CAPE	–	country assistance program evaluation
CAREC	–	Central Asia Regional Economic Cooperation
CPC	–	Communist Party of China
CPS	–	country partnership strategy
DFID	–	Department for International Development
FYP	–	five-year plan
GDP	–	gross domestic product
GHG	–	greenhouse gas
GMS	–	Greater Mekong Subregion
HIV/AIDS	–	human immunodeficiency virus/acquired immunodeficiency syndrome
IFI	–	international financial institution
km	–	kilometer
MDG	–	Millennium Development Goal
MFF	–	multitranches financing facility
NDRC	–	National Development and Reform Commission
NGO	–	nongovernment organization
OCR	–	ordinary capital resources
PRC	–	People's Republic of China
SARS	–	severe acute respiratory syndrome
SME	–	small or medium-sized enterprise
SOE	–	state-owned enterprise
TA	–	technical assistance
UNDP	–	United Nations Development Programme
WHO	–	World Health Organization

NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated.

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EXECUTIVE SUMMARY

Development Context

The People's Republic of China (PRC) has developed rapidly during the last 30 years, with its economy growing by over 9% per year. The Millennium Development Goal (MDG) for reducing poverty has already been reached. Most other MDGs are well on the way to being achieved. With large foreign exchange reserves and an investment-grade sovereign credit rating, lack of foreign exchange is no longer constraining development.

Nevertheless, the PRC is still a lower-middle-income country, with many millions of people living on less than \$1 a day. Reducing poverty remains a daunting challenge, as does raising the welfare of millions living just above poverty. Sustaining growth will be vital for this, and will not be possible without addressing environmental degradation, growing inequality, and the strain on resources. Technologies and practices will need to be improved to international standards. Multilateral development assistance can continue to play a useful role in addressing these challenges through partnership with the PRC.

Government Development Strategy

The goal of the Government's 11th Five-Year Plan (FYP), 2006–2010, is building a harmonious and moderately prosperous (*xiao kang*) society. This goal has been affirmed by the 17th Party Congress. To achieve the goal, the Government will address its development challenges through a balanced strategy that aims to build a harmonious society and a socialist market economy that is energy-efficient and environmentally friendly. The FYP sets out various measures with qualitative and quantitative targets. In meeting these targets, the market will play an important role, with the Government providing the enabling environment. A more direct role for the Government is envisaged in public health, compulsory education, social safety nets, and projects involving the poor.

Asian Development Bank (ADB) Development Strategy

The proposed country partnership strategy (CPS) for 2008–2010 will build on the successful lending and technical assistance program of ADB in the PRC spanning the past 20 years. To remain successful and relevant, ADB will be more responsive to the PRC's rapidly changing needs. The ADB–PRC relationship will draw on the PRC's growing capacity for the mutual benefit of both parties, and of others in the region. ADB will partner with the PRC, using more of the country's own expertise and systems in ADB-financed projects than in the past (as guided by ADB's policies), with even greater involvement of stakeholders. In-country ADB presence will be enhanced by greater delegation to a strengthened resident mission. Outside the country, ADB will work with the PRC to support development in other ADB developing member countries and to share the PRC's development experience with them.

ADB's assistance during the CPS period will respond to economic and social development challenges in the PRC and be guided by the Government's priorities and ADB's strategic directions. The underlying theme driving the CPS will be enhanced value addition through emphasis on knowledge, innovation, and governance. Accordingly, the key thrusts of ADB assistance under the CPS are as follows:

- (i) inclusive growth and balanced development—by focusing operations on poorer provinces and by promoting integrated rural and urban development;
- (ii) resource efficiency and environmental sustainability—by promoting efficient infrastructure and energy and by helping to strengthen environmental management;
- (iii) regional cooperation and public goods—by using ADB's regional cooperation programs to enhance infrastructure connectivity, facilitate trade and investment, and promote regional public health, environmental quality, and financial stability; and
- (iv) an environment conducive to private sector development—by promoting public–private partnerships in infrastructure finance and helping to strengthen development of the finance sector.

At a thematic level, all assistance will be viewed with an environmental perspective to achieve a greener portfolio. Considerations of inclusiveness will underlie the assistance program. Introducing new knowledge and innovative practices and stronger governance will be core themes in all ADB's work. As a partner, ADB will work with the PRC's systems (as guided by ADB's policies), build capacity, and transfer knowledge, including to the rest of the region.

At a sector level, ADB will respond to the Government's priorities. A key priority, both for the PRC and ADB, will be enhancing inclusiveness through balanced development, with a focus on the rural and poorer regions. For this, operations in agriculture and rural infrastructure will be expanded, including support for rural transport and energy. ADB's support for urban development will reach out to smaller cities and towns. A second priority will be environmental sustainability. ADB will pay greater attention to the management of natural resources and ecosystems. Energy, urban development, and transport operations will focus on clean and efficient technologies to help conserve energy and reduce pollutants and greenhouse gases.

This changed emphasis will result in lower lending for national highways and a corresponding rise in lending for energy conservation and clean energy, urban development, natural resource management, and agriculture and rural development—in short, a greater balance in lending across sectors (transport, energy, urban development, and agriculture and natural

resources). The shift will be supported by efforts to strengthen executing and implementing agencies, especially those for projects in agriculture and urban development in smaller towns and cities.

Finance and social services (such as social protection and vocational education) are also important to sustaining growth, and will be supported through advisory technical assistance and knowledge inputs.

Developmental impacts will come through partnering with the PRC to achieve key 11th FYP goals and targets in a number of areas: providing clean and renewable energy; reducing energy intensity; reducing pollutants and emissions; managing wastewater and solid waste; reducing farmland degradation; providing road and rail transport access; enhancing regional cooperation; enabling private sector development; promoting best practices, knowledge, and innovation; and promoting good governance.

Priority Sectors and Themes

Sectors: Transport and communications; energy; water supply and sanitation; agriculture and natural resources; finance.

Themes: Inclusive growth through balanced development; environmental sustainability; knowledge transfer; private sector development; governance.

Financing Envelope

\$1.5 billion annually from ADB's ordinary capital resources (OCR); \$15 million–\$20 million annually in grants for preparing projects and for advisory assistance. Nonsovereign assistance to be limited by prudential exposure limits.

Partnership Arrangements

ADB will continue to work with other development partners in the PRC through consultations, cofinancing, and knowledge sharing.

Risks and Mitigating Actions

The shift in emphasis to agriculture and natural resources in rural areas, small-town urban development, and smaller environmental improvement energy projects for cleaner production and efficient end use will introduce new risks in implementation. However, these are expected to be manageable with the growing implementation capacity in the PRC and a strengthened resident mission. ADB will also build staff expertise in the subsectors in which it operates and ensure that suitable financing instruments are applied. ADB's push for stronger corporate governance may have a slow response because some implementing agencies lack experience with common international corporate governance practices. This risk will be mitigated by up-front support for reform and capacity development assistance.

I. DEVELOPMENT CONTEXT: CURRENT TRENDS, ISSUES, AND CONSTRAINTS

1. The People's Republic of China (PRC) has made great progress since efforts to reform and open the economy started in 1978. Since then, the economy has grown faster than any other in the world, averaging more than 9% growth annually. The country has already reached the Millennium Development Goal (MDG) of cutting the 1990 poverty rate in half, and is on track to reach most of the other MDGs. The PRC's Human Development Index has improved steadily, and in 2003 entered the ranks of countries with an "upper middle" level of human development.¹

2. The country has come a long way since 1978, but has further to go to fully develop the economy, eliminate poverty, and reach its long-term development goals. The following sections briefly describe the PRC's current social and economic development challenges and constraints, covering the economy, poverty, environment, governance, and other topics.

A. Economic Growth and Poverty Reduction

3. The challenge facing most developing countries is to raise and sustain economic growth by finding and releasing the binding constraints to growth. The PRC's record of 30 years with more than 9% average annual growth shows that it has met that challenge well with economic growth that has led millions out of poverty.² Yet many people remain poor, and millions more have low incomes or are living just above the poverty line. All parts of the country have experienced economic growth, but coastal regions have grown faster, and inequality between urban and rural areas and between the coast and interior has increased. Economic growth needs to continue to raise the rest of the population out of poverty, and raise the welfare of all.³

4. Most poor people living on less than \$1 per day are in rural areas, and most of the urban poor are migrants from these areas. Low farm productivity, poor rural infrastructure, lack of access to rural finance, poor education and skills, and other constraints limit economic opportunities for the rural poor and leave them vulnerable to economic, social, and personal risks. Most of the rural poor lack adequate access to social services, including health, education, water supply, and sanitation. To continue reducing poverty through economic growth, macro-level policies should expand demand for the products of unskilled or semiskilled workers. More efforts are also needed to improve skills through education and training, and to connect rural areas to markets through rural roads. Poverty programs and social services should be reformed to improve their efficiency and effectiveness in reaching the poorest.

5. An inclusive and sustainable growth strategy must have a balanced focus on consumption and investment and on raising living standards in rural areas, especially in the

¹ For a review of progress toward the MDGs, see Ministry of Foreign Affairs and United Nations Development Programme (UNDP). 2005. *China's Progress Towards the Millennium Development Goals 2005*. Beijing; and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), UNDP, Asian Development Bank (ADB). 2007. *The Millennium Development Goals: Progress in Asia and the Pacific 2006*. Manila. For the Human Development Index, see UNDP. 2005. "China Human Development Report 2005: Development with Dignity."

² The World Bank has recently published a revision of the PRC's purchasing power parity (PPP) estimates. These revised estimates decrease the estimated size of the PRC economy in PPP terms, but do not significantly change real economic growth rates. The World Bank predicts that, under its new PPP estimates, the PRC's \$1 per day (PPP) poverty rate will go up modestly. See World Bank. "Quarterly Update." February 2008. Beijing.

³ For recent data on the PRC's economic growth, poverty, and social development, see ADB. 2007. *Key Indicators 2007: Inequality in Asia*. Manila. See also Tables A1.2 and A1.3.

western provinces.⁴ Consumption can grow and rural welfare improve by raising public spending on rural social infrastructure and services in the west, including health, education, water supply, and sanitation. The best economic opportunity for some rural residents is to find jobs in urban areas, especially in the service sector. The PRC's urbanization is set to continue at a rapid pace, especially in smaller towns, calling for major investments in urban infrastructure and services. To reap the benefits of urban development, the rural economy will have to be more strongly integrated with urban areas by improving transport and breaking down other barriers to internal trade and investment.

6. The Government is working to rebalance the economy and help the rural poor. Expanding consumption became official economic policy in 2004. Recent achievements in promoting rural welfare include abolishing the agricultural tax and tuition fees for compulsory education in rural areas. In 2007, the Government announced plans to set up a nationwide system to guarantee minimum living standards in rural areas and a health care system covering all urban and rural residents by 2010; 85% of rural areas have already joined the new rural cooperative medical system. To boost rural development, in 2007 the Government raised annual investment in rural infrastructure by about 15% to CNY62 billion, opened new rural community banks, and enabled all banks to operate in rural areas.

7. In October 2007, the 17th Congress of the Communist Party of China (CPC) pledged to continue and extend reforms along these lines. Following guidance from the 17th CPC Congress, the Government will, among other things, raise public spending and improve the quality of education; expand employment and create a unified labor market; improve equity in income distribution and raise the share of personal income in national income; establish a nationwide social security system, including pensions and unemployment insurance; and continue rural reforms, including training farmers, transferring surplus rural labor, and improving land contracts.⁵

B. Environment

8. A consequence of the PRC's focus on economic growth has been pollution and environmental degradation. The PRC faces many environmental challenges, including widespread pollution of water resources, water scarcity, expanding desertification, land degradation, air pollution, and climate change. Nearly 40% of the PRC's land is eroded and 10% of arable land is polluted; 60% of all monitored rivers are too polluted to be used for public water supplies, and three major lakes (Chao, Dianchi, and Tai) have serious eutrophication problems; about 60% of cities do not meet minimum standards for air quality and have no centralized wastewater treatment; and acid rain falls on about a third of the country.⁶

9. One of the causes of the country's environmental problems is heavy use of coal. The PRC is the world's second largest consumer of energy, and has the highest dependence on

⁴ Autonomous regions and four municipalities are considered at the same level as provinces, hence are included under "provinces". The "western provinces" are defined as Chongqing Municipality; Gansu; Guangxi Zhuang Autonomous Region; Guizhou; Inner Mongolia Autonomous Region; Shaanxi; Ningxia Hui Autonomous Region; Qinghai; Sichuan; Tibet Autonomous Region; Xinjiang Uygur Autonomous Region, and Yunnan.

⁵ There are many more recent achievements than can be mentioned here. For more discussion of the Government's recent plans and achievements, see the 11th Five-Year Plan (FYP); Wen, Jiabao. 2007. Report on the Work of the Government presented at the 5th Session of the 10th National People's Congress, Beijing, 5 March; and Hu, Jintao. 2007. Report to the 17th National Congress of the Communist Party of China, Beijing, 15 October. See Supplementary Appendixes A and B for more discussion of economic growth and poverty in the PRC.

⁶ Asian Development Bank. 2007. *Country Environmental Analysis for the People's Republic of China*. Manila. State Environment Protection Administration. 2006. *Report on the State of the Environment In China 2006*. Beijing.

coal among the world's top 10 energy consumers.⁷ Coal mining degrades the environment, and entails high risks to workers, especially in the PRC's many small, inefficient coal mines. Coal is an inefficient source of energy for generating power, especially from the country's many small, inefficient coal-fired power plants; thus, the economy's resource-intensity is higher than it would be if alternative power sources were used. Coal-fired power plants are a main source of air pollution, emitting particulates and sulfur dioxide (which causes acid rain) and greenhouse gases (GHGs). The PRC still has low per capita emissions of GHGs, but because it has the world's largest population, it has become one of the largest sources of GHGs. Improving energy efficiency and shifting to cleaner and noncarbon energy sources is an important part of improving the country's environment and helping to mitigate global climate change.

10. One of the lessons from the country's growth-oriented development path is the complexity of the environmental problems facing the PRC. Previous development policies are now being reconsidered, with a better balance being struck between economic growth and environmental protection, especially by local governments. Tackling environmental problems cannot be left to the government's environmental organizations working in isolation. Rather, different branches of government must start working together across geographical and jurisdictional boundaries. Lack of finance is making it hard for environmental organizations to work, and there is a gap between responsibilities and resources. The State Environmental Protection Administration has limited power in regional and local compliance actions, and is understaffed compared with corresponding agencies in other major economies. At the municipal and county levels, environmental authorities face human and financial resource constraints and interference by local governments and vested interests.

11. The Government's commitment to improving the environment and raising energy efficiency is showing in many recent achievements. Energy intensity started falling in late 2006 and continued falling through 2007, although not yet at the Government's targeted pace.⁸ In 2007, at least 46 coal-fired power plants were closed, totaling 1,100 megawatts, saving emissions of sulfur dioxide and GHGs as the closed plants were replaced by larger, more efficient ones. The Government also launched a CNY7 billion fund to promote energy-saving projects. After rising in 2006, sulfur dioxide emissions fell in the first half of 2007, although below the pace needed to meet the Government's targets for cutting emissions. Reform of resource and energy prices continues. Coal and other resource prices have been rising and are approaching international levels. In 2007, rural and urban electricity tariffs were harmonized and retail fuel prices rose by 10%.

12. The Government has released a national plan on climate change, which aims to strengthen international cooperation and mitigate the country's GHG emissions, and launched the Clean Development Fund to finance projects related to energy efficiency and emission reduction. The 17th CPC Congress committed to continue the efforts to raise efficiency and improve the environment through reforms and developing clean and renewable energy, thereby helping protect the global climate.⁹

⁷ Naughton, Barry. 2007. *The Chinese Economy: Transition and Growth*. Cambridge: MIT Press (pp. 334–336).

⁸ See para. 31 for the targeted reduction in energy intensity.

⁹ For further discussion of the environment, see Supplementary Appendix C; ADB. 2007. *Country Environmental Analysis for the People's Republic of China*. Manila; and State Environmental Protection Administration. 2007. *Urban Environmental Management: 2006 Annual Report*. Beijing.

C. Private Sector

13. The PRC's reforms have built a solid foundation for the private sector. In 1997, the 15th CPC Congress recognized the nonstate sector as an important component of the PRC's socialist market economy, establishing a foundation for equal treatment of the private sector. The State Council announced in 2005 that private sector investment was welcome in all sectors of the economy, except specific sectors identified as of strategic national interest, and pledged to promote private sector development. In 2007, the National People's Congress approved the Property Law, strengthening protection of private property.

14. These and other reforms have put the private sector in the lead in providing and generating jobs, with the rate of change accelerating especially in the past decade. In 1997 only a third of all urban jobs were in the private sector, but this had risen to two thirds by 2002.¹⁰ By 2006, 75% of all urban jobs were in the private sector. Since 1997, the private sector has generated an average of 15.8 million urban jobs each year.

15. Small and medium-sized enterprises (SMEs) play an important role in the private sector. In 2004, the PRC had 39 million privately-owned SMEs, more than in the United States and Europe combined.¹¹ Most of the firms have been created since 1997, some from formerly state-owned enterprises (SOEs) that were privatized.¹² SMEs generate half of the PRC's gross domestic product (GDP), two thirds of the country's exports, and three quarters of new jobs.

16. The private sector needs to continue creating jobs at a high rate, not only for economic growth, but also to provide better economic opportunities for the poor and to maintain social stability. The economy needs to create jobs for 16 million–20 million new labor force entrants annually, to employ new workers and rural migrants, and to reemploy laid-off workers from SOEs and the government.

17. However, the private sector faces many institutional constraints and needs better access to financing. Bond market development is lagging behind the rest of the finance sector. The total value of bonds outstanding by the end of 2006 was about 27.4% of GDP, as compared to 163.1% of GDP in developed countries. The Government has recognized the need for a healthy bond market and in June 2007 issued an administrative circular on a pilot corporate bond initiative. Simpler administrative requirements are needed to boost bond market development in the PRC, and the China Securities Regulatory Commission's recent pilot effort is a good start.

18. Firms face excessive regulation, lack of transparency in how laws and regulations are applied, and arbitrary fees and taxes. Corporate governance is weak from lack of experience and skills, but also because the immature financial sector does not yet properly constrain and discipline management. Banks dominate the financial sector, but still favor SOEs over private enterprises. SMEs especially need better access to finance, plus information and services to help start and develop businesses.¹³ Poor infrastructure in the interior provinces and intellectual property rights protection are also issues that need to be improved.

¹⁰ Private sector is defined for this paper as all nonstate and noncollective enterprises.

¹¹ National Bureau of Statistics of China. 2005. *Communique on Major Data of the First National Economic Census of China*. http://www.stats.gov.cn/english/newsandcomingevents/t20060301_402307658.htm. A new economic census is scheduled for 2008.

¹² Reform of SOEs in the PRC focuses on corporatization, not privatization, but some small SOEs have been privatized. For a general review of SOE reforms, see Wu, Jinglian. 2005. *Understanding and Interpreting Chinese Economic Reform*. Ohio: Thomson.

¹³ See Appendix 4 for more discussion on private sector development.

D. Regional Cooperation and Integration

19. The PRC's coastal provinces have grown and developed partly through international trade and foreign investment, exploiting the natural advantage of location. Interior provinces, however, do not have the same natural advantages and have so far been unable to follow the same path. As a result, they lag behind coastal provinces, with the average income on the coast about 2.5 times that in the interior.¹⁴

20. Interior provinces can grow and develop through trade by exploiting their own natural advantages. Southwestern provinces have a natural advantage in trading with countries in the Greater Mekong Subregion (GMS), while western provinces have an advantage in trading with Central Asian countries. Although the trading partners are all low- or middle-income countries, trade in Central Asia and in the GMS has untapped potential to boost income within the PRC and across Asia.

21. Regional cooperation and integration can help turn interior provinces into land bridges or transit routes for international trade, and thereby help to rebalance development across the country. Coordinated trading rules and investment in infrastructure will boost trade and investment by cutting transaction costs. Regional cooperation can transfer knowledge and help strengthen capacity to promote trade and investment, exchange and regulate energy, and boost investment. More and better cooperation will promote balanced development in the PRC's less developed provinces and in neighboring countries.

22. Regional cooperation is also important in managing regional public goods. Regional cooperation can help build economic links and boost trade and investment, but stronger economic links can also open new channels for financial instability to cross borders. Trade, investment, and tourism bring many benefits but can also spread communicable diseases such as HIV/AIDS,¹⁵ severe acute respiratory syndrome (SARS), and avian influenza. Regional and international cooperation on public health will grow in importance as trade, investment, and tourism grows. Regional cooperation is also important in environmental management.¹⁶

E. Improving Public Financial Management and Procurement, and Combating Corruption for Development Management

23. Since reforms began in 1978, the PRC has been steadily developing the policies and regulatory frameworks necessary to support a market economy. Reforms have been gradual, taking into account the complexities and interdependence of SOEs, the finance sector, and fiscal reforms. During its transition from a centrally-planned to a socialist market economy, the PRC has made great strides in developing and implementing comprehensive legal, institutional, and regulatory frameworks.

24. For example, major reforms have taken place in the PRC's public financial management. The Accounting Law defines accounting and reporting practices in the public and private sectors. The Government also issues financial management and accounting regulations to govern public sector investment projects and business enterprises. The Auditing Law sets out the principles for audit procedures, the responsibilities and powers of the audit institutions and

¹⁴ In 2006, per capita GDP in the 10 coastal provinces and provincial-level municipalities was CNY29,182; per capita GDP in all other provinces was CNY11,921. ADB estimate based on National Bureau of Statistics of China. 2007. *China Statistical Abstract 2007*. Beijing: China Statistics Press.

¹⁵ Human immunodeficiency virus/acquired immunodeficiency syndrome.

¹⁶ See Supplementary Appendix E for further discussion of regional cooperation.

auditors, and the legal liability of auditors. The China National Audit Office is in charge of government audits and the country's auditing profession. The Audit Office has strengthened standards and capacity in the profession, but not yet to international levels. In 2006, the Government issued new accounting and auditing standards that brought the PRC into compliance with International Financial Reporting Standards and International Standards on Audit. The country's accountants and auditors, especially those working at lower levels of government, need training on applying the new standards.

25. Two laws regulate public procurement. The Law on Tendering and Bidding governs procurement for public sector projects, including equipment, materials, and services. The Procurement Law extends this legal coverage to government procurement in general, and establishes a broader legal framework for procurement. Each law is sound on its own, but they appear to overlap in places and responsibilities are unclear. The Government should consolidate regulation of procurement and clarify how the two laws work together.

26. Although corruption continues to be highlighted by the media and remains a concern, the Government has been making great progress in combating it. The Government is developing a "national integrity system" that puts equal emphasis on prevention and punishment, and has continued to strengthen oversight bodies such as the Ministry of Supervision and the Supreme People's Procuratorate. In 2005, the Government issued a law to cut money laundering and return ill-gotten gains to their rightful owners. In 2007, the Government established the National Bureau of Corruption Prevention, which will focus on regulating the use and preventing the abuse of power.

27. International cooperation is also improving. In 2005, the PRC ratified the United Nations Convention Against Corruption. The PRC has also joined the Asian Development Bank (ADB) and Organisation for Economic Co-operation and Development Anti-Corruption Initiative for Asia-Pacific.¹⁷ The Government can continue progress against corruption by improving transparency in the public sector and strengthening coordination among all parts of government. In 2007, the Government took a big step toward improving transparency when it issued the Ordinance on Openness of Government Information.¹⁸ The 17th CPC Congress committed to fight corruption, and to achieve more transparency and public participation in government.

F. Gender

28. The PRC has a good record on gender issues and the situation continues to improve. Progress is being made toward eliminating gender disparity in education—in 2001, the ratio of girls to boys was 92% in primary and 83% in secondary schools. However, inequality between men and women persists in some aspects. For example, although maternal and infant (under 5) mortality rates have fallen, the infant mortality rate is higher for girls than boys and the Government is working to correct this. Job opportunities for women have improved, but new problems have emerged in such areas as wage and redundancy policies in some firms.

29. A sound legal system is in place to help improve women's welfare. The legal basis for women's rights is set in the Constitution, which gives equal rights to men and women. Since the mid-1990s, the Government has formed new women's organizations; their influence has grown, but their voices need to be strengthened and their concerns are not yet fully included in policies and laws. The Government has also enacted laws and policies to improve health care for

¹⁷ For further discussion, see ADB. 2007. *People's Republic of China: Procurement, Financial Management, and Anti-Corruption in ADB-Financed Projects*. Manila.

¹⁸ State Council Decree 492.

women. The reproductive health program is now focused on promoting general reproductive health and fighting HIV/AIDS and sexually transmitted infections.¹⁹

II. THE GOVERNMENT'S DEVELOPMENT STRATEGY

30. The Government recognizes that environmental degradation and inequality are partly the products of previous development strategies that focused on economic growth. It has responded by adopting a new focus for development, one that includes growth but takes a broader view of development. The 11th Five-Year Plan (FYP) describes how the Government will follow this strategy from 2006 to 2010. The following briefly summarizes the 11th FYP and evaluates how well it deals with the country's main development challenges.

A. Development Goals and Strategy

31. The 11th FYP's goal is to continue building a *xiao kang* society, meaning a harmonious and moderately prosperous society. This goal was adopted at the 12th CPC Congress, in 1982, but the meaning has gradually changed from an initial focus on meeting basic, material needs, to its current, broad view of social welfare. The 11th FYP highlights 22 social and economic indicators of progress toward the long-term goal, with targets for each indicator to reach by 2010; the targets include, for example, cutting pollution by 10% and energy intensity by 20%. The 17th CPC Congress set new and higher requirements for attaining a *xiao kang* society by 2020, including quadrupling per capita GDP over the level in 2000; promoting balanced development to ensure sound and rapid growth; accelerating social development through better education and health services; promoting a conservation culture; promoting cultural development; and expanding participation in political affairs.

32. To reach this goal, the Government pledges to pursue its aims through *ke xue*, or a scientific outlook on development, a people-centered approach that aims at comprehensive, balanced, and sustainable development; the 17th CPC Congress amended the CPC's constitution to include scientific development in the CPC's general program. In keeping with the goal, the 11th FYP aims to put growth and development on a sustainable path by balancing economic and social development, urban and rural development, economic growth and environmental sustainability, coastal and interior regions, and domestic development and opening to the outside world. The 11th FYP follows several principles, including building a harmonious society, a new socialist countryside, an efficient and environmentally friendly society, and a socialist market economy.

33. The 11th FYP aims to reach its targets through a combination of public investment, government initiatives, and policy reforms. Sectors targeted for investment include rural public services, urban environmental services, transport, and energy. The initiatives relevant to the targets include improving social services in rural areas, continuing reforms of SOEs, and giving incentives for efficient and environmentally friendly production. As guided by the 17th CPC Congress, the Government is committed to restructuring the economy; extending the social sector reforms in the 11th FYP to all parts of the country and society; and establishing comprehensive systems of education, health care, and social security. The Government envisions the PRC in 2020 as a country where people will have a much higher quality of life, a

¹⁹ This section is based on ADB. 2006. *Country Gender Assessment: People's Republic of China*. Manila. See also Supplementary Appendix D.

good environment, more democratic rights, higher ethical standards, and greater cultural achievements, and one that will be more open and will contribute more to the rest of the world.²⁰

B. Resource Mobilization and Investment

34. The PRC finances investments and other expenditures under the 11th FYP through tax revenues, borrowing, and (for some projects) revenues from user charges. The PRC's tax system is similar to that of other middle-income economies, although tax collection is relatively low at 18.2% of GDP in 2006. The revenues from value-added tax and enterprise income taxes are shared between central and local governments. Sharing arrangements are uniform between central and provincial governments, but below the province level they vary from province to province.

35. The PRC's indebtedness is low by international standards. The Government's budget deficit has been consistently low and is estimated to have been 0.4% of GDP in 2006. Gross Government debt stood at 17.3% of GDP in 2006, of which only 0.4% was owed to foreign creditors and the rest (16.9% of GDP) was domestic debt. External debt of government and government agencies has fallen, from \$49 billion in 2000 to \$33 billion in 2005, due to greater reliance by the Government on domestic sources of finance. Official creditors, mainly international financial institutions (IFIs), account for more than 90% of government foreign debt, with some \$27 billion in multilateral debt disbursed as of the end of 2005.

36. For external financing, Government policy is that the entity responsible for a project must repay its own loans. This largely limits debt financing to investments in public services supported by user charges, such as expressways, railways, various parts of the power system, and urban water supply and sanitation. The Government welcomes financing for social sector projects that do not generate revenue, but only at concessional lending terms.

37. There is high demand for ADB financing. The PRC's finance sector is developing but local governments still do not have easy access to financing. ADB's interest rate is close to that of domestic banks but ADB's other lending terms (especially the long repayment time) and value added (see Box 2) make ADB's financing attractive overall. For some projects, IFIs such as ADB are the most accessible or attractive source of funds.

38. Recognizing the benefits of IFI financing, the Government tries to allow all parts of the country the opportunity to borrow from IFIs. The Government collects project proposals from across the country and consults with ADB on which projects will be eligible for ADB financing. In recent years the Government has limited borrowing from ADB to \$1.5 billion annually, and that limit will continue during this CPS.

39. Despite the high demand for ADB financing, the limit on borrowing from ADB does not affect the PRC's potential to fully finance the 11th FYP. The PRC's savings rate exceeds its rate of investment, and the country has many other sources of international finance. Access to finance is not a constraint on the PRC's potential for carrying out the 11th FYP.

²⁰ See Hu, Jintao. 2007. *Report to the 17th National Congress of the Communist Party of China*, Beijing, 15 October. <http://www.chinaview.cn/17thcpc/>, accessed 24 January 2008.

C. Role of External Assistance

40. **The Government's Plan.** The 11th FYP describes how the Government wants to use international finance, with more details in a subsidiary plan.²¹ The 11th FYP welcomes IFIs such as ADB to continue working in the PRC at the same level but stresses the quality of lending rather than the quantity. It recommends borrowing from IFIs for projects that have high economic and social returns and that introduce advanced technology, new knowledge, international management experience, and other innovations.

41. The Government points out areas and issues on which it would like IFIs to focus. It asks IFIs to focus on financing public investments in the central and western parts of the country and in the old industrial areas in the northeast, with eventually 80% of loans directed to those areas. The 11th FYP suggests that IFIs can help those areas by focusing on protecting the environment, conserving resources, supporting construction of transport and urban infrastructure, coordinating urban and regional development, and helping to build the new socialist countryside.

42. The Government values IFIs for the new technology, knowledge, and management experience they can introduce. It therefore looks to IFIs to pay greater attention to these in their assistance. IFIs are welcome to finance education, health, water supply, and other social services, if the lending terms are favorable. The 11th FYP also invites IFI financing in border areas to promote economic growth and social development and strengthen regional cooperation. The 11th FYP seeks support from IFIs for improving the finance sector, especially the bond market. It specifically cites ADB's local currency bonds and asks that ADB continue to develop the bond market based on lessons from previous bond issues.

43. The Government aims to change and strengthen its relationship with IFIs. It wants to explore how to combine IFI financing with funding from government and other domestic sources, and wants the administration and efficiency of IFI lending to improve.

44. **Strategies of Other Organizations.** All organizations working in the PRC support the Paris Declaration, and so are committed to aligning their work with the Government's development plan. The strategies and operations are similar across organizations because of the common alignment with the 11th FYP, and because all organizations recognize the same challenges facing the country.

45. The regional focus of international organizations is clearly aligned with the 11th FYP. Most organizations focus on the western provinces, with a few concentrating on the central and northeastern ones. Almost all organizations list the environment among their strategic interests. The other most common sectors and themes are health, governance, and education.

46. Like ADB, most organizations provide both loans and grants. Total grants to the PRC have totaled \$400 million–\$500 million per year and loans have totaled \$3.0 billion–\$4.0 billion per year. The World Bank issued its own country partnership strategy (CPS) for the PRC in 2006.²² Its annual public sector lending is expected to average \$1.5 billion. A comprehensive list of development partners and their areas of interest in the PRC is shown in Appendix 1, Table A1.5.

²¹ National Development and Reform Commission. 2006. *The 11th 5-Year Plan for Foreign Capital Utilization*. Beijing.

²² World Bank. 2006. *Country Partnership Strategy: China*. Washington DC.

D. Asian Development Bank's Assessment of the 11th FYP

47. The 11th FYP marks a significant change in the PRC's development strategy. Economic growth remains important but is only one of several guiding principles with equal status. Other important principles include increasing the efficiency of resource use and environmental protection, coordinating urban and rural development, and building a harmonious society. The 17th CPC Congress reaffirmed and strengthened the strategy laid out in the 11th FYP and the country is set to follow the path of comprehensive, balanced, and sustainable development to 2010 and beyond.

48. The 11th FYP recognizes the PRC's important development problems and challenges and proposes sound ways to deal with them. The country's main challenges are to maintain the high economic growth needed to continue reducing poverty while improving the environment and reducing inequality. The 11th FYP's target for economic growth, 7.5% per year, is high for most countries, but modest compared with the PRC's recent growth rates. The 11th FYP's view on the role of the market and its restrictions on government intervention will help the targeted growth rate to be achieved. Economic growth in the first two years of the FYP (10.7% in 2006 and 11.4% in 2007) shows the country is ahead of the target.

49. Inequality shows up in various ways in the PRC, including among areas and people. The 11th FYP deals with inequality through investments and reforms and tracks progress through targets for social development and for integrated urban–rural development. The investments in rural public services and reforms in social development are good approaches to cutting rural–urban inequality.

50. Reducing energy intensity and improving the environment are probably the PRC's greatest challenges and, because these require structural changes in the economy, progress is likely to be slow. In the first year of the 11th FYP, progress toward the targets for energy and environment was modest.

51. Nevertheless, the Government has made good progress on policy reforms for energy and the environment, paving the way for better results. Many reforms so far focus on incentives for improving efficiency and cutting pollution through tax breaks, pricing, and other economic means. Reforms include technology standards for efficiency and environmental protection and stronger monitoring of compliance with standards. The reforms are a good approach to resource and environmental management, and show the Government's commitment to improving efficiency and the environment and to market-based reforms. The reforms cannot produce results immediately but they will put the country on track toward meeting the country's targets.

III. ASIAN DEVELOPMENT BANK'S DEVELOPMENT EXPERIENCE

52. ADB has been supporting socioeconomic development in the PRC since 1986. ADB has provided financing of about \$18 billion for public and private sector projects, and given technical assistance (TA) worth about \$290 million. Annual public sector financing has reached \$1.5 billion and TA has reached \$20 million. ADB approved 20 private sector projects in the PRC from 1988 to 2007, accounting for a net cumulative business volume of \$1,290 million (loans totaling \$347.2 million, equity \$389.3 million, \$107 million in guarantees, and mobilized commercial cofinancing of \$446.5 million). ADB's policy advice has recently helped the Government shape policies on user charges, rural social services, water quality management, and other topics.

53. ADB's program has contributed to the PRC's development in several ways. At the start of the program, ADB's lending helped relieve constraints on foreign exchange and boosted public sector investments, especially in infrastructure, while ADB's TA program helped develop and improve the public sector projects it was financing. ADB's lending and TA program combined to help relieve the constraints to PRC's development due to lack of infrastructure and helped lay the foundation for sustained economic growth.

54. After more than 20 years working in the PRC, ADB has established a strong foundation in terms of its knowledge, experience, and relationships. ADB has a good track record in the PRC, but changes in the country call for ADB to review its recent experience and consider what shifts may be needed in the new environment. The following sections briefly review ADB's previous country strategy and recommends changes to maintain ADB's effectiveness.

A. Development Impact of Past Assistance: Country Strategy and Program, 2004–2006

55. ADB's country strategy and program for the PRC, 2004–2006, aimed to "promote pro-poor economic growth by enabling greater access of the poor to the benefits of economic prosperity and opportunity to achieve it".²³ Four pillars supported that goal:

- (i) promoting equitable and inclusive growth,
- (ii) making markets work better,
- (iii) fostering regional cooperation, and
- (iv) promoting environment sustainability.

56. Operations were focused on the country's poor interior regions and covered transport infrastructure; urban development (water supply, wastewater, and integrated urban development); agriculture and natural resources; and clean energy. The completion report for the country strategy and program is in Appendix 2.

57. The strategy also provided for nonlending operations and support for private sector development. It recognized that ADB's impact depended on the new knowledge and practices introduced through its operations. The strategy directed nonlending operations, especially advisory TA, to become better focused and targeted, anticipate emerging issues, and give timely advice. To boost private sector development, the strategy aimed to raise private sector lending and to consider issuing bonds in the local currency.

58. ADB implemented the strategy through a package of lending, TA, and policy advice. From 2004 to 2006, ADB financed 24 public sector projects totaling \$4.26 billion, an average of \$1.42 billion each year. TA totaling \$19.24 million was provided for preparing 32 projects, while \$30.43 million went for 59 advisory studies. ADB approved eight private sector projects, accounting for a net cumulative business volume of \$395.7 million (loans totaling \$70.7 million and equity, \$250 million, and mobilized commercial cofinancing of \$75 million). ADB staff also produced several reports on priority issues such as financing compulsory education in rural areas, food safety, and minimum living standards in rural areas.

59. ADB's Operations Evaluation Department published a country assistance program evaluation (CAPE) for the PRC in 2007.²⁴ The CAPE rated the country strategy between

²³ ADB. 2003. *Country Strategy and Program (2004–2006): People's Republic of China*. Manila (p. 26). See also ADB. 2006. *Country Strategy and Program Update (2007–2008): People's Republic of China*. Manila.

²⁴ ADB. 2007. *Country Assistance Program Evaluation for the People's Republic of China: Success Drives Demand for More Innovative and Responsive Services*. Manila.

successful and highly successful and found it was closely aligned with the Government's priorities. The strategy's focus on poor interior provinces and its efforts to strengthen advisory TA helped align the strategy with the Government's priorities. The CAPE also found the strategy was appropriate, and that it led to a coherent package of assistance. Although the CAPE rated individual nonlending operations successful, it found that their impact as a group could have been better with a stronger strategic focus and more efficient management.

60. The country strategy and program completion report also found that ADB successfully carried out the strategy and that ADB added value and contributed to the PRC's development. The completion report found that ADB's biggest contributions were its policy advice and the demonstration effect of innovations in the projects it financed. The CAPE and the completion report found that ADB, along with the World Bank and bilateral organizations, had helped the PRC by introducing advanced technical, financial, and management expertise.

B. Portfolio Performance and Status

61. The PRC portfolio is one of ADB's strongest performers. The percentage of public sector projects at risk has consistently been below the ADB average. At the end of 2007, only 1 of the 52 projects in the portfolio was considered "at risk". All portfolio indicators are above the ADB average for nonprogram loans (ADB has no program loans in the PRC). Net resource transfers have been positive since 2004.

62. In contrast to the good performance of lending operations, TA performance has been mixed but is improving. The average age and the number of "completed but not financially closed" TA projects have been above the ADB average, but fell significantly in 2005 and 2006. Portfolio indicators are shown in Appendix 1.

63. Despite the overall good performance, some areas need attention. Projects have encountered delays in signing onlending agreements and declaring loan effectiveness. Delays in fielding of consultants for TA projects have also been observed. Projects usually submit audited financial statements on time but their quality needs to improve. These issues have not affected overall portfolio ratings, but efforts are already in place to improve performance, including filters to report on the executing agencies' readiness to implement a project.

64. Managing the portfolio could be more challenging in the future. Multisector projects in urban and rural development are more complex than standard projects to administer. More multisector projects are likely in the future, which will make the portfolio harder to manage. As the capacity of executing and implementing agencies in the PRC grow, the scope for sector loans will increase which will in turn place higher demands on implementation capacities. Sector loans will need greater preparation and stronger capacity in executing agencies. At the end of 2007, the portfolio included only one multitranche financing facility (MFF), but the number of MFFs will increase in the future.

C. Conclusions and Lessons for the Country Partnership Strategy

65. The portfolio review, country strategy and program completion report, and CAPE all show that ADB has been performing well in the PRC. The CAPE and completion report also find ways ADB could improve its performance, as noted in this section. The CPS formulation and CAPE are discussed in Appendix 3.

66. **Continue Financing Infrastructure.** The PRC's expertise at developing and financing infrastructure projects is growing quickly. ADB should continue financing infrastructure but should increasingly use projects for introducing and demonstrating innovations. ADB's potential impact is greatest at the sector level and it should work to spread successful innovations from the projects to the sector. Pilot projects should be located where they are most likely to succeed, and not necessarily in poorer provinces. ADB should be innovative in how it finances projects and should encourage the PRC to use MFFs, nonsovereign finance, and local currency financing.

67. **Gradually Diversify the Program.** Previous work has focused on transport, where it has been successful, but the PRC's strength in the transport sector is growing and priorities are changing. ADB should continue financing transport, but at a lower level and focused on the poorer, interior provinces. Less financing for transport will make room to finance other sectors, but ADB should avoid financing "one-off" projects in new sectors or subsectors. ADB should consider more financing in sectors that have strong government support, where it has established expertise, and where there will be enough demand to maintain that expertise, especially in the PRC Resident Mission. Areas to consider include urban environmental development and management; rural infrastructure; natural resource management; and clean, efficient energy.

68. **Expand Private Sector Operations.** ADB's private sector operations can contribute to the PRC in many ways and this presents many opportunities for expanding operations. ADB's private and public sector operations should complement and support each other. The CAPE notes that the CPS should include a clear road map for private sector operations. It also recommends that more staff in the resident mission should have skills in private sector and nonsovereign operations, and they should have more responsibility and accountability to develop business.

69. **Improve Knowledge Products and Services.** ADB's biggest potential impact is in introducing new ideas and helping them spread. In the sectors where it is lending, ADB should focus on ideas and practices that can be introduced and demonstrated through projects, and in other sectors focus on efficient and demand-driven policy advice. Policy advice can be more effective through better dissemination, and by building links between advisory studies and policy makers. Advisory TA should be judged on how it helps implement policy decisions. To raise the quality of knowledge products, the CAPE recommends that management should ensure that staff have the right incentives and are rewarded for good outputs. Knowledge products can provide the basis for innovations in projects but resources for preparing projects should be allocated to support building innovations into projects. To find the best new ideas, operations staff should work with ADB's knowledge departments and build links to outside research and other relevant organizations. The CAPE suggests creating opportunities for innovation and new ideas from counterpart agencies and local think tanks by pilot funding a competitive research program at the resident mission and arranging secondments for staff in knowledge departments. ADB's portfolio performance should increasingly be monitored for its contribution to knowledge and innovation.

70. **Strengthen Regional Cooperation.** By working with the PRC, ADB's regional cooperation programs can influence cooperation and development throughout Asia. ADB's previous efforts in regional cooperation should continue, and should further emphasize regional public goods such as environmental quality, public health, and financial stability. ADB can also help spread the lessons of the PRC's economic growth throughout Asia.

71. **Be More Responsive to the PRC's Needs.** The PRC is changing rapidly, and ADB must change as well to maintain its effectiveness. The CAPE suggests that ADB should consider (i) transferring more staff from headquarters to the resident mission, and (ii) giving the resident mission more responsibility and authority. The PRC's capacity is growing in many ways, including systems, organizations, and personnel. ADB should pilot test the PRC's systems for environmental safeguards to the extent allowed under ADB's updated safeguards policy. Some executing agencies have proven experience in preparing advisory studies, and the CAPE suggests they could be given more authority, just as other executing agencies have authority over projects. The knowledge gap between international and domestic consultants is closing rapidly in some subjects. International consultants should be reserved for introducing new ideas from international practice, with domestic consultants used for other tasks. ADB's reliance on consultants has sacrificed opportunities to use and develop the skills of ADB staff. Staff should be used for work in core or priority areas, with consultants used for specialized work that is not needed regularly.

IV. ASIAN DEVELOPMENT BANK'S STRATEGY FOR SUPPORTING THE GOVERNMENT'S DEVELOPMENT STRATEGY

A. Summary of Key Development Challenges

72. The PRC needs to continue its high rate of economic growth, but for economic, social, and environmental reasons needs to change the drivers and pattern of growth. To sustain growth, the economy must shift more toward consumption and rely less on investment. To reduce poverty and maintain social stability, more and better private sector jobs must be created, especially in the services sector; rural social services must be strengthened; and the economy in the interior needs special attention to help it develop more quickly. To protect the environment, the economy needs to become cleaner and more efficient at using energy and other resources.

73. A clear strategy for development is needed. New public investments are required especially in four areas:

- (i) rural infrastructure, to support rural public services and boost domestic consumption;
- (ii) urban infrastructure, especially in the interior, to support urbanization and improve urban environmental quality;
- (iii) transport, especially in the interior, to build the service sector and integrate the domestic economy; and
- (iv) clean and efficient energy, to control resource use and protect the environment.

Continuing institutional reforms are needed in governance and the finance sector to boost private companies and help them create more jobs, especially in services. More regional cooperation will help improve economic prospects in the south and west.

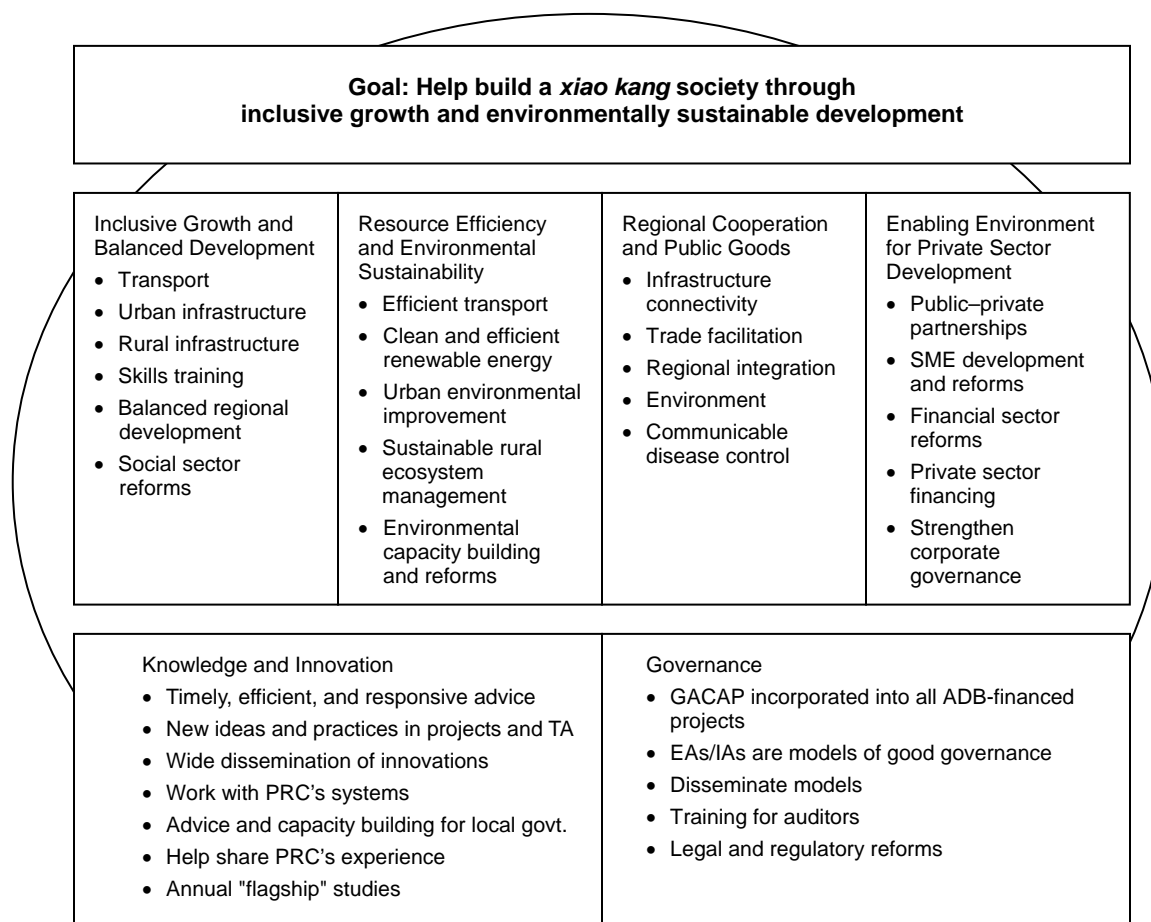
B. Focus of the Country Partnership Strategy

74. ADB will support the Government's long-term goal of building a *xiao kang* society. The Government recognizes that environmental problems and inequality (both of which are priorities in ADB's medium-term strategy II) are barriers to building a *xiao kang* society. The goal of this CPS is therefore to help the Government build a *xiao kang* society by supporting measures

aimed at promoting environmentally sustainable development and inclusive growth.²⁵ The CPS will extend through the end of the 11th FYP in 2010, allowing subsequent strategies to align with the Government's 5-year planning cycle.

75. ADB will pursue this goal through three kinds of operations. First, it will use its expertise in financing infrastructure to directly support investments relevant to the goal and as a way to introduce new knowledge and innovations. Second, it will use the expertise of its staff, its grant-financed TA, and other knowledge products and services to give policy advice and strengthen capacity, focusing on knowledge and innovations relevant to the goal. Third, it will use its regional cooperation programs to bring decision makers in the PRC and its neighbors together, building cooperation and focusing attention on high priority cross-border and regional issues.

The Country Partnership Strategy



ADB = Asian Development Bank, EAs = executing agencies, GACAP = Governance and Anticorruption Action Plan, IAs = implementation agencies, PRC = People's Republic of China, SME = small and/or medium enterprise, TA = technical assistance.

²⁵ For a brief explanation of "inclusive growth", see Ali, Ifzal. 2007. Pro-Poor to Inclusive Growth: Asian Prescriptions. *ERD Policy Brief Series No. 48*. Manila: ADB.

76. Four strategic pillars and two crosscutting themes will support the goal. The pillars orient ADB's operations toward the goal of the CPS, while the themes focus on how ADB will deliver the program. The strategic framework, comprising the overall goal, the four pillars, and the two themes, will combine to further ADB's overarching objective of reducing poverty.²⁶ The figure outlines the strategic framework.

1. Pillar I: Inclusive Growth and Balanced Development

77. ADB will help the PRC build a harmonious society and boost rural development. Operations will be concentrated in the areas where growth and development are lagging, focusing on central and western provinces as well as in the old industrial areas of the northeast. ADB will support the investments in public infrastructure needed to improve services and promote economic growth in rural areas, including rural energy, rural roads, water supply, and sanitation, using nongovernment organizations (NGOs) to help design projects and deliver services especially for the poor. Economic growth will raise incomes and improve job opportunities in rural areas, but ADB will also support better income and job opportunities in rural areas through projects and policy advice that improve resource management and access to markets.

78. Even with improved livelihood prospects and environmental sustainability in remote rural areas, the best income and job prospects for many rural people will continue to be in urban areas. ADB will directly support the sound and sustainable urban development needed to continue urbanizing and modernizing the economy by helping develop smaller towns to reduce migration to cities. To raise efficiency and cut pollution in small towns and cities, ADB will support clean and efficient urban energy. To help the PRC maximize benefits from urbanization and put the economy on a sustainable growth path, ADB will continue to assist investments in transport, including expressways and railways, needed to integrate the domestic economy and boost the services sector. ADB will also support fiscal reforms to strengthen financial resources at central and provincial government levels so they can support development in the poor, interior provinces.

79. ADB's policy advice will support reforms to promote SMEs, building their potential to create jobs across the economy. It will also support reforms aimed at improving access to education and skills training to help rural workers prepare for new jobs in urban areas. TA will support assessments of the PRC's rural health system and recommendations to improve its efficiency, efficacy, and equity, both within the system and through interventions such as the medical financial assistance program to support access by the rural poor.

2. Pillar II: Resource Efficiency and Environmental Sustainability

80. ADB will help the PRC build an efficient and environmentally friendly society. ADB's operations will feature efforts to increase efficiency in transport by promoting railways, improving existing rail and road transport networks, and introducing intelligent transport systems. In the energy sector, ADB will help the Government introduce, demonstrate, and promote adoption of efficient and clean means of generating, transmitting, and distributing energy to industry and households in urban and rural areas. ADB's operations in the energy sector can help the PRC find cost-effective ways to move toward an economy based on clean and efficient energy. All energy sector lending will be expected to help manage the local and global environment and ADB will introduce and promote adoption of technologies to cut greenhouse gas emissions.

²⁶ Supplementary Appendix B describes poverty in the PRC and how ADB's strategy and program will help reduce it.

81. In the cities, ADB will help enhance environmental sustainability through improvements in water supply, wastewater treatment and management, solid waste management, traffic management, and integrated urban development. Investments will be supported by the development of an appropriate policy and regulatory environment and economic instruments for environmental management, including tariffs for clean energy, water supply, wastewater, and solid waste.

82. ADB will also help promote sustainable rural ecosystem management, manage scarce natural resources, and meet environmental challenges. To reach these objectives, ADB will promote river basin and ecosystem management, efficient use of natural resources, and the value chain of agricultural production. ADB will work with local agencies, including environmental bureaus, to strengthen staff and institutional capacity and to promote analysis and decision making by engaging civil society.

3. Pillar III: Regional Cooperation and Public Goods

83. Regional cooperation could significantly contribute to economic growth and social development not only in border provinces, but throughout the PRC. The PRC is a key participant in both the Greater Mekong Subregion (GMS) and the Central Asia Regional Economic Cooperation (CAREC) programs because of its support for regional cooperation, the size of its economy, and its central geographic location. It is important that investments, particularly in the PRC's southwestern and northwestern border regions, are aligned with the GMS and CAREC programs to achieve maximum impact. Regional cooperation also will enable the PRC's neighbors to share the benefits of its growth. ADB will use its regional cooperation programs to forge consensus on cross-border and regional issues, particularly in building cross-border infrastructure connectivity, facilitating cross-border trade, supporting regional financial cooperation, and promoting regional public goods.

84. ADB's regional cooperation strategy for the PRC will have five elements. First, ADB will continue strengthening connectivity and supporting markets that enable efficient cross-border trade and investment. Its support for infrastructure will focus on the western provinces, thereby contributing to the GMS and CAREC economic corridors. Trade facilitation and logistics development will be provided to leverage investments in transport infrastructure.

85. Second, ADB will help the PRC develop and manage regional public goods. ADB will encourage the PRC's involvement in CAREC and GMS programs in such areas as controlling communicable diseases and addressing region-wide environmental issues. In the western and northern PRC, ADB will help fight desertification and promote sustainable ecosystem management and will share the knowledge and technologies developed through regional partnerships.

86. Third, ADB will continue encouraging the PRC to expand its involvement in regional cooperation through several new initiatives. ADB will support development of strategies for regional cooperation and will work to improve coordination across the ministries and agencies involved in regional cooperation. ADB will help develop a network of research institutions to strengthen capacity for research and analysis of issues related to new and ongoing regional cooperation. ADB will also work to bring the benefits of regional cooperation to the northeastern provinces by promoting cooperation between the PRC and Mongolia.

87. Fourth, ADB will partner with the PRC in promoting new regional and subregional cooperation initiatives, using the PRC Fund for Regional Cooperation and Poverty Reduction where appropriate. ADB will also seek to broaden its partnership with the PRC through cofinancing infrastructure projects in the region, conducting joint capacity-building efforts that take advantage of existing initiatives such as the GMS Phnom Penh Plan and the CAREC Institute, and establishing platforms for sharing development experiences.

88. Fifth, ADB will continue to provide technical support for ASEAN+3²⁷ in promoting regional bond market development, regional surveillance, and a liquidity facility for preventing and managing financial crises.

4. Pillar IV: Enabling Environment for Private Sector Development

89. ADB will promote balanced development and continuing market reforms by supporting private sector development and engagement of other nongovernment actors through TA and nonsovereign operations. Public sector operations will work with the central Government, local governments, and domestic banks to promote public and private partnerships for investments in the less developed interior provinces. Private sector operations will capture new opportunities to be involved in private sector financing of infrastructure projects and help develop the country's finance sector to meet private financing needs. ADB will provide policy advice to support SMEs and promote finance sector reforms, including rural finance.

90. Enterprises supplying infrastructure services need higher standards of corporate governance, environmental compliance, and energy efficiency. ADB will strengthen its partnerships with such enterprises to strengthen corporate governance and financial planning. ADB's public and private sector operations will work together to develop local capital markets and to help enterprises access them. ADB will focus on transport, urban services, and energy to ensure synergy with public sector operations and will use both nonsovereign lending and credit enhancement products.

5. Theme A: Knowledge and Innovation

91. Advisory TA will continue to be the focus of ADB's knowledge products and services. Topics for advisory TA will be guided by the strategic pillars, and will be chosen in full partnership with the Government to ensure that the TA is demand-driven. Topics will include issues relevant to local governments to help them develop and implement policy and strengthen their capacity. Advisory TA will be scheduled so that they give timely inputs to government decision making, and outputs will be disseminated to all stakeholders.

92. ADB will reform its management of advisory TA, so it is more efficient and responsive. The amount of time needed to process proposals and recruit consultants will be cut and ADB will work with the Government to develop criteria for delegating more authority to executing agencies. Consulting services will focus on introducing new knowledge and innovations and adapting the best international practices to local conditions. International consultants will focus on introducing new knowledge and innovations and will be paired with domestic consultants to enable knowledge transfer. ADB will continue to provide flexible TA facilities that can finance timely and focused studies at short notice. To provide incentives for and raise awareness of high-quality studies, ADB will continue to recognize the best advisory TA.

²⁷ ASEAN+3 is the Association of Southeast Asian Nations plus the PRC, Japan, and the Republic of Korea.

93. ADB's lending will feature new knowledge and innovations, drawn from advisory TA and other sources. TA for preparing projects will begin earlier in the PRC's project design and development process than in the past, and consultants will work more closely with the PRC's own systems for project design and preparation and safeguards so knowledge is transferred and capacity strengthened. ADB will also work to improve efficiency and effectiveness by using sector loans and MFFs whenever suitable.

94. ADB staff in operations, the Economics and Research Department, the Office of Regional Economic Integration, and the Regional and Sustainable Development Department will help develop knowledge and spread innovations. Operations staff will ensure that the knowledge and innovations in advisory TA studies are included in ADB-financed projects and will look for other sources of best international practice to include in projects, ensuring a sound basis for all innovations. ADB will showcase projects with notable or unique innovations in workshops or conferences, bringing in stakeholders from other parts of the country to help introduce and spread new ideas or practices beyond the boundaries of ADB-financed projects.

95. ADB staff will also work to help spread the results from ADB-financed policy studies. ADB's highest priority will be to continue producing policy notes in Chinese targeted at policy makers in Government and key stakeholders. A second priority will be for staff members to use their knowledge and experience of the PRC to help share the lessons of the country's development experience with other ADB developing member countries. As a lower priority, staff members will also work with outside researchers, including those at the ADB Institute, to produce annual flagship studies that will contribute to knowledge and innovation in the PRC. The resident mission will be strengthened, including through the transfer of staff to work on economic and sector work, so it can support ADB's knowledge products and services and provide timely policy advice. Box 1 indicates some of the knowledge products and innovations in recent and current ADB operations.

6. Theme B: Governance

96. ADB's best opportunities to help strengthen governance are in the sectors where it is active. Following the requirements of ADB's second governance and anticorruption action plan, governance in railways and wastewater management (both subsectors where ADB will continue lending) has been studied. The study suggested ways for ADB to work with the PRC in strengthening governance in railways and wastewater management, focusing on financial management, procurement, and anticorruption activities. ADB will follow the study's recommendations and will continue to study other sectors so the governance and anticorruption action plan can be reflected in all ADB-financed projects in the PRC.

97. In all sectors where ADB is lending, ADB will work with executing and implementing agencies to ensure they are models for good corporate governance. ADB will help implementing agencies for infrastructure projects to establish financial independence, with strong financial management and sound internal controls. ADB will provide training to ensure that internal and external auditors of ADB projects have the proper authority and skills to apply international auditing standards. ADB will help to disseminate case studies of reform at individual enterprises to demonstrate the benefits of good corporate governance.²⁸

²⁸ Under ADB's second governance and anticorruption action plan, ADB's work on governance focuses on public financial management, procurement, and combating corruption; the governance theme in the CPS will also focus on these areas. Appendix 4 details how the governance theme will work in practice. ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila. See also ADB. 2007. *People's Republic of China: Procurement, Financial Management, and Anti-Corruption in ADB-Financed Projects*. Manila.

Box 1: Mainstreaming Knowledge and Innovation

The PRC and ADB have identified knowledge products and services focusing on priority issues such as energy security, resource conservation, ecosystem management, town-based urbanization, and access to finance. Examples of knowledge products and services include the following.

- An ADB policy note produced in 2003 contributed to the State Council's decision to set up a rural welfare system. The new system was a major change in the Government's approach to reducing poverty, directly targeting hard-to-reach, destitute populations, and guaranteeing minimum living standards.
- An ADB policy note produced in 2004 proposed free compulsory education. The proposal contributed to the State Council's decision to cut school fees in rural western areas in January 2006, and then nationwide in 2007.
- Work on "efficiency power plants" is studying how to promote energy efficiency in the PRC using technologies that can raise efficiency and cut energy use enough to reduce the need for new power plants. "Efficiency power plants" can also help reduce greenhouse gas emissions. "Efficiency power plants" have proven effective in industrialized countries but have not yet been introduced into Asia.
- A study on town-based urbanization will recommend how to boost development of towns and help shrink the rural-urban income gap. The study will cover how to promote urban agglomerations, create jobs, and supply social services in towns.
- A study on rural biomass in Gansu Province will develop an innovative, self-sustaining, community-based approach for a gasifier and power generator using local technologies, intended to supply cooking gas and electricity to local communities. The work will help improve implementation of the rural renewable energy law and the preferential tariff policy for biomass power generation, and the commercialization of agricultural waste into power generation.
- A report on integrating water and ecosystem management in the PRC explained the success of the West Lake project in Hangzhou, recommended steps to take in future projects, and identified how ADB and other organizations can help.
- In the final stage of resuming the PRC's membership in the World Trade Organization (WTO), ADB helped ensure that the PRC's trade laws adopted to meet the PRC's WTO commitments are in full compliance with WTO requirements. The PRC's major trade partners agreed that the PRC had met its commitments.
- While the PRC was in the process of finalizing its Anti-Monopoly Law, ADB helped deepen the PRC's authorities understanding of antimonopoly law by bringing in authorities from Australia, the European Union, Germany, Japan, the Republic of Korea, the Organisation for Economic Co-operation and Development (OECD), and the United States. The PRC's adoption of the Anti-Monopoly Law has laid a foundation for the legal and policy framework on competition.

Source: Asian Development Bank.

98. At the request of the Government, ADB will continue support for legal and regulatory systems for the market economy, environmental protection, and public administration. For example, ADB will support an enabling environment for the private sector, help to strengthen the legal framework for the Clean Development Mechanism, and work with the Government to prevent land degradation, control desertification, and protect ecosystems.

99. **Focus on Results.** The results framework (Table 2) shows how the strategy is aligned with the 11th FYP, including which of the Government's results ADB will support. In a big country such as the PRC, ADB has limited influence on country-level results. ADB will also focus on results at a smaller scale, and on achieving results that are closely linked to ADB's operations.

100. ADB can better influence results that are related to the value it adds. At a general level this includes leveraging domestic financing, demonstrating good corporate governance, and strengthening country systems. In specific sectors it includes introducing and promoting

adoption of tariffs for urban wastewater and solid waste management; introducing new technologies for clean, efficient energy; and improving road safety.²⁹

Box 2: The Asian Development Bank's Value Added

The financial resources and capacity of the PRC have grown and developed along with the economy. The value that ADB adds in the PRC has likewise changed over time, and ADB continues to add value to the country's development in several ways.

Financing. Sources of long-term investment financing remain scarce, especially in the interior. ADB financing leverages domestic project cofinancing by reassuring and showing the way for domestic financial institutions, especially in the western provinces. Domestic banks value ADB's strict procedures for appraisal, processing, and administering projects. ADB's scrutiny of proposed projects relieves the domestic commercial banks of much analytical work for which they are not yet fully prepared. ADB lending helps build confidence that in turn increases the willingness of domestic banks to participate in projects. Eventually projects will be financed entirely from domestic sources.

Procurement, Accounting, Auditing, Reporting, and Safeguard Provisions. ADB uses a well-tested set of implementation arrangements, procedures, and project reviews to ensure efficient, effective, transparent, and orderly project implementation and disbursement. ADB project provisions, such as international competitive bidding, give access to advanced technologies. ADB safeguard policies add limited value over the PRC's own systems, but ADB's monitoring of resettlement plans has helped ensure more timely payment of compensation.

Special Features Linked to Projects. ADB adds value by combining investment projects with measures aimed at fostering policy and institutional reform. In road transport, ADB has helped raise highway design and construction quality standards, provide training for establishing efficient expressway enterprises, develop highway pricing policies, improve road safety, cut vehicle emission controls, and strengthen competition in road services.

Facilitating Regional Cooperation. ADB serves as an honest broker to help foster regional economic integration among the PRC and other countries in the region. ADB has helped bring closer economic ties and relations through cross-border projects, harmonization of policies and institutional arrangements, and promotion of joint efforts to improve management of natural resources that straddle borders and to control communicable diseases.

Legal Reforms. Under technical assistance for law and policy reform, ADB supports the development of legal frameworks for three areas: (i) economic laws suitable for market economies, including legal adjustments related to the PRC's membership of WTO; (ii) legislation for environmental protection and natural resource conservation; and (iii) improvement of public administration regarding government procurement. Support for these legal reforms contributes to economic growth and poverty reduction, environmental protection, and strengthened governance.

Source: Asian Development Bank.

101. ADB's impact is highest when the knowledge and innovations that add value spread beyond ADB's own projects and are adopted by the Government. ADB will work to spread knowledge and innovations by promoting ADB projects as showcases. Portfolio indicators will monitor the value ADB adds in projects and the CPS completion report will evaluate impact beyond ADB's own projects. Box 2 describes some areas where ADB has added value in the past and will do so in the future.

C. Assistance for the Strategic Priorities

102. All assistance will be viewed through an environmental lens to achieve a greener portfolio. Considerations of inclusiveness will underlie the assistance program. Furthermore, introducing new knowledge and innovative practices and improving governance will be core themes in all ADB's work. ADB will work to turn implementing agencies of ADB-financed projects into models of corporate governance, and to promote the models throughout the PRC.

²⁹ The sector road maps in Appendix 4 discuss sector-specific value added.

ADB will build knowledge and innovation into all its operations and will work with the PRC's systems to build capacity and transfer knowledge, including to the rest of the region.

103. ADB and the Government will work as partners in carrying out this strategy and delivering the program. The strategy was developed in consultation with stakeholders from across the country. As stakeholders suggested, ADB and the Government will become close partners in developing projects. ADB will work with the Government to develop new projects for ADB financing and will use the country's expertise, including consultants, safeguards, and other systems, as appropriate. Using TA, ADB will work with executing agencies to build their capacity so they can become full partners in managing ADB TA.

104. ADB will continue to develop partnerships with civil society to improve ADB's effectiveness, and to strengthen partnerships between civil society and government, reinforcing the Government's efforts to involve civil society more in poverty reduction and other programs. ADB will also build and strengthen partnerships with the World Bank and other international organizations, sharing information and working together on projects that support development in the PRC.

105. The PRC Resident Mission is ADB's closest link to the PRC. ADB will continue strengthening the resident mission by giving it more authority in implementing projects and building its staff, and improving its capacity to provide service, particularly in knowledge cooperation. The resident mission will be the base for continuing discussions with stakeholders. Box 3 discusses some of the ways that ADB will keep building and strengthening its partnership with the PRC.

106. The way ADB delivers its program will change. ADB will use project financing and policy advice as a way to introduce new ideas and practices into the PRC. ADB's knowledge products and services will have a stronger impact through better targeting of output and dissemination. ADB will be more responsive to continuing changes in the PRC and will be more efficient in all its work.

107. In the public sector, ADB has expertise in financing urban development, energy, and transport projects. The 11th FYP recognizes that, to meet the PRC's development goals, more investment is needed in such areas and asks for continuing support in them from IFIs such as ADB. ADB will continue financing public sector projects in those sectors to maintain focus, build on ADB's experience, and support the 11th FYP.

108. ADB will continue to work in transport, energy, urban development, water, and rural development, but it will also respond to the PRC's renewed priorities. One such priority is environmental sustainability. ADB will pay greater attention to management of natural resources and ecosystems. Energy operations will focus on clean and efficient technologies to help conserve energy and reduce pollutants and GHGs. Another priority is enhancing inclusiveness through balanced development, with a focus on the rural and poorer regions. For this, operations in rural ecosystem management and infrastructure will be expanded, including support for rural roads to improve connections between rural areas and markets.

109. ADB's support for urban development will concentrate on projects in small cities and towns. Lending to highways will decrease and there will be a corresponding increase in lending for energy conservation and clean energy, urban development, water, natural resource management, and agriculture and rural development. Finance and social services will receive advisory TA.

Box 3: Strengthening the ADB–PRC Partnership

ADB works closely with the PRC Government, which benefits both parties. As ADB's third largest shareholder, the PRC helps ADB in many ways. The PRC donated \$20 million to establish the Poverty Reduction and Regional Cooperation Fund and \$30 million to the Asian Development Fund. The PRC has the highest sovereign rating for long-term foreign debt (Moody's A2) among the major ADB borrowers and has been one of the best performing borrowers. This raises the quality of ADB's portfolio and helps enhance the financial position of ADB and lower the cost of ordinary capital resources (OCR) funds to the benefit of other developing member countries. The Government takes an active role in promoting regional cooperation for Greater Mekong Subregion (GMS) and Central Asian Regional Economic Cooperation (CAREC) countries and helps spread the benefits of regional cooperation in these countries and within the PRC.

The Government's strong ownership of projects is one of the main reasons for the success of ADB's assistance in the PRC. That strong ownership will continue and ADB will keep building and strengthening the partnership in other ways.

Work with the PRC's Systems for Developing and Analyzing Projects. ADB will be involved in the earliest stages of developing and financing projects and will work closely with the Government to introduce innovations, strengthen institutions, and use the PRC's own information and systems as appropriate and in accordance with ADB policies. ADB-financed projects will become fully ADB–PRC projects, jointly developed and financed by ADB and the PRC.

Engage the PRC's Knowledge and Expertise. The PRC's consultants are growing in number and capabilities and in some fields they reach the highest international standards. ADB will use the PRC's expertise whenever appropriate for a project. ADB will promote partnerships between international and domestic consultants to transfer knowledge and help adapt international practices to local conditions.

Engage Executing Agencies in Managing Advisory Technical Assistance. The Government has asked ADB to consider giving executing agencies more authority for implementing advisory technical assistance; the PRC country assistance program evaluation endorsed that request. ADB will respond by working with the Government to develop criteria for judging the level of authority to give executing agencies depending on their capability. ADB will delegate authority to executing agencies that are proven to be capable and give limited authority and support to others to enable them reach the same level.

Strengthen Financing Partnerships. One area in which ADB adds value is leveraging cofinancing from domestic banks. ADB will continue building financing partnerships with domestic banks. It will also develop financing partnerships with the Export-Import Bank of China and the China Development Bank, extending its financing partnerships in the PRC to include development projects in other ADB developing member countries.

Build partnerships with organizations in the PRC. ADB will continue to work with government and nongovernment organizations in the PRC, building synergies between the operations of ADB and other organizations. In 2007, ADB started a partnership with the PRC's Clean Development Mechanism Fund. This partnership will focus on transferring and deploying advanced technologies and using clean energy. ADB is also exploring partnerships with the Yellow River Conservancy Commission and the International Research and Training Center for Erosion and Sedimentation to make them into regional water knowledge hubs.

Source: Asian Development Bank.

110. ADB will continue to use project loans in each sector, but will also use sector loans and MFFs whenever suitable. Previous problems with sector loans in the PRC will be avoided through better preparation, including assessments of how well executing agencies can implement subprojects and building their capacity as needed.

111. Several ways have been suggested to improve the effectiveness of ADB's public sector lending. Provincial governments have noted the difficulty in managing loans involving more than one province and loans involving many small subprojects. As a result they have asked ADB to

consider financing smaller projects with separate loans. Whenever possible ADB will develop loans involving only one province.

112. ADB will seek new opportunities for private sector and nonsovereign financing. ADB will look for new opportunities to build public–private financing partnerships, focusing on infrastructure and the finance sector. Private sector financing will support innovative projects, use innovative financial solutions, and work to spread the innovations beyond ADB-financed projects.

113. ADB will work with the Government to identify topics for advisory TA, guided by the 11th FYP and this CPS. Topics will be in areas where ADB has a long-term strategic interest and that clearly fit into the Government's reform strategy, including TA for the finance sector and for promoting private sector development. TA grants will continue at about \$15 million–\$20 million a year.³⁰ In addition, ADB will mobilize funds available under ADB-administered partnership facilities for water, regional cooperation and integration, and clean energy to help the Government address relevant issues.

114. Following ADB's new policy on cost sharing and expenditure eligibility³¹ and to harmonize with other multilateral organizations, the country cost-sharing ceiling for individual loan and TA projects will be up to 99% of total project costs. In practice, ADB's share in the financing of a specific project is likely to be below the ceilings, depending on project- and sector-specific considerations, as many projects in the PRC will be for environment, energy, and transport infrastructure where some local financing will be available. The cost-sharing ceiling and other financing parameters are summarized in Appendix 5.

1. Resource Implications

115. The broad-based partnership underpinning the CPS will influence ADB's approach, institutional coordination, and division of labor between headquarters and the resident mission. More loans will be processed under the annual \$1.5 billion public sector lending limit, so the average size of loans will fall. The focus on new subsectors will require a shift to upgrading skills through training and acquiring skills by filling of vacancies. This will be supported by efforts to strengthen executing and implementing agencies, especially those for projects in rural development and in smaller towns and cities. More resources will be channeled into portfolio administration and there will be a greater focus on portfolio outcomes and impacts for enhanced development effectiveness. ADB will expedite the shift towards the use of country systems and the delegation of TA administration, which may save some resources. Accordingly, and in line with more delegation of projects to the resident mission, staff will be transferred to the resident mission from headquarters and more national officers will be recruited for the resident mission. Part of the need for additional staff for project and knowledge activities will be minimized through redeployment.

116. A sharper focus on knowledge transfer and dissemination will be the key to implementing the CPS. Within the East Asia Department, the knowledge management unit works closely with knowledge management focal points in each division and the resident mission, and coordinates with other departments in ADB, particularly the knowledge departments and the Operations Evaluation Department. Priority knowledge products are

³⁰ Procedures for preparing projects, including how preparation is financed, may change after ADB's ongoing review of project preparation.

³¹ ADB. 2005. *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila.

identified through discussions with the Government. The knowledge program is becoming a third part of ADB's operations, complementing lending and TA. Enhanced knowledge support will be delivered through expanded and focused advisory TA, and through analytical work by staff in their areas of expertise. Staff time will be allocated as needed and some additional funding for staff consultancies is expected. More consideration will be given to building up the analytical skills of staff. Closer coordination between ADB and the PRC on cross-border and regional cooperation, including the sharing of development experience, will be supported through regional TA and other available facilities.

117. Staff resources will need to increase but will be minimized through redeployment of staff, more effective use of national officers, and more flexibility in staff work plans. Without this flexibility and a moderate rise in resources, however, the CPS cannot be implemented fully, some knowledge products and services are likely to be sacrificed, and the processing of complex projects in agriculture and natural resources could slow down. If the CPS faces resource constraints, ADB will sacrifice the quantity but not the quality of operations.

118. The following sections describe the PRC's development goals in each of ADB's priority sectors and subsectors, focusing on goals relevant to ADB's operations, and how ADB's operations will contribute to the goals. Table 1 shows how the four strategic pillars influence ADB's public sector lending. Further details on ADB's assistance are in Appendixes 4 (sector road maps) and 6 (the country operations business plan).

2. Agriculture, Natural Resources, and Rural Development

119. The 11th FYP's initiatives include modernizing agriculture, building rural infrastructure, improving rural social services, and strengthening natural resource management. The FYP targets raising average rural incomes by 5% and maintaining the productivity of at least 120 million hectares of farmland.

120. ADB's support for rural development will focus on relieving the constraints on raising incomes and protecting farmland. To raise rural incomes, ADB will finance projects aimed at linking small-scale primary producers to markets; strengthening extension services; improving resource allocation and productivity; and providing better access to credit in poor areas through agro-enterprise onlending arrangements. To preserve farmland and improve environmental management, ADB will finance projects linking sustainable agricultural development with ecosystem management, supporting sustainable natural resource use and conservation, supplying renewable energy to rural areas, building capacity for integrated ecosystem management, and improving floodplain management.

3. Urban Development

121. During the 11th FYP, urbanization is projected to increase from 43% to 47%, which means that more than 10 million people each year will move from rural to urban areas. To support sustainable urbanization, the FYP pledges to raise urban wastewater management coverage to 70% and solid waste management to 60%. Investments in a wider range of urban infrastructure, including public transport and district heating, will help build clean and efficient cities.

122. ADB will continue to support sustainable urban development and environmental management by financing investments in water supply, wastewater management, flood control,

solid waste management, and (increasingly) urban transport.³² Financing of urban development will shift toward small towns, although ADB will continue working in medium-sized and large cities. ADB will also provide lending and policy advice for integrated urban development. The PRC Asia Training and Research Initiative on Urban Management Project Development Facility will help achieve the MDG for water and sanitation by supporting local governments develop commercially viable demonstration projects in water supply, sanitation, and wastewater treatment.³³ Pollution and water quality control and management will increasingly take a basin-wide approach, starting in the Songhua River Basin. ADB will help municipal governments in northern and northeastern provinces to cut air pollution and improve energy efficiency by providing lending and policy advice for central heating. Urban development operations will cover western and central provinces and the old industrial areas of the northeast, focusing on small cities and townships. ADB will also address the social dimensions of urban development and explore approaches to public-private partnership in the urban sector.

4. Transport

123. One of the priorities for developing the service sector under the 11th FYP is improving transport, which is also important for integrating the domestic economy and balancing regional development. Targets for railways in the 11th FYP include (i) building 17,000 kilometers (km) of new lines; (ii) electrifying 15,000 km of existing lines; (iii) double-tracking 8,000 km of single-track lines; and (iv) raising speeds on 5,000 km of main line routes, with the length of the higher speed network reaching 20,000 km. Congested lines, areas not yet served by rail, and regions with low economic development have priority for developing railways. As for roads, the 11th FYP aims to connect all townships and villages by all-weather roads and 90% of townships and 80% of villages by paved roads. The regional targets for paved roads are to connect all townships and villages in the east; 88% in central provinces; and, in the west, 90% of townships and 50% of villages.

124. ADB will help meet the country's goals for expanding capacity in transport through operations in railways and roads. ADB's financing and policy advice for railways will focus on five areas: (i) financing expansions to the railway system to connect less developed areas; (ii) promoting energy conservation and environmental sustainability; (iii) improving safety, modernizing systems, and raising efficiency; (iv) commercializing railway operations; and (v) boosting rail's competitiveness in transport through restructuring and reform. ADB's financing and policy advice for roads will focus on five areas: (i) financing new roads that connect major growth centers, supported by a system of local roads; (ii) developing and improving urban transport and rural roads; (iii) promoting road safety, cutting vehicle emissions, and raising energy efficiency; (iv) improving the commercial orientation and efficiency of expressway organizations; and (v) strengthening regional cooperation in transport.

5. Energy

125. Cutting energy intensity by 20% is one of the most prominent targets in the 11th FYP. The Government has identified 10 areas and is targeting 1,000 high energy consuming enterprises to achieve the target. Dependence on coal is targeted to be cut to 66%, and sulfur dioxide emission by 10%. ADB will help cut energy intensity and dependence on coal through assistance in six areas: (i) energy efficiency and energy conservation; (ii) alternative energy,

³² For discussion of governance in urban wastewater treatment and railway projects, see ADB. 2007. *People's Republic of China: Procurement, Financial Management, and Anti-Corruption in ADB-Financed Projects*. Manila.

³³ See <http://www.adb.org/Documents/PIDs/41942014.asp> (accessed on 21 December 2007).

including wind, biomass, and hydropower; (iii) clean coal technologies; (iv) urban environmental improvement; (v) coal mine methane and coal bed methane; and (vi) regional cooperation in energy. The work will feature new initiatives and innovative financing tools to plan, design, and implement projects.

6. Finance

126. The Government is committed to continuing finance sector reforms in tandem with other key economic reforms. One of the numerical targets in the 11th FYP is to raise the size of the services sector by 3.0% to 43.3% of GDP. Further broadening and deepening of the finance sector will be an important component of expanding services. In the finance sector the 11th FYP focuses on reforms rather than numerical targets. These include improving the supervision of the sector, improving access of SMEs to finance, continuing reforms of state-owned banks, strengthening corporate governance, continuing to develop the bond market, and strengthening rural finance.

127. The role of the finance sector in ADB operations in the PRC is critical. ADB will support continuing reforms in the sector using a combination of loans and guarantees, TA, direct investment, and policy dialogue. ADB's assistance will focus on five topics: (i) building an inclusive, market-oriented rural finance system and supporting social safety nets and a pensions system in response to the demographic shift in the PRC and the need to build a harmonious society; (ii) improving financial supervision and coordination among financial regulators; (iii) introducing innovative financial modalities (including carbon financing) and assisting provincial and local authorities to access capital markets by broadening the range of financial products available, including securitization and use of guarantees; (iv) promoting private sector development through public and private sector partnership and support for increased access to financial services by SMEs; and (v) supporting the PRC's involvement in regional financial integration and cooperation.

7. Private Sector

128. The PRC's private sector has grown as the state sector has reformed. The Government recognizes the private sector as the key to reaching many of the goals in the 11th FYP, in particular for improving efficiency and meeting the investment needs of many publicly owned and managed infrastructure projects and enterprises, especially in urban areas.

129. ADB will continue to support policy, legal, and regulatory reforms to encourage the private sector's continuing development and improve its access to finance. Through its public sector operations, ADB will work to improve market competition, through antimonopoly law and competition policy; improve the efficiency and effectiveness of government regulation and intervention; strengthen incentives in tax systems; improve transparency in the judicial system; and simplify procedures for starting businesses. ADB will support public-private partnerships in infrastructure finance, SME development, finance sector reforms, and expanded roles by other nongovernment players. ADB will work with the central and local governments and domestic financial institutions to promote public and private partnerships for investments, especially in the less developed interior provinces.

Table 1: ADB Public Sector Lending, 2008–2010

Area	Inclusive Growth and Balanced Development	Resource Efficiency and Environmental Sustainability	Regional Cooperation and Public Goods	Enabling Environment for Private Sector Development
Agriculture, Natural Resources, and Rural Development	<ul style="list-style-type: none"> • Research and extension supporting primary producers • Market development and reforms 	<ul style="list-style-type: none"> • Linking sustainable production and ecosystem management • Sustainable natural resource use • Renewable rural energy • Capacity development in integrated ecosystem management • Floodplain management 	<ul style="list-style-type: none"> • Cross-border animal diseases control in GMS provinces • Biodiversity conservation corridors • Management and monitoring of dust and sandstorms • Promoting rural biogas 	<ul style="list-style-type: none"> • Innovative contracting to improve food quality and safety • Boosting productivity and supporting market-driven systems
Urban Development	<ul style="list-style-type: none"> • Focused on western and central provinces and old industrial areas of northeast • Continued support for large cities while expanding support to smaller urban areas 	<ul style="list-style-type: none"> • Water and wastewater management, flood control, solid waste management, district heating, and urban transport, including traffic management • Basin-wide approach in wastewater management 	<ul style="list-style-type: none"> • Infrastructure development in border towns • Sharing the PRC's lessons learned in urban development with ADB's other developing member countries. 	<ul style="list-style-type: none"> • Corporate governance in executing and implementing agencies • Tariff reforms in water, sanitation, solid waste, and district heating • Building public–private partnerships for urban development
Transport	<ul style="list-style-type: none"> • Highways and railways in western and central provinces • Local road improvements • Urban transport improvement 	<ul style="list-style-type: none"> • Energy efficiency and environmental protection in road projects • Introduction of new technologies in railways for efficiency and environmental sustainability 	<ul style="list-style-type: none"> • Improving connections in GMS and CAREC provinces • Cross-border transport agreements 	<ul style="list-style-type: none"> • Separating construction and operation from the government • Establish corporate entities for future private sector participation • New financing modalities • Policy advice to develop regulations, improve investment climate, and strengthen corporate governance.
Energy	<ul style="list-style-type: none"> • Renewable energy in rural areas • Rehabilitation of district heating in small towns and cities to make heating more affordable to the poor 	<ul style="list-style-type: none"> • Efficiency and conservation • Alternative energy: wind, biomass, hydropower • Clean coal technology • Urban environmental improvement • Coal mine/bed methane • Regional cooperation in energy 	<ul style="list-style-type: none"> • Sharing of knowledge among CAREC and GMS countries • Optimizing of regional resource use in southern provinces • Promoting clean and renewable energy in GMS • Research integrating the PRC's energy markets with Kazakhstan and Mongolia 	<ul style="list-style-type: none"> • Help state-owned enterprises develop commercial power operations • Mainstream nonsovereign lending in clean energy and efficiency, to replicate and scale-up proven projects with private investments

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, GMS = Greater Mekong Subregion, PRC = People's Republic of China.
Source: Asian Development Bank.

130. ADB's Private Sector Operations Department will continue to help improve access to finance and will finance projects with high development and demonstration impacts, focusing on infrastructure and the finance sector. In infrastructure, ADB will seek new opportunities for private sector involvement. ADB will also help develop financial solutions with innovative contractual and financial structures to encourage private sector participation, enhance management expertise, and improve corporate governance. ADB will promote private sector participation to support reliable and efficient energy, transport, and urban environmental services. ADB's equity investments will promote private sector development and public-private partnerships.

131. ADB's Private Sector Operations Department will continue to help commercial banks and other nonbank financial institutions mobilize resources and manage risks. Through equity infusions and loans to financial institutions, ADB will promote finance sector development and institutional reform (corporate governance, internal control, and environmental sustainability). ADB will also assist SMEs through support to financial intermediaries with SME clients. To that end, ADB is exploring new financial products and mechanisms that will expand the flexibility and availability of financing for SMEs. ADB will also invest in private equity funds on a selective basis.

D. External Funding Coordination and Partnership Arrangements

132. The Government coordinates all external assistance. Coordination comes first through the 11th FYP, especially the part dealing with external assistance (paras. 40–43). As all international organizations working in the PRC endorse the Paris Declaration, they are committed to supporting the 11th FYP, and thus are generally coordinated around the 11th FYP.

133. **Financial Instruments.** ADB will use a wider range of financial instruments, such as partial credit guarantees, and an expansion of ADB's yuan funding in the PRC bond market, in addition to foreign currency loans and equity. ADB will set up credit enhancement instruments to support development in new segments such as the corporate bond market and small and medium-sized projects in targeted areas. ADB will increase its equity investments in all targeted areas to enhance corporate governance and institution building.

134. The Government directly coordinates external assistance through the National Development and Reform Commission (NDRC) and through ministries appointed as "window agencies" to work with each organization. The Ministry of Finance serves ADB, the World Bank, and others. The NDRC and window agencies work together to ensure that external assistance supports the 11th FYP, serves the PRC's needs, and suits the interests and expertise of each organization.

135. ADB and other organizations meet and work together, formally and informally. They invite each other to conferences and workshops, along with the Government; for example, in March 2007, ADB held a workshop involving the Government, the Australian Agency for International Development (AusAID), the World Bank, World Health Organization (WHO), and others to discuss preliminary findings of the country assistance program evaluation (CAPE). International organizations also meet informally to share information and discuss common interests.

136. ADB will continue to build partnerships with other international organizations working in the PRC. ADB has a formal partnership with WHO and will continue cooperation and joint policy dialogue. ADB will build on previous and ongoing collaboration in poverty reduction with

partners such as the Department for International Development (DFID) of the United Kingdom and will continue to support innovative approaches to fighting HIV/AIDS under a regional trust fund from the Swedish International Development Agency. ADB, other international organizations, and the PRC Government are jointly sponsoring the Shanghai International Program of Development Evaluation Training, to strengthen capacity for results-based monitoring and evaluation in the Asia and Pacific region.

137. ADB also works formally and informally with NGOs and other civil society stakeholders. ADB involves NGOs in TA and projects whenever appropriate. For example, ADB is helping the Government engage NGOs in poverty reduction programs through advisory TA in Jiangxi Province that includes a pilot test of NGO involvement.³⁴ ADB worked with the Government, the World Bank, and other organizations in the project management committee for the China Development Marketplace; ADB is now following up that support through China Development Marketplace's "ADB Award" to a Sichuan-based NGO that helps children left behind by migrant parents. By building links between government and civil society, ADB can help mobilize all parties' strengths while improving ADB's own effectiveness, and reinforcing the Government's aims to strengthen the role of civil society. ADB will also work with NGOs in developing projects, especially in rural development.

138. ADB will work with domestic banks to build financing partnerships. ADB is already working with China Development Bank, China Construction Bank, the Bank of Communications, the Industrial and Commercial Bank, and the Bank of China in cofinancing projects in the PRC. As noted previously, the ability to attract cofinancing is one way that ADB adds value in the PRC. Local governments are eager to have cofinancing, and domestic banks are interested in cofinancing ADB projects. ADB will build cofinancing into its lending whenever possible.

139. The PRC has been expanding its own program of concessional lending to developing countries, including some ADB developing member countries. ADB will work with the Export-Import Bank of China (the Government's authorized concessional lender) and other organizations to build financing partnerships for development across the region.

V. RISKS AND PERFORMANCE MONITORING AND EVALUATION

140. Under this strategy, ADB will work in new areas or subsectors of transport, urban development, energy, and rural development. However, ADB has previous experience in those sectors and so risks will be similar to those already experienced. The new strategy involves changes in how ADB works, and there is some uncertainty about how the changes will take place. These are briefly reviewed below and ways to manage them are discussed.

A. Risks

141. ADB's program in the PRC faces different and possibly fewer risks than in other countries. The PRC's large reserves of foreign exchange, access to international credit markets, and strong government control over foreign borrowing minimize risks to repaying loans. Strong government capability and ownership will continue, maintaining the portfolio's good performance.

142. The portfolio faces a change in risks to performance as lending to transport declines and lending to other sectors expands. The PRC's transport sector is strong and the portfolio's good performance comes in part from the high level of lending for transport. Lending in the transport

³⁴ The TA also involves cooperation with the China Foundation for Poverty Alleviation, a leading national-level nongovernment organization (NGO). ADB. 2005. *NGO-Government Partnerships in Village-Level Poverty Alleviation*. Manila.

sector will be replaced partly by lending in rural development. ADB's lending for urban and rural development will involve working closely with municipal and local governments; implementing agencies with little or no experience dealing with ADB or other international organizations; and complex, multisector projects with a large number of small components. Portfolio performance can be improved by raising the emphasis on preparing projects with implementation in mind, thoroughly evaluating capacity of implementing agencies, strengthening the agencies as needed before implementation, and carefully choosing the type of financing.

143. The governance theme will raise the importance of governance in ADB's operations. The review of financial management, procurement, and anticorruption in wastewater and railway projects found some weaknesses and potential risks. As ADB's operations shift more to the poorer western provinces where financial management and corporate governance are weaker, ADB's efforts to enhance the capacity of executing and implementing agencies become more important. ADB will appraise the performance of its projects to find any limits in the capacity of executing and implementing agencies, share international practices, and identify training needs.

144. ADB will push for stronger corporate governance in all ADB-financed projects, but progress could be slow because of implementing agencies' limited capacity and lack of experience with common international practice in corporate governance. This is not a risk to portfolio performance, however, or to governance in ADB-financed projects, as ADB has been applying high standards for governance in all its projects. ADB will increase its work to raise governance standards and performance. Governance standards and performance should be closely monitored, with efforts adjusted as needed.

145. Large infrastructure projects, especially transport projects in areas with high incidence of diseases such as HIV/AIDS, may promote spread of those diseases and might be linked to trafficking of human beings and illicit drugs. ADB will continue efforts to address risk factors associated with large infrastructure projects. For example, approaches to address the risk of an accelerated spread of HIV/AIDS in poor, largely ethnic minority areas, developed under previous TA,³⁵ will be replicated in Guangxi Province.

B. Results-Based Monitoring Process and Plan

146. The Government is developing ways to monitor and evaluate progress toward the 11th FYP's targets. Monitoring and evaluation is based on best international practice and includes quantifiable indicators on rebalancing the economy and society.³⁶ The Government will review progress midway through the FYP, and change direction as needed. The Government reports annually to the National People's Congress on progress on the indicators.

147. ADB will monitor its own progress on carrying out this strategy through its semiannual country programming missions, annual portfolio review, and annual country operations business plan. Monitoring will focus on the results framework and ADB's responsiveness, evaluating progress and adjusting either the framework or activities as needed. Monitoring will also cover continuing outcomes and results from operations initiated under the previous country strategy. The annual portfolio review will monitor progress on responsiveness, covering time required for procurement, consultant recruitment, disbursement, and safeguards review. ADB will also work

³⁵ ADB. 2003. *Technical Assistance to the People's Republic of China for Preventing HIV/AIDS on Road Projects in Yunnan Province*. Manila (TA 4142).

³⁶ The Government is strengthening its capacity for managing for results, and monitoring and evaluation. A regional TA for \$500,000 covering Greater Mekong Subregion countries was approved in September 2007, financed by a grant from the Regional Cooperation and Poverty Reduction Fund, provided by the PRC Government. See ADB. 2007. *Technical Assistance for Capacity Development for Monitoring and Evaluation*. Manila (RETA 6410).

to strengthen executing and implementing agencies' capacity to plan, design, implement, manage, monitor, and operate ADB-financed projects.³⁷

148. This CPS will be evaluated in a completion report during the preparation of the next CPS in 2010. The report will review the PRC's progress on the results expected from the 11th FYP, focusing on results relevant to ADB's program. It will then evaluate how well ADB contributed to the expected results that were realized, and how ADB could have helped to achieve any results not realized. The report will also review the value ADB added, focusing on areas tracked in the portfolio performance indicators, and look for signs of sector- and country-level impacts.

149. Table 2 presents the goals, outcomes, key areas of ADB intervention, and risks and mitigation measures intended for the CPS.

³⁷ ADB. 2007. *Technical Assistance to the People's Republic of China for Operational Capacity Building and Value Addition*. Manila (TA 4968).

Table 2: Country Partnership Strategy Results Framework

PRC Development Goals		CPS Outcomes		Key Areas of ADB's Interventions	Risks and Mitigation
Country-level Outcomes ^a	Key Constraints	Outcomes of CPS	Outcome Indicators ^b		
Inclusive Growth and Balanced Development					
Raise paved-road access from 75.4% to 95% for townships and 54.2% to 80% for villages. Raise rail speed on 5,000 km of main line routes from 200 kph to 250 kph. Extend railways by 17,000 km, and electrify 8,000 km of existing tracks.	Rural roads are underdeveloped and poorly maintained. Expressway companies still act as part of government. Railways capacity lags behind demand, and has a public sector orientation.	New roads and railways financed, and new ideas and practices introduced to help develop the transport sector.	Length of roads and railways opened each year and rates of utilization of roads and railways.	Road projects in western and central provinces. Rail projects in the west. Policy advice on rural road development strategy for MOC and on managing railway passenger operations more efficiently for MOR.	Risk: Changing priorities in rail and road. Mitigation: Support sector planning and policy making choices.
Improve rural energy infrastructure in western provinces. Develop 5.5 GW rural biomass power.	Per capita rural energy consumption is below the minimum needs in some western provinces.	Rural renewable energy developed to provide local solution for energy needs. Rural capacities to plan and implement energy projects improved.	Annual investment in rural renewable energy, change in energy capacity, and changes in per capita consumption.	Pilot biomass power projects to test new technologies.	Risk: Slow adoption due to lack of experience with new technologies. Mitigation: Test and prove new and innovative technologies.
Coordinate urban and rural development. Promote development in central and western PRC and industrial northeast. Raise urbanization to 47%, and keep urban unemployment below 5%.	Inadequate urban infrastructure and social services for rising urbanization.	Urban infrastructure and social services in central, western, and northeast PRC meets demand. Urban unemployment controlled. Stronger organizations in municipalities and towns.	Higher urban infrastructure capacity and lower urban poverty ratios in the central and western PRC.	Lending for urban infrastructure and environment in central, western, and northeast towns. Support for tariff reforms, market-based environmental protection, vocational education, waste management, and integrated urban transport.	Risk: Global economic recession could affect the PRC and raise unemployment. Mitigation: Monitor global economy and expand public demand to raise employment.
Raise average rural incomes by 5% annually.	Low rural productivity growth, inadequate rural infrastructure, and weak institutions.	Poverty reduced and overall welfare higher in rural areas.	Annual growth in average rural income.	Investment projects that ease rural credit constraints.	Risk: Rising energy costs could discourage mechanization. Mitigation: Monitor energy costs and analyze impacts.

PRC Development Goals		CPS Outcomes		Key Areas of ADB's Interventions	Risks and Mitigation
Country-level Outcomes ^a	Key Constraints	Outcomes of CPS	Outcome Indicators ^b		
Resource Efficiency and Environmental Sustainability					
Cut energy intensity by 20%.	High energy use due to economic structure.	Higher efficiency in transport and energy sectors.	Annual change in energy intensity.	Help MOC design a more efficient transport system. Promote demand-side energy efficiency projects.	Risk: Slow pace of reforms. Mitigation: Monitor reforms and encourage change.
Cut coal use from 68% to 66%, and SO ₂ emissions by 10%.	Unbalanced energy mix with high coal use.	Lower SO ₂ and greenhouse emissions.	Annual change in coal use and SO ₂ emissions. Air quality category in major cities. 130 GW coal power plants closed. Annual capture of methane.	Finance energy efficiency power plants and industry/building energy efficiency projects; urban environment improvement projects for efficient and clean urban heating and gas distribution systems; 500 MW renewable energy projects; clean coal technology and waste coal utilization projects; CMM/CBM projects to capture methane.	Risks: Gaps in targets and field implementation; slow adoption of new technologies. Mitigation: Develop pilot tests of environmentally friendly technology and help build sustainability into sector regulation.
Raise urban wastewater treatment from 48% to 70% and solid waste treatment from 55% to 60%.	High demand for new urban infrastructure.	New urban infrastructure to meet demand. Better urban environmental quality.	Annual investment in and use of treatment of wastewater and solid waste.	Finance investments in urban infrastructure. Policy advice on tariff reforms, urban environmental management, and urban transport.	Risk: Government may prefer domestic financing for urban development. Mitigation: Focus on knowledge products and innovation.
Preserve 120 million ha of farmland. Improve rural environmental management.	Widespread land degradation. High economic growth.	Farmland preserved. Better rural environmental quality	Farmland area is maintained. Areas of degraded land falls. Lower agricultural discharges.	Financing to improve degraded areas; advice and training to encourage proper use and disposal of fertilizer, agrochemicals, and wastes.	Risk: Limited capability to implement rural environmental regulations, and tradeoffs between sustainability and growth. Mitigation: Support eco-friendly rural interventions.

PRC Development Goals		CPS Outcomes		Key Areas of ADB's Interventions	Risks and Mitigation
Country-level Outcomes ^a	Key Constraints	Outcomes of CPS	Outcome Indicators ^b		
Raise irrigation efficiency from 45% to 50% and access to rural biogas from 12% to 27%.	Widespread water pollution. Dependence on nonrenewable energy.	Better water resource management. Better rural access to renewable energy sources, particularly biogas	Annual change in irrigation efficiency and rural access to biogas.	Finance projects for flood control, water resource management, and rural biogas. TA and capacity development in water policy and pricing.	Risks: Climate change could worsen water scarcity. Higher rural labor costs could threaten viability of biogas. Mitigation: Track the viability of water resource management and biogas development.
Regional Cooperation and Public Goods					
Improve trade and investment links with neighbors.	Weak institutions and lack of infrastructure.	Improved transport links with neighboring countries, including improved regulations and practices at the border crossings.	Annual trade volumes and time for border crossings. Cross-border transit agreements ratified.	Road and railway projects to support GMS and CAREC. Support for cross-border agreements.	Risk: Weak capability in some member countries. Mitigation: Improve capacity in weaker members.
Improve energy security.	Weak energy links.	Enlarged energy markets to include Kazakhstan, Mongolia, and the Russian Federation. Better energy cooperation between southern provinces and GMS countries.	New power connections with Mongolia. Gas and oil pipelines built to the Russian Federation and Kazakhstan.	Cross-border project for 3,000 MW power import.	Risk: Power trade agreements not negotiated and implemented. Mitigation: Monitor progress and encourage agreements.
Improve cooperation to manage regional public goods.	Weak capacity of participating countries.	Better regional capability for managing public health, including control of communicable diseases; and managing regional environment, including desertification and biodiversity corridors.	PRC leadership and financial support in establishing a GMS academic network and a CAREC institute. Continued PRC participation in GMS and CAREC. Improvements in regional negotiations.	GMS and CAREC regional TAs on managing regional public goods. Establish a CAREC institute. Support the PRC's participation in CEP and BCI.	Risk: Enforcing agreements may be hard, particularly when economic, social, and environmental interests diverge. Mitigation: ADB will focus on pragmatic solutions that build confidence and capacity through pilot tests and scaling up interventions in each member country.

PRC Development Goals		CPS Outcomes		Key Areas of ADB's Interventions	Risks and Mitigation
Country-level Outcomes ^a	Key Constraints	Outcomes of CPS	Outcome Indicators ^b		
Strengthen cooperation on financial stability.	High exposure to the global economy.	Stable and efficient regional financial markets, with improved policies for regional trade.	Implementation of the ASEAN+3 economic review and policy dialogue process, the Asian Bond Market Initiative, and the Chiang Mai Initiative.	Technical support for financial and monetary surveillance; risk management; cooperation among financial market regulators; and developing Asian bond markets.	Risk: Global market imbalances could trigger a disorderly realignment of financial markets. Mitigation: Monitor global balances, and evaluate exposures.
Support development in Asia and the Pacific.	Weak capability in planning and coordinating RCI.	Stronger ties between the PRC and India. Stronger knowledge base for RCI, including a research network. Northeast PRC more involved in RCI.	The PRC develops a national RCI strategy. The PRC and India exchange development lessons. Network for RCI-related research established. RCI program involving northeast PRC launched.	TA for PRC–India research cooperation and for establishing a PRC research network. TA for developing a northeast PRC RCI initiative.	Risk: Lack of a strategy makes it hard to plan regional cooperation. Mitigation: Many domestic regional integration initiatives on which ADB can build.
Enabling Environment for Private Sector Development					
Create 15 million jobs each year.	High regulation, lack of transparency, corporate governance. SMEs and local government lack access to finance and information.	SMEs and local governments have better access to financial services. Stronger financial institutions, financial market supervision.	Annual change in micro credit and microfinance institutions and their clients; profitability of rural credit cooperatives; SME credit guarantees; bonds issued by provincial and local governments. Increased employment.	Advisory TA for rural financial market reforms; microfinance institutions; and credit guarantees. Nonsovereign loans to financial institutions where corporate governance can be improved.	Risks: Corporate governance in financial institutions. Inexperience with issuing public bonds. Mitigation: Focus on improving corporate governance.
Improve access of SMEs to finance; continue reforms of state-owned banks; strengthen corporate governance; continue developing bond markets; and strengthen rural finance.	Poor infrastructure and environmental quality. Insecure intellectual property. Underdeveloped rural property rights.	Build public–private partnerships especially for infrastructure and financial services in central and western PRC.	Annual number of private–public partnerships for financing infrastructure in central and western PRC.	TA to help build the institutional framework needed for public–private partnerships.	Risk: Weak capability and corporate governance. Mitigation: Help improve capacity, policies, corporate governance.

PRC Development Goals		CPS Outcomes		Key Areas of ADB's Interventions	Risks and Mitigation
Country-level Outcomes ^a	Key Constraints	Outcomes of CPS	Outcome Indicators ^b		
Raise private investment in clean energy.	Low returns.	Catalyzed private investment in clean energy and energy efficiency projects.	Private investment increased in infrastructure projects.	500 MW nonsovereign support for clean energy projects.	Risk: Slow pace of reforms may delay reaching targets. Mitigation: Monitor progress and promote reforms.
Catalyze efficient investment.	Institutional disincentives for efficiency.	More access to finance, help develop finance sector, introduce financial innovations.	Annual number of private sector deals and assessments of potential development impact.	Advisory work to generate private sector financing opportunities. Equity infusions and loans to financial intermediaries.	Risks: Structural and institutional weakness. Mitigation: Combine policy dialogue with improving corporate governance.
Knowledge and Innovation					
Boost innovation in society, and support policy and institutional innovation. ADB (and other international financial institutions) should introduce innovative ideas and practices through their operations and knowledge cooperation.	Unprecedented development challenges. ADB's knowledge program needs to be strengthened.	Higher efficiency and impact of advisory TA and lending, more innovative knowledge products. Strengthened country capability for developing projects.	Annual report on knowledge management. Government feedback on the effectiveness of ADB's knowledge program.	ADTAs used for unique expertise. Links forged between ADTAs and projects. Collaborate with RSDD, ERD, ADBI, and the World Bank. Continue TA facility. Improve dissemination of ADTAs. Annual flagship knowledge product. Better use of consultants and domestic systems. Criteria for delegating authority to EAs. Review financial and economic analysis.	Risks: Resource and staff constraints, and incentives in ADB. Mitigation: Include knowledge work in staff work programs.

PRC Development Goals		CPS Outcomes		Key Areas of ADB's Interventions	Risks and Mitigation
Country-level Outcomes ^a	Key Constraints	Outcomes of CPS	Outcome Indicators ^b		
Governance					
Strengthen corporate governance and improve public services.	Weak capacity, culture, and incentives in public enterprises.	Implementing and executing agencies of ADB projects will be models of good corporate governance and will demonstrate good governance to other institutions.	Annual reports on governance in ADB projects and status of key interventions. Adoption of these concepts by other projects.	<p>Wastewater: manual for financial management and accounting; procurement reference guide; sample bid evaluation reports; procurement planning and monitoring mechanism.</p> <p>Railways: support joint venture railways; risk analysis as part of MOR's internal audits; e-procurement for advanced railway equipment and technology; compile and publish data for convictions on corruption.</p>	<p>Risk: Organizational reform is complex and much of it beyond ADB's influence.</p> <p>Mitigation: ADB will promote reforms in executing and implementing agencies that seek to change, and where the local government supports reform.</p>

ADB = Asian Development Bank, ADBI = Asian Development Bank Institute, ADTA = advisory technical assistance, ASEAN+3 = The Association of Southeast Asian Nations plus the PRC, Japan, and the Republic of Korea, BCI = Biodiversity Conservation Corridors Initiative, CAREC = Central Asia Regional Economic Cooperation, CBM = coal bed methane, CEP = Core Environment Program, CMM = coal mine methane, CPS = country partnership strategy, ERD = Economics and Research Department, GMS = Greater Mekong Subregion, GW = gigawatt, ha = hectare, km = kilometer, kph = kilometer per hour, MOC = Ministry of Communications, MOR = Ministry of Railways, MW = megawatt, PRC = People's Republic of China, RCI = Regional Cooperation and Integration, RSDD = Regional and Sustainable Development Department, SME = small and/or medium-sized enterprise, SO₂ = sulfur dioxide, TA = technical assistance.

^a All goals are for 2010, unless stated otherwise.

^b Data will come from the Government's annual report to the National People's Congress.

Source: Asian Development Bank estimates.

COUNTRY AND PORTFOLIO INDICATORS

Table A1.1: Progress Toward the Millennium Development Goals and Targets

Goals and Targets	Country Status
<p>Goal 1: Eradicate Extreme Poverty and Hunger</p> <p>Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day.</p> <p>Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.</p>	<p>National poverty reduction goal has been met.</p> <ul style="list-style-type: none"> • Rural population below \$1 (PPP) per day: 32.5% in 1990; 10.8% in 2004. • Prevalence of underweight children under age 5: 17.4% in 1990; 8% in 2002.
<p>Goal 2: Achieve Universal Primary Education</p> <p>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.</p>	<p>The PRC is ahead of target; junior secondary enrollment has also increased (from 67% in 1990 to 94% in 2004).</p> <ul style="list-style-type: none"> • Net primary enrollment ratio: 97% in 1990; 99% in 2006. • Literacy rate of 15–24 year olds: 94% in 1990; 99% in 2000–2004.
<p>Goal 3: Promote Gender Equality and Empower Women</p> <p>Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.</p>	<p>The PRC is slightly off-track on the girl/boy ratio for primary schools. Several provinces have fallen behind and there are concerns over the situation of rural women and the increasing portion of newborn boys.</p> <ul style="list-style-type: none"> • Ratio of girls to boys in primary education: 0.93 in 1991; 0.99 in 2005. • Ratio of girls to boys in secondary education: 0.75 in 1991, 1.00 in 2005.
<p>Goal 4: Reduce Child Mortality</p> <p>Target 5: Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate.</p>	<p>The PRC has made progress, with 2% rate of reduction achieved in 1990s (using UN data), continued efforts are needed to achieve the 4.3% rate required to achieve the target by 2015.</p> <ul style="list-style-type: none"> • Under-5 mortality rate (per 1,000 live births): 49 in 1990; 27 in 2005. • Infant mortality rate (per 1,000 live births): 38 in 1990; 23 in 2005.
<p>Goal 5: Improve Maternal Health</p> <p>Target 6: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.</p>	<p>The PRC has made good progress, as maternal mortality dropped from 89 per 100,000 live births in 1990 to 50 in 2001, with 4.8% rate of reduction, continued efforts are needed to achieve the 5.4% rate required to achieve the target by 2015. There are also large contrasts between coastal and western provinces, where women, especially in remote areas, have limited access to emergency obstetric care.</p> <ul style="list-style-type: none"> • Maternal mortality ratio (per 100,000 live births): 95 in 1990; 56 in 2000. • Proportion of births attended by skilled health personnel: 67% in 1990; 97% in 2004.
<p>Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases</p> <p>Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.</p> <p>Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.</p>	<p>The PRC has made good progress toward containing malaria, but it lags behind its neighbors in reducing tuberculosis prevalence. The PRC is also taking steps to reduce HIV prevalence, which is low by international standards but spreading rapidly since 1990s.</p> <ul style="list-style-type: none"> • Proportion of condom use for overall contraceptive purpose (percentage of married women aged 15–49): 4% in 1995; 6% in 2004. • Contraceptive prevalence rate (percent of married women aged 15–49): 84% in 1995; 90% in 2004. • Prevalence of malaria (per 100,000 people): 3 in 2003. • Prevalence of tuberculosis (per 100,000 people): 325 in 1990; 208 in 2005.

Goals and Targets**Country Status****Goal 7: Ensure Environmental Sustainability**

The PRC is committed to reversing the degradation of land, water, air, and globally significant biodiversity. It is working hard to achieve challenging targets for access to safe drinking water and rural sanitation.

Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.

- Land covered by forest: 16.8% in 1990; 21.2% in 2005.
- Carbon dioxide emissions (per capita, metric tons): 2.1 in 1990; 3.2 in 2003.

Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.

- Rural population with access to improved water sources: 59% in 1990; 67% in 2004.
- Urban population with access to improved water sources: 99% in 1990; 93% in 2004.
- Rural population with access to improved sanitation: 7% in 1990; 28% in 2004.
- Urban population with access to improved sanitation: 64% in 1990; 69% in 2004.

Goal 8: Develop a Global Partnership for Development

The PRC has been particularly effective in spreading new technologies into society.

Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communication.

- Personal computers in use (per 100 people): 0.04 in 1990; 4.05 in 2005.
- Internet users (per 100 people): 1.77 in 2000; 8.44 in 2005.

HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, PPP = purchasing power parity, PRC = People's Republic of China, UN = United Nations.

Sources: Asian Development Bank (ADB). 2007. *Key Indicators 2007*. Manila; ADB. 2004. *Hardship and Poverty in the Pacific*. Manila; International Telecommunication Union (ITU). *ICT Statistics Database Online*. www.itu.int/ITU-D/ict/statistics/ict/index.html; United Nations Children's Fund (UNICEF). 2007. *Immunization Summary*. New York; UNICEF. 2006. *State of the World's Children 2007*. New York; United Nations Statistics Division (UNSD). *Millennium Indicators Database Online*. New York; World Health Organization (WHO). *Statistical Information System Database Online*. www.who.int/whosis/en/; WHO. 2006. *World Malaria Report 2006*. Geneva; World Bank. 2007. *Edstats Online*. www1.worldbank.org/education/edstats/; World Bank. 2007. *Millennium Development Goals Website*. ddp-ext.worldbank.org/ext/GMIS/home.do?siteId=2; World Bank. 2007. *PovcalNet Database*. www.worldbank.org/data/countrydata/countrydata.html; World Bank. 2007. *World Development Indicators Online*. www.worldbank.org/data/onlinedatabases/onlinedatabases.html.

Table A1.2: Country Economic Indicators

Item	Fiscal Year				
	2003	2004	2005	2006	2007
A. Income and Growth					
1. GDP Per Capita (\$, current)	1,269.8	1,486.0	1,716.1	2,018.1	2,458.8*
2. GDP Growth (% , in constant prices)	10.0	10.1	10.4	11.1	11.4
a. Agriculture	2.5	6.3	5.2	5.0	3.7
b. Industry	12.7	11.1	11.7	13.0	13.4
c. Services	9.5	10.0	10.5	10.8	11.4
B. Saving and Investment (current and market prices, % of GDP)					
1. Gross Domestic Investment	41.2	43.3	43.9	44.6	44.5*
2. Gross National Saving	43.0	45.6	46.8	47.6	48.7*
C. Money and Inflation (annual % change)					
1. Consumer Price Index	1.2	3.9	1.8	1.5	4.8
2. Total Liquidity (M2)	19.6	14.9	16.3	16.9	16.7
D. Government Finance (% of GDP)					
1. Revenue and Grants	16.0	16.5	17.2	18.4	20.9*
2. Expenditure and On lending	18.1	17.8	18.5	19.1	20.4*
3. Overall Fiscal Surplus (Deficit)	(2.2)	(1.3)	(1.2)	(0.7)	0.5*
E. Balance of Payments					
1. Merchandise Trade Balance (% of GDP)	2.7	3.1	6.0	8.3	9.8*
2. Current Account Balance (% of GDP)	2.8	3.6	7.2	9.4	10.9*
3. Merchandise Export Growth (annual % change)	34.6	35.4	28.5	27.2	25.7*
4. Merchandise Import Growth (annual % change)	(39.8)	(35.8)	(17.6)	(19.7)	(20.0)*
F. External Payments Indicators					
1. Gross Official Reserves (including gold, \$ million in weeks of current year's imports)	4,032.5	6,099.3	8,188.7	10,663.4	15,300.0
2. External Debt Service (% of exports of goods and services)	7.6	3.5	3.3	2.4	2.0*
3. Total External Debt (% of GDP)	12.7	12.8	12.6	12.2	10.7*
G. Memorandum Items					
1. GDP (current prices, CNY billion)	13,582.3	15,987.8	18,386.8	21,087.1	24,661.9
2. Exchange Rate (CNY/\$, average)	8.3	8.3	8.2	8.0	7.6
3. Population (million)	1,292.3	1,299.9	1,307.6	1,314.5	1,321.5*

() = negative, — = not available, GDP = gross domestic product, * = ADB staff estimate.

Sources: Asian Development Bank. 2007. *Key Indicators 2007*. Manila; National Bureau of Statistics. 2007. *China Statistical Yearbook 2007*. Beijing; Asian Development Bank estimates.

Table A1.3: Country Poverty and Social Indicators

Item	Period			
	1985	1990	Latest Year	
A. Population Indicators				
1. Total Population (million)	1,058.5	1,143.3	1,314.5	2006
2. Annual Population Growth Rate (% change)	1.4	1.4	0.5	2006
B. Social Indicators				
1. Total Fertility Rate (births/woman)	2.4	2.1	1.8	2005
2. Maternal Mortality Ratio (per 100,000 live births)	—	95	50.0	2001
3. Infant Mortality Rate (below 1 year/1,000 live births)	37.0	38.0	23	2005
4. Life Expectancy at Birth (years)	68.3	68.6	72.5	2005
a. Female	70.0	70.5	74.3	2005
b. Male	68.0	66.8	71.0	2005
5. Adult Literacy (%)	—	22.2	11.0	2005
a. Female	47.0	31.9	16.2	2005
b. Male	21.0	13.0	5.9	2005
1980	1980			
6. Primary School Gross Enrollment (%)	96.0	97.8	99.3	2006
7. Secondary School Gross Enrollment (%)	40.0	66.7	95.1	2005
8. Child Malnutrition (% below age 5)	—	17.4	10	2004
9. Population Below Poverty Line (%)	—	31.3	10.4	2004
10. Population with Access to Safe Water (%)	—	71	77	2004
11. Population with Access to Sanitation (%)	—	35.5	48.5	2004
12. Public Education Expenditure (% of GDP)	2.5	2.2	4.2	2006
13. Human Development Index	0.595	0.634	0.777	2005
Rank	66	101	81	
14. Gender-Related Development Index	—	—	0.75476	2005
Rank	—	—	6473	2005
C. Poverty Indicators				
1. Poverty Incidence (national; %)	14.8	9.4	2.5	2005
2. Percentage of Poor to Total Population	—	—	4.6	1998
a. Rural	—	—	4.6	1998
b. Urban	—	—	<2	1998
3. Poverty Gap (\$1 a day)	—	—	3.9	2001
4. Poverty Severity Index	—	—	—	—
5. Inequality (Theil Index)	—	—	0.472	2004
6. Human Poverty Index	—	—	11.7	2005

— = not available, GDP = gross domestic product.

Sources: United Nations Development Programme. 2007. *Human Development Report 2007/2008*. New York.; National Bureau of Statistics of China. 2007. *China Statistical Yearbook 2007*. Beijing; Asian Development Bank. 2007. *Key Indicators 2007: Inequality in Asia*. Manila.

Table A1.4: Country Environment Indicators

Indicator	Previous year		Latest Year	
A. Energy Efficiency of Emissions				
1. GDP/Unit of Energy Use (PPP\$/kgoe)	2.1	1990	4.4	2004
2. Traditional Fuel Use (% of total energy use)	5.6	1996	6.0	2000
3. Carbon Dioxide Emissions				
a. Million tons	2,399	1990	5,007	2004
b. Tons per capita	2.1	1990	3.8	2004
B. Water Pollution: Water and Sanitation				
1. % Urban Population with Access to Safe Water ^a	72	2001	86	2003
2. % Rural Population with Access to Safe Water ^b	31	1990	58	2003
3. % Urban Population with Access to Sanitation	56	1990	69	2000
4. % Rural Population with Access to Sanitation	8	1990	51	2003
C. Land Use and Deforestation				
1. Forest Area (million hectares)	128.6	1996	175	2004
2. Average Annual Deforestation				
a. km ²	—		866	1990–1995
b. % Change	(1.2)	1990–2000	(2.2)	2000–2005
3. Rural Population Density (people/km ² of arable land)	664.7	1996	614.7	2003
4. Arable Land (% of total land)	13.6	1996	12.9	2003
5. Permanent Cropland (% of total land)	—		11.0	2001
D. Biodiversity and Protected Areas				
1. Nationally Protected Area				
a. Million Hectares	71.9	1995	148.2	2004
b. % of total land	7.2	1996	14.8	2004
2. Mammals (number of threatened species)			79	2002
3. Birds (number of threatened species)			74	2002
4. Reptiles (number of threatened species)	—		31	2002
5. Amphibians (number of threatened species)	—		1	2002
E. Urban Areas				
1. Urban Population				
a. Million	301.9	1990	577.1	2006
b. % of Total Population	26.4	1990	43.9	2006
2. Per Capita Water Use (liters/day)	208.1	1996	211.0	2003
3. Wastewater Treated (%)	17.1	1994	43.6	2004

() = negative, — = not available, GDP = gross domestic product, kg = kilogram, kgoe = kilograms of oil equivalent, km² = square kilometer, PPP = purchasing power parity.

^a Including agriculture water users in the urban area that has been used by the Ministry of Construction since 2001 to estimate the coverage of urban water supply.

^b Piped water supply coverage: Ministry of Health, PRC. 2004. *China Health Statistics 2004*. Beijing.

Sources: Asian Development Bank (ADB). 2007. *Country Environmental Analysis for the People's Republic of China*. Manila. ADB. 2006. *Country Strategy and Program Update (2007–2008): People's Republic of China*. State Forestry Administration, PRC. 2001. *Forestry Development Report*. Beijing: China Forestry Publishing House; National Bureau of Statistics of China. 2007. *China Statistical Yearbook 2007*. Beijing: China Statistics Press; World Bank. 2001. *China: Air, Land, and Water*. Washington. World Bank. *World Development Indicators Online* database. Ministry of Construction, PRC. 2003. *Urban Construction Statistics Report*. Beijing: China Architecture & Building Press; United Nations Development Programme (UNDP). 2007. *Human Development Report 2007/2008*. UNDP. 2004. *Millennium Development Goals: China's Progress*. Beijing: Office of the United Nations Resident Coordinator in China; State Environmental Protection Administration. 2006. *Report on the State of the Environment in China 2006*. National Bureau of Statistics. 2007. *China Statistical Yearbook 2007*. Beijing; World Resources Institute. 2006. *EarthTrends: The Environmental Information Portal*. Available: <http://earthtrends.wri.org/text/biodiversity-protected/country-profile-38.html>.

Table A1.5: Development Coordination Matrix

Development Partner	Key Sectors	Geographic Focus	Financing/Official Development Assistance
Australia	Environment, including water and sanitation; governance, including human rights; health; and HIV/AIDS	Mostly western provinces	2005/06: A\$38 million (\$29.7 million) 2006/07: A\$35 million (\$27.3 million)
Canada	Human rights; democratic development; governance; and environment	Environment in western provinces	2006: about \$30 million
Denmark	Environment, renewable energy, climate change, NGOs	Northeast for renewable energy	2006–2008: over \$15 million in loans based on demand
European Commission	Economic and social reform; sustainable development; and good governance	No geographic focus	2002–2006: total €250 million (\$330 million) or €50 million/yr (\$66 million/yr)
Ford Foundation	Economics and development finance; educational reform and cultural diversity; environment; governance and public policy; law and rights; civil society; sexuality and reproductive health	National focus but activities primarily concentrated in southwest and northwest	1988–2006: Grants totaling \$209 million (averaging \$11/yr) Current level about \$15 million per year
France	Energy efficiency and environmental protection; rail and urban transport; and urban development	Yunnan, Guangxi, Guizhou, Sichuan, Hubei and Hunan, and Chongqing Municipality	Loans—2005: €152 million (\$198.5 million) Grants—2004: €35 million (\$46.2 million) 2005: €33.5 million (\$44.2 million)
Germany	Environmental policy, natural resource management, renewable energy and energy efficiency, sustainable urban development; economic and social reform, legal reform, financial sector development; vocational training and labor market policy; health sector development	Special focus on western provinces and the northeast; some nationwide programs	Loans—2006: €150 million (\$198 million) Grants—2006: €20 million (\$26.4 million), plus €7.5 million/yr (\$9.9 million) for human resources development
Italy	Cultural heritage, environment, health, and education	Central and western provinces	2006–2009: loans €208 million (\$269 million) 2006–2009: grants €42 million (\$54.3 million)
Japan	Grand aid: (i) solving common issues such as environment and communicable diseases that both Chinese and Japanese nationals are confronting and (ii) promoting mutual understanding and exchanges between the peoples of the two countries TA: In addition to the above, market reforms, compliance with international rules, strengthening of	Nationwide coverage	2005: grant aid ¥1.48b (\$12.33 million) 2005: TA ¥5.21b (\$43.4 million) 2005: loans ¥74.8b (\$620 million) (\$1 = ¥120)

Development Partner	Key Sectors	Geographic Focus	Financing/Official Development Assistance
	good governance, and poverty reduction ODA loans: Japan focuses on environment protection and human resource development mostly in inland areas		
Republic of Korea	Environment (integrated forestry management and networking), education, rural development	Nationwide coverage	KOICA (grant aid): 1991–2005 total: \$40.1 million 2006: about \$2.5 million
Netherlands	(i) Forestry; river basin management; wastewater treatment; rural renewable energy; and agricultural training. (ii) rule of law and human rights; and Tibetan cultural preservation	No geographic focus	(i) 2007: €5.1 million (\$6.6 million); 2008: €1.1 million (\$1.4) (ii) 2007: €125,000 (\$162,000); 2008: €135,000 (\$175,000)
New Zealand	Poverty alleviation; sustainable rural livelihoods	Gansu, Guangxi, Guizhou, Sichuan, Tibet, Xinjiang and Yunnan	2005–2006 about NZ\$2.5 million (\$1.73 million)
Norway	Environment; human rights	Western provinces	2005: NKR\$90 million (\$13.6 million)
Spain	Environment (water treatment); support for SMEs; renewable energy; health; and education	Central and western provinces	2005–2007: about €150 million (\$195 million)
Sweden ^a	Environment and sustainable development; human rights education; health (HIV/AIDS, maternal health); good governance	New projects in the strategy period 2006–2010 will be focused in Sichuan, Guizhou, Inner Mongolia, and Yunnan	2005: SKr73.5 million (\$9.2 million) 2006–2010: SKr65 million/yr (\$8.1 million)
United Nations	United Nations Development Assistance Framework (UNDAF): Social services, including health and education; HIV/AIDS; food security; employment; social security; domestic market; urban planning; fiscal and financial reforms; environment; rule of law; government and civil society; consensus; the PRC as a donor UNDP: Achieving MDGs and reducing human poverty; environment and energy for sustainable human development; rule of law and civil society, HIV/AIDS; and south–south cooperation	National coverage	UNDAF 2006–2011 about \$400 million UNDP: \$280 million (from UNDP Country Program of 2006–2010)
United Kingdom ^b	Basic education; health: HIV/AIDS and tuberculosis control; water and sanitation; economic and social issues, particularly budgetary and	National coverage	2005/06: \$69 million 2006/07: \$66.2 million

Development Partner	Key Sectors	Geographic Focus	Financing/Official Development Assistance
	fiscal reform. Discussing cooperation on development in Africa, sustainable development, reform of the international development system and promotion of south-south learning		
United States	Sustainable development and environmental conservation; cultural preservation; HIV/AIDS; support for American schools and hospitals abroad	Tibetan areas of the PRC (culture); Guangxi and Yunnan (HIV/AIDS)	2006 and 2007: about \$10 million yearly
World Bank	Decentralization; education; energy and mining; environment; health, nutrition and population; HIV/AIDS; private sector development; rural development; social development; and urban development	No geographic focus	2006–2010: Expected IBRD lending \$1.0 billion–\$1.5 billion/yr IFC investments \$400 million–\$700 million/yr; and MIGA about \$50 million/yr

HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, IBRD = International Bank for Reconstruction and Development, IFC = International Finance Corporation, KOICA = Korea International Development Assistance, m = million, MIGA = Multilateral Investment Guarantee Agency, NGO = nongovernment organization, ODA = overseas development assistance, PRC = People's Republic of China, SME = small and/or medium sized enterprise, TA = technical assistance, UNDP = United Nations Development Programme, yr = year.

Note: Areas of concentration, geographic focus, and ongoing financing are shown for the main development partners. This is based on information compiled by Australian Agency for International Development (AusAID) in February 2007, and updated by ADB in December 2007.

a ADB's work with Sweden includes the Cooperation Fund for Fighting HIV/AIDS in Asia and the Pacific. An initial round of support (with Swedish funding of \$8.17 million regionally) includes two subprojects earmarked for the PRC, with PRC participation in additional regional subprojects.

b ADB's work with the United Kingdom's Department for International Development (DFID) includes the Poverty Reduction Cooperation Fund, with DFID funding of \$9.21 million to support 17 TAs, and cofinancing for one TA.

Sources: Asian Development Bank and Australian Agency for International Development.

Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings
(public sector loans, as of 31 December 2007)

Sector	Net Loan Amount		Total		Rating ^a											
	\$ million	%	No.	%	Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory		Potential Problem ^b		At Risk ^c	
					No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	616.0	7.1	6	11.5	-	-	6	100.0	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy	508.4	5.9	6	11.5	-	-	6	100.0	-	-	-	-	-	-	-	-
Finance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health, Nutrition, and Social Protection	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Industry and Trade	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Law and Public Sector Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transport and Communications	6,064.9	70.1	24	46.2	-	-	23	95.8	-	-	1	4.2	-	-	1	4.2
Water Supply, Sanitation, and Waste Management	1081.2	12.5	12	23.1	-	-	12	100.0	-	-	-	-	-	-	-	-
Multisector	380.1	4.4	4	7.7	-	-	4	100.0	-	-	-	-	-	-	-	-
Total	8,650.6	100.0	52	100.0	0	0.0	51	98.1	0	0.0	1	1.9	0	0.0	1	1.9

No. = number.

^a One rating for implementation progress and impact and outcome, based on the lower rating of either.

^b Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^c A loan is "at risk" if it is rated as partly satisfactory, as unsatisfactory, or as a potential problem.

Source: Asian Development Bank.

Table A1.7: Portfolio Indicators—Disbursements and Net Transfers of Resources
(public sector loans, as of 31 December 2007)

Disbursements and Transfers	OCR	ADF	Total
Disbursements ^a			
Total Funds Available for Withdrawal (\$ million)	3,805.80		3,805.80
Disbursed Amount (\$ million, cumulative)	1,189.60		1,189.60
Percentage Disbursed (disbursed amount/total available)	31.30		31.30
Disbursements (\$ million, latest year)	984.80		984.80
Disbursement Ratio (%) ^b	23.81		23.81
Net Transfer of Resources (\$ million)			
2000	396.50		396.50
2001	554.70		554.70
2002	(235.20)		(235.20)
2003	(1,967.00)		(1,967.00)
2004	57.50		57.50
2005	440.20		440.20
2006	485.60		485.60
2007	610.10		610.10

() = negative, ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Includes ongoing loans and closed loans with disbursements in 2007.

^b Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the year less cancellations during the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

Source: Asian Development Bank.

Table A1.8: Portfolio Implementation Status
(public sector loans, as of 31 December 2007)

No.	Sector	Loan No.	Title	Net Loan Amount		Closing Date		Progress (% complete)	Cumulative Contracts/Commitments (\$ million)	Cumulative Disbursements (\$ million)	Rating		Potential Probl. ^a	At Risk		
				OCR (\$ million)	ADF (\$ million)	Approval Date	Effectiveness Date				Original	Revised			IP	DO
1.	TC	1783	Chongqing-Guizhou Roads Development Project	120.000	-	21 Nov 00	27 Nov 01	30 Sep 05	31 Mar 07	100%	107.4	119.7	S	S	No	No
2.	AG	1814	West Henan Agricultural Development Project	64.300	-	19 Dec 00	12 Jul 01	30 Sep 06	30 Sep 07	100%	58.0	64.3	HS	S	No	No
3.	AG	1835	Yellow River Flood Mngt (Sector) Project	120.000	-	28 Aug 01	11 Sep 02	30 Jun 06	30 Jun 08	90%	102.3	93.7	S	S	No	No
4.	TC	1838	Shaanxi Roads Development Project	250.000	-	30 Aug 01	08 Nov 02	31 Mar 06	31 Mar 08	99%	179.2	186.9	S	S	No	No
5.	TC	1850	Ganzhou-Longyan Railway Project	200.000	-	30 Oct 01	02 Apr 02	31 Dec 06	30 Sep 07	100%	197.4	199.4	HS	S	No	No
6.	TC	1851	Guangxi Roads Development Project	150.000	-	30 Oct 01	10 Jan 03	31 Oct 05	31 Jan 08	95%	125.0	132.5	S	S	No	No
7.	MS	1890	Acid Rain Control & Environmental Improvement Project	117.000	-	19 Dec 01	11 Jul 02	30 Jun 06	30 Jun 08	75%	106.3	107.8	S	S	No	No
8.	TC	1918	Southern Sichuan Roads Development Project	300.000	-	20 Sep 02	14 Aug 03	31 Mar 08	-	85%	256.0	239.1	S	S	No	No
9.	AG	1919	Songhua River Flood Management Sector Project	150.000	-	20 Sep 02	29 May 03	31 Dec 07	31 Dec 09	64%	84.3	57.7	S	S	No	No
10.	EN	1922	Hebei Zhanghewan Pumped Storage Project	144.000	-	18 Oct 02	16 Jan 04	31 Dec 09	-	53%	122.6	107.6	S	S	No	No
11.	MS	1924	Efficient Utilization Of Agricultural Wastes Project	33.119	-	22 Oct 02	16 Jun 03	30 Jun 08	-	73%	27.6	27.7	S	S	No	No
12.	TC	1967	Shanxi Road Development Ii Project	124.000	-	12 Dec 02	01 Apr 04	31 Jul 07	31 Jan 08	99%	106.0	112.9	S	S	No	No
13.	WS	1985	Hebei Province Wastewater Management Project	82.360	-	19 Dec 02	04 Feb 04	30 Jun 08	-	90%	74.3	61.0	HS	S	No	No
14.	WS	1995	Harbin Water Supply	100.000	-	11 Mar 03	07 Jan 04	30 Jun 08	-	99%	87.5	91.1	S	S	No	No
15.	WS	1996	Wuhan Wastewater Management Project	83.000	-	25 Apr 03	30 Apr 04	31 Dec 08	-	68%	54.7	40.6	S	S	No	No
16.	TC	2004	Ningxia Roads Development Project	250.000	-	11 Sep 03	12 May 04	30 Jun 09	-	70%	195.1	165.6	S	S	No	No
17.	TC	2014	Western Yunnan Roads Development Projects	250.000	-	28 Oct 03	28 Oct 04	31 Mar 08	31 Mar 09	80%	228.2	212.1	S	S	No	No
18.	TC	2024	Xi'an Urban Transport Project	270.000	-	27 Nov 03	08 Dec 04	30 Jun 08	31 Mar 09	85%	217.0	141.2	S	S	No	No
19.	EN	2032	Gansu Clean Energy Development Project	35.000	-	05 Dec 03	04 Aug 04	30 Apr 08	-	99%	31.3	34.1	S	HS	No	No
20.	TC	2051	Yichang-Wanzhou Railway Project	500.000	-	15 Dec 03	26 Jul 04	30 Jun 10	-	65%	488.1	374.0	S	S	No	No
21.	MS	2082	Fujian Soil Conservation And Rural Development II Project	80.000	-	28 Apr 04	18 Mar 05	31 Dec 10	-	31%	18.7	19.2	S	S	No	No
22.	TC	2089	Hunan Roads Development Ii Project	312.500	-	09 Sep 04	16 Aug 05	30 Jun 10	-	36%	295.1	223.6	S	S	No	No
23.	TC	2094	Guangxi Roads Development Ii Project	200.000	-	21 Oct 04	11 Apr 05	31 Dec 08	-	70%	180.7	108.1	HS	S	No	No
24.	EN	2112	Liaoning Environment Improvement Project	70.000	-	25 Nov 04	16 Nov 05	30 Sep 09	-	43%	36.5	33.2	S	S	No	No
25.	TC	2116	Dali-Lijiang Railway Project	180.000	-	02 Dec 04	14 Nov 05	30 Jun 10	-	45%	154.3	39.3	S	S	No	No
26.	TC	2125	Gansu Roads Development Project	300.000	-	13 Dec 04	30 Jun 05	30 Jun 10	-	30%	169.3	94.9	S	S	No	No
27.	EN	2146	Coalmine Methane Development Project	117.400	-	20 Dec 04	04 Oct 05	30 Jun 09	-	60%	78.5	62.0	S	HS	No	No
28.	AG	2157	Sanjiang Plain Wetlands Protection Project	15.000	-	14 Mar 05	09 Dec 05	31 Dec 10	-	23%	4.7	5.1	S	S	No	No
29.	WS	2175	Jilin Water Supply And Sewerage Development Project	100.000	-	18 Jul 05	13 Dec 05	30 Jun 10	-	43%	62.7	21.7	HS	S	No	No
30.	WS	2176	Fuzhou Environmental Improvement Project	55.800	-	29 Jul 05	14 Sep 06	30 Jun 10	-	14%	19.4	2.1	S	S	No	No
31.	TC	2181	Central Sichuan Roads Development	500.400	-	22 Sep 05	12 Jul 06	31 Mar 12	-	15%	352.0	35.1	S	S	No	No
32.	TC	2182	Zhengzhou-Xi'an Railway Project	400.000	-	22 Sep 05	22 Aug 06	30 Jun 12	-	45%	42.9	6.4	S	S	No	No
33.	WS	2207	Henan Wastewater Management And Water Supply Sector Project	100.000	-	09 Dec 05	24 May 06	30 Jun 11	-	40%	54.0	34.4	S	S	No	No
34.	TC	2219	Hunan Road Development Iii (Jishou-Huayuan)	208.000	-	15 Dec 05	02 Feb 07	30 Jun 12	-	7%	147.0	0.2	S	S	No	No

No.	Sector	Loan No.	Title	Net Loan Amount		Closing Date		Progress (% complete)	Cumulative Contracts/Commitments (\$ million)	Cumulative Disbursements (\$ million)	Rating		Potential Probl. ^a	At Risk		
				OCR (\$ million)	ADF (\$ million)	Approval Date	Effective-ness Date				Original	Revised			IP	DO
35.	WS	2237	Shandong Hai River Pollution Control Project	80.000	-	21 Jun 06	13 Feb 07	30 Jun 12	-	20%	12.2	5.1	S	HS	No	No
36.	WS	2239	Guangxi Nanning Urban Environmental Upgrading Project	100.000	-	26 Jun 06	10 Jan 07	30 Jun 11	-	15%	17.4	12.3	S	S	No	No
37.	WS	2240	Wuhan Wastewater And Stormwater Management Project	100.000	-	26 Jun 06	05 Mar 07	30 Jun 11	-	17%	1.3	9.1	S	S	No	No
38.	AG	2244	Hunan Flood Management Sector Project	200.000	-	29 Jun 06	09 Jan 07	31 Mar 13	-	5%	6.9	5.0	S	S	No	No
39.	TC	2247	Heilongjiang Road Network Development Project	200.000	-	26 Jul 06	07 May 07	30 Sep 11	-	30%	142.3	63.5	S	S	No	No
40.	EN	2260	Inner Mongolia Autonomous Region Environment Improvement Project	120.000	-	29 Sep 06	24 Sep 07	31 Dec 11	-	5%	0.0	0.0	HS	S	No	No
41.	TC	2274	Taiyuan-Zhongwei Railway Project	300.000	-	23 Nov 06	21 Aug 07	31 Dec 12	-	18%	187.9	24.7	S	S	No	No
42.	TC	2295	Southern Gansu Roads Development Project	300.000	-	18 Dec 06	-	30 Jun 12	-	1%	0.0	0.0	U	S	No	Yes
43.	EN	2296	Mff-Erlongshan Hydropower Project	22.000	-	18 Dec 06	16 Mar 07	30 Jun 10	-	92%	22.4	15.9	S	S	No	No
44.	WS	2297	Nanjing Qinhuai River Environmental Improvement Project	100.000	-	18 Dec 06	11 Jul 07	30 Jun 12	-	18%	15.1	8.0	S	S	No	No
45.	MS	2328	Anhui Hefei Urban Environment Improvement Project	150.000	-	24 Apr 07	-	31 Mar 13	-	16%	0.0	0.0	S	S	No	No
46.	TC	2339	Eastern Sichuan Roads Development Project	200.000	-	17 Jul 07	-	31 Dec 12	-	2%	0.0	0.0	S	S	No	No
47.	TC	2345	Western Guangxi Roads Development Project	300.000	-	14 Aug 07	-	30 Apr 13	-	5%	0.0	0.0	S	S	No	No
48.	WS	2360	Jilin Urban Environment Improvement Project	100.000	-	29 Oct 07	-	30 Jun 13	-	0%	0.0	0.0	S	S	No	No
49.	WS	2388	Kunming Qingshuihai Water Supply Project	80.000	-	12 Dec 07	-	30 Jun 13	-	-	0.0	0.0	S	S	No	No
50.	TC	2390	Railway Safety Enhancement Project	100.000	-	12 Dec 07	-	30 Jun 13	-	2%	0.0	0.0	S	S	No	No
51.	TC	2393	Xinjiang Regional Road Improvement Proj (Korla-Kuqa Section)	150.000	-	13 Dec 07	-	31 Dec 12	-	2%	0.0	0.0	S	S	No	No
52.	AG	2395	Henan Sustainable Agricultural And Productivity Improvement Proj	66.700	-	13 Dec 07	-	30 Jun 13	-	-	0.0	0.0	S	S	No	No
Total				8,650.6	0.0						4,869.4	3,398.0				

— = no data available or not calculated, ADF = Asian Development Fund, AG = agriculture and natural resources, EN = energy, HS = highly satisfactory, DO = development objectives, IP = implementation progress, MFF = multitranches financing facility, MS = multisector, no. = number, OCR = ordinary capital resources, PS = partly satisfactory, S = satisfactory, TC = transport and communications, WS = water supply, sanitation and waste management, U = unsatisfactory.

^a "Yes" for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^b A loan is considered "at risk" if it is rated as "PS" or "U" in either implementation progress or impact and outcome, or if it is a potential problem loan.

Source: Asian Development Bank.

Table A1.9: Evaluation Rating by Sector, Public Sector Loans (1986–2007)

Sector	HS/GS/S ^a		Partly Successful		Unsuccessful		Total ^b	
	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	3	75.0	0	0.0	1	25.0	4	16.7
Education	0	0.0	0	0.0	0	0.0	0	0.0
Energy	2	66.7	0	0.0	1	33.3	3	12.5
Finance	0	0.0	0	0.0	0	0.0	0	0.0
Health, Nutrition, and Social Protection	0	0.0	0	0.0	0	0.0	0	0.0
Industry and Trade	3	100.0	0	0.0	0	0.0	3	12.5
Law, Economic Management and Public Policy	0	0.0	0	0.0	0	0.0	0	0.0
Multisector	0	0.0	1	100.0	0	0.0	1	4.2
Transport and Communications	10	90.9	0	0.0	1	9.1	11	45.8
Water Supply, Sanitation, and Waste Management	2	100.0	0	0.0	0	0.0	2	8.3
Total	20	83.3	1	4.2	3	12.5	24	100.0

GS = generally successful, HS = highly successful, S = successful, PS = partly successful, US= unsuccessful, No. = number.

^a Ratings based on the old guidelines were prior to 1996, and ratings based on the new 4-category rating system were 1996 onwards.

^b Proportion of sector to Total.

^c Performance rating of a reevaluation study circulated in 1999. Project Performance Evaluation Report was circulated in 1994 and rated generally successful.

Source: Asian Development Bank.

COMPLETION REPORT FOR PREVIOUS COUNTRY STRATEGY AND PROGRAM

Item	Major Achievements	Lessons and/or Recommendations
<p>Country Development Goals The overall strategic objective of the CSP was pro-poor growth with assistance organized under four pillars: (i) promoting equitable and inclusive growth, (ii) making markets work better, (iii) fostering regional cooperation, and (iv) promoting environment sustainability.</p>	<p>The completion report finds that ADB has achieved considerable success in implementing the 2004–2006 CSP.</p> <p>ADB has had important local impacts on poverty reduction in the Western PRC, both through the advances made in road and rail connectivity and through the introduction of participatory and financially sustainable approaches to conserve resources. The impacts have fostered sustainable agriculture and rural development and expanded access to clean drinking water, sewerage, and sanitation services.</p> <p>ADB has continued to play an important role as a neutral broker for regional cooperation efforts, with the PRC actively participating in the GMS and CAREC initiatives. Improvements in connectivity, policy coordination, and institutional capacity have helped expand trade and cross-border investment, and have facilitated regional planning and response to environmental, public health, and other cross-border challenges.</p>	<p>Redefine the poverty target group to include the poor and vulnerable, who have very low incomes and scant opportunities and access to services and are the group that ADB assistance can most effectively help.</p> <p>Address poverty, not at the level of each project, but through the country assistance strategy.</p>
<p>Expected CSP Outcomes</p>	<p>ADB's policy advice and the demonstration effects of new institutional approaches in its projects are ADB's most important contributions to progress in poverty reduction during this CSP period. Advisory-cum-new knowledge products promoting free basic education, the revision of the rural minimum living standards policy, and the use of NGOs to deliver targeted poverty reduction support are examples of the manner in which new knowledge has been translated into wide-ranging reform.</p> <p>ADB has delivered a diverse and innovative array of knowledge, advisory, and policy dialogue products. Notable innovations in provision of nonlending services include providing advisory assistance to provincial governments for formulating provincial development strategies; developing a rapid response umbrella advisory TA for small-scale policy advice; providing regular policy briefs to senior Government officials; and providing state-of-the-art advisory research and advisory services on a wide range of environmental, fiscal, rule-of-law, private sector development, and sector-specific policies. Improvements have been made in public outreach and awareness, with expanded use of the ADB web portal, regular publications, and frequent press conferences.</p>	<ul style="list-style-type: none"> • Emphasize and improve the quality, focus, and impact of knowledge products, as these are the main contribution that ADB can make to poverty reduction. Develop knowledge and advisory products in the core sectors where ADB has lending operations, and combine this with a low-cost, demand-driven knowledge product response to policy advisory requests on a broader array of sectors and themes. • Build on ADB's core competence in infrastructure by using new infrastructure projects to introduce institutional and financial innovations; and shift from a project mode to a greater orientation to assisting subsectors in the established infrastructure areas. • Focus ADB's public sector lending operations in a limited number of areas (transport, urban infrastructure, rural development, and energy-cum-environmental conservation), which are high 11th FYP priorities and for which ADB has a strong track record and in-house competence.

Item	Major Achievements	Lessons and/or Recommendations
	<p>A public sector lending program averaging \$1.4 billion a year has been delivered, despite delays and disruptions associated with the outbreaks of SARS and avian influenza. Portfolio performance has been exceptionally good due to a high degree of Government ownership, strong institutional capacity, and the predominance of major road and railway investments in the portfolio.</p> <p>Outcomes of projects completed during this period are generally in line with expectations, making important contributions to pro-poor growth and improved policy and institutional capacity, especially in the regions in which they have been implemented. The Government has drawn important lessons from the ADB projects that convey new technical, managerial, and institutional features. This includes projects aimed at fostering use of clean energy sources, more software-oriented approaches to flood control, financially sound management of urban water supply and sanitation services, and combining of agriculture and sustainability concerns. Project-related policy, institutional, and managerial innovations have influenced the Government's planning process and are clearly reflected in the strategies adopted in the Government's 11th FYP.</p>	<ul style="list-style-type: none"> • In selected public sector operations, add value by introducing institutional and policy innovations, and then assist the Government, NGOs, and the private sector to scale these up. Innovative pilot projects should be located where they are most likely to succeed, not necessarily in the poorer inland provinces. • Accelerate private sector operations in a more strategic manner, and foster positive synergies between public and private sector operations. • Build on progress in the GMS and CAREC, and expand the scope of regional cooperation to enhance regional economic and financial integration. • Encourage use of new ADB financial instruments, particularly the multitranche financing facility, nonsovereign finance, and local currency financing for public sector operations.
<p>CSP Implementation</p> <p>Quality and Portfolio Management</p> <p>Results Management</p> <p>Partnership with Government</p> <p>Development Partners Coordination</p>	<p>During the current CSP period, a robust partnership relationship has evolved between ADB and the PRC Government. The PRC has become a donor to ADB, and has established a trust fund for regional poverty reduction initiatives. ADB and the Government have begun to distill and disseminate the lessons from the PRC's remarkable experience in poverty reduction. The PRC's rapid economic growth, growing global integration, and active participation in ADB supported regional cooperation efforts has made a positive contribution to poverty reduction in the Asia and Pacific region as a whole.</p> <p>ADB has solicited and been responsive to client feedback. A task force on support to middle income borrowers was established and new innovation and efficiency initiatives instruments have been launched. In 2004, the first local currency bond was issued; the resident mission has been strengthened; and, in 2006, the ADB operations departments have been restructured, facilitating more concentrated focus on the PRC and Mongolia.</p> <p>ADB has deepened its partnerships with civil society and the development partners. Under an ADB project, the Government has, for the first time, used NGOs to implement project activities. Under a</p>	<p>The PRC is changing rapidly, and ADB must change if it wishes to remain a relevant partner to socioeconomic development in the country. The PRC is an increasingly significant driver of economic growth in Asia and the Pacific, and economic relations with the PRC are becoming very significant for many other developing member countries of ADB. ADB's annual lending is well under 0.15% of the total fixed assets investment of more than \$1 trillion in the PRC and less than 1% of its foreign borrowing in 2005. Given the Government's emphasis on equitable and balanced development^a and the ongoing reassessment of the country's growth process,^b ADB needs to establish a new niche for itself in the PRC by addressing a number of challenges, including the need to (i) boost the poverty impact of its operations by ensuring that it provides knowledge and advice that contribute to an improved environment for inclusive growth; (ii) expand its operations in agriculture and rural development, energy</p>

Item	Major Achievements	Lessons and/or Recommendations
	<p>program supported by the Global Environment Facility, ADB has collaborated with numerous partners to help combat desertification. Popular participation in project design and implementation has been encouraged in all ADB projects, and has now been adopted as official Government policy.</p>	<p>conservation, environmental protection, urbanization, and regional cooperation to improve alignment with the 11th FYP; (iii) reduce transaction costs to the client and introduce innovative assistance products; (iv) expand private sector operations, particularly in the infrastructure and financial sectors, through private–public partnership; (v) improve the relevance, quality, and implementation of nonlending products, and expand their responsiveness to emerging priority areas; and (vi) shift the tracking and focus of assistance from delivery of projects and TAs to contributing to a range of positive policy and institutional reform outcomes.</p> <p>The ADB–Government partnership should be deepened by placing greater emphasis on the PRC’s regional role—sharing lessons from the PRC’s experience, encouraging reform of external borrowing policy to facilitate external borrowing for projects with high social returns, and deepening reforms in ADB to be more client responsive.</p>

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, CSP = country strategy and program, FYP = five-year plan, GMS = Greater Mekong Subregion, NGO = nongovernment organization, PRC = People’s Republic of China, SARS = severe acute respiratory syndrome.

a See Government of the PRC. 2006. *Guidelines of the Eleventh Five-Year Plan for National Economic and Social Development* (full text). Beijing. The implications of the 11th Plan are reviewed in Naughton, Barry. 2005. *The New Common Economic Program: China’s 11th Five-Year Plan and What It Means*. *China Leadership Monitor*. No. 16.

b Lin, Justin. 2005. *Development Strategies and Regional Income Disparities in China*. Beijing: China Center for Economic Research.

Source: Asian Development Bank.

COUNTRY PARTNERSHIP STRATEGY AND PROGRAM FORMULATION

A. Analytical Input

1. The first step in developing the country partnership strategy (CPS) was to start thematic and sector research. ADB's first country environment analysis (CEA) for the People's Republic of China (PRC) was initiated on 30 November 2005, supported by an advisory technical assistance (TA).¹ The CEA was developed through consultations in the PRC, with workshops held on 30 November–1 December 2005, and the final consultation held in October 2006. The CEA was finally published in November 2007. The results of the CEA are included in the CPS, in the strategic framework, and in Supplementary Appendix C.

2. Thematic research also included a country gender assessment (CGA) for the PRC. The CGA was done in partnership with the World Bank and supported by an ADB advisory TA.² Like the CEA, the CGA was developed through consultations in the PRC, with workshops held in September 2005. The CGA was published in December 2006. The findings of the CGA are discussed in the main CPS text (section I,C) and in Supplementary Appendix E.

3. ADB has published detailed research on poverty and the private sector³ and these studies were reviewed and updated.⁴ ADB had also published detailed research on governance in the PRC,⁵ but when ADB's governance policy was revised a new study was needed; that study started in November 2006 and involved consultations with the Government.

4. The PRC economy is one of the most interesting and important in the world, and so is one of the most studied. The published research was reviewed, and findings used to help develop the strategy. The findings are briefly summarized in Supplementary Appendix A.

5. Research was carried out to develop road maps for ADB's public sector operations in agriculture and natural resources, finance, energy, transport, and urban development. The urban development road map was supported by advisory TA involving thorough consultations with the Government.⁶

6. A thorough internal study of ADB's experience was started in May 2006 and this formed the basis for the country strategy and program (CSP) completion report (Appendix 2). More far-reaching was the country assistance program evaluation (CAPE) by the Operations Evaluation Department (OED). The CAPE was complemented by several other OED evaluations, including a transport sector assistance performance evaluation and three separate studies on ADB's safeguards (in the PRC and other ADB developing member countries). The CAPE involved thorough consultations with and reviews by the Government and international organizations working in the PRC. Lessons learned from the CAPE are summarized in the CPS main text (section III, C) and in this appendix.

¹ Asian Development Bank (ADB). 2006. *Country Environmental Analysis for the People's Republic of China*. Manila. The analysis was conducted under ADB TA 4621. Available: www.adb.org/Documents/SSTAs/tar-aug-2005.pdf.

² ADB. 2006. *Country Gender Assessment for the People's Republic of China*. Manila; ADB. 2003. *Technical Assistance for Promoting Gender Equality and Women's Empowerment*. Manila (TA 6143).

³ ADB. 2003. *Private Sector Assessment in the People's Republic of China*. Manila; ADB. 2004. *Poverty Profile of the People's Republic of China*. Manila.

⁴ See Supplementary Appendix B for an update of the poverty assessment.

⁵ ADB. 2002. *Development Management: Progress and Challenges in the PRC*. Manila.

⁶ ADB. 2005. *Technical Assistance to the People's Republic of China for a Study on Sustainable Urbanization In Metropolitan Regions*. Manila (TA 4702).

B. Consultation

7. Consultations for the CPS started in June 2006 with a meeting between ADB and the central government, comprising the Ministry of Finance (MOF), the National Development and Reform Commission (NDRC), and line ministries involved in ADB's operations. ADB briefed the Government on the expected process of developing the CPS and invited the Government's comments.

8. Following the initial meeting, ADB started preparing the CPS initiating paper and commenced background research on sectors likely to be involved in ADB's future operations. Informal briefings were held with MOF and NDRC during that time to advise them on progress and discuss directions of the strategy and other key decisions.

9. The initiating paper for the CPS was presented to ADB's Board in an informal seminar on 20 April 2007; separate meetings were also held with some Board members before the seminar. The Board members supported the strategic focus and sequencing of the proposed strategy and raised a number of questions. (i) How will the new strategy ensure ADB's continuing to add value in the PRC? (ii) How will each pillar and theme work in practice? (iii) What are the resource implications of the new strategy? (iv) Will ADB's operations diversify, and if so, is there sufficient focus? (v) How is the new strategy a "partnership" rather than "assistance" strategy? (vi) What are the differences between the new strategy and the preceding one? (vii) How will ADB work with the PRC's country systems, especially safeguards? (viii) How will ADB influence the PRC's overseas investments? (ix) How will ADB become a "knowledge bank" and what is ADB's capacity to deliver? (x) Are private sector operations integrated into the strategy? (xi) How will ADB help share the PRC's development experience with other ADB developing member countries? These questions are addressed in the main text.

10. In March 2007 ADB started a nationwide CPS consultation in the PRC. Participants came from central and local government agencies, line ministries, sector agencies, executing agencies (EAs) and implementing agencies (IAs) of ADB projects, civil society (e.g., academics and nongovernment organizations [NGOs]), and the international community. The consultation was designed together with the MOF and used a phased approach:

- (i) phase I: kicking-off the CPS consultation in Beijing with MOF, NDRC, and line ministries (23 March 2007);
- (ii) phase II: a series of meetings and consultation workshops in selected provinces, involving 158 representatives from almost every province (Lanzhou, Gansu on 16–18 May 2007; Guiyang, Guizhou on 8 June 2007; and Beijing on 26 June 2007);
- (iii) phase III: one meeting with NGOs (22 June 2007), and one with the international community (6 December 2007), both in Beijing; and

11. During the consultations, the participants expressed appreciation for ADB's comprehensive coverage and group discussions and for the fact that the consultations were only in Chinese. The participants had many constructive comments and suggestions for ADB to consider in preparing the CPS. Minutes from each meeting were prepared and sent to the participants. The following summarizes the main suggestions from the consultations and briefly indicates ADB's response.

12. **Continue the Consultation Approach.** Participants said the CPS consultation was an important exercise that demonstrated ADB's respect for its partners in the PRC. They asked ADB to continue the consultations at the strategy and technical levels. ADB's response was that

CPS consultations have become ADB's policy. The next round of consultations would occur in 2009–2010, in preparation for the next CPS.

13. **Introduce Knowledge and Innovations.** Participants noted that ADB's value added in the PRC came mostly from new ideas and innovations, and suggested the CPS itself should be based on research and analysis to show ADB's commitment to knowledge and innovation. In response, ADB's response was that knowledge and innovation was a core theme in the CPS, which was based on thorough background research.

14. **Use Different Approaches for Different Regions.** Participants suggested that ADB differentiate its policy and products toward different provinces or regions, to accommodate unbalanced regional development. In response, ADB noted it recognized the different development conditions across the PRC and was supporting the Government's plan to focus external assistance on western and central provinces and the old industrial bases in the northeast. Unfortunately, the PRC was eligible only for funds from ADB's ordinary capital resources (OCR). The same OCR lending terms applied to all countries and all parts of a given country. ADB could favor regions by focusing assistance there, but otherwise could not adjust or tailor its OCR lending terms within or among countries.

15. **Increase Support for the Private Sector.** Participants requested ADB to help promote private sector development and support the growth of small and medium-sized enterprises (SMEs). In response, ADB noted that private sector development was highlighted as one of the four strategic pillars in the new CPS. A road map for private sector operations and private sector development was included in the new CPS. ADB would build public–private partnerships for financing infrastructure, support SME development and financial sector reforms, expand the scale and scope of its private sector operations, and help provide the infrastructure and public services needed to enable private sector investment.

16. **Support Rural Reforms.** Participants suggested that ADB should promote rural finance reform and building the “new socialist countryside”. ADB responded that promoting rural finance reforms was part of ADB's road map for the finance sector. ADB would support building the new socialist countryside under the road map for agriculture and natural resources.

17. **Use the PRC's Own Safeguard Systems.** Participants noted that the PRC's safeguards systems are strong, and using ADB's systems adds complication without adding value. Using the PRC's systems would also cut loan processing time. In response, ADB noted it had to follow its own safeguard policies, which limited how much ADB could use a country's systems. ADB was reviewing its safeguard policies and the review might change the use of country systems; the PRC government would have the opportunity to contribute to the review of ADB's safeguards. ADB would use the PRC's own safeguard systems to the maximum extent allowed under the review.

18. **Use Smaller, Single-Province Loans.** Participants asked ADB to be flexible on the size of loans and to avoid packing some small projects into a big loan involving several provinces, which results in complicated interprovincial coordination and higher transaction costs. ADB noted the request and would work with MOF and NDRC to design efficient public sector loans.

19. **Soften Lending Terms.** Participants asked ADB to play a bigger role in financing such public projects as education, health, wastewater treatment, integrated urban development, and rural and agricultural development. They also asked ADB to mobilize more grants to soften the

lending terms and keep its relevance to the poor regions. ADB noted that it could offer softer lending terms only through the Asian Development Fund (ADF), but unfortunately the PRC was not eligible for ADF funds.

20. **Improve the Efficiency and Effectiveness of Project Preparatory TA Studies.** Participants noted that such project preparatory TA studies took too long, delayed project funding and implementation, and added little value to domestic feasibility studies. They asked ADB to cut the procedures and time needed to approve a loan, and to make project preparatory TA more effective in adding value to domestic feasibility studies and in building capacity of EAs and IAs. ADB responded that it would work to make TA studies more relevant and effective. Initiatives included earlier ADB involvement in developing projects, and orienting project preparatory TA studies so that they could contribute to domestic feasibility studies.

21. **Increase Disbursement Speed.** Participants noted that the World Bank usually took 5 days to process one withdrawal application, but ADB took more than 1 month. They asked ADB to improve its disbursement processing and to cut processing time. In response, ADB started an internal review on the disbursement process immediately after the CPS consultation. The PRC Resident Mission and the Controller have taken measures to speed up the process.

22. **Delegate More Authority to the Resident Mission.** Participants found it much easier and more efficient to communicate with the resident mission than with ADB headquarters, which can require international telephone calls or international travel. Participants found the resident mission responded more quickly to communications than did ADB headquarters. Communications with the resident mission were also easier because of the lack of a language barrier. ADB noted it supports giving the resident mission more authority, but pointed out that its staff were already fully occupied and that the resident mission's responsibilities could not be increased without increasing staffing. ADB explained that it was reviewing its resident mission policy and further decisions would await the findings of that review. In the meantime, ADB would investigate increasing staffing at the resident mission within the current resource and policy constraints.

23. **Delegate More Authority to EAs and IAs.** Participants said ADB should delegate more authority to EAs and IAs to manage TA funds and allocate part of TA funds for them to strengthen capacity development. ADB's new CPS should support EAs and IAs to participate more in processing and administering TAs and give them more authority. ADB noted it would work with the Government to develop criteria to decide how to delegate authority to EAs and IAs, and that it would help build capacity of EAs and IAs.

24. **Avoid Special Add-On Components Unrelated to the Main Project.** Participants complained that ADB sometimes added on subprojects that complicated the main project and were not desirable or necessary. For example, ADB had included local roads projects in expressways, arguing that such subprojects were needed to reduce poverty. Poverty reduction should be through overall development and not special add-on subprojects. ADB noted it would ensure that all subprojects were sound and relevant to the main project, but said that it also needed to try new approaches to satisfy demands for innovation.

25. **Use More Domestic Consultants.** Participants asked ADB to rely more on domestic experts and to avoid recruiting international consultants who were expensive and sometimes contributed little to project quality. They said international consultants were often unfamiliar with local situations and spent a short time in the field. ADB noted it would improve the use of domestic and international consultants. International consultants would be used to introduce

new ideas and would be paired with domestic consultants to adapt new ideas to local conditions and to transfer knowledge.

26. **Disseminate the Experience of Coastal Provinces to Inland Provinces and Beyond the PRC.** Participants noted that coastal provinces had led the PRC's economic development and have important lessons and experiences to share with poorer provinces and with other developing countries. ADB should work with coastal provinces to help spread these lessons, including through advisory TA studies. ADB responded that it recognized the success of coastal provinces and was eager to work with them to share their experience. One way would be for coastal provinces to work with ADB as financing partners on projects. Another way would be to spread the lessons through ADB's knowledge products and services.

27. **Use Quality-Based Selection of Consultants.** ADB's quality- and cost-based selection (QCBS) of consultants stresses low bidding price too much and sacrifices project quality. QCBS encourages vicious competition between bidders to win the contract with the lowest price and results in many problems during project implementation. Participants requested that ADB revert to quality-based selection (QBS). ADB noted that the selection procedure for a consulting package was an operational matter that needed to be discussed and agreed at the time of project processing. If there were sufficient justifications for QBS instead of QCBS, the project documents may state that QBS is the procedure to be followed, with justifications for doing so.

28. **Raise the Pay for Domestic Consultants.** Participants noted the big pay gap between domestic and international consultants, and said that many domestic consultants were capable of doing the same work as international consultants. Paying domestic consultants so much less did not attract the best domestic consultants, and reduced incentives for high-quality work. ADB was asked to offer higher pay to domestic consultants. ADB noted it supported recruiting domestic consultants whenever capable ones were available. The rates for domestic consultants took into account local market rates.

29. **Speed-Up Recruitment of Consultants.** Participants said that ADB's recruitment of consultants was too slow. They suggested ADB simplify internal approval procedures and delegate more authorities to EAs and IAs. ADB noted it would work with the Government to develop criteria and procedures for giving EAs authority for recruiting consultants, which might hasten recruiting. The procedures for deciding whether and how much authority to give to EAs would include an assessment of the EA's capacity and identification of any training needs.

30. **Reduce Staff Turnover on Projects.** Participants noted the importance of a good mission leader, and of keeping the mission leader and other project staff throughout loan processing and beyond. Changing the mission leader and composition of the ADB project team led to confusion, inefficiency, and delays in processing. ADB was asked to avoid changing staff in the middle of processing a loan. ADB responded that project teams would continue to be formed on the basis of required expertise for effective and efficient project processing and implementation. Particular consideration would be given to ensuring continuity, to the extent possible, in involvement of project team staff during the project cycle.

Table A3: Country Assistance Program Evaluation Findings and Proposed Country Partnership Strategy Approach

Country Assistance Program Evaluation (CAPE) Recommendation	Country Partnership Strategy (CPS) Approach
1. Gradually Diversify the Lending Program	
(i) Select focus areas based on client ownership, Asian Development Bank (ADB) staff skills, and management capacity.	The CPS will diversify operations in line with the priorities of the 11th Five-Year Plan (FYP) of the People's Republic of China (PRC) and ADB's medium-term strategic framework to support inclusive and environmentally sustainable growth. To achieve this, operations in agriculture and rural infrastructure will be expanded, including support for rural transport and energy. ADB's support for urban development will reach out to smaller cities and towns. To support environmental sustainability, ADB will pay greater attention to managing natural resources and ecosystems. Energy, urban development, and transport operations will focus on clean and efficient technologies to help conserve energy and reduce pollutants and greenhouse gases.
(ii) Retain a critical mass of lending activities in selected areas to make a difference and to ensure sustainability.	This changed emphasis will result in lower lending to national highways and a corresponding rise in lending for energy conservation and clean energy, urban development, natural resource management, and agriculture and rural development—in short, a greater balance in lending across sectors (transport, energy, urban development, and agriculture and natural resources).
(iii) Develop a skill base to support innovation in the selected areas and ensure competent staff members with delegated authority are available, especially in ADB's PRC Resident Mission, to nurture the new projects from concept to implementation.	Staff skills will be closely aligned with the requirements of ADB's changing sector priorities and the emerging operational imperatives. Based on the findings and recommendations of the ongoing review of resident mission operations and the emerging operational requirements, the resident mission staff skill mix will be suitably aligned. In 2007, a position of deputy head of portfolio management was opened at the resident mission, and in 2008 a new national officer position will be available at the resident mission.
2. Strengthen the Quality of Nonlending Operations	
(i) Strengthen incentives for creating good knowledge products and ensure that staff have the expertise to formulate and lead high-quality technical assistance (TA) interventions. Leverage advisory TA output by partnering with the PRC or others to maximize impact by implementing advisory TA recommendations. Coordinate all ADB-related knowledge units, drawing their contributions into an integrated demand-driven program that links with the PRC priorities.	The CPS seeks to make knowledge and innovation an integral part of all PRC operations. A knowledge management unit has been set up in ADB's East Asia Department (EARD) and a knowledge management plan has been prepared. The knowledge management unit supervises work on all knowledge products and services in EARD, including arranging peer review and promoting dissemination. The knowledge management unit also coordinates knowledge products and services across ADB, including work related to sharing the PRC's development experience. Specific time-bound steps are being taken to integrate the knowledge management plan into EARD's work plan, involve the Government at planning and peer review stages of knowledge product development, enhance coordination with other knowledge departments in ADB, forge knowledge networks with developing member country think-tanks and with other funders, and strengthen dissemination of knowledge products. One objective of the knowledge management unit is to establish a seamless link between advisory TA, knowledge dissemination, and sectoral operations.

Country Assistance Program Evaluation (CAPE) Recommendation	Country Partnership Strategy (CPS) Approach
(ii) Improve the efficiency of allocating project preparatory TA resources to reflect differential costs of preparation, and change the allocations that were based on standard coefficients or amounts.	<p>The general emphasis of the CAPE on strengthening the quality of nonlending operations is well-founded, but certain factors require consideration in implementing its recommendations. It is critically important to ensure efficient allocation of TA resources to the areas of highest priority and this is being reviewed as part of the ongoing ADB-wide initiative on TA management.</p> <p>In the context of the PRC, the CAPE proposes reductions in the size of project preparatory TA in certain sectors, particularly infrastructure, and makes suggestions on a fund allocation system. In implementing this recommendation, the following will need to be considered: (i) project preparatory TA allocations have fallen in real terms while project complexity has increased; (ii) project preparatory TA funds are increasingly being used for bringing safeguards and economic and financial analysis to the required ADB standards, and for innovative project design, rather than for engineering design as in the past; and (iii) due to the diversification of the lending program, many projects are in new areas. The last issue is particularly relevant in the urban and the agriculture and natural resources areas, which tend to include a large number of components covering several subsectors, and their implementing agencies tend to be unfamiliar with ADB procedures.</p>
(iii) Create opportunities for innovation and new ideas from counterpart agencies and local think tanks by pilot funding a competitive research program at the resident mission and/or secondment arrangements with knowledge departments.	<p>The resident mission has created a facility to prepare strategically important knowledge products in response to Government requests. This process is helping ADB forge links and share knowledge with local think tanks and experts and is providing opportunities to conduct policy dialogue with the Government and outside experts. ADB headquarters has also established a pool of funds, through regional TA, to finance quick, demand-driven policy studies, and to build relationships with researchers outside ADB.</p>
3. Increase Private Sector Operations	
(i) Review the areas of focus and resource requirements (staff resources and skills) of ADB's strategy on private sector and nonsovereign operations in the PRC.	<p>A private sector operations strategy for the PRC is included in the CPS. Initiative will be taken to proactively identify private sector projects particularly in areas where ADB has comparative advantage.</p>
(ii) Define a private sector road map for the new CPS that specifies development targets and resource requirements.	
Equip the resident mission with more skills for private sector and nonsovereign operations and provide greater responsibility, accountability, and leadership for proactive business development.	<p>Staff skill mix in the resident mission will be aligned with operational requirements, including private sector and nonsovereign operations. In 2008, ADB's Private Sector Operations Department will transfer a position from headquarters to the resident mission. The resident mission has also been working closely with the Innovation and Efficiency Initiative Team to build the resident mission's and the Government's understanding of the pilot financing tools.</p>

Country Assistance Program Evaluation (CAPE) Recommendation	Country Partnership Strategy (CPS) Approach
4. Deepen Regional Cooperation Initiatives	
(i) Provide a strategic framework for regional cooperation, selecting a few key areas of focus based on client ownership, ADB's familiarity with related agencies, and ADB staff capacity and experience.	Because of its location, the PRC can play a strategically important role to promote ADB initiatives under all four pillars of the regional cooperation and integration strategy. Therefore, the CPS treats regional cooperation as one of its strategic pillars. The CPS will be guided by the strategy and the Government's strategic priorities. The focus will be on easing institutional constraints to regional integration, building regional infrastructure to promote trade and transit, promoting regional financial integration, and supplying regional public goods.
(ii) Intensify ADB's involvement as an honest broker in a few key areas that are of interest to the PRC and the region, such as (a) transport and trade facilitation, (b) cooperation on cross-border issues, (c) trade agreements on energy and commodities based on mutual comparative advantages, and (d) dissemination of development knowledge and lessons across the region. Ensure results are monitored.	
5. Increase Responsiveness to Client Concerns	
(i) Gradually strengthen the resident mission capacity to improve client services by providing better communications, increasing delegation, and gradually moving from having one third of core staff based at the resident mission to at least one half.	The resident missions are important in ensuring the responsiveness, efficiency, and quality of ADB's services to its clients. Further decentralization could thus be desirable and operationally useful. In the case of the PRC, a decision on this will need to take into account the future scale of operations. The basis for decentralization should be rooted in ADB's own unique circumstances. Decentralization could have cost and operational implications for ADB. The issue of technical staff working on country-specific and regional tasks (such as Greater Mekong Subregion and Central Asia Regional Economic Cooperation) needs consideration. ADB is currently reviewing its resident mission policy, and that will further inform the issue of decentralization.
Gradually strike a balance between in-house staff expertise and consultants so that core issues and priority focus areas are managed and undertaken by staff. Ensure that consultants are used strictly for specialized work where expertise is not needed regularly.	
(ii) Consider gradually moving to client execution of advisory TA and shift accountability to clients that have good governance mechanisms, successful advisory TA track records, and ability to monitor and manage implementation progress and results.	ADB will work with the Government starting in early 2008 to establish criteria for delegating authority to executing agencies. The potential for delegating authority for recruiting consultants is established in ADB's <i>Guidelines on the Use of Consultants</i> (2007, as amended from time to time). ADB requires that an assessment of an executing agency's capacity to implement the recruitment envisaged under delegated TA is undertaken during TA processing. Under ADB policy, executing agencies handling delegated TAs must have had experience recruiting and procuring for ADB or another multilateral development bank or bilateral agency, and must assign experienced, competent project management staff. The assessment of capacity will include training requirements to develop capacity. ^a

Country Assistance Program Evaluation (CAPE) Recommendation	Country Partnership Strategy (CPS) Approach
(iii) Move toward pilot testing the use of country systems for environmental safeguards against ADB's updated safeguards policy. If the test is successful, gradually mainstream the use of country systems as capacity is confirmed, and monitor implementation and results using accreditation systems.	<p>The CPS agrees in principle with this recommendation and views it as an objective for ADB. The CPS takes a broad view of "country systems," including safeguards and systems for financial analysis, procurement, economic analysis, and others. In late 2007, the resident mission initiated a review of country systems in economic analysis, with the aim of making ADB's economic analysis more efficient and effective by working more with the PRC's own economic analysis and helping to strengthen the PRC's capacity as needed. The study of systems of economic analysis can be a pilot test for other studies of country systems.</p> <p>Capacity in implementing safeguard policies in many developing member countries is rapidly evolving. In general, the PRC seems to have adequate standards and implementation capacity for environmental safeguards. Even so, the effectiveness of these at field and sector levels needs to be assessed jointly with the Government. The situation is more complex in the case of social safeguards. ADB is reviewing the scope for adopting country systems for safeguards including the application of country standards. The safeguard policy update aims at enhancing the effectiveness of ADB's safeguard policies and ensuring their relevance to changing client needs and new lending modalities and instruments. Under these circumstances, it will be prudent to move cautiously guided by evolving country circumstances and ADB-wide policy.</p>
(iv) Encourage more intensive longer-term involvement with a few provinces to help ADB address more challenging and complex operations with local counterparts and facilitate the use of ADB's new products and initiatives, where appropriate.	To build and intensify relationships with provinces, ADB will continue providing advisory TA for provincial development strategies. In 2007, ADB processed advisory TA for provincial development strategies in Hunan and Jiangxi provinces, and in 2008 will process similar advisory TA for Heilongjiang and Jilin provinces.

ADB = Asian Development Bank, CAPE = country assistance program evaluation, CAREC = Central Asia Regional Economic Cooperation, CPS = country partnership strategy, EA executing agency, EARD = East Asia Department, FYP = five-year plan, GMS = Greater Mekong Subregion, PRC = People's Republic of China, TA = technical assistance.

^a ADB. 2003. *A Pilot Study for Delegation of Consultant Recruitment, and Supervision under Technical Assistance to Executing Agencies*. Manila.

Source: Asian Development Bank.

COUNTRY SECTOR AND THEME ROAD MAPS

1. During the country partnership strategy (CPS) period, the Asian Development Bank (ADB) will concentrate on the following priority sectors and themes.

- (i) The sectors are
 - (a) transport and communications,
 - (b) energy,
 - (c) agriculture and natural resources, and
 - (d) finance.

- (ii) The themes are
 - (a) sustainable economic growth—developing urban areas,
 - (b) private sector development, and
 - (c) governance.

A. Sectors

1. Transport and Communications

a. Situation of and Key Issues in the Sector

i. Roads and Highways

2. The economic growth in the People's Republic of China (PRC) since the 1980s has substantially increased the demand for transport services. From 1990 to 2005, passenger road traffic grew by 8.8% per annum, reaching 929.9 billion passenger-kilometers (km); and freight traffic by 6.4% per annum, reaching 857.4 billion ton-km. By 2005, the PRC had 43.3 million vehicles, increased by 20.6% from 2004. The PRC's road network was 1.93 million km in 2005, an increase of 59,900 km from 2004. Of this, 1.59 million km were classified. Roads of Class II and above accounted for 325,800 km, or 16.9%, of the total length. Road density increased from 12.1 km per 100 square kilometers (km²) in 1995 to 20.0 km per 100 km² in 2005.

3. The key issues in roads relate to the policy reform and institutional development in six areas. First, there is a need to integrate local road improvement as part of road network planning, and improve rural road development strategy. Rural roads, comprising county and township roads and extending for 1.48 million km, play an important role in socioeconomic development and poverty reduction in the countryside by providing basic accessibility for 745 million rural residents to jobs, markets, and social services. However, the rural road network is largely underdeveloped in both quality and coverage, and it does not provide adequate access to large parts of the hinterland. Furthermore, most rural roads are in poor condition because of problems in planning, design and construction, maintenance, and financing.

4. Second, road transport services are not provided adequately. The transport industry operates inefficiently partly because the policies and regulations are not yet suitable for a market economy and partly because operations, management, and maintenance practices of the road transport operators are inadequate. The Government needs to take measures to create an environment conducive to improved provision of transport services. Structural adjustments need to be accelerated in the areas of organizational restructuring, vehicle technology, and new services such as freight forwarding and automobile maintenance.

5. Third, corporate governance in the road subsector is weak. In most of the provinces where ADB is involved with roads, expressway construction and operations are corporatized and they are normally handled by a separate state-owned expressway company based on the business license issued by the provincial government. In many cases, however, the corporatized entity still operates as an implementing arm of the provincial communications department rather than as an autonomous corporate entity, with inefficient operations that are not cost-effectively managed or profit-driven.

6. Fourth, private sector participation in road development and operations is sparse primarily because of (i) unclear lines of authority between the central Government and the provinces, a complex approval process, and ambiguous criteria and policies that currently result in lengthy and costly project delays; (ii) an underdeveloped legal system that cannot accommodate complex financial transactions, including enforceability of contracts and agreements; (iii) the absence of tariff adjustment provisions in concessions; (iv) uncertain creditworthiness of provincial contracting parties and concern over their ability to honor financial obligations under contracts; and (v) lack of acceptable allocation of risk between the private financier and the sponsoring government agency.

7. Fifth, road safety is a serious issue in the PRC. In 2006, the PRC had almost 379,000 road accidents, leading to over 89,000 fatalities. The main issues associated with road safety are (i) lack of knowledge of basic traffic rules, accounting for over 48% of accidents; (ii) limited skills and resources of the driving license examiners; (iii) lack of a reliable accident investigation and data system to understand causes and implement effective countermeasures; and (iv) road safety management practices that lack overall goal orientation and performance evaluation; fragmented safety interventions; and limited road safety expertise, resources, and coordination between the agencies concerned with road safety.

8. Sixth, vehicle emissions are not controlled well. With the rapid increase in vehicle ownership, vehicle emissions will damage the environment if mitigation measures are not taken. Fragmented responsibility, lack of interagency coordination, and an inadequate database and monitoring system prevent the formulation of specific targets for reducing vehicle emissions. Measures are needed to control the vehicle emissions, such as an air quality monitoring system and capacity development program.

ii. Railways

9. Railways are the primary mode of transport for long distance and bulk transport. PRC railways have the highest freight transport density in the world and the second highest passenger transport density after Japan. Locomotive turnover is the highest in the world. At the end of 2006, the PRC's railway system of 77,000 route-km comprised 63,400 km of national railways and 13,600 km of joint venture and local railways. Between 1978 and 2006, railway freight increased from 535 billion ton-km to 2,172 billion ton-km, equivalent to an annual growth rate of 5.14%. Passenger traffic grew at 6.65% annually from 109 billion passenger-km to 666.2 billion passenger-km. For passenger trips, the average railway journey increased from 134 km in 1978 to 535 km in 2005, compared with roads, which grew from 35 km to 55 km during the same period. For freight, the average railway journey is 770 km compared with 65 km in 2005.

10. **Capacity Constraints.** Although the railway network appears long, it is inadequate for the country's population and land area, and capacity has lagged behind demand because of system constraints. Increasing energy needs, more domestic consumption, and double-digit growth in exports and in the manufacturing sector have increased demand for railway transport

in the last 5 years. In addition, the traditional advantage of railways to provide an affordable, reliable, and environmentally friendly mode of transport has spurred further demand. Although the PRC railways has tried to meet rising demand with a limited increase in route length and capacity, the demand outstrips the supply. The Government has adopted an aggressive plan to develop the railways, seeking to construct 17,000 km of new lines in the next 5 years, in addition to double-tracking and electrification of the key routes.

11. **Financing Needs.** Investments in the 11th Five-Year Plan (FYP) are expected to be CNY1,500 billion over the next 5 years. Traditional financing modes are unlikely to be able to meet this requirement and the Ministry of Railways (MOR) will need diverse financing sources to fill the financing gap. New and innovative financing approaches will be needed, combined with an environment that attracts investments to railway financing.

12. **Subsector Reforms.** An associated challenge to the development of the railways is the progress of institutional, regulatory, and tariff reforms. As the PRC progresses to a market-driven economy, railways need to compete on the basis of price and service quality. Private sector participation is critical for enhancing the efficiency and competitiveness of the railways and for stimulating investments from diverse sources. Providing an enabling environment and opening up investments in lucrative freight markets is a key challenge.

b. Government's Sector Policy and Planning Framework

13. Government policies and plans for developing the roads will be guided by the 11th FYP during 2006–2010. For road transport, the FYP gives high priority to improving transport capacity and efficiency, meeting the requirements for road infrastructure, rationalizing and consolidating the structure of road transport enterprises, promoting modern transport and information technologies, improving the regulatory framework governing road transport, establishing a high-quality trunk road network, integrating road transport more effectively with other transport modes, and enhancing its role in helping to achieve economic development. While the general thrust of the 11th FYP is adequate in dealing with the key subsector issues, it could pay more attention to addressing global issues such as greenhouse gas (GHG) emissions, fuel efficiency, road safety, and private sector participation.

14. By the end of the 11th FYP, the total road length is targeted to reach 2.3 million km, an increase of 370,000 km from 2005. Of this, the expressway length comprises 65,000 km, an increase of 24,000 km over this period. A renewed national expressway plan, the 7918 National Expressway Network, consists of constructing seven links to Beijing, nine north–south corridors, and 18 east–west corridors totaling 85,000 km of expressways and high-class highways by 2020. The national expressway network is expected to reach more than 1 billion people by connecting all provincial capitals and large urban centers of more than 500,000 people with cities of more than 200,000 people. The national trunk highway system is being developed, but accessibility in most of the rural PRC is still low: 75 townships and over 38,400 villages, mostly in the western region, had no access to all-weather roads in 2005. Many townships and villages still depend on earth tracks that are not suitable for motorized traffic and become impassable during the rainy season. The Government plans to improve rural accessibility by investing CNY800 billion to increase the length of the rural roads to 1.8 million km by 2010, an increase of 324,000 km from 2005. As a result, 95% of the townships and 80% of the villages will be connected by paved roads, an increase from 75% and 54%, respectively, in 2005.

15. The Government's policy on railway development focuses on (i) removing constraints and expanding the system, (ii) encouraging the construction of joint venture and local railways

to promote the development of local economies, (iii) improving the efficiency and safety of the existing system by using new technology and modern management tools in planning and operation, (iv) reducing operating subsidies through appropriate pricing and commercialization of services, (v) initiating institutional and structural reforms to increase autonomy and accountability, and (vi) encouraging nongovernment investment in infrastructure and related services.

16. In 2004, the State Council approved a railway development plan, which provided strategic directions to 2020. The plan seeks to expand the railway network from 74,000 km in 2004 to 100,000 km by 2020 and to increase train speeds. Priority will be given to developing railways in unserved areas and regions that lack transport and have remained less developed. In the western region, the route network length will be increased by 16,000 km to 40,000 km by 2020. The plan calls for separating passenger and freight traffic in heavily trafficked corridors and developing 12,000 km of corridor dedicated to passengers by 2020. The 11th FYP (2006–2010) identifies railway development as a priority and envisages (i) constructing 17,000 km of new lines (including 7,000 km of dedicated passenger lines), with the total network length reaching over 90,000 route-km by 2010; (ii) electrifying 15,000 km of existing lines to increase capacity; (iii) double-tracking 8,000 km of single-track lines; and (iv) increasing operating speeds on 5,000 km of main line routes, with the total length of higher speed network reaching 20,000 km. Priority will be given to railway development in congested lines with high traffic density, areas not yet served by rail, and in regions with low economic development.

c. Government's Institutional Arrangements and Capacity in the Sector

17. At the national level, the National Development and Reform Commission (NDRC) formulates 5-year development plans and establishes transport priorities and targets in consultation with the ministries responsible for the various transport subsectors and with representatives of transport users. The Ministry of Communications (MOC) is responsible for national highways, inland waterways, coastal shipping, and major ports; MOR, for the national rail system; and the Civil Aviation Administration, for air transport and airports. In line with the country's decentralization policies, many of the administrative and operational functions have been devolved to the provincial communications departments. MOC provides guidance to the provincial governments. Its main responsibilities include planning and coordinating transport investments and formulating transport policies. MOC shares financing for the national highway system with provincial governments. MOC, along with the provincial communications departments, generally has a strong technical capacity to manage the railways. In implementing the 11th FYP, MOC will benefit from partnership with international institutions to address the global issues.

18. The PRC has three tiers of railways: national, joint venture, and local railways. At the national level, MOR is the nodal agency for railways. MOR combines the management and enterprise functions for the national network and operates it as an integrated system. The joint venture railways have a separate corporate structure, and have participation with MOR, with some of them operating across provincial boundaries. Local railways comprise regional lines within provincial boundaries and are constructed under the sponsorship of provincial governments. The joint venture and local railways serve local needs and provide interconnection with the national railway network. MOR has strong capacity and plays an important role in the PRC's railway development. MOR has initiated several reforms, including institutional, marketing, and technical reforms. Areas in which good progress has been achieved include promoting joint-venture railways, promoting container transportation, and issuing guidelines on attracting nongovernment investments. However, given the changing role of

transportation, increasing competition and demand for quality and quantity are putting pressure on MOR to pursue reforms with more vigor and speed.

d. ADB Sector Experience

19. A review of ADB's transport sector assistance program¹ concluded that ADB's support for the road subsector in the PRC during 1997–2005 worked successfully with the Government in developing the roads, and suggested that more attention be given to addressing value addition for future road projects for ADB financing. In line with this recommendation, ADB seeks to identify key areas of intervention where ADB can add value. Examples include strengthening of regional cooperation in transport, promotion of public–private partnership, and establishment of resource efficient transport.

20. ADB has focused on the development of railways in poor, less developed inland provinces to promote sustainable economic growth and reduce poverty. These interventions have been specific, were well targeted, and added value to the projects and the subsector. ADB has provided 14 loans totaling about \$2.9 billion to finance the construction of about 1,900 km of eight provincial railways operated by joint ventures with MOR and over 5,500 km of new railway lines under the six national railway projects. The sector assistance program evaluation concluded that ADB participation in the railways is successful. It noted that subsector interventions have kept pace with MOR's needs and have added value. The portfolio has diversified and ADB-financing is well targeted and focused. The completed projects have introduced modern technology and improved the efficiency of railway operation through institutional and structural reforms. Overall, ADB is seen as a useful and valuable development partner.

e. Role of Other Development Partners in the Sector

21. The World Bank, an active partner in the transport sector, continues to provide assistance for roads, railways, urban transport, and inland waterways. The World Bank's geographical focus is generally the coastal and central regions while ADB focuses on the western and central regions. The World Bank-financed projects support capacity development in construction supervision, quality control, design and planning, road safety, and financing of priority sections of the national highway network. In the railway subsector, the Japan Bank for International Cooperation (JBIC), the World Bank, and ADB have been mainly involved in expanding the capacity of national railways. Since 1984, the World Bank has provided 11 loans totaling \$2.6 billion for 10 national railway projects and 1 local railway project. More recently, bilateral development institutions such as Kreditanstalt für Wiederaufbau (KfW) and Agence Française de Développement (AFD) have started providing support for PRC railways. Development experience is shared through ADB's close cooperation with the World Bank, AFD, and other development partners. ADB has cofinanced a project in Yunnan with AFD. Such initiatives will be continued and participation will be further strengthened in the future.

f. Intended Sector Outcomes and Key Outputs Supported by ADB

22. The intended outcome is an efficient, safe, clean, and affordable transport system in place to support the Government's 11th FYP. The value ADB will add will include:

¹ Asian Development Bank (ADB). 2007. *Sector Assistance Program Evaluation of Asian Development Bank Assistance for Roads and Railways in the People's Republic of China*. Manila.

- (i) provision of transport infrastructure for roads, railways, and urban transport accompanied by the policy reform and institutional development that focus on connecting unserved areas in less developed western and central regions;
- (ii) designing of the transport system for energy efficiency;
- (iii) commercialization of operations, safety, and environmental sustainability;
- (iv) provision of good transport links with neighboring countries in the context of the Greater Mekong Subregion (GMS) and Central Asia Regional Economic Cooperation (CAREC); and
- (v) encouragement of public–private partnerships for financing.

g. Links to Country Partnership Strategy Outcomes and Other Sectors and Themes

23. Transport sector development facilitates inclusive growth and balanced development by providing links between the developed eastern region and underdeveloped western and central regions, contributes to resource efficiency and environmental sustainability, promotes regional cooperation in the context of GMS and CAREC, and creates an enabling environment for private sector development.

h. Indicative Areas for Interventions

24. ADB's operational strategy in the road subsector supports (i) construction of roads that connect major growth centers supported by a system of local roads; (ii) development and improvement of urban transport and rural roads; (iii) promotion of road safety, vehicle emissions reduction, and energy efficiency; (iv) institutional strengthening to increase the commercial orientation and efficiency of expressway organizations; (v) strengthening of regional cooperation in transport; (vi) public–private partnership; and (vii) establishment of resource efficient transport. For the railway subsector, ADB will support the development of infrastructure, services, and policies to promote an efficient, safe, affordable, energy-efficient and environmentally sustainable transport system in the PRC, including (i) constructing or rehabilitating railroads connecting unserved less developed and poor areas; (ii) promoting energy conservation and environmental sustainability; (iii) modernizing, enhancing safety of, and promoting multimodal transport; (iv) promoting regional cooperation; (v) promoting private sector participation, public–private partnerships, and nongovernmental financing; and (vi) increasing railway competitiveness in the transport system through institutional strengthening, commercialization of railway operations, and restructuring and reforms. These interventions will be facilitated through lending and nonlending support.

i. Monitoring Mechanism

25. The sector performance will be monitored and evaluated annually by the Government and reviewed through the country partnership strategy (CPS) process. A set of indicators for evaluating subsector performance will include (i) accessibility in the western and central regions; (ii) transport length and density in relation to land area and population, (iii) public–private partnership in roads and railways; (iv) transport demand for freight and passenger with modal split data; (v) vehicle ownership; (vi) level of user charges (road maintenance fee, vehicle purchase tax, tolls, railway construction surcharge, etc.); (vii) road and railway accident rate; (viii) vehicle emission level; (ix) energy efficiency and environment indicators; and (x) cross-border traffic volumes and time taken for border crossing with the GMS, CAREC countries, and Mongolia. Table A4.1 provides the sector results framework.

Table A4.1: Transport and Communications Sector Results Framework

Relevant CPS Outcomes		Sector-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Sector	Key Opportunities and Constraints	Subsector Outcome/Key Sector Outputs	Sector Milestone/Tracking Indicators/Interim Indicators		
Efficient, safe, clean, and affordable transport is in place to support the Government's 11th FYP.	<p>Opportunities:</p> <ul style="list-style-type: none"> • Connecting unserved less developed and poor areas based on an integrated development approach. • Promoting an energy efficient, safe, and environmentally sustainable transport system. • Providing good transport links with neighboring countries, including improved measures at border crossings. <p>Constraint: Low level of public-private partnership.</p>	<ul style="list-style-type: none"> • 370,000 km of new roads, including 24,000 km of expressways and 324,000 km of rural roads. • 17,000 km of new railway lines, electrification of 15,000 km, double tracking of 8,000 km, and higher speeds on 5,000 km of routes. • Transport system designed in consideration of energy efficiency, environmental sustainability, and safety. • Regional transport links established in the GMS and CAREC countries. • PPP for financing enhanced. • Railway companies corporatized with improved management and governance capacity. 	<ul style="list-style-type: none"> • Length of roads open to traffic by the end of each year. • Length of railways open to traffic or improved by year end. • Data on fuel consumption, vehicle emissions, and accident rates. • The number of regional transport projects approved and cross-border agreements ratified. • Cross-border traffic volumes and time taken for border crossings. • The number of public-private partnership projects approved. • The amount of private investment made. 	<ul style="list-style-type: none"> • Five road projects for \$950 million in the western and central regions. • Results of TA for Rural Road Development Strategy assist MOC in developing rural roads. • Two railway projects for \$600 million in the western region. • Results of TA for Managing Railway Passenger Operations More Efficiently assist MOR. • Results of TA for Resource Optimization in Road Sector assist MOC in designing a resource efficient transport. • Four regional cooperation projects (three roads and one railway) for \$900 million to support GMS and CAREC • Cross-border agreement implemented with ADB's support. • Assistance in structuring expressway securitization supported by ADB's partial credit guarantee. 	<ul style="list-style-type: none"> • Change in Government priorities accorded with the transport sector. • Change of MOC and MOR priorities of in supporting sector outcomes and outputs. • Adjustment of priority by GMS and CAREC countries. Implementation of the cross-border agreement may be delayed. • Lack of a legal and regulatory system to support securitization.

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, CPS = country partnership strategy, FYP = five-year plan, GMS = Greater Mekong Subregion, km = kilometer, MOC = Ministry of Construction, MOR = Ministry of Railways, PPP = public private partnership, TA = technical assistance.

Source: Asian Development Bank.

2. Energy

a. Situation of and Key Issues in the Sector

i. Sector Snapshot

26. The PRC is the world's second largest energy consumer and has the fastest growing energy sector in the world—growing consistently at an average annual rate of more than 5.5% for the last two decades. For the past 5 years, the demand for energy, and in particular electricity, has outpaced economic growth and has led to electricity shortages since 2003.² The projected quadrupling of the economy by 2020 (compared with 2000) and increasing per capita energy consumption³ mean that demand for energy will continue to grow.

27. Coal is the dominant source of primary energy, contributing more than 68% in 2006.⁴ The PRC is the world's largest coal producer. It has more than doubled its coal production in the past 5 years. However, the PRC is a net energy importer, mainly of oil and natural gas. In 2006, the country's primary energy consumption was 2.46 billion tons of standard coal equivalent compared with the primary energy production of 2.21 billion tons of standard coal equivalent. Since 2005, the PRC's primary energy consumption grew by 9.3%; oil imports increased by 7.1% to 320 million tons of crude oil, and natural gas imports increased by 20% to 55.6 billion cubic meters. The PRC imported 42% of the oil it used in 2006.

28. Electricity is overwhelmingly produced by coal-fired power plants. In 2006, electricity generation increased by 13.4% to 2,834 terrawatt-hours, of which 83% was from coal, 14% from hydropower, 2% from nuclear, and less than 1% from wind and other alternative sources. More than 55% of all coal produced is used in coal-fired power plants for electricity generation.⁵ In 2006, total coal production was 2.38 billion tons, up by 8.0%. The rapid increase in coal consumption in the PRC has caused major local and global environmental concerns. After the United States, the PRC is the second largest GHG emitting country in the world. Acid rain falls on one third of the country and on more than 45% of the farmland.

ii. Key Issues in the Sector

29. **Rapid Growth of Power (or Electricity) Generation.** To meet the rapidly growing demand for electricity, a plan to rapidly expand generation capacity was launched in 2004. It led to the addition of about 230 gigawatts (GW) in the past 3 years alone. The overemphasis on supply to meet the demand growth is resulting in large investments in manufacturing capacities; increasing the supply of raw materials such as copper, aluminum, and steel; expanding coal mining capacity and transport; and adding construction services and managerial resources needed to implement many projects concurrently. A better option would be to increase the efficiency of energy use (demand side options), thus moderating the rate of supply growth; this would also help slow the investments needed in manufacturing, coal production, and transport.

30. **High Energy Intensity and Energy Elasticity of the Gross Domestic Product (GDP).** The PRC quadrupled its GDP during 1980–2000, but its energy consumption only doubled. The

² The electricity shortages are likely to be overcome by 2007.

³ Per capita energy consumption in the PRC is only one eighth that in the United States.

⁴ The sector data in this document are sourced from the State Statistical Bureau. 2007. *Industrial Map of China Energy (2006–2007)*. Beijing: Social Sciences Academic Press.

⁵ Heating, metal industries, the construction industry, and chemical plants are other major users of coal.

average energy elasticity of the GDP⁶ was 0.47; however, it increased sharply to 1.2–1.6 during 2001–2005. To achieve the target of quadrupling the economy while only doubling the energy use between 2000 and 2020, the energy elasticity has to be maintained at about 0.3 over the next 15 years, a very formidable challenge. The current growth trajectory of fossil fuel use is unsustainable. Tighter regulations and the right incentives measures are required to lower the energy intensity. The investment in energy efficiency needs to increase substantially.⁷

31. Energy intensity⁸ has been declining consistently for the last 20 years. However, during the current rapid expansion phase, it has started to rise again. The energy efficiency in key energy-consuming industries is still significantly lower than the best international practice and needs to improve. Structured retrofitting or closure of old and inefficient power plants and steel mills will be required so efficiencies can be improved without causing shortages.

32. **Unbalanced Energy Mix with High Coal Use.** The rapid increase in coal consumption (by 250% in the last 6 years) is raising serious concerns about coal mine safety and the large quantities of methane (a potent GHG) released during mining operations. Environmental problems are aggravated because large quantities of waste coal are accumulating near pitheads.⁹ The heavy dependence on coal needs to be corrected through a low carbon energy development path. A more diversified energy mix with a higher proportion of low carbon fossil fuel (natural gas) and renewable sources is required. A plan to use waste coal should be implemented to avoid air and water pollution.

33. **Large Investment Needs and Limited Private Investment.** During the next 5 years, the energy sector alone will need investments of about \$50 billion–\$70 billion per annum, which is more than double the rate of investment so far. This requires broad-based and innovative financing approaches. Private sector investment, which has been insignificant so far, needs to be mobilized rapidly.

34. **Sector Reforms.** The oil and gas subsectors have been considerably deregulated and monopolies have been removed. The coal subsector now has more flexibility in determining prices, but reforms are in transition for power and other energy supplies to the households. The efficiency in the energy sector is presently suboptimal. The key to sustained sector reforms is going to be market-based tariffs for electricity, gas, and district heating. Growing dependence on imported primary energy will require closer parity between the domestic and international prices.

b. Government's Sector Policy and Planning Framework

35. Recognizing the close links between economic growth, energy demand, and the environment, the Government's medium-term development vision includes a quadrupling the GDP while energy use only doubles over the period 2000–2020. In 2004, the State Council completed the National Energy Strategy and Policy Report 2020, outlining the challenges and strategic options for the sector. In formulating the 11th FYP, the Government has set a high priority on correcting the current sector growth trajectory. It has four priorities for the energy sector.

⁶ Energy elasticity of GDP is the ratio of the rate of growth in energy consumption to the rate of growth of GDP.

⁷ Energy efficiency is the ratio of energy consumption per unit of output, e.g., gram of standard coal equivalent per kilowatt-hour of electricity generated in a coal-based power plant.

⁸ Energy intensity is the ratio of primary energy consumption per unit (typically \$1,000) of GDP.

⁹ Estimated to be about 300 million tons annually by the study report under ADB-funded technical assistance (TA)—ADB. 2004. *Technical Assistance to the People's Republic of China for Waste Coal Utilization Study*. Manila (TA 4389).

- (i) **Energy conservation and efficiency improvement.** The FYP sets a mandatory target of a 20% reduction in energy intensity, which has since been disaggregated to provinces and municipalities. Ten key areas for energy savings have been identified, and 1,000 enterprises that use energy intensively are now being closely supervised for their efficiency enhancement. A series of incentives, including tax privileges, have been adopted to stimulate energy conservation activities. Structural adjustment, technological upgrading, improved demand-side management, and decommissioning of 130 GW of inefficient coal-fired power plants facilities have been actively pursued.
- (ii) **Diversified energy mix.** The FYP targets a 66% reduction in dependency on coal. Use of a higher proportion of low carbon fossil fuel (natural gas) and renewable energy—wind power, biomass power, small hydropower—is strongly encouraged. The Renewable Energy Law became effective in January 2006, and subsequent regulations—e.g., on tariff setting, grid connection, and renewable energy funds—have created a suitable policy framework. The medium- to long-term development plan for renewable energy aims for 30% of the installed capacity and 16% of electricity generation to come from renewable energy sources by 2020.
- (iii) **Cleaner coal utilization.** Coal will remain a dominant energy source in the foreseeable future. Cleaner coal technologies are imperative to minimize emissions. The 11th FYP aims to reduce sulfur dioxide emissions by 10% through stricter emission control and heavier penalties for emission violation. Benchmark efficiency and emission standards are being enforced on new coal-fired power plants. Cleaner coal technologies are being pilot tested in power generation. In coal mining, more emphasis is being placed on safer coal production and capturing and using fugitive methane through coal mine methane (CMM) and coal bed methane (CBM) projects.
- (iv) **Regional energy cooperation.** Some of the PRC's neighbors—Kazakhstan, Mongolia, Myanmar, and the Russian Federation—have large energy reserves close to the border. The PRC is actively pursuing bilateral energy cooperation to enhance energy security. The PRC has also actively pursued overseas investment in petroleum exploration and production.

36. The Government's sector policies are consistent with its priorities. The Renewable Energy Law and specific capacity targets have accelerated development of renewable energy in the country. This has led to the revision of the wind power capacity target from 5 GW to 8 GW in the 11th FYP. The energy conservation law is also being reviewed to provide a sound basis for the aggressive energy efficiency targets. Based on data for the last quarter of 2006, the energy intensity has started to improve. A comprehensive energy law is expected to be ready by 2008. In June 2007, the Government announced its National Climate Change Program, which aims for targeted GHG emission control by 2010: (i) reduced carbon dioxide (CO₂) emissions resulting from a 20% reduction in energy intensity; (ii) extraction of 10 billion cubic meters of CBM; and (iii) limiting of nitrous oxide emissions in 2010 to the 2005 level. The planning framework in areas of renewable energy and energy efficiency is adequate at the national level but weak at the provincial level, especially in poor western provinces.

c. Government's Institutional Arrangements and Capacity in the Sector

37. NDRC is the sector's apex planning and regulatory agency. Considering the strategic importance of energy to the economy, in addition to the leadership provided by NDRC, the Government established the National Energy Office in 2005 directly under the leadership of the

Prime Minister and reporting to the State Council. The State Electricity Regulatory Commission has been operating since 2003 and oversees the regulation of the electricity subsector.

38. Sustained and impressive growth for more than two decades is testimony to the sector's sound ability to meet the need for additional capacity. However, as the Government sets out to change from a centrally planned supply-side approach to a market-based approach, stronger international cooperation will be needed to achieve the transition. Further, in areas of new technologies—biomass power, wind power, clean coal technologies, coalmine safety—the provincial and local level capacity needs to be strengthened to build and sustain the momentum for improved energy efficiency and diversified energy mix.

39. The sector governance framework is sound and is improving. However, improvement is needed in the following areas: (i) implementation of a market-based transparent tariff system; (ii) clarity and consistency in implementing the Renewable Energy Law provisions on higher tariffs for wind and biomass power projects and recovery of the subsidized incremental tariff; (iii) further structural reforms in power transmission and distribution areas; (iv) separation of policy making, planning, and regulating roles in the sector, and strengthening of sector regulators; and (v) commercially sound long-term power selling arrangements for power plants to attract private investment.

d. ADB Sector Experience

40. By the end of 2006, ADB had made 29 loans to the energy sector, totaling more than \$3.5 billion. More than 45% of this was for power projects, the remainder was for industrial energy efficiency and environment improvement. In the 1990s, the energy portfolio focused on (i) expanding the capacity for electricity generation and transmission to overcome critical capacity constraints, and (ii) improving industrial processes to reduce pollution. Since 2000, more attention has been paid to environment and climate change issues and there has been a focus on renewable energy, energy efficiency, capture of fugitive methane from coal mining, and improvement of urban air quality. Nonlending support of about \$50 million has evolved from a focus on tariff reforms, sector restructuring, setting up of an electricity regulator, and mainstreaming of environment evaluation of infrastructure projects to an increased focus on energy efficiency, renewable energy, and the Clean Development Mechanism. Based on the recently completed country assistance program evaluation, the energy portfolio is performing well and is improving consistently, with almost 90% of projects rated "satisfactory" or "highly satisfactory." Capacity development of the sector institutions has been very effective and the sector has some of the PRC's best performing enterprises.

41. ADB has successfully facilitated the induction and expansion of high-risk new technologies in the PRC's power subsector, including combined heat and power plants, CMM and CBM extraction, pumped storage power plants, emissions trading mechanisms, 500 kilovolt transmission lines, gas insulated substations, and documentation and transaction for Clean Development Mechanism projects. ADB has launched specific initiatives to promote clean and more efficient energy supply and use—these include the Carbon Market Initiative and Energy Efficiency Initiatives, which are particularly suited to the sector's core needs.

e. Role of Other Development Partners in the Sector

42. Most multilateral and bilateral agencies active in the PRC also support the energy sector, where there is ample scope for multiagency participation without crowding. Energy efficiency and renewable energy are key areas for most participating agencies. The World Bank

Group has been the largest multilateral funder, with a total lending of about \$6 billion. JBIC has been the lead bilateral agency. Other bilateral agencies (from Australia, the European Union, France, Germany, Japan, the United Kingdom, and the United States) are also active. Close cooperation among development partners is being pursued through regular meetings,¹⁰ to strength their synergy, better reflect their comparative advantages, and enhance aid effectiveness for the PRC's energy sector.

f. Intended Sector Outcomes and Key Outputs Supported by ADB

43. The likely outcome of ADB assistance will be (i) improved energy efficiency, (ii) a more balanced energy mix, (iii) intensified sector reforms, and (iv) catalyzed private investment. The sector outputs will be (i) enhanced energy efficiency and conservation, (ii) reduced dependency on coal in the energy mix, (iii) lower GHG emissions from coal use, (iv) strengthened sector reforms, and (v) improved regional cooperation.

g. Links to CPS Outcomes and Other Sectors and Themes

44. The energy sector has direct links and relevance to

- (i) all four strategic pillars of the CPS: (a) resource efficiency and environmental sustainability, (b) inclusive growth and balanced development, (c) regional cooperation and public goods, and (d) an enabling environment for private sector development; and
- (ii) the two crosscutting themes of knowledge and innovation, and governance.

45. All the sector lending will be for improving the energy efficiency and environment. The support for CMM and CBM projects and use of waste coal will directly mitigate global and local environmental impacts from the PRC's high coal use. Adoption of cleaner coal technology such as ultra super critical boilers will be considered for ADB assistance. Bilateral agencies are currently partnering with the PRC for introducing and proving technology for carbon capture and sequestration with integrated coal gasification and combined cycle; ADB will consider lending for clean coal technology projects that have demonstration effects. Targeted projects will be implemented in poor western provinces to provide direct benefits to local rural communities thereby promoting inclusive growth. Continued active participation in regional initiatives such as CAREC and GMS and enlargement of the energy market to include Kazakhstan, Mongolia, and the Russian Federation will provide new opportunities for regional integration. Nonsovereign projects will be mainstreamed in areas of clean energy and energy efficiency. The commercial success of these projects will catalyze private investments.

46. ADB will intensify efforts to build capacity so new technology can be adopted. Technical assistance (TA), policy notes, and participation in seminars will help to deepen knowledge of technologies and measures needed to improve energy security and the environment and to help the Government attain its aggressive 11th FYP sector targets. ADB will adopt the best international management practices for its projects, assisting the achievement of efficient and fair procurement, mainstreaming participatory project design, enhancing safeguard compliance, and facilitating tested and proven field application of improved policy frameworks in renewable energy and intensified tariff reforms.

¹⁰ ADB hosted the renewable energy donor coordination meeting in April 2007 in Beijing.

h. Indicative Areas for Interventions

47. The focal areas of ADB assistance will be (i) energy efficiency and energy conservation; (ii) renewable energy—wind, biomass, and hydropower; (iii) clean coal technologies; (iv) urban environment improvement; (v) CMM and CBM measures; and (vi) regional cooperation in power. In these areas, ADB will continue to pursue innovative projects and use new financing tools to plan, design, and implement them. Energy interventions will be closely coordinated with private sector operations and private or nonsovereign investment in renewable energy projects will be actively sought.

i. Monitoring Mechanism

48. ADB projects will have multiplier effects. The projects will be monitored through national energy data and through the readiness with which they are accepted by the Government. Table A4.2 provides the sector results framework.

Table A4.2: Energy Sector Results Framework

Relevant CPS Outcomes		Sector-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Sector	Key Opportunities and Constraints	Subsector Outcome/Key Sector Outputs	Sector Milestone/Tracking Indicators/Interim Indicators		
<p>Improved energy efficiency.</p> <p>Better balanced of the energy mix.</p> <p>Intensified reforms.</p> <p>Catalyzed private investment.</p>	<p>Opportunities</p> <ul style="list-style-type: none"> Continued strong demand in parallel with the sustained economic growth. Large investment needs. Strong Government commitment and adequate enabling environment. Energy-environment nexus. <p>Constraints</p> <ul style="list-style-type: none"> Current growth trajectory is environmentally unsustainable. Limited private investment. 	<p>Enhanced energy efficiency and conservation.</p> <p>Reduced dependency on coal in the energy mix.</p> <p>Lower greenhouse gas emissions from coal use.</p> <p>Strengthened sector reforms.</p> <p>Improved regional cooperation.</p>	<p>Energy intensity improved by 20%.</p> <p>Air quality in all major cities improved to category II (having no short- or long-term effects on human or animal health).</p> <p>Coal contribution reduced from 68% to 66% in the energy mix.</p> <p>130 GW of inefficient coal power plants closed.</p> <p>10 BCM methane captured in coal mining.</p> <p>Promotion of private sector participation in clean projects.</p> <p>Policy measures to promote market-based mechanism for clean energy and energy efficiency projects.</p>	<p>Energy efficiency projects implemented in industries and buildings.</p> <p>Urban environment improvement projects in 10 cities to provide efficient energy in gas and heating infrastructure.</p> <p>Renewable energy totaling 500 MW capacity.</p> <p>Clean coal technology and waste coal utilization projects, totaling 600 MW.</p> <p>Coal mine and coal bed methane projects to capture 0.5 BCM methane.</p> <p>Nonsovereign support for 500 MW clean energy capacity.</p> <p>Policy notes and knowledge products for capacity development to intensify reforms.</p> <p>Regional cooperation in power.</p>	<p>Government emphasis on regulatory measures rather than market-based approach.</p> <p>Slow pace of reforms may delay attainment of targets.</p> <p>Lack of a central ministry at national level may prevent required focus and interministerial cooperation.</p>

BCM = billion cubic meters, CPS = country partnership strategy, GW = gigawatt, MW = megawatt.
 Source: Asian Development Bank.

3. Agriculture and Natural Resources

a. Situation of and Key Issues in the Sector

49. Agriculture made impressive advances through the 1990s and into the new millennium, including marked gains in land and labor productivity and food output since rural and farm reforms were begun in 1978. Reforms shifted farming decisions to individual farms and allowed farmers to retain profits from their farming activities, thus raising incentives and triggering sharp rises in productivity. This helped the PRC to achieve national food self-sufficiency. Household-based farm achievements also fueled rises in rural nonfarm employment and rural and non-rural industrial expansion. The rising agricultural output supported national food security and allowed the Government to adjust its agricultural priorities away from food security and expanding production of inexpensive grains to feed the population, which had long been the focus of the country's agricultural policies, toward the goals of supplying a broader array of agricultural products and meeting the changing consumption demands of an increasingly affluent population.

50. The PRC's high economic growth rates have come at a substantial environmental cost in terms of heavily polluted air, water, and land, and degradation of natural resources. Key issues include rural income growth that has lagged significantly behind that in urban areas, degradation of the natural resource base and the environment, inadequate rural infrastructure, weaknesses in rural institutions that reduce price incentives and access to markets, limited access to economic and social services in rural areas, hidden rural unemployment together with limited nonfarm rural employment and labor mobility, and limited access to formal financial institutions and capital for investments in rural areas. The increasing disparities in income levels between rural and urban areas have led to a "floating" population of internal migrants seeking improved income in the cities. Large flows of labor from the countryside to the cities have led to substandard residential areas on the peripheries of cities. In many rural towns prime working age adults are scarce. These developments affect farm and rural enterprise performance, which is manifest in low incomes of farm families and limited profits for rural enterprises, lower rates of rural growth, and increasing rural-urban inequality.

51. Addressing these challenges in agriculture and natural resources (ANR) management will require a number of actions.

- (i) **Reversing natural resource degradation.** Pressure on the land must be reduced, property rights should be clarified, and use of technologies that degrade resources should be controlled.
- (ii) **Improving access to markets for farms in remote areas.** Farm-to-market infrastructure must be improved in some remote areas, access to market information improved, and marketing chains made more efficient.
- (iii) **Enhancing rural off-farm employment opportunities.** Opportunities must be broadened to help smooth income flows throughout the year and to add value to primary products.
- (iv) **Reducing the share of the rural population that depends on agriculture for its livelihood.** This will require empowering the rural population with the skills and knowledge to undertake a range of urban-based occupations.
- (v) **Promoting broad-based rural development.** Improved rural infrastructure, institutions, and support services are needed so the benefits of overall macroeconomic growth can be transferred to marginal rural areas. The Government's new rural development policy (the new socialist countryside policy) aims to bring the benefits of the PRC's growing economy to rural areas (and not

to reinstitute a nonmarket economy in the countryside). The Government is expanding its programs to restore degraded resources and improve the environment, strengthen rural institutions, improve producer incentives through market-based programs in support of technology development and extension, expand nonfarm and non-rural employment opportunities for rural people, develop rural infrastructure (including access to electricity), and improve access to rural finance.

52. Both national policy makers and provincial officials are considering how information, coordination, and financial market constraints can be overcome. “Enterprise-farmers associations-production bases” and “enterprise-production base” are intended to improve input supply, distribute financing and technical information, and provide futures contracts to reduce farm price risk and spur increased production. Equitable and easy to monitor contracts between agro-enterprises and farmers, and technical support for farmers, are needed to facilitate and improve coordination between processing enterprises and farms. There are many examples of profitable private agro-enterprises (the so-called “dragon heads”) that have successfully reached domestic and export markets for agro-products that are creating nonfarm rural employment.

53. Perhaps the most crucial challenge ADB faces in its efforts to assist the PRC Government in its ANR sector is the type of financing ADB has available. Loans from ordinary capital resources are not ideally suited for projects in this sector, which tend to have a heavy emphasis on poverty reduction (targeting the poorest segments of the PRC’s population) and provision of environmental public goods. Such projects are difficult to finance with ordinary capital resources because there are few opportunities for cost recovery. To overcome this, ADB has sought to support projects with outside grant cofinancing, particularly for environment projects. The Global Environmental Facility (GEF) provided vital support in the initial years of the 21st century, but such support has become more difficult to obtain for projects in the PRC as priorities at the GEF have changed. ADB and its counterparts in the PRC Government have also emphasized agro-enterprise lending arrangements, which offer high returns and favorable repayment capacity.

b. Government’s Sector Policy and Planning Framework

54. The 11th FYP builds on the development trends and issues that emerged from the 10th FYP period. Priorities in ANR and rural development under the 11th FYP include (i) adapting to competition from imported foods and downward pressure on some commodity prices, (ii) addressing the precipitous rise in imports of forest products; (iii) adopting policy measures to address such issues as land and soil degradation, desertification, water shortages, degradation of the environment, and depletion of fisheries stocks; and (iv) improving environmental, food safety, and health safeguards in agricultural production and processing, which underpins the PRC’s ability to maintain or increase its export of food products. The PRC Government recognizes that unsustainable farming practices such as excessive application of agrochemicals and poor water conservation have led to land degradation. The Government recognizes that if these issues are not addressed, agriculture may not be able to meet food needs and or to act as a growth engine in the countryside. Increasing competition for limited supplies of freshwater among agricultural producers, urban residents, and industrial users also threatens agricultural output. Striking the correct balance between environmental sustainability and rural economic growth remains an intractable issue. Meeting guidelines set out in global environmental conventions to which the PRC is a signatory and that cover, for example, desertification,

biological conservation, and wetlands, will require major efforts by the Government if the PRC is to comply with promised time frames.

c. Government's Institutional Arrangements and Capacity in the Sector

55. To implement the new countryside construction drive, the National People's Congress approved expenditure of CNY339.7 billion during the 11th FYP period and CNY4 trillion for rural infrastructure. These funds will be used to address overcapacity, stimulate domestic demand, reduce pressure on exports, improve production and improve marketing channels. This is expected to promote farm production, reduce farmers' financial burdens, and increase their incomes. In turn, the FYP aims to reduce the income disparities between rural and urban areas and between regions. Institutions designed to assign agricultural lands to farming families under decollectivization and the "household responsibility system" have played a major role in improving agricultural production and farm household economic welfare. The land assignment process has been generally fair in terms of the distribution of long-term lease rights among rural residents. Nevertheless, insecurity of land tenure and occasional abuses create disincentives for leaseholders to manage land resources for the long-term good. The Government has taken strong action against illegal land seizure and conversion of peri-urban agricultural land to urban use, and corrupt developers and local officials have been punished harshly. In areas where more traditional collective community-based land access continues, land degradation often results from conflict over resources between individual interests and the common good.

d. ADB Sector Experience

56. During the 10th FYP period ADB formed extensive partnerships with PRC policy makers through investment and TA projects. This partnership has focused on three areas: (i) improving natural resources management; (ii) protecting the environment and combating land degradation, water pollution, and flood risks; and (iii) increasing efficiency in producing, processing, and marketing agriculture products through price and related market reforms. This financed 14 project loans and 2 sector loans in the public sector. ADB's loan projects in the ANR sector have had a somewhat lackluster track record, with delays in processing and implementation resulting from excessive project complexity as they have attempted to address multiple constraints to agricultural and rural development, in some cases without necessary policy preconditions being in place. ADB's loans have been complemented by roughly 80 TA projects with financial commitment totaling \$43.0 million. The TA projects have pursued agricultural or environmental policy reform, institutional strengthening, environmental management, poverty reduction, and project preparation. ADB's impact in the sector has been primarily primarily in providing institutional innovations, diffusing international best practices reflecting current scientific understanding, and producing knowledge-based products in the PRC.

e. Role of Other Development Partners in the Sector

57. The World Bank and a range of United Nations agencies (e.g., the International Fund for Agricultural Development [IFAD] and United Nations Development Programme [UNDP]) support the PRC's development and conservation efforts in ANR. Bilateral development partners are also actively providing support to ANR. The most active of these agencies include the Australian Agency for International Development (AusAID), Department for International Development (DFID) of the United Kingdom, European Union, German Technical Cooperation Agency (GTZ), Government of Spain, JBIC, Japan International Cooperation Agency (JICA), Norwegian Agency for Development Cooperation (Norad), and Swedish International Development Agency (Sida). The World Bank's efforts have addressed land degradation in loess plateau areas,

including the conversion of degraded lands into grasslands, forests, or and other sustainable uses. One ongoing World Bank TA project aims to clarify landholder rights, including regulations governing land acquisition and compensation, land titling and administration, and property taxes on landholdings as a way to discourage farmland conversion. The European Union is supporting various land management and planning initiatives, including assistance for forest management and forest policy development. GTZ is supporting the rehabilitation and protection of tropical forests in the southern PRC, providing training in the forest industry, and supporting the development of a monitoring system for the northern shelterbelt afforestation system. Multilateral and bilateral development partners have also been active in assisting the PRC to reduce pollution and better manage its water resources. The World Bank is providing technical and investment support for identifying ways to reduce water use in agriculture by increasing water use efficiency and shifting land use patterns toward less water-intensive crops. Support for more efficient water use has also been promoted with the assistance of the World Bank through water market development initiatives, including pilot testing bulk water markets and expanding volumetric pricing. The World Bank is also addressing improved irrigation efficiency through support for the development of water users associations. The World Bank and European Union are providing support to address agricultural and other pollution in the Yangtze and other river basins. UNDP is supporting water governance and institutional strengthening at central and local levels. IFAD is supporting new schemes for water management in irrigation. DFID has supported water resource demand management and reform for small-scale rural water facilities to promote sustainability and participation of poor farmers in facility management. AusAID has provided assistance in establishing transparent and equitable systems for water allocation and in protecting and enhancing river health through the application of integrated river basin management principles. AusAID has also supported the shifting of water allocation planning and management from central authorities in favor of more market-based allocation. JBIC and JICA are supporting flood and water management, and better irrigation management and water savings, through technical support and investments in several provinces. These organizations also provide support for wastewater treatment. The World Bank is encouraging the development of clean and renewable energy technologies, based in part on pioneering work carried out under an ADB-supported animal waste project. The European Union and GTZ are promoting energy efficiency through instruments such as the development of renewable energy sources.

f. Intended Sector Outcomes and Key Outputs Supported by ADB

58. In line with ADB's medium-term strategy II, support through ADB's East Asia Department, Agriculture, Environment and Natural Resources Division to the PRC's 11th FYP and the new socialist countryside policy is proposed in three key strategic areas: (i) investing in rural productivity improvement and inclusive growth; (ii) investing in sustainable natural resource use and conservation; and (iii) strengthening the enabling environment and local institutional capacity for decentralized and participatory rural investments. The outcome expected from investment in rural productivity improvement and inclusive growth is the promotion of sustained and inclusive rural economic growth. The outputs will be TA and investment projects that catalyze and pilot efficient resource allocation and improved productivity; improved links between small-scale producers and markets; better access to public and private support services for producers, more access to rural finance; and stronger links between primary production and sustainable ecosystem management. Investments in sustainable natural resource use and conservation are expected to promote sustainable natural resource management. The outputs will be TA and investment projects that catalyze and pilot sustainable water management, sustainable land management, rural renewable energy development, biodiversity conservation, and carbon sequestration.

g. Links to CPS Outcomes, Other Sectors and Themes, and Indicative Areas for Intervention

59. ADB is supporting a number of projects that promote increased production and productivity, sustainable production, and rural economic growth. Key needs include access to market opportunities linking producers to inter- and intra-regional market opportunities, technical and information support services, and rural communities that are able to plan and manage local development in partnership with the scientific community and private sector where market-based solutions exist. In response to the PRC's concerns for environmentally sustainable production, future areas for ADB support will include (i) supporting efficient resource allocation and productivity improvements; (ii) linking small-scale producers to markets, including through improvements in infrastructure; (iii) linking sustainable rural development with ecosystem management; and (iv) investing in sustainable natural resource use and conservation, sustainable water management, sustainable land management, rural renewable energy, biological conservation and carbon sequestration, and studies to measure the impact of conservation investments. Key outcomes of ADB assistance will include (i) examples of sustainable rural development interventions that can be scaled up by the private sector and/or the Government; (ii) improvements in institutional arrangements to support inclusive rural development, which can serve as a model for other parts of the PRC; (iii) better institutional arrangements for managing rural natural resources, particularly in areas suffering from acute resource degradation; and (iv) at the local level where projects are situated, better policies to foster rural development and resource conservation.

60. ADB is increasingly supporting provincial and local and is gaining experience with alternative delivery mechanisms. The Yellow River and Songhua flood management projects are examples of projects delivered by several national level agencies to several provinces through river basin commissions. The Hunan flood management project will focus on urban flood management in a river basin context, delivered through a single provincial line agency and onlending to local governments. The Guiyang water management project will provide a range of water-supply-related interventions through several local agencies within a single municipal government jurisdiction. ADB will also help to improve policies, legislation, and the regulatory environment; identify market-based incentives; improve institutional arrangements and coordination; encourage public participation and the role of the private sector; address trans-jurisdictional issues and the forming or strengthening of water user and supplier organizations; and expanding community participation and developing producer organizations.

61. The quality and accessibility of the natural resource base plays a determining role in the income and welfare of most rural households, and often underpins the sustainability of rural economies. ADB's TA, carried out in close cooperation with key ministries, helps to develop new integrated conservation and development investment models. TA also aids formulation of policies and government strategies to support implementation of these models. Subsequently, ADB's loan products help the models to be replicated and tested in national and subnational programs. Two examples of recent areas where ADB and the PRC have cooperated in exploring strategic policy options related to natural resource management are (i) implementing the national flood management strategy that was developed by the Ministry of Water Resources with earlier assistance from ADB, and (ii) developing, in the Ministry of Agriculture, a strategy for rural renewable energy for use in national and subnational and programs and development partner support. To enable primary producers to increase their incomes and diversify their sources of income, which is essential for achieving inclusive rural growth, ADB is working with the Ministry of Agriculture to develop national strategies, policies, and projects. The aim is to

enable the PRC's small-scale primary producers to achieve higher living standards as envisioned under the "New Socialist Countryside" program. ADB is assisting the ministry to develop a strategy to support on-farm production and productivity, and a national strategy to promote integrated ecosystem management and innovation by "dragon head" enterprises for national and subnational and programs

62. ADB is replicating tried and tested approaches to promote diversification of rural livelihoods, integrated ecosystem management, sustainable land management, and viable producer organizations in central and western regions through its lending. ADB is developing integrated ecosystem management models drawing from global and regional experience. In addition, through TA and project implementation activities related to project development and lending, local government capacity is being strengthened, and governance and community participation enhanced. By using examples of local stakeholder involvement in project planning and strengthening and developing innovative local level project management and administration arrangements, ADB's projects can demonstrate ways to improve the relevance and feasibility of public investments in rural areas. In its efforts to strengthen local access to domestic and export markets, ADB is replicating proven approaches to lending in central and western regions for agro-enterprise development, strengthening links between primary producers and dragon head enterprises, and enhancing the capacity of producer organizations by drawing on lessons learned from the experience of the PRC, ADB, and other development partners. ADB is also providing TA to raise agro-enterprise product quality standards and to ensure food safety. ADB's projects will generally reach only a small fraction of the rural community. ADB will therefore provide TA support to disseminate lessons from its projects. Such lessons could then be used by the Government in refining its rural development and resource conservation policies and by local governments and rural communities grappling with similar problems.

h. Monitoring Mechanism

63. The sector road map will be monitored at the macro- and project-levels according to criteria defined in the sector results framework and through project monitoring frameworks defined in ADB loan and TA products. At the macro level, the 11th FYP defines detailed ANR development objectives that are related to ADB's goals in the sector (detailed in the ANR sector results framework). Performance in achieving these goals will be traced using data produced in the PRC's existing statistical data collection and reporting system (e.g., statistical yearbooks). Table A4.3 provides the sector results framework.

Table A4.3: Agriculture and Natural Resources Sector Results Framework

Relevant CPS Outcomes		Sector-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Sector	Key Opportunities and Constraints	Subsector Outcomes/Key Sector Outputs	Sector Milestone/ Tracking Indicators/ Interim Indicators		
<p>Increased average income and reduced poverty in rural areas, and slow increase in rural–urban inequality.</p> <p>Increasing physical and human capital of producers and agro-industries to improve the efficiency of primary producers, increase food production, enhance rural incomes, and raise the technological level of rural production.</p>	<p>Increasing and non-agricultural income opportunities available to rural households.</p> <p>Increasing agro-enterprise and producers' access to credit for working capital and longer term investments.</p> <p>Provide training to primary producers and extension agents.</p>	<p>Raising per capita net rural incomes of farmers by 5% or from CNY3,255 in 2006 to CNY4,150 in 2010.</p> <ul style="list-style-type: none"> • Total machinery power of primary rural producers applied increases from 680 to 800 GW. • Share of primary rural production that is mechanized increases from 36% in 2006 to 45% in 2010. • Ratio between the value of primary production and the value of output from agro-processing increases from 1:1 in 2006 to 1:1.5 in 2010. • Raise rates of chemical input use by primary producers from 30% in 2006 to 35% in 2010. • Train 100 million primary producers. • 2.5 million new posts are available yearly in township and village enterprises. 	<p>Average per capita rural incomes.</p> <ul style="list-style-type: none"> • Gigawatts of power provided by farm machinery. • Value of agricultural production derived from basic production versus agro-processing activities. • Share of primary producers reporting use of chemical inputs. • Number of primary producers trained. • Number of jobs in township and village enterprises. 	<p>Investment projects working with agro-enterprises to address credit constraints and expand production bases to benefit poor rural households.</p> <ul style="list-style-type: none"> • Investment projects to increase capital applied by agro-enterprises and primary producers through higher growth and onlending arrangements between local governments, agro-enterprises, and primary producers. • TA for developing new technologies for primary rural producers. <p>Capacity development in enterprise development, management of primary production, etc.</p>	<p>Macroeconomic downturn, loss of agricultural competitiveness due to inflation or currency appreciation.</p> <ul style="list-style-type: none"> • Rising energy costs could lessen efficiency gains from increased mechanization of primary production. • Changing cost structures lead to defaults on loans to agro-enterprises or primary producers. • Shortcomings in the current rural finance system cannot be overcome. <p>Economic downturn or loss of agro-export markets overseas.</p> <p>Lack of capacity or other constraints limit the effectiveness of government environmental regulation.</p>

Relevant CPS Outcomes		Sector-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Sector	Key Opportunities and Constraints	Subsector Outcomes/Key Sector Outputs	Sector Milestone/ Tracking Indicators/ Interim Indicators		
<p>Protect farmland and agricultural production capacity while improving rural environmental quality, international reputation, and sustainable ecosystem management in the PRC.</p> <p>Improve flood and water management, and water quality in rural areas.</p>	<p>Assist strategy formulation and capacity development in land and environmental management.</p> <p>Invest in projects that improve the natural environment.</p> <p>Invest in new water management infrastructure and in the development of water pricing and related regulatory regimes.</p>	<ul style="list-style-type: none"> • Reduce the area of land that is seriously degraded in major farming areas by 10% between 2006 and 2010. • Limit conversion of agricultural land for growing staple crops to roughly 0.2% per year. • Increase overall grain production capacity from 484 tons/ year in 2006 to 500 tons in 2010. • Agricultural pollutant discharge reduced by 50% and share of agricultural non-point source pollution that is treated increased by 50% from 2006 to 2010. <p>Raise the estimated effective utilization coefficient of irrigation water from 0.45 in 2006 to 0.50 in 2010.</p>	<ul style="list-style-type: none"> • Land area classified as being degraded in agricultural areas. • Land area planted to cereal crops. • National grain production levels. • Measures of agricultural pollutant discharge and treatment of agricultural pollutants. <p>Government estimates of the effective utilization coefficient of irrigation water.</p>	<ul style="list-style-type: none"> • Investments to restore and improve environmentally degraded areas (e.g., Baiyangdian Lake, Shaanxi Qinling, Ningxia IEM project). • TA to understand and address environmental problems and proper use and disposal of fertilizer, other agro-chemicals, and other agricultural wastes (e.g., land degradation, flood management, IEM). • Provide training to primary producers on proper application of chemicals inputs and food safety practices. <ul style="list-style-type: none"> • Investments in water management projects (e.g., Hunan Flood Management, Guiyang Integrated Water Resources Management, Baiyangdian Lake, Qingdao Water Resources, etc.) • TA and capacity development in water management policy and pricing. 	<ul style="list-style-type: none"> • Short-term private interest triumph over long-term public welfare in regulating natural resource use and pollution control. • Worsening environmental and food safety problems undermine rural growth and farm livelihoods. • Changes in global weather significantly alter rainfall and water availability. <p>Policy reforms needed to provide correct incentives for efficient use of water and proper use and disposal of agricultural pollutants not enacted.</p>

Relevant CPS Outcomes		Sector-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Sector	Key Opportunities and Constraints	Subsector Outcomes/Key Sector Outputs	Sector Milestone/ Tracking Indicators/ Interim Indicators		
Increase access to energy and reduce reliance on imported energy sources through development of renewable sources of energy, particularly biogas.	Provide capital and technical expertise for wider dissemination of biogas systems and for developing newer more efficient systems.	Share of rural households with access to biogas increased from 12% to 27% between 2006 and 2010.	Share of households with access to biogas digester systems.	Investments in projects to extend provision of biogas and promote policy and institutional development favorable to renewable energy development.	Increased energy demand and rising opportunity cost of labor in the countryside threaten economic viability of existing biogas technology.

CPS = country partnership strategy, GW = gigawatt, IEM = integrated ecosystem management, PRC = People's Republic of China, TA = technical assistance.
Source: Asian Development Bank.

4. Finance

a. Situation of and Key Issues in the Sector

64. During the past three decades, the PRC has created many of the institutions needed in a modern financial system and has successfully mobilized savings to achieve significant financial depth. However, finance reforms are widely considered to be lagging behind those in other sectors. The finance sector distorts capital allocation and provides low returns to investors and savers. Rural households and small and medium-sized enterprises (SMEs) are underserved by the financial system, particularly in their access to credit. Banking dominates the finance sector, while capital (bond and equity) markets are immature. High saving rates, lack of investment tools, inadequate risk management skills in financial institutions, and an inflow of money with an expectation of further appreciation of the PRC currency are fueling rapid increases in stock and real estate prices and raising concerns about a bubble. A coordinated and comprehensive reform program will be necessary to enable the finance sector to fulfill its proper roles of intermediating capital and providing incentives to ensure efficient capital use.

i. Banking

65. The PRC finance sector is dominated by banks, which have provided an estimated 95% of corporate financing. All but one of the major commercial banks and virtually all of the smaller commercial banks are owned by central or local governments.¹¹ The PRC monetary authority has been gradually liberalizing the interest rate regime by first increasing the spread between administered deposit and lending rates and later by removing the ceiling on lending rates and the floor on deposit rates. Remaining controls (a floor on lending rates and a ceiling on deposit rates) are expected to be removed in 2008–2010. The banking system has mobilized a huge pool of deposits,¹² which is another sign of the underdevelopment of other parts of the finance sector. Households lack diversified savings options such as insurance and mutual funds. Government ownership also implies implicit deposit insurance.

66. Since 2001, bank lending has expanded at twice of the rate of the economy. Much of this lending went to large government-sponsored infrastructure and industrial projects, special economic zones, and housing, and car loans. This rapid credit expansion encouraged overinvestment in some sectors, including real estate. The Government has taken measures to slow credit expansion, including “administrative guidance” on sectors to which new loans were prohibited or restricted and increasing the reserves banks are required to hold.

67. The corporate governance and commercial orientation in commercial banks can be strengthened. State-owned commercial banks (SOCBs) are now required by regulations to have independent, outside directors but they remain a minority on the boards, which are still controlled by the Government. While the credit skills of loan officers in SOCBs are improving, the smaller banks remain weak in such skills and lending decisions are based primarily on an ongoing relationship with clients or on the value of collateral rather than on a rigorous analysis of borrowers’ creditworthiness. A high level of nonperforming loans (NPLs) is an obvious

¹¹ The “big four” state-owned commercial banks (SOCBs) dominate the system, accounting for 54.8% of bank assets at the end of 2004. In addition, there are 12 joint-stock commercial banks with 14.7% of bank assets; 112 urban commercial banks with 5.2% of bank assets; 32,869 rural credit cooperatives (RCCs) with 9.6% of bank assets; and 211 foreign banks with 1.8% of bank assets.

¹² Households in the PRC save over 20% of their income and bank deposits are equal to 160% of GDP.

manifestation of the finance sector's weaknesses.¹³ While the direct costs of NPLs are clear, the opportunity costs of misallocated capital might be even larger.

68. SMEs now contribute about 60% of the PRC's GDP. While the ratio of loans to SMEs in the loan portfolio of all financial institutions has increased in recent years to about a half, many SMEs still have difficulties accessing credit. Credit rating agencies and consumer credit bureaus do not provide high-quality services. Private companies' financial reports are often unreliable which, combined with weak legal enforcement of contracts, makes lending to private borrowers risky. Moreover, Government guidelines and bank rules that hold loan officers responsible for loan losses make bank officers reluctant to lend to private companies, especially SMEs.

69. Under the terms of the PRC's accession to the World Trade Organization, foreign banks were allowed to engage in local businesses on an equal footing with domestic banks, starting in December 2006. Many foreign banks have been increasing their activities in the PRC and seeking cooperative partnership arrangements with domestic banks, as evidenced by the large number of foreign banks taking equity stakes in domestic banks.

ii. Capital Markets

70. The flip side of the PRC's large banking subsector is its underdeveloped capital markets. Equity market capitalization at the end of 2006 was 43% of GDP. Corporate bond issues by nonfinancial companies amount to only 1% of GDP. Moreover, the PRC's capital markets have been used almost exclusively by state-owned enterprises. The PRC's Government bond market, while still relatively small (its outstanding balance is 21% of GDP), is more developed than the capital market, with regular auctions and a relatively smooth yield curve. The underdeveloped capital markets contribute to the misallocation of capital because larger enterprises that would otherwise seek financing on capital markets are seeking financing from banks in the PRC. This crowds out lending to private enterprises, especially SMEs.

71. Three key factors have contributed to undeveloped equity markets—an excess of non-tradable shares (which until recently accounted for more than half of the country's market capitalization),¹⁴ poor quality of listed companies,¹⁵ and low level of institutional investor development.¹⁶ Rapid increases in trading in recent months also demonstrates the risks in the equity market.

¹³ Although the statistics indicate that NPLs in SOCBs fell from 31% in 2001 to 9.2% in 2006, it is mainly due to the transfer of about CNY1 trillion of NPLs to the state-owned asset management companies associated with the SOCBs and the expansion of new bank lending. Although the quality of recent credit has substantially improved and accounting practices and internal systems for managing risk are also improving, given the ongoing problems in SOCBs, NPLs may rise again when the new loans mature.

¹⁴ This had negative effects on corporate governance, subjecting companies to undue Government influence and reducing the influence of minority (private and foreign) shareholders. The Government began its program to convert non-tradable shares into tradable shares in 2005 and implementation has proceeded smoothly. The conversion is expected to be completed in many listed companies by the end of 2007.

¹⁵ The most profitable companies are listed on international exchanges, with a majority listing in Hong Kong, and the less profitable (or loss-making) companies with weaker corporate governance and disclosure are listed in local stock exchanges.

¹⁶ Institutional investors, such as mutual funds, pension funds, and insurance companies, are still at a low level of development. Regulations restrict what they can invest in from prudential points of view, considering the poor corporate governance, insider trading scandals, and a speculative market.

72. The corporate bond market is underdeveloped as NDRC, the primary market regulator, has taken an extremely cautious approach.¹⁷ Moreover, returns on bonds are capped at 140% of the bank deposit rate and interest on corporate bonds is taxed at 20%, whereas interest on Government bonds is not taxed. In addition, lack of quality credit rating means corporate debt cannot be priced properly, making it less attractive than treasury bonds.

iii. Rural and Microfinance

73. Savings mobilization has been high in the PRC, including in rural areas. In contrast, access to credit in rural areas is limited. The PRC's rural financial system essentially comprises the Agricultural Bank of China (ABC) and rural credit cooperatives (RCCs), while the development of microfinance institutions is in an embryonic stage.

74. **Agricultural Bank of China.** As part of the overall banking reform program, ABC was mandated to operate as a commercial bank and has been retreating from providing rural finance. The number of branches has shrunk from over 50,000 in 2000 to about 31,000 and loans to the agriculture sector have declined from over 60% to less than 40% of the bank's annual total lending volume. ABC faces daunting problems as it has the highest level of NPLs and the weakest management of the four SOCBs. ABC has been actively seeking restructuring and a listing, and has been discussing strategic partnerships with foreign financial institutions. The restructured ABC is expected to have agriculture financing as its top priority.

75. **Rural credit cooperatives.** With the retreat of ABC from rural areas, RCCs became the main financial institution in these areas. RCCs have long suffered from unclear ownership structure, poor corporate governance, weak staff capacity, poor asset quality, and dismal financial performance. In June 2003, the State Council issued a directive to begin a reform program aimed at fundamentally restructuring RCCs.¹⁸ The results of the reforms have generally been positive. Some RCCs in economically advanced areas have been transformed into agriculture commercial and cooperative banks. The financial performance of many RCCs has improved and their NPLs have been reduced.

76. **China Postal Savings Bank.** The China Postal Savings was granted a banking license and became Postal Savings Bank in 2007. With its distribution network, lack of NPLs, and sizeable core deposit base, the new bank could become a significant player in rural finance.

77. **Microfinance Institutions.** Microfinance in the PRC is at an early stage, although a number of pilot efforts have been implemented over the past decade. Microfinance institutions have long been regarded as informal financial institutions by the Government and are restricted for fear they will destabilize the market. However, recently the Government has started to encourage microfinance and has issued policies to promote the development of properly regulated microfinance institutions.

78. By the end of 2006, the China Banking Regulatory Commission (CBRC) announced numerous principles to facilitate access to finance in rural areas by lowering entry barriers for the rural finance market, enforcing regulation and supervision, and strengthening policy support

¹⁷ The approval and issuance of corporate bonds are generally linked to state-sponsored major infrastructure projects and thus the process is cumbersome and takes 14–17 months.

¹⁸ The reform program had three objectives: (i) to clarify the ownership structure to strengthen corporate governance for RCCs, (ii) to transfer the administrative responsibilities to provincial governments, and (iii) to resolve financial problems. People's Bank of China issued at least CNY168 billion in special interest-bearing bills to the RCCs to cover half of their negative equity. The rest of the clean-up bill has been made up by local governments.

for rural finance. New types of financial institutions envisaged include township and village banks, community credit cooperatives, and lending-only subsidiaries of commercial banks and nonbank financial institutions.

b. Government's Sector Policy and Planning Framework

79. The Government's 11th FYP calls for the orderly development of the finance and related sectors. The National Financial Work Conference convened on 19–20 January 2007 unveiled a package of policies aimed at improving the depth, coverage, and quality of the finance sector. The conference announced that the finance sector reforms would focus on six areas.

- (i) **SOCB reforms** will focus on (a) strengthening management and corporate governance, particularly at local branches in SOCBs; and (b) steadily transforming ABC into a joint-stock bank to help it strengthen its role in serving farmers, the agriculture sector, and rural areas.
- (ii) **Rural finance reforms** will promote a more broad-based, multi-layered, and sustainable rural financial system comprising commercial institutions, policy institutions, and cooperative type institutions, with fewer entry barriers. The reforms will also promote development of microcredit institutions.
- (iii) **Capital market and insurance market development** will focus on market infrastructure, improvement of the quality of listed companies, and more strict corporate disclosure rules to increase transparency.
- (iv) **Financial intermediation and macroeconomic management** will aim to improve the predictability and effectiveness of the central bank's monetary policies by gradually removing interest rate restrictions, strengthening the management of foreign reserve funds, and increasing financial support to SMEs and less developed areas.
- (v) **Regulation and supervision** will be enhanced, especially supervisory capacities. Internal controls in financial institutions will be strengthened so they can maintain financial stability and decrease risks. This includes strengthening of cooperation and coordination among subsector supervisors.

c. Government's Institutional Arrangements and Capacity in the Sector

80. People's Bank of China is the country's central bank and is responsible for setting and implementing monetary policies and foreign reserve management. CBRC is assigned banking regulatory and supervisory functions, including supervision of all deposit-taking financial institutions, asset management companies, and trust and investment companies. China Securities Regulatory Commission (CSRC) is responsible for regulating and supervising the capital markets and intermediaries and the China Insurance Regulatory Commission (CIRC) is responsible for regulating and supervising the insurance subsector.

81. CBRC, CIRC, and CSRC have been actively carrying out their responsibilities and significant progress has been made in strengthening supervision. However, further strengthening is needed, especially in areas such as monitoring financial institutions' risk management and the flow of new NPLs. The adoption of the new Basel Capital Accord (Basel II) means that, from the end of 2010, CBRC and commercial banks will need to adjust their rules and policies and train staff. Further, nonmarket interference constrains capital market development. A coordinated approach to reform and regulation is needed to mitigate risks in the financial system.

d. ADB Sector Experience

82. ADB has provided TA and equity investments to strengthen the legal and regulatory framework for the finance sector, improve access to finance by SMEs and rural residents, and strengthen corporate governance in financial institutions. These include (i) a TA project to support major revisions of banking laws and regulations,¹⁹ (ii) two TA projects to strengthen CBRC's supervisory capacity,²⁰ (iii) a series of TA projects²¹ and equity investments²² to support development of the credit guarantee industry, (iv) equity investment in commercial banks²³ to improve corporate governance, and (v) a TA project to support RCC reforms and development of microfinance institutions.²⁴ The TA projects for legal and regulatory reforms made substantial contributions to strengthening legal and regulatory frameworks and developing the capacities of regulatory agencies. ADB has also established a close relationship with regulatory agencies and has accumulated experience and knowledge in banking supervision, rural finance reforms, SME finance, and private sector operations in the PRC through these activities.

e. Role of Other Development Partners in the Sector

83. The World Bank has provided a range of policy analysis and advice on the reform of SOCBs, financial sector policy reform, and improved regulation of securities firms. Under its new China Partnership Strategy, the World Bank will focus its attention on expanding access to finance, developing capital markets, and managing systemic risks—with policy analysis supplemented by a micro and small enterprise finance project. The World Bank, primarily through the International Finance Corporation (IFC), has also supported financial sector reform through models (e.g., investments and TA to financial institutions), partial privatizations, and development of the distressed assets market. IFC and ADB worked together to issue the first yuan bond by a non-Chinese issuer. The European Union supported a project to strengthen the institutional capacity of financial market regulators, including People's Bank of China, CBRC, CIRC, and CSRC. This project was concluded in 2006. Bilateral development agencies also have projects to support reforms of state-owned enterprises and development of SMEs, microfinance, and private equity funds.

84. Since the breadth and depth of the PRC's financial reform program are beyond the scope of any single development agency, multilateral and bilateral development agencies are targeting their assistance to the areas where they have comparative advantage and/or a track record of success.

¹⁹ ADB. 2002. *Technical Assistance to the People's Republic of China for Banking Laws and Regulations*. Manila (TA 3890).

²⁰ ADB. 2003. *Technical Assistance to the People's Republic of China for Foreign Bank Rating and Risk Management System*. Manila (TA 4240); ADB. 2004. *Technical Assistance to the People's Republic of China for Strengthening of the Statistical System of the China Banking Regulatory Commission*. Manila (TA 4349).

²¹ ADB. 2002. *Technical Assistance to the People's Republic of China for the Development of Small and Medium Enterprise Alternative Financing Mechanism*. Manila (TA 3930); ADB. 2004. *Technical Assistance to the People's Republic of China for the Development of Small and Medium-Sized Enterprise Credit Guarantee Companies*. Manila (TA 4350); ADB. 2005. *Technical Assistance to the People's Republic of China for the National Fund for Development of Credit Guarantees for Private Enterprises*. Manila (TA 4725).

²² ADB invested \$10 million in Credit Orientwise Group in 2005 and another \$3 million in 2007.

²³ ADB invested \$75 million in minority shares of Bank of China in 2006 and \$30 million for 5% shares of the Hanzhou City Commercial Bank in 2006.

²⁴ ADB. 2004. *Technical Assistance to the People's Republic of China for Rural Finance Reforms and Development of Microfinance Institutions*. Manila (TA 4430).

f. Intended Sector Outcomes and Key Outputs Supported by ADB

85. Intended sector outcomes include (i) mitigated risk in the financial reform process; (ii) improved access to financial services by the private sector, especially by SMEs and rural households; and (iii) promotion of regional financial integration and cooperation. These will be achieved through ADB's support for (i) strengthening financial supervision and coordination among financial regulators, (ii) creating a broad-based rural financial system, (iii) strengthening the capacity of financial institutions, (iv) developing financial market infrastructure, and (v) enhancing the PRC's role in regional financial integration and cooperation.

g. Links to CPS Outcomes and Other Sectors and Themes

86. The intended sector outcomes will contribute to three CPS outcomes: (i) promoting rural development, (ii) catalyzing efficient investment and enabling private sector development, and (iii) advancing regional financial sector cooperation.

h. Indicative Areas for Interventions

87. Considering ADB's established track record, its comparative advantage in terms of expertise and instruments available, the confluence of ADB's overarching objective of poverty reduction with the 11th FYP, and the sector analysis in this section, the following five areas are suggested for ADB assistance:

- (i) building an inclusive, market-oriented rural finance system and supporting the development of social safety net and pensions systems in response to the demographic shift in the PRC and the need to build a harmonious society;
- (ii) supporting policy and regulatory reform and strengthening financial supervision and coordination among financial regulators in rural finance;
- (iii) introducing innovative financial modalities (including carbon financing) and assisting provincial and local authorities to access capital markets by broadening the range of financial products available, including securitization and use of guarantees;
- (iv) promoting private sector development through public and private sector partnership and support for increased access to financial services by private SMEs; and
- (v) supporting regional financial integration and cooperation.

88. ADB will use a combination of loans, TA, direct investment, and policy dialogue to carry out this strategy. ADB loans will be used to support institutions that are prepared to implement meaningful reforms to move toward market-based systems and achieve financial viability. ADB will also strengthen coordination between its public and private sector operations. Private sector investments will be selected for their catalytic role in promoting broad-based private sector development in such areas as NPL resolution, housing finance, and capital market development.

i. Monitoring Mechanism

89. Both qualitative and quantitative indicators will be used to measure progress. Quantitative indicators include indicators on the soundness, governance, and efficiency of financial institutions (such as the NPL ratio, capital adequacy ratio, proportion of independent directors, banking return on assets, interest rate spread, and credit expansion) and on financial sector depth, breadth, and outreach (such as domestic credit as a percentage of GDP, lending

to SMEs as percentage of loan portfolio, lending to rural areas as percentage of loan portfolio, equity market capitalization as percentage of GDP, corporate bond issuance as a percentage of GDP, and insurance premiums as percentage of GDP). Qualitative indicators include strengthened governance structure in financial institutions, improved coordination among the supervisors, and active participation of the PRC regulators in regional cooperation activities.

90. Progress in finance sector reforms will be monitored through policy dialogue and analysis of indicators. The data will be obtained from news releases of regulatory agencies, annual reports of financial institutions, and policy dialogue with financial regulatory agencies and other relevant agencies. Table A4.4 provides the sector results framework.

Table A4.4: Finance Sector Results Framework

Relevant CPS Outcomes		Sector-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Sector	Key Opportunities and Constraints	Subsector Outcomes/Key Sector Outputs	Sector Milestone/ Tracking Indicators/Interim Indicators		
Promoting rural development.	Address the problem of limited access to credit in rural areas and by private sector especially SMEs.	<ul style="list-style-type: none"> Improved access to financial services by rural households. Creation of a broad-based rural financial system able to provide financial services to rural areas. Strengthened capacity of financial institutions. Developed financial infrastructure. 	<ul style="list-style-type: none"> Increased number of MCIs/MFIs and their clients; increased range of financial services. Establishment of commercial relationships between PSB or commercial bank and MCIs/MFIs. Increased RCC profitability; closing of loss-making RCCs or consolidation with other RCCs. 	<ul style="list-style-type: none"> TA project: Rural Finance Reforms and Development of Microfinance Institutions. Possible loans to and equity investment in financial institutions to improve financial services for SMEs and rural areas. Possible TA and/or guarantee to broaden the range of financial products available. 	<p>Insufficient capacity and weak governance mechanism in financial institutions result in accumulation of NPLs.</p> <p>Management measures: Strengthening regulations and governance mechanism.</p>
Catalyzing efficient investment and enabling private sector development.	Address the problem of distortion in capital allocation by developing capital markets and loosening interest rate control.	<ul style="list-style-type: none"> Improved access to financial services by private sector, especially SMEs. Provincial and local authorities able to access capital markets. Mitigated risk in the further financial reform process. Strengthened financial supervision coordination among financial regulators in the rural finance. 	<ul style="list-style-type: none"> Absolute and relative volume of bank and capital market financing given to private SMEs; volume of SME credit guaranteed. Issuance of bonds by provincial and local authorities in capital markets. Reduced NPL ratio; increased capital adequacy ratio; increased percent of independent directors in financial institutions; slowed credit expansion; governance structure of financial institutions closer to international best practice. Coordination among financial regulators in designing and implementing reform measures. 	<ul style="list-style-type: none"> Ongoing TA projects: Development of Small and Medium-sized Enterprise Credit Guarantee Companies; National Fund for Development of Credit Guarantees for Private Enterprises; and Ongoing Equity Investment in Credit Oriented Group. Ongoing investment in the Bank of China and the Hangzhou City Commercial Bank and future equity investment in financial institutions to improve corporate governance. Possible TA to strengthen financial supervision and improve coordination 	<ul style="list-style-type: none"> Insufficient capacity and weak governance mechanism in financial institutions result in accumulation of NPLs. Issuance of bonds resulting in deterioration of fiscal conditions. Subsector supervisors do not sufficiently cooperate and coordinate in designing and implementing reform measures. <p>Management measures: Strengthening</p>

Relevant CPS Outcomes		Sector-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Sector	Key Opportunities and Constraints	Subsector Outcomes/Key Sector Outputs	Sector Milestone/ Tracking Indicators/Interim Indicators		
				among financial regulators in rural finance.	regulations and market discipline; Creation of a mechanism to improve cooperation and coordination.
Advancing regional cooperation.	Address policy and institutional barriers to cross-border investment and foster regional financial market integration.	Enhanced PRC role in regional financial integration and cooperation.	<ul style="list-style-type: none"> • Active participation of PRC regulatory agencies in regional cooperation activities. • Increased PRC investment in Asian bond markets. 	<ul style="list-style-type: none"> • Ongoing and future regional TA for promoting cooperation among financial regulators in the region and promoting development of Asian bond markets. • Possible assistance for PRC investment in Asian bond markets. 	Regulatory and infrastructure gaps obstacles cross-border investment and/or creates loopholes. Management measure: Enhancing convergence and interaction.

ADB = Asian Development Bank, MCI = microcredit institution, MFI = microfinance institution, NPL = nonperforming loan, SME = small and/or medium-sized enterprises; RCC = rural credit cooperative, PRC = People's Republic of China, TA = technical assistance.

Source: Asian Development Bank.

B. Themes

1. Sustainable Economic Growth—Developing Urban Areas

a. Key Issues

91. Urbanization has advanced at a very rapid pace in the PRC since economic reforms started in late 1970s. The country's urban population increased from 160 million in 1975 to about 562 million in 2005 and the urbanization ratio increased from 17% to 43%. The ratio is expected to reach 47% in 2010, 50% in 2015, and 55% in 2020. With accelerating urbanization and a deteriorating urban environment, the Government is facing increased demand for urban infrastructure and social services, including water supply, wastewater treatment, solid waste management, urban transport, central heating, vocational education, and health care.

92. According to the Ministry of Construction, the rate of tap water coverage in urban areas was 63.9% in 2000 and 91.1% in 2005, and is expected to reach 95% in 2010. Although more than 90% of urban households in large cities have access to piped water, the high coverage rate obscures shortages in many cities, particularly those in water-scarce northern provinces. By the end of 2005 the urban wastewater treatment ratio was 52%, compared with 34% in 2000; but of the country's 669 cities, 278 have no wastewater treatment facilities. Many cities' facilities are idle or running far below capacity because of lack of funds.

93. Industrial solid waste increased from 816 million tons to 1,340 million tons between 2001 and 2005, an increase of 64.2%. Only about 56% of this was reused or treated in 2005. Domestic solid waste increased by 32.2% from 118 million tons in 2001 to 156 million tons in 2005, but the treatment ratio decreased from 61.4% to 52.0% during the same period, indicating that increases in the treatment capacity did not keep up with the volume generated. In addition, many city landfills were not designed according to regulations and were poorly managed after they started operation.

94. Dramatic increases in car ownership, road congestion and air pollution are serious issues, particularly in large cities. There is strong demand for financial and technical support in infrastructure development and traffic management. Similarly, in other urban subsectors (including sanitation, storm water management, flood control, and central heating) cities face increased challenges regardless of their size. Compared with the central and provincial governments, municipal and town governments have relatively low financing and institutional capacities. They often lack appropriate pricing schemes and financial incentives to attract private sector investments in constructing urban infrastructure and providing social services. Utilities face weak management capacity and ineffective or absent internal controls and audits, which are required to access funding, particularly from international sources.

b. Government's Policy and Planning Framework

95. Sustainable urbanization is a key theme in the PRC's 11th FYP. To accommodate rapid urbanization, the Government places high priority on sustainable urban development in the 11th FYP and tries to address urban issues through policy reforms, increased investments, and improved urban management. In the water sector, the Government's strategy focuses on (i) developing water resources; (ii) protecting sources by controlling industrial and residential pollution; (iii) controlling overextraction from ground water sources; (iv) introducing water-efficient technologies and operations; and (v) using appropriate mechanisms to encourage conservation and generate funds necessary for operation, maintenance, and investment. The

Government has pledged to spend CNY1 trillion to clean up the water supply and CNY330 million in sewage treatment in cities. The 11th FYP requires that 70% of wastewater be treated by 2010.

96. For solid waste management, the Government pledges to invest in new facilities to increase treatment capacity, strengthen tariff collection systems, and treat 60% of domestic solid waste by 2010. For urban transport, the Government gives high priority to development of public transport and encourages local governments to improve urban road networks to support public transit systems. In large cities and metropolitan regions, the Government prefers railways for mass transportation. For urban central heating, the Government encourages energy efficient solutions and is investing in renewable energy resources.

c. Government's Institutional Arrangements and Capacity

97. Urban development in the PRC is managed through the following process: (i) the central Government makes a national FYP; (ii) based on the national FYP's guidelines, municipal governments make their own FYPs, which indicate major urban development projects in the next 5 years; (iii) each municipal people's congress approves the municipal plan; and (iv) the plans are translated into annual plans, which include major infrastructure projects and the main components of the city master plan. In the central Government, NDRC is responsible for macro-level economic development strategies and policies and the Ministry of Construction is responsible for developing and guiding the implementation of the guidelines, policies, regulations, and strategies related to urban development. At the local level, municipal planning bureaus make city master plans.

98. Investment from the public sector is the principal source of urban infrastructure financing as most urban infrastructure projects are considered as public goods and are expected to generate positive economic externalities. However, municipal and town governments often lack the technical, financial, and managerial capacities to prepare and implement large projects. The Government has encouraged private companies to participate in urban infrastructure, and such participation has increased in recent years in both project financing and operation and maintenance (O&M). Private sector participation helps reduce pressure on municipal budgets and improves efficiencies in O&M. The Government is open to and careful in selecting private companies, and often closely monitors them through performance contracts.

d. ADB Urban Development Experience

99. ADB's lending for urban development in the PRC started in 1992, and has included 22 loans totaling \$2.5 billion. The loans have financed about 4 million cubic meters per day of capacity to supply clean drinking water; over 2 million cubic meters per day of wastewater treatment; and various components in urban transport, flood control, solid waste management, and central heating in several of the country's major cities. ADB's support for urban development in the PRC focuses on solving urban environmental problems to improve urban dwellers' health and living conditions and reduce bottlenecks in urban infrastructure and services. To maximize development impact, especially among the urban poor, ADB's involvement has been targeted on densely populated urban areas.

100. According to an ADB Operations Evaluation Department sector report,²⁵ the most highly rated benefit of ADB urban projects was the certain and steady supply of funds compared with

²⁵ ADB. 2006. *Special Evaluation Study on Urban Sector Strategy and Operations*. Manila.

domestic financing. The second most important benefit was the use of transparent procurement processes, which significantly lowered project costs. With growing availability of financing sources in the PRC, however, the Government is increasingly interested in knowledge products. There is a growing demand for ADB to introduce international best practices and innovative ideas in urban development projects in the PRC.

101. ADB's nonlending programs have provided TA to address (i) water and wastewater tariff reforms, (ii) solid waste management, (iii) urban transport, (iv) private sector participation in urban infrastructure financing, and (v) development strategies for small towns and metropolitan regions. These efforts, together with policy dialogue in loan projects, have helped the Government formulate subsector strategies and national guidelines to address key issues in urbanization. With the increasing demand for knowledge products, the Government is asking for effective dissemination of TA outputs not only to central ministries, but also to local governments, academia, and concerned institutions, to raise public awareness and increase policy impact.

e. Role of Other Development Partners in Urban Development

102. The World Bank is a key development partner in the PRC's urban development. The World Bank started lending for the subsector in 1991 and has approved 22 loans totaling about \$3.0 billion. In addition to urban environmental improvement, the World Bank's urban projects have a strong focus on urban transport. Similar to ADB, the World Bank also provides TA to help the Government formulate development strategies and national guidelines. ADB and the World Bank occasionally exchange project information and TA outputs. It is recommended that this cooperation be enhanced by regularly sharing loan processing information, TA findings, and lessons learned from project processing and implementation.

f. Intended Outcomes and Key Outputs Supported by ADB

103. ADB will continue to support sustainable urban development and environmental management in the PRC through its operations in water supply, wastewater management, flood control, solid waste management, and, increasingly, in urban transport. In addition, to address complex urban development issues and achieve synergy among subsectors, ADB will provide lending and policy advice in integrated urban development. Moreover, ADB will help municipal governments in northern and northeastern PRC to address air pollution and energy efficiency issues by providing lending and policy advice in central heating. To maximize its impact on poverty reduction, ADB's operations will focus on relatively underdeveloped western and northeastern regions and on small cities and townships, for which an approach is being developed under a demonstration project. To address water pollution issues systematically, ADB is increasingly taking a river-basin-based approach to wastewater management projects, starting from the Songhua River Basin. Based on an ongoing TA project on sustainable urbanization of metropolitan regions, ADB plans to propose a metropolitan-region-based approach to promote regional cooperation among cities and towns. ADB will continue to strengthen corporate governance and financial management of project implementing agencies, including both public and private entities.

104. During the CPS period of 2008–2010, ADB's lending programs in developing urban areas are expected to deliver 8–10 loans with a total investment of \$1.6 billion–\$2.0 billion. The loans will finance urban water supply, wastewater management, flood control, solid waste management, urban transport, and other urban development activities, ADB will also increasingly explore approaches to public–private partnership in developing urban areas.

Nonlending activities, including TA in wastewater tariff reforms and solid waste management, market-based environmental protection mechanisms, vocational education, waste management in small towns, and integrated urban transport, are expected to deliver six to eight TA reports of relevance to developing urban areas. Various knowledge products based on TA findings, loan project experience, and policy notes are expected to have a direct impact on the Government's policy making.

g. Links to CPS Outcomes and Other Themes

105. ADB operations in urban development are closely linked to the CPS strategic pillars, as the proposed operations (i) focus on urban environmental improvement, promote adoption of clean and efficient urban utility technologies, and encourage sustainable use of energy and natural resources; (ii) help relieve regional imbalances by supporting sustainable urbanization in western and northeastern regions, balance development of urban–rural systems by investing in small cities and towns, and support migrants to urban areas by developing urban infrastructure and providing policy advice on vocational training for migrant workers; (iii) share valuable experience in urban development with other developing member countries in the region; and (iv) help to pilot test public–private partnership through lending projects, and build an enabling environment for private sector participation through TA and policy dialogue in tariff reforms and corporatization and improved governance of utility companies.

h. Indicative Areas for Interventions

106. To address municipal and town governments' relatively low financing and institutional capacities, ADB operations in urban development in the PRC will add significant value as ADB will: (i) facilitate foreign and domestic cofinancing of urban environmental projects through its lending; (ii) use international best practices in project preparation (i.e., technical, economic, and financial viability), project administration and procurement, financial management and accounting standards, institutional reforms (e.g., corporatization and strengthened governance of wastewater management companies), and environmental and social safeguards; (iii) help reform policies in water, wastewater, and solid waste management and tariffs, which are often prerequisites for private sector participation; (vi) help establish market-based mechanisms for effective environmental protection (e.g., carbon trading); and (v) work closely with municipal and town planning departments to build capacity in strategy and planning at the local level.

i. Monitoring Mechanism

107. Annual achievements will be monitored in five areas: (i) infrastructure construction, (ii) policy reform, (iii) capacity development, (iv) living standards, and (v) poverty ratios. Achievements in infrastructure construction can be measured by increased capacity in water supply, wastewater treatment, solid waste treatment, central heating, and urban roads. They can be also measured by increased treatment ratios of wastewater and solid waste and increased coverage ratios of water supply, urban roads, and central heating. Achievements in policy reform can be measured by the number of policy guidelines completed with ADB support and implemented by the Government. Achievements in capacity development can be measured by the number of personnel trained and the indicators of improved efficiency in O&M, such as the ratio of population served per member of staff of a city's wastewater management company. Achievements in living standards can be measured by improved water quality, reduced incidence of waterborne communicable diseases, and increased satisfaction with government environmental and infrastructure projects. Achievements in poverty reduction can be measured by lower levels of poverty in project areas. Table A4.5 provides the results framework.

Table A4.5: Urban Development Results Framework

Relevant CPS Outcomes		Theme-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Theme	Key Opportunities and Constraints	Theme Outcomes and Key Theme Outputs	Theme Milestone/ Tracking Indicators/Interim Indicators		
Urbanization ratio will reach 47% by 2010 and environmentally friendly sustainable urbanization is a key theme in the PRC's 11th FYP.	<p>Provide adequate urban infrastructure (e.g., wastewater treatment) and social services (e.g., vocational training) to accommodate rapid urbanization and achieve sustainable urban development.</p> <p>Improve municipal and town governments' capacity in project preparation (e.g., through technical and economic viability and safeguard assurance), project administration and procurement, financial management and accounting standards, institutional reform (e.g., corporatization and strengthened governance of wastewater management companies), and project financing (e.g., build-operate-transfer and utility-revenue bonds).</p>	<p>Provision of basic urban infrastructure and social services meets demand. Wastewater treatment ratio in all cities reaches 70% and domestic solid waste treatment ratio reaches 60%. Urban employment increases by 45 million and urban unemployment rate controlled within 5%.</p> <p>Municipal and town governments' institutional and financing capacity improved, including implementing public-private partnerships.</p> <p>Water and wastewater companies corporatized with improved management and governance capacity.</p>	<p>Increased urban infrastructure capacity, improved water quality, reduced waterborne communicable disease incidence, increased satisfaction with government environmental and infrastructure projects, and reduced urban poverty ratios.</p> <p>Government officials and project staff trained, increased number of corporatizations of utility companies, and improved efficiency in operation and maintenance (e.g., reduced staff-served population ratio).</p>	<p>Lending programs in water supply, wastewater management, flood control, solid waste management, urban transport, and other urban development activities expected to deliver 8–10 loans with a total investment of \$1.6 billion to \$2.0 billion.</p> <p>Nonlending programs in tariff reforms, market-based environmental protection mechanisms, vocational education, waste management in small towns, and integrated urban transport expected to deliver 6–8 TA reports. Knowledge products based on TA findings and policy notes expected to have direct impact on Government policy making.</p>	Urbanization is an irreversible trend in the PRC and the Government has recognized the importance of sustainable development, so the risk in urban subsector operations is relatively low, except that the Government may change its development strategy by significantly reducing sovereign foreign exchange borrowing.

ADB = Asian Development Bank, CPS = country partnership strategy, FYP = five-year plan, PRC = People's Republic of China, TA = technical assistance.
Source: Asian Development Bank..

2. Private Sector Development

a. Key Issues

108. The private sector now accounts for well over 70% of the PRC's GDP. Government policies recognize the contribution that the private sector can make to the economy, especially in terms of employment generation.

109. The Government has in recent years increased its commitment to a larger role for the private sector and market forces in the PRC economy. An impressive succession of specific new laws and reforms aimed at improving the overall business environment has followed, especially in the financial sector. In the past few years the Government has (i) passed an important revision to the Company Law that makes it significantly easier to start new businesses, (ii) passed the landmark Property Law that enshrines the protection of private property and also created the legal basis for the use of movable assets (e.g. receivables and inventory) as collateral for bank loans—potentially of massive benefit to PRC's small businesses, (iii) pushed forward breakthrough reforms in the country's public equity markets that have made it easier and more attractive for private firms to list, (iv) begun to put in place the building blocks for a domestic private equity industry (such as the revised Partnerships Law, and the promotion of institutional investor support for domestic private equity and venture capital funds), and (v) promulgated new measures supporting financial leasing.

110. While significant progress has been made in the business environment, there is still room for substantial improvement. Key areas under development are (i) access to finance; (ii) credit and payment systems, necessary for conducting business, pursuing claims, and obtaining receivable-based finance; (iii) third-party equity finance by private equity and venture capital; (iv) encouraging banks to establish SME-lending units; (v) reducing barriers to establishing companies; (vi) reducing local protectionism; (vii) lowering tax rates and improving tax administration; and (viii) improving the effectiveness of the court system.

b. Government's Policy and Planning Framework

111. Public ownership is to be preserved in some strategic areas, such as in natural monopoly industries, the finance sector, and infrastructure. The Government has shown clear commitment to private sector development through a series of reforms designed to gradually transform the PRC into a sustainable market economy. Efforts are being made to establish an environment where different types of ownership coexist and compete on an equal footing and reinforce each other. The Ministry of Finance recently published the Implementing Regulations of the Enterprises Income Tax Law, which provides for preferential policies for private enterprises if they invest in infrastructure and environmental protection projects. The regulations clearly signal the Government's intent to encourage private sector participation in infrastructure.

c. Government's Institutional Arrangements and Capacity

112. Since the general issues facing the private sector cut across industry sectors, there is no single part of the Government exclusively responsible for private sector or business environment development. Notwithstanding this, important business legislation such as the new Company Law, the Property Law, and the revised Bankruptcy Law have been promulgated.

113. In the financial sector, a number of Government agencies have been given strong mandates to reform. Financial market regulators have also been active in carrying out their

responsibilities, and significant progress has been made in strengthening supervision. However, further reforms are needed to expedite financial market development. Inter-linkages across subsectors of the financial system require a coordinated approach to reform and coordinated actions of the regulators of each subsector to mitigate risks in the financial system.

114. The PRC's basic infrastructure has been built mainly by the Government or by state-owned enterprises. In the 1990s, the PRC experimented with reform aimed at allowing more private and foreign participation in basic infrastructure, which need to be further carried out. Power grid and generation, telecommunications, and shipping are likely to remain under Government influence; however, reforms are underway to improve competition and corporate governance. The private sector is allowed to enter "new" infrastructure areas such as water treatment, gas supply, solid waste management, and some forms of renewable energy. These subsectors are characterized by large underserved needs, relatively little entrenched state-owned competition, and Government openness to private and foreign involvement and investment.

115. Greater efforts are needed to promote the role of public-private partnerships in the future development of the PRC's infrastructure. Further changes in the legal and regulatory framework will be necessary to facilitate private investment in infrastructure.

d. ADB Private Sector Development Experience

116. ADB has provided assistance to promote private sector development in the PRC in a framework with three strategic objectives: (i) to help establish an enabling environment for the private sector; (ii) to generate business opportunities in which the private sector can participate; and (iii) to catalyze private investments by mobilizing additional resources through direct financing, credit enhancements, and risk mitigation instruments. The first two objectives have been pursued through ADB's public sector window, mainly with TA operations and loans to help address infrastructure constraints. The third has been addressed through ADB's private sector window, the Private Sector Operations Department (PSOD).

117. **Public Sector Window.** ADB's interventions are mainly through policy advisory TA designed in response to emerging needs in private sector development to (i) address the private sector's lack of access to finance, particularly for SMEs; (ii) focus on specific constraints to broader participation by the private sector in sectors previously dominated by the state; and (iii) respond to emerging challenges of supporting the rule of law. Indirectly, ADB's work programs in finance, trade, governance, and regional cooperation have contributed to the Government's efforts to establish an environment conducive for private sector development. ADB's policy advisory work has also generated potential work for PSOD, notably in the financial sector. Given ADB's resource constraints and the PRC's size, ADB is necessarily very selective in identifying appropriate TA topics and issues to respond to the critical needs of private sector development.

118. **Private Sector Window.** PSOD has focused on addressing the private sector's lack of access to finance. Through PSOD, ADB approved 20 private sector projects in the PRC from 1988 to 2007, accounting for a net cumulative business volume of \$1,290 million (loans totaling \$347.2 million and equity \$389.3 million), \$107 million in guarantees, and mobilized commercial cofinancing of \$446.5 million. PSOD has catalyzed mobilization of private capital primarily for two sectors—infrastructure, and finance and capital markets—in accordance with ADB private sector operations policy. In infrastructure, the focus has been on energy, water supply, and

wastewater treatment. In finance and capital markets, PSOD assists private financial intermediaries in banking and private equity funds.

119. Key lessons from ADB's PSOD investment experience include the need for special attention to be paid to (i) understanding the specific value addition of ADB's transactions vis-à-vis local financial institutions, and (ii) harnessing synergies with policy dialogue. Improvement of corporate governance of ADB's clients also remains an important consideration.

120. In addition, the overall development impact of ADB's private sector portfolio has been diminished due to missed investment opportunities.²⁶ ADB must significantly increase its project origination, strengthen its presence in inland regions, and work more closely with the PRC authorities, in particular in the context of public-private partnership projects and in CPS formulation.

e. Role of Other Development Partners in Private Sector Development

121. Three other development agencies are actively involved in financing the private sector in the PRC: Deutsche Investitions- und Entwicklungsgesellschaft (DEG) of Germany, Financieringsmaatschappij voor Ontwikkelingslanden N.V. (FMO) of the Netherlands, and IFC. The main agencies involved in private sector development are AusAID, DFID, IFC, the Swiss Government, and the World Bank. Communication between the development agencies is good with regard to private sector development activities in the PRC, with some instances of cooperation, such as on IFC's private enterprise partnership.

122. DEG and FMO have been financing private sector projects in the PRC for over 15 years and have extensive portfolios and experience across a broad variety of sectors and ownership groups. For both, the PRC is their largest portfolio country. By all indications, they plan on maintaining a strong pipeline of PRC projects. Neither DEG nor FMO have cofinanced any projects with ADB in the PRC. DEG and FMO also provide TA at the project level.

123. IFC is the most active development agency in the PRC's private sector, with 20 or more transactions in fiscal years 2004 to 2006. In FY2006, IFC committed almost \$639 million to PRC projects. It supports the private sector across various sectors, including banks, forestry, manufacturing, and services. The World Bank's private sector department maintains an active program of advisory projects for the Government. In recent years, it has focused, in coordination with IFC, on investment climate studies. It has undertaken several nationwide surveys of investment climate at the municipal level.

124. DFID has undertaken a large number of private sector development projects in the PRC, including its state-owned enterprise reform and enterprise development project conducted in Sichuan and Liaoning, the "start and improve your business" project, and the SME support system project. DFID was also a major contributor to the private enterprise project managed by IFC.

f. Intended Outcomes and Key Outputs Supported by ADB

125. The country assistance performance evaluation for the PRC recommended that ADB increase private sector operations. Another evaluation study of ADB-wide private sector

²⁶ ADB. 2007. *Country Assistance Program Evaluation for the People's Republic of China: Success Drives Demand for More Innovative and Responsive Services*. Manila.

operations recommended better synergy between public and private sector windows to achieve better development impact.

126. Private Sector Development. ADB will continue its efforts to build a conducive environment for private sector development through its public sector operations. It will help build public–private partnerships for financing infrastructure, support SME development, support finance sector reforms, help provide the infrastructure and public services needed to enable private sector investment, and support expanded roles by other nongovernment actors. To achieve these outcomes, ADB’s public sector operations will work with central and local government and domestic financial institutions to promote public and private partnerships for investments in the less developed interior provinces.

127. Private Sector Operations. PSOD will continue to address the lack of access to finance and will support projects with high development and demonstration impacts. PSOD will focus on areas where ADB has strengths and which are relevant to the Government’s policy, and will explore projects which maximize synergy with ADB’s public sector operations. PSOD will capture new opportunities to be involved in private sector financing of infrastructure projects and help develop financial solutions with innovative contractual and financial structuring to encourage private sector participation, enhance management expertise, and improve corporate governance. ADB will facilitate and help promote reliable, effective, and efficient energy, transport, and municipal environmental infrastructure services in order to support sustainable development in the PRC through private sector participation. ADB will promote private sector development and private–public partnerships by assisting technology and management transfer to local entities currently owned by the public sector through acquisition, rehabilitation, or expansion projects.

128. ADB will also seek to facilitate private sector growth and development through the expansion and strengthening of the PRC’s finance sector. PSOD continues to help strengthen banks and other financial institutions to mobilize resources and manage risk. Through equity infusions and loan issuances to selected financial institutions, PSOD will promote financial sector development and institutional reform (corporate governance, internal control, and environmental sustainability). Furthermore, ADB will support the growth of the SME market by providing assistance to financial intermediaries that target SME clients. To this end, PSOD is actively exploring new financial products and mechanisms that will expand the flexibility and availability of financing options for SMEs. As an additional means to provide financial assistance to the private sector, PSOD invests in private equity funds on a selective basis.

g. Links to CPS Outcomes and Other Themes

129. ADB’s private and public sector operations will complement each other in supporting the PRC’s 11th FYP through lending and TA that enhances the environment for private sector development, by promoting public–private partnerships in infrastructure finance and helping to strengthen the finance sector.

h. Indicative Areas for Interventions

i. Private Sector Development

130. ADB’s role in improving the overall policy environment for private sector development must necessarily be selective given limited TA resources. It is proposed that policy areas of support be closely aligned to ADB’s priority sectors in both public and private sector operations.

ADB will assist public sector clients to (i) define the appropriate role for the private sector in delivering basic and urban infrastructure services and social services; (ii) clarify and strengthen the necessary policy, legal, and regulatory environment to enable private sector participation, including through a range of public–private partnership modalities; (iii) improve their financing arrangements to enable them to fund public investment programs on an efficient and sustainable basis; (iv) improve access to finance in rural areas through support of the restructuring of publicly owned lending institutions, including those engaged in microfinance; and (v) help financial sector regulators to strengthen capacity to ensure financial market stability. ADB will also assist the policy makers in facilitating the role of the private sector in the delivery of infrastructure services, and in capital market development.

ii. Private Sector Operations

131. **Infrastructure.** Infrastructure investment will focus on (i) supporting clean energy, municipal environmental infrastructure, and transport, using concession mechanisms and public–private partnership structures; and (ii) attracting government finance, cofinancing, and private sector finance. With the strengthening of the energy efficiency regulatory framework, a range of investment opportunities will be actively pursued, targeting significant improvement in energy efficiency and infrastructure modernization. ADB will seek to improve energy efficiency wherever possible through its projects and policy dialogue with innovative approaches. ADB will be open, accessible, and flexible so it can support investment opportunities in all regions of the PRC. In accordance with the priorities expressed by the PRC, ADB will increase its efforts to cluster projects in the central and west and the northeast regions, and in any other region where development can be furthered. ADB will promote privatization and private–public partnerships by investing in equity and will assist the improvement of corporate governance in local entities through acquisition, rehabilitation, or expansion projects.

132. **Finance Sector and Capital Market Development.** ADB plans to broaden the impact of its operations by expanding its focus to financial institutions and regions not currently targeted by international investors and banks. This will include equity infusions and loan issuances to city commercial banks and other financial institutions in inland regions and cities, to expand the geographic reach of the private sector in the PRC. Based on its experience in the banking sectors of larger coastal regions, ADB will seek to acquire equity or issue loans to other types of financial institutions such as credit cooperatives, brokerages, insurance companies, and financial leasing firms. This will help to strengthen corporate governance at the institutional level and develop the PRC's nonbanking financial sectors. Securitization, nonperforming loan resolution, municipal finance, and trade finance are new areas that are also being explored.

133. **Financial Instruments.** To achieve these objectives, ADB will widen the range of financial instruments used, such as the partial credit guarantee and an expansion of ADB's local currency funding in the PRC bond market. ADB will innovate by setting up its credit enhancement instruments to support development in new segments such as the corporate bond market and small and medium-sized projects in targeted areas. ADB will increase use of the equity instrument in all targeted areas to enhance corporate governance and institution-building.

i. Monitoring Mechanism

134. **Private Sector Development.** Private sector activity is likely to increase as systemic constraints on the sector are addressed. Monitoring the extent to which the constraints have been eased will focus on improvements in the private sector enabling environment, improved access to finance, greater market competition, reduction in excessive regulation and

government intervention, improved market entry, and simplification of procedures for setting up new businesses.

135. **Private Sector Operations.** PSOD works to bring to fruition projects with high development impact. Thus, the evaluation of the sector road map will be based on the number and quality of projects implemented. The quality of projects depends on how each project scores against each of the following key development indicators: (i) fulfillment of project objectives; (ii) transfer and dispersal of skills; (iii) demonstration effects—transfer of new behaviors and activities; (iv) setting of standards for corporate governance and business conduct; (v) project and company financial performance; and (vi) reduction of emissions, including GHGs. Table A4.6 provides the results framework.

Table A4.6: Private Sector Development Results Framework

Relevant CPS Outcomes		Theme-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Theme	Key Opportunities and Constraints	Theme Outcomes and Key Theme Outputs	Theme Milestone/ Tracking Indicators/Interim Indicators		
<p>Inclusive growth and balanced development.</p> <p>Improved environment for private sector development.</p>	<p>Strengthening synergies between private and public sector operations of ADB.</p>	<p>Promoting public–private partnerships in infrastructure finance.</p> <p>Strengthening the finance sector.</p>	<p>Private sector development monitoring indicators for</p> <ul style="list-style-type: none"> • facilitating access to finance; • encouraging market competition; • reducing excessive regulation and government intervention; • easing market entry; and • simplifying procedures for setting-up new businesses. 	<p>Advisory technical assistance to:</p> <ul style="list-style-type: none"> • address lack of access to finance issues of the private sector, particularly SMEs; • focus on specific constraints to broader participation by the private sector in sectors previously monopolized by the state; and • support the rule of law. <p>Indirectly, ADB’s work programs in finance, trade and governance, and regional cooperation will also contribute to establishing a conducive environment for private sector development.</p>	<p>Risks</p> <ul style="list-style-type: none"> • Insufficient capacity. • Weak corporate governance. <p>Management measures</p> <ul style="list-style-type: none"> • Capacity development • Strengthening policy framework and regulations. • Support for improved corporate governance mechanism.

Relevant CPS Outcomes		Theme-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Theme	Key Opportunities and Constraints	Theme Outcomes and Key Theme Outputs	Theme Milestone/ Tracking Indicators/Interim Indicators		
Catalyze efficient investment and strengthen corporate governance for the private sector.	<p>ADB must significantly increase project origination efforts, strengthen its presence in the regions, and work more closely with the PRC authorities.</p> <p>Equipping the resident mission with skills, and matching responsibility and accountability.</p>	<p>Support for investment opportunities in all PRC regions, in accordance with the priorities expressed by the PRC authorities.</p> <p>Expanded focus to financial institutions and regions not currently targeted by international investors and banks.</p>	<p>ADB investment with high development impacts, judged by the number and the quality of projects.</p> <p>Key areas to be measured against fulfillment of project objectives:</p> <ul style="list-style-type: none"> • Skills: transfer and dispersal of skills. • Demonstration effects: transfer of new behaviors and activities. • Standards: setting standards for corporate governance and business conduct. • Financial performance: project performance and company performance. • Environmental performance: reduction of emissions, including greenhouse gases. 	<p>ADB's policy advisory work will also generate potential deal flows for PSOD, notably in the finance sector.</p> <p>Investments in clean energy, municipal environmental infrastructure, and transport using concession mechanisms and public-private partnership structures.</p> <p>Equity infusions and loan issuances to city commercial banks and rural credit cooperatives in inland regions and cities, brokerages, insurance companies, and financial leasing firms.</p>	<p>Risk</p> <ul style="list-style-type: none"> • Lack of predictability of individual investments. <p>Management measures</p> <ul style="list-style-type: none"> • Understanding the specific value added by ADB's transactions vis-à-vis local institutions. • Harnessing synergies with policy dialogue • Improved corporate governance of ADB's clients.

ADB = Asian Development Bank, PRC = People's Republic of China, PSOD = Private Sector Operations Department, SME = small and/or medium-sized enterprise.

Source: Asian Development Bank.

3. Governance

a. Key Issues

136. Governance issues in the PRC are complex. ADB's main opportunity to influence standards arises in sectors in which it has projects. Interventions aimed at fostering good governance are mainstreamed into all ADB operations. In accordance with the second governance and anticorruption plan²⁷ (July 2006), procurement, financial management, and anticorruption activities are to be assessed within the framework of ADB-financed projects. Because of the ready availability of published studies surveying governance issues as a whole,²⁸ the need for governance reform has been examined in two key areas in which ADB is closely involved—wastewater management and railways.

i. Developing Urban Areas: Wastewater Management

137. ADB urban development loans in the PRC have generally been well implemented, drawing from the experience gained in carrying out sanitation and wastewater management projects in the past decade.

138. Procurement under ADB financing has been carried out generally satisfactorily. While there have been no serious deviations from the guidelines and ADB procedures, in some cases the procedures have not been strictly followed. As implementation of wastewater projects becomes further decentralized, projects are likely to comprise a number of smaller subprojects implemented by agencies unfamiliar with ADB's procurement guidelines. In some cases, bids are much lower than the engineer's estimate and are often rejected by executing agencies. ADB guidelines do not permit rejection of a bid on such grounds. To resolve this issue, ADB has permitted, as an interim measure, a higher performance guarantee if the winning bid price turns out to be 10% lower than the engineer's estimate. This temporary solution is not sustainable; the current problems relate directly to the pace of state-owned enterprise reform and transition to a free market economy.

139. Water utility companies will be expected to be entirely responsible for their own financing needs. To access the capital markets, utilities will be required to have management capacity, an organization structure, and corporate governance arrangements that are in line with the best international practices. Internal control policies and procedures are generally in place in most executing agencies, but the implementation of controls and policies varies significantly. The lack or weakness of internal controls systems makes safeguarding against abuse, misuse, fraud, and irregularities very complicated.

140. Internal auditing remains a weak link within the executing agencies' expenditure management. Some agencies have an internal audit department, while others are covered by the internal audit department of their parent entity. However, most internal audit units are under the direct authority of the executive branch—compromising their independence—and the focus is largely on compliance audits. Internal audit units are inadequately staffed and do not have sufficient capacity to conduct financial or performance-based audits.

²⁷ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAPII)*. Manila.

²⁸ Organisation for Economic Co-operation and Development (OECD). 2006. *Governance in China*. Paris.

141. Inaccurate and incomplete recording of transactions due to technical weaknesses or disregard for accuracy and comprehensiveness can obscure fraudulent activity, impede auditing, and restrict management control and oversight.

ii. Transport and Communications: Railways

142. Externally funded railway projects are generally managed by MOR's Foreign Capital Technical Import Center (FCTIC). Because of its long experience (over 27 years) in project implementation, FCTIC has generally been able to implement the projects to a high standard, within or close to estimated cost, and within or ahead of schedule. For ongoing ADB-financed projects, all procurement and loan disbursement functions are centrally handled by FCTIC.

143. MOR's auditing center is an autonomous internal unit under the leadership of a vice minister. It is independent from MOR's financial management functions and therefore impartial. It is required to conduct internal audits of all construction projects every year. While the auditing center is independent and well staffed, it currently undertakes only compliance- and performance-based internal audits. Audited financial statements have been submitted in a timely manner and were generally found acceptable but there is scope for improvement in the statements' quality.

144. FCTIC has an established system of internal controls that includes formal, recorded transaction approvals, authorizations, verifications, reconciliation, review of performance, segregation of duties, information system controls, and functional check and balance mechanisms. ADB's Anticorruption Policy is explained in detail and the provisions of fraud and corruption in the procurement guidelines are highlighted during loan processing. All ADB-financed railways projects include detailed anticorruption clauses in the bidding documents. The Integrity Division of ADB's Office of the Auditor General has received only one complaint pertaining to this subsector. The complaint has been closed as it did not involve ADB-financed activity.

b. Government's Policy and Planning Framework

145. The PRC Government has consistently demonstrated its commitment to improve institutional capacity, transparency, accountability, and efficiency during the past two decades by adopting a deliberate path toward a market-based economy and fiscal decentralization. Nonetheless, as the economy continues to modernize, urbanization increases, and the PRC follows through on its concept of *xiao kang*,²⁹ the Government faces capacity constraints to fulfilling the demands of its people. The response of subnational governments charged with providing the bulk of the services to meet the demands of the population will be critical for the success of *xiao kang*.

146. The Government has been steadily increasing the importance it places on improving governance and combating corruption. Since 2001, the National Audit Office of the People's Republic of China (the Audit Office) has published annual reports on the implementation of the central budget, and from 2004 it has started posting audit reports for some of its projects on its English language website. The ministries of finance and commerce supervise a bilingual website, which is the official website for the procurement of electronic equipment and machinery by international competitive bidding, the sole online platform for government supervision of such bidding, and the platform for communication between government agencies and the bidding

²⁹ Refers to an all around well-off society.

participants. The Government is establishing a national integrity system that places equal importance on prevention and punishment. The implementation of the integrity system is to be completed by 2010. In 2005, the PRC joined the ADB Organisation for Economic Co-operation and Development (OECD) Anti-Corruption Initiative for the Asia-Pacific.

147. The Government has consistently worked at improving its approach to combating corruption in the transport sector and has established comprehensive anticorruption legislation and regulatory systems. However, the many rules and regulations have inconsistencies, both internally and with other relevant legislation, possibly leaving leeway for law enforcers to interpret what constitutes corrupt behavior.

c. Government's Institutional Arrangements and Capacity

148. The PRC's very strong record indicates that systemic governance concerns do not pose a significant risk to development outcomes and goals. During recent years the Government has given growing importance to improving governance and combating corruption. Significant efforts have been made to improve the Government's capacity to serve the people and increase transparency and accountability.³⁰

149. Procurement is governed by two laws—the Tendering and Bidding Law, effective January 2000, which governs public sector procurement; and the Government Procurement Law, effective from January 2003. Some articles in the two laws are in conflict. To ensure clarity and transparency, the Government is being encouraged to consolidate the two laws. The Government Procurement Law regulates when and what type of intermediaries should be used. For certain types of contracts, procuring agencies must use institutions for centralized government procurement as intermediaries for dealing with suppliers. For the remaining types of contracts, a procuring agency has the option to use such an institution.

150. Progress in public financial management is shown by the enactment of the Accounting Law in 1985 and the Audit Law in 1995, and by promulgation of international accounting standards in 1992, updated in 2001 and 2006, to bring the PRC accounting and financial reporting environment in compliance with International Financial Reporting Standards by January 2007. The diagnostic study of accounting and auditing arrangements in the PRC conducted by ADB in 2000 and updated in 2004³¹ noted the acute shortage of trained accountants in the PRC and found the accounting profession to be confronted with many complex issues that include training, independence, and legal liability. The China Institute of Internal Auditors has issued basic internal audit standards, a professional ethics code, and 15 specific standards. Most government departments have established internal audit units and some enterprises have established internal audit committees or their equivalent. The National Audit Office is responsible for leading, developing, and supervising the auditing profession.

151. To improve its anticorruption strategy and enforcement of sanctions the Government has enhanced the role of specialized law enforcement bodies like the People's Procuratorate and

³⁰ Since 2001, the National Audit Office of the People's Republic of China (the Audit Office) has published annual reports on the implementation of the central budget. From 2004, the Audit Office has also started posting audit reports for some of the projects on its English language website.

³¹ Narasimhan, R., Francis B. Narayan, and Fan Yonghui. 2005. *Diagnostic Study of Accounting and Auditing Arrangements in the People's Republic of China*. Manila: ADB. The report was prepared and updated under two regional TAs—ADB. 1999. *Strengthening Financial Management and Governance in Selected Developing Member Countries*. Manila (TA 5877); and ADB. 2004. *Capacity Building of Executing Agencies for Financial Management of Projects in East and Central Asia*. Manila (TA 6122).

the Ministry of Supervision and has increasingly engaged in international cooperation. The PRC is a signatory to the United Nations Convention against Corruption and has taken specific measures such as promulgating new laws and amending laws to comply with the convention. In 2005, the PRC joined the ADB–OECD Anti-Corruption Initiative for Asia-Pacific and has committed to implement the Anti-Corruption Action Plan for the Asia-Pacific. The PRC has also promulgated an anti-money laundering law to constrain corruption and restrain and return proceeds from ill-gotten gains.

d. ADB Governance Experience

152. ADB's experience with country performance at the project level has been highly satisfactory. However, capacity development is very important as ADB-financed projects are increasingly moving to the poorer western provinces and regions where the problems of weak financial management, institutional capacity, and corporate governance are more acute. One area to be emphasized is enforcement and supervision at the local government level, which is weak especially in small cities, counties, and towns, particularly in the less developed western region.

153. ADB has provided substantial support for capacity development through TA operations and loans, especially to develop subnational government capacity; this will continue under the new CPS. Many ADB-financed loan and TA projects have contributed directly to improving governance in the urban water and sanitation subsector by improving the efficiency of markets, largely by promoting commercialization, improving regulatory regimes and transparency in policies, and improving sector and corporate governance.³² Many of the projects in the railways subsector are improving the functioning of markets by promoting connectivity and separation of the provision of services from regulatory responsibilities.³³ As in the past, lessons learned and international best practices identified from implementation of ADB-financed projects and other international financial institutions can be replicated by the Government and can contribute to the overall improvement in governance and sustainability in the long term.

e. Role of Other Development Partners in Governance

154. In 2003, the OECD initiated a project on governance issues that over time has evolved into a capacity development program. DFID governance projects are sector-specific and have been focused primarily on governance issues in the natural resources subsector. Governance programs of the European Union have been focused on financial sector issues and those of GTZ on social security. FMO, IFC, and KfW have been focusing their assistance on corporate governance issues. AusAID and the Canadian International Development Agency (CIDA) also have sizable governance programs, focusing on agriculture and social sectors as well as grassroots organizations and NGOs.

f. Intended Outcomes and Key Outputs Supported by ADB

155. The governance arrangements for utilities should be structured to ensure the transition from a government system of stewardship to the enterprise company model of stewardship. A sound management and corporate governance structure for joint venture railways incorporating

³² Black and Veatch. 2006. *Advisory Technical Assistance Report on Capacity Building for Newly Integrated Water Utility Bond Issuer; Nanjing Water Utility, Long-Term Capital Finance in Commercial Markets*.

³³ Setting up dedicated passenger corridors with a separate institutional structure is a key ADB feature. ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Zhengzhou–Xi'an Railway Project*. Manila.

international best practices should be adopted. ADB should assist the Audit Office to build its capacity to conduct performance-based audits. To increase transparency, ADB may consider initiating dialogue with the Government to post or provide a link to audit reports for ADB-financed projects on the Audit Office's English website.

i. Developing Urban Areas: Wastewater Management

156. A generic procurement manual or reference for wastewater projects should be developed to reduce delay and minimize errors in procurement. Executing agencies and provincial and local governments need to establish a performance evaluation system to monitor and record contractors' performance. The system could be used to disqualify contractors that perform poorly from participating in similar contractors in the future. Moreover, executing agencies could advise ADB in writing of poorly performing contractors so that ADB can support the rejection of these contractors' bids on future activities. ADB could also help prepare sample formats for bid evaluation reports.

157. Strengthening the implementation of internal control systems is imperative to ensure integrity. Activities to assist the Audit Office in its monitoring and oversight efforts with regard to effectiveness, corruption, waste, and misuse should focus on (i) providing training to improve the capacity of the audit staff, (ii) encourage executing agencies to improve internal auditing and increasing the authority of the internal audit staff, (iii) help auditing agencies to strengthen follow-up procedures for audit recommendations, and (iv) improving the timeliness and regularity of accounts reconciliation.

158. ADB will initiate dialogue with the Government to help the Ministry of Supervision compile and publish disaggregated data for convictions on corruption in this subsector.

ii. Transport and Communications: Railways

159. ADB will support MOR to adopt e-procurement for its project needs.

160. ADB will assist in the design of a tailored institutional capacity development program for improving financial management capacity of the new joint venture railways.

161. In line with the modern objectives of internal auditing, capacity development assistance may be provided to MOR's auditing center to enhance the scope of its functions to include risk assessment so that it can contribute more effectively to improving MOR's performance

162. ADB may initiate dialogue with the Government to compile and publish disaggregated data on convictions for corruption in the railways subsector.

g. Links to CPS Outcomes and Other Themes

163. Poor governance, weak organizational capacity, and corruption can deter investments and retard growth. Thus, strengthening governance will be a core theme in all ADB's work. ADB will work to assist implementing agencies of ADB-financed projects to be models of corporate governance, and to promote the models throughout the PRC. ADB will bring added knowledge and innovation into all its operations, and will work with the PRC's systems to transfer knowledge and build capacity.

h. Indicative Areas for Interventions

164. The Government considers ADB to be a “knowledge bank” and looks on it to provide TA and expertise to ensure sound inclusive development. Thus, ADB will appraise the performance of its projects to identify capacity constraints, improve efficiency and make changes needed to ADB procedures, share best practices, and identify training needs to improve the performance of the portfolio. The recommendations and suggestions that emanate from this review and ensuing workshop will enable ADB to continue to provide the expertise and assistance to contribute more effectively to country-led development.

165. **Wastewater.** Priority areas for ADB assistance include strengthening the institutional capacity of wastewater management companies, particularly for financial management, improved accountability, and increased transparency, by

- (i) helping to design an institutional capacity development program incorporating the best international practices for wastewater management companies;
- (ii) assisting the Ministry of Finance or the Comptroller to prepare a harmonized manual for financial management and accounting practices for wastewater management companies;
- (iii) continuing dialogue with the Government to improve standards of corporate governance for wastewater management companies;
- (iv) preparing a procurement reference for wastewater management companies;
- (v) preparing sample formats for bid evaluation reports;
- (vi) developing a procurement planning and monitoring mechanism;
- (vii) initiating dialogue with the Government on the compilation and publication of disaggregated data for convictions on corruption in this subsector;
- (viii) assisting the Audit Office to build capacity to enhance the scope of its audit to include performance-based audit; and
- (ix) initiating dialogue with the Government to post or provide links to audit reports of ADB-financed projects on the Audit Office's English website.

166. **Railways.** Priority areas of ADB assistance include strengthening institutional capacity for joint venture railways, improving financial management and accounting practices of project railways, and building capacity to widen the scope of internal audit to include risk analysis, by

- (i) undertaking a diagnostic study to assist MOR with continuing reform and corporate governance structure for joint venture railways, incorporating international best practices;
- (ii) designing an institutional capacity development program for improving financial management capacity of the new joint venture railways;
- (iii) assisting MOR's auditing center to improve the scope of its internal audit to incorporate risk analysis;
- (iv) assisting the Audit Office to build capacity to conduct performance-based audits;
- (v) initiating dialogue with the Government to compile and publish disaggregated data on convictions for corruption in the railways subsector;
- (vi) initiating dialogue with the Government to post or provide a link to audit reports for ADB-financed projects on the Audit Office English website; and
- (vii) initiating dialogue with MOR for the use of e-procurement for advanced railway equipment and technology for ADB-financed projects.

i. Monitoring Mechanism

167. A set of concrete measurable indicators will be in place to ensure that ADB assistance effectively improves the performance and accountability of public procurement, financial management, and anticorruption measures. In the wastewater subsector, ADB will concentrate on institutional capacity development for wastewater management companies, including financial management, improving accountability, and increasing transparency, specifically to ensure the wastewater companies adopt, in accordance with the best international practices, (i) a harmonized manual for financial management and accounting, (ii) the best practices of corporate governance, (iii) a procurement reference guide, (iv) high quality sample formats for bid evaluation reports, and (v) a procurement planning and monitoring mechanism.

168. In the railways subsector, measurable indicators will be applied to activities in areas of institutional capacity development, financial management, and internal audit in accordance with the best international practices. Measures will be adopted to ensure successful (i) continuation of reforms and implementation of corporate governance structures for joint venture railways, (ii) implementation of an institutional capacity development program for improving financial management capacity of the new joint venture railways, (iii) risk analysis as part of the expanded scope of internal audit of MOR, and (iv) use of e-procurement for acquiring advanced railway equipment and technology for ADB-financed projects.

169. For both wastewater and railways subsectors, ADB will need to ensure the Audit Office has the capacity to gradually enhance the scope of its audit to include performance-based audit and make available audit reports of ADB-financed projects on the Audit Office's English website. ADB will work with the Ministry of Supervision to ensure successful compilation and publication of disaggregated data for convictions on corruption in wastewater and railways subsectors.

170. The measures identified in the two subsectors are indicative of the types of governance reforms that will be initiated with ADB support. ADB remains committed to mainstreaming good governance practices in all of the sectors in which it operates. Thus, ADB will review governance practices in the other sectors and subsectors and will include capacity development measures oriented to good governance in all of the sectors in which it operates. Table A4.7 provides the results framework.

Table A4.7: Governance Results Framework

Relevant CPS Outcomes		Theme-Level Outputs		ADB Assistance	Risks
CPS Outcomes Relevant to the Theme	Key Opportunities and Constraints	Theme Outcomes and Key Theme Outputs	Theme Milestone/ Tracking Indicators/Interim Indicators		
<p>Improving governance and preventing corruption—a strategic priority of ADB's Medium-Term Strategy II.</p> <p>Implementing agencies of ADB-financed projects turned into models of corporate governance, and promotion of the models throughout the PRC.</p> <p>Knowledge and innovation built into all ADB operations; knowledge transferred to and capacity built into PRC systems.</p>	<p>A "national integrity system" being developed puts equal emphasis on prevention and punishment.</p> <p>Oversight bodies such as the Ministry of Supervision and the Supreme People's Procuratorate are being strengthened.</p> <p>ADB will push for stronger corporate governance in ADB-financed projects.</p>	<p>International common practice in ADB-financed projects regarding</p> <ul style="list-style-type: none"> • corporate governance, • financial management, • procurement, and • anticorruption in ADB financed projects. 	<p>In the wastewater subsector:</p> <ul style="list-style-type: none"> • a harmonized manual for financial management and accounting, • a procurement reference guide, • quality sample formats for bid evaluation reports, and • a procurement planning and monitoring mechanism. <p>In the railways subsector:</p> <ul style="list-style-type: none"> • "second generation" of reforms and corporate governance structure for joint venture railways, • risk analysis as part of the expanded scope of internal audit of MOR, • use of e-procurement for advanced railway equipment and technology for ADB-financed projects, and • compilation and publication of disaggregated data for convictions on corruption in the subsector. 	<p>ADB-provided support for capacity development through TA operations and loans, especially to develop subnational government capacity, will continue.</p> <p>The priority areas will be for</p> <ul style="list-style-type: none"> • wastewater—strengthening institutional capacity for financial management, improving accountability, and increasing transparency; and • railways—strengthening institutional capacity for joint venture railways, improving financial management and accounting practices of project railways, and building capacity to widen the scope of internal audit to include risk analysis. 	<p>Resistance from implementing agencies due to lack of experience with and appreciation for international standards of corporate governance.</p>

ADB = Asian Development Bank, MOR = Ministry of Railways, PRC = People's Republic of China, TA = technical assistance.

Source: Asian Development Bank.

COUNTRY COST-SHARING ARRANGEMENTS AND OTHER FINANCING PARAMETERS

Table A5: The Financing Parameters for the People's Republic of China

Item	Parameter	Remarks / Explanation
Country Cost-Sharing Ceiling for Loans (2008–2010)	Up to 99%	The PRC Government has requested maximum flexibility in financing public sector loans. A review of the PRC's fiscal and economic context shows that ADB can support such a request. ADB may finance up to 99% of all allowed costs. Actual financing per project will be determined by project-specific considerations. For infrastructure projects, significant counterpart funding by provincial/municipal governments is expected to continue and the ADB-financed proportion would likely be modest. For rural development, and environmental conservation/ecosystem management projects, the ADB financing proportion will generally be higher than for infrastructure projects.
Country Cost-Sharing Ceiling for TA and other Grants (2008–2010)	Up to 99%	ADB financing may go up to 99%. Current practice in the PRC is that ADB is expected to meet all of the consulting costs and other external inputs, while the Government provides in-kind support in the form of counterpart staff, office accommodation, and facilities. The Government does not normally make a separate budget (cash) contribution to TAs. Under a continuation of this arrangement, ADB would generally still finance no more than 80–85% of total TA costs. However, as the development agenda broadens to include local government reform and environmental conservation, the Government may need to rely more heavily on foreign expertise.
Cost-Sharing Ceiling for Specific Sectors	None	Sector-specific variations to the country ceiling have been discussed but are not favored by the Government. Generally, ADB's share of costs will be greater for projects with a strong rural development and environmental conservation/ecosystem management orientation, and lower for infrastructure investments where full cost recovery from project beneficiaries is feasible.
Recurrent Cost Financing Do any limits apply to the overall amount of recurrent expenditures that ADB may finance?	No country limit other than the cost-sharing ceilings	ADB will continue to monitor the fiscal situation and its implications for recurrent cost requirements. ADB financing of recurrent costs is expected to remain within a modest range throughout this CPS period. In determining ADB financing of recurrent costs in individual projects, ADB will take into account sustainability issues at the sector and project levels. The overall proportion of recurrent cost financing is expected to remain at modest levels. Continuing the existing policy, ADB will not finance in-kind support in the form of counterpart staff, office accommodations, or facilities. Other recurrent costs, including land acquisition expenses, will be eligible for ADB financing.
Taxes and Duties Are there any taxes and duties that ADB would not finance?	None	Taxes and duties are considered reasonable and nondiscriminatory. ADB may finance taxes and duties associated with project expenditures. At the project level, ADB would examine whether taxes and duties constitute an excessively high share of project costs.

ADB = Asian Development Bank, CPS = country partnership strategy, PRC = People's Republic of China, TA = technical assistance.

Source: Asian Development Bank.

INDICATIVE ROLLING COUNTRY OPERATIONS BUSINESS PLAN¹

Table A6.1: Indicative Assistance Pipeline for Lending Products, 2008–2010

Sector	Project/Program Name	Targeting Classification	Thematic Priority	Division	Year of PPTA	Total	Cost (\$ million)			
							ADB (OCR)	Gov't.	Cofinancing	
2008 Firm Loans										
Agriculture and Natural Resources										
	1	Dryland Sustainable Agriculture	GI	ECO	EAAE	2005	183.00	83.00	100.00	
	2	Shaanxi Qingling Biodiversity Conservation and Demonstration	GI	ECO	EAAE	2005		40.00		
	3	Ningxia Integrated Ecosystem and Agricultural Development	GI	ENV, SD	EAAE	2005	215.20	100.00	110.70	4.50
	4	Ecosystem and Environ. Protection of Baiyangdian Lake	GI	ECO	EAAE	2005		100.00		
	5	Guiyang Integrated Water Resources Management	GI	ENV, SD	EAAE	2005	300.00	150.00	150.00	
		Subtotal						473.00		
Energy										
	1	Inner Mongolia Energy Efficiency and Environment Improvement Project (Phase II)	GI	ENV	EAEN	2007		150.00		
	2	MFF-Energy Efficiency Improvement Project (Guangdong) (Tranche 1)	GI	ECO	EAEN	2006	105.00	35.00	70.00	
	3	MFF-Gansu Heihe Rural Hydropower Development (Proj. 2)	GI	ENV, ECO	EAEN	2006		28.00		
		Subtotal						213.00		
Transport and Communications										
	1	Central Yunnan Road Development	GI	ECO, RC	EATC	2006	576.00	200.00	72.00	304.00
	2	Chongqing–Lichuan Railway Development	GI	ECO	EATC	2005		150.00		
	3	Lanzhou–Chongqing Railway Development Project	GI	ECO	EATC	2006		300.00		
		Subtotal						650.00		
Water Supply, Sanitation, and Waste Management										
	1	Xinjiang Municipal Infrastructure and Environm Improvement	GI	ENV, SD	EASS/ EATC	2006	190.90	105.00	85.90	
	2	Gansu Baiyin Urban Development	GI	ECO, SD	EASS	2006	161.50	80.00	81.50	
	3	Songhua River Basin Water Pollution Treatment	GI	ENV, SD	EASS	2007		200.00		
		Subtotal						385.00		
Total 2008 Firm Loans								1721.00*		

¹ The Business Plan is subject to confirmation from the PRC's State Council.

Sector	Project/Program Name	Targeting Classification	Thematic Priority	Division	Year of PPTA	Total	Cost (\$ million)			
							ADB (OCR)	Gov't.	Cofinancing	
2008 Standby Loans										
Agriculture and Natural Resources										
	1	Shanxi Integrated Agricultural Development in Valley and Watershed Areas	GI	ECO	EAAE	2006	205.00	100.00	105.00	
	2	Qingdao Water Resources Management and Wetland Protection	GI	ENV	EAAE	2006	147.00	60.00	87.00	
		Subtotal						160.00		
Energy										
	1	MFF-Energy Efficiency Improvement Project (Guangdong) (Tranche 2)	GI	ENV, PSD	EAEN	2006		30.00		
	2	Energy Efficiency and Emission Reduction for Shandong (Tranche 1)	GI	ENV, PSD	EAEN	2008		50.00		
		Subtotal						80.00		
Water Supply, Sanitation, and Waste Management										
	1	Guangxi Wuzhou Urban Development	GI	ECO, ENV	EASS	2007		100.00		
		Subtotal						100.00		
		Total 2008 Loans (including standby)						2,061.00		

*Public sector lending in 2008 is programmed above the \$1.5 billion ceiling to allow for mid-term adjustments.

Sector	Project/Program Name	Targeting Classification	Thematic Priority	Division	Year of PPTA	Total	Cost (\$ million)			
							ADB (OCR)	Gov't.	Cofinancing	
2009 Firm Loans										
Agriculture and Natural Resources										
	1	Rural Energy and Ecosystem Rehabilitation (Phase II)	GI	ENV, ECO	EAAE	2007		100.00		
	2	Risk Mitigation and Strengthening of Endangered Reservoir	GI	ENV, SD	EAAE	2007	250.00	100.00	150.00	
	3	Silk Road Ecosystem Restoration (formerly Ecosystem Restoration in Three Northwest Provinces)	GI	ENV, ECO	EAAE	2007		100.00		
	4	Jiangsu Yancheng Wetland Protection	GI	ENV, SC	EAAE	2007		50.00		
	5	Shanxi Integrated Agricultural Development in Valley and Watershed Areas	GI	ENV, ECO	EAAE	2006	205.00	100.00	105.00	
	6	Qingdao Water Resources Management and Wetland Protection	GI	ENV, ECO	EAAE	2006	147.00	60.00	87.00	
		Subtotal						510.00		
Energy										
	1	MFF-Energy Efficiency Improvement Project (Guangdong) (Tranche 2)	GI	ENV, PSD	EAEN	2006		30.00		
	2	MFF-Energy Efficiency Improvement Project (Guangdong) (Tranche 3)	GI	ENV, PSD	EAEN	2006		35.00		
	3	Energy Efficiency and Emission Reduction for Shandong (MFF, Tranches 1 and 2)	GI	ENV, PSD	EAEN	2008		100.00		
		Subtotal						165.00		
Transport and Communications										
	1	Western Yunnan Roads Development II	GI	ECO, RC	EATC	2007		250.00		
	2	Nanning–Kunming Railway Capacity Extension Project	GI	ECO, RC	EATC	2007		300.00		
	3	Lanzhou Sustainable Urban Transport Project	GI	ECO	EATC	2007		150.00		
		Subtotal						700.00		
Water Supply, Sanitation, and Waste Management										
	1	Hebei Small City and Township Development Demonstration Project	GI	ECO, ENV, SD	EASS	2007		100.00		
	2	Liaoning Small City and Township Development Demonstration Project	GI	ECO, ENV, SD	EASS	2007		100.00		
	3	Shanxi Small City and Township Development Demonstration Project	GI	ECO, ENV, SD	EASS	2007		100.00		
	4	Guangxi Wuzhou Urban Development	GI	ECO, ENV	EASS	2007		100.00		
	5	Xinjiang Urban Transport and Environment Improvement	GI	ECO, ENV, SD	EASS	2007		100.00		
		Subtotal						500.00		
		Total 2009 Firm Loans						1,875.00		
2010 Firm Loans										

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of PPTA	Total	Cost (\$ million)		
						ADB (OCR)	Gov't.	Cofinancing
Agriculture and Natural Resources								
1 Rural Water Resource Utilization in Eastern Qinghai	GI	ENV, ECO	EAAE	2008		40.00		
2 Jiangxi Ecosystem Development	GI	ENV, SD	EAAE	2008		40.00		
Subtotal						80.00		
Energy								
1 Energy Efficiency and Emission Reduction	GI	ENV	EAEN	2009		100.00		
2 Renewable Energy Project	GI	ENV	EAEN	2009		180.00		
Subtotal						280.00		
Transport and Communications								
1 Heilongjiang Road Development II (Qianfeng Farm to Nenjiang)	GI	ECO	EATC	2008		200.00		
2 Anhui Road Development	GI	ECO	EATC	2008		200.00		
3 Chongqing–Guiyang Railway Capacity Expansion Project	GI	ECO	EATC	2008		350.00		
Subtotal						750.00		
Water Supply, Sanitation, and Waste Management								
1 Guangxi Border City Development	GI	ECO, SD, RC	EASS	2008		150.00		
2 Wuhan Urban Environment Improvement	GI	ENV, ECO, SD	EASS	2008		100.00		
3 Chongqing Urban and Rural Infrastructure Development Demonstration	GI	ECO, SD, ENV	EASS	2008		100.00		
Subtotal						350.00		
Total 2010 Firm Loans						1,460.00		

ADB = Asian Development Bank, EAAE = Agriculture, Environment, and Natural Resources Division, EAEN = Energy Division, EASS = Social Sectors Division, EATC = Transport Division, ECO = sustainable economic growth, ENV = environmental sustainability, GI = general intervention, Gov't = Government, OCR = ordinary capital resources, PPTA = project preparatory technical assistance, RC = regional cooperation, SD = inclusive social development
Source: Asian Development Bank.

Table A6.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2008–2009

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2008 ADTA							
Agriculture and Natural Resources							
1	Preparing National Strategies for Payment of Environmental Services and Soil Pollution Management	EAAE	ADTA	TASF	800.00		800.00
2	River Basin Water Resources Allocation and Management Policy	EAAE	ADTA	TASF	500.00		500.00
Subtotal					1,300.00		1,300.00
Energy							
1	Design of the National Sulfur Dioxide Emission Trading System	EAEN	ADTA	TASF	500.00		500.00
2	China Clean Development Mechanism Fund Capacity Building	EAEN	ADTA	TASF	300.00	CEFPF	500.00
3	Utilization of Foreign Capital to Promote Energy Conservation, and Energy Efficiency Power Generation Scheduling	EAEN	ADTA	TASF	600.00	CEFPF	1,000.00
Subtotal					1,400.00	1,500.00	2,900.00
Finance							
1	Public Expenditure Management for Henan	EARG/PRCM	ADTA	TASF	400.00		400.00
2	Fiscal Policy Reforms	EARG/PRCM	ADTA	TASF	1,000.00		1,000.00
3	Rural Finance Development and Supervision	EARG	ADTA	TASF	400.00		400.00
4	Study on Asset-Backed Securitization Financing for Vocational Education and Training Schools in Guangdong	EARG/EASS	ADTA	TASF	150.00		150.00
Subtotal					1,950.00		1,950.00
Water Supply, Sanitation, and Waste Management							
1	Urban Wastewater Reuse and Energy Generation from Sludge	EASS	ADTA	TASF	700.00		700.00
Subtotal					700.00		700.00

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
Health, Nutrition, and Social Protection							
1 Strategy for Employment Generation in Urban/Rural Labor Market in the Western Region	EASS	ADTA	TASF	400.00		400.00	
Subtotal				400.00		400.00	
Transport and Communications							
1 Enhancing the Competitiveness and Efficiency of Passenger Railway Operations	EATC	ADTA	TASF	400.00		400.00	
2 Transport Efficiency through Logistics Development	EATC	ADTA	TASF	500.00		500.00	
Subtotal				900.00		900.00	
Law, Economic Management, and Public Policy							
1 Capacity Building on Economic Laws	OGC	ADTA	TASF	400.00		400.00	
2 New Models for Civil Society Participation in Poverty Reduction	PRCM	ADTA	TASF	400.00		400.00	
3 Provincial Development Strategy IV	PRCM	ADTA	TASF	800.00		800.00	
Subtotal				1,600.00		1,600.00	
2008 Total ADTA				8,250.00	1,500.00	9,750.00	

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2009 ADTA							
Agriculture and Natural Resources							
1	Strategy for Drought Management	EAAE	ADTA	TASF	400.00		400.00
2	Soil and Water Conservation in Shaanxi Province	EAAE	ADTA	TASF	600.00		600.00
Subtotal					1,000.00		1,000.00
Energy							
1	Recycling Waste Coal for Power Generation	EAEN	ADTA	TASF		CEFPF	500.00
Subtotal							500.00
Water Supply, Sanitation, and Waste Management							
1	Energy Generation from Solid Waste	EASS	ADTA	TASF	400.00		400.00
Subtotal					400.00		400.00
Health, Nutrition, and Social Protection							
1	Study on Strengthening of Poverty Reduction Focus of Social Services and Assistance in the PRC	EASS	ADTA	TASF	400.00		400.00
2	Study on Regulation of Consulting Services	EASS	ADTA	TASF	400.00		400.00
Subtotal					800.00		800.00
Transport and Communications							
1	Improving Road Safety through the Application of intelligent Transport Systems	EATC	ADTA	TASF	400.00		400.00
2	Urban Public Transport Services	EATC	ADTA	TASF	500.00		500.00
Subtotal					900.00		900.00
Law, Economic Management, and Public Policy							
1	Facility for Policy Reform and Capacity Building III	PRCM	ADTA	TASF	600.00		600.00
2	Strategy for Chongqing Development	PRCM	ADTA	TASF	500.00		500.00
3	Capacity Building for Measuring the Impact of Innovations	PRCM	ADTA	TASF	400.00		400.00
Subtotal					1,500.00		1,500.00
2009 Total ADTA					4,600.00	500.00	5,100.00

ADB = Asian Development Bank, ADTA = advisory technical assistance, CEFPF = Clean Energy Financing Partnership Facility, EAAE = Agriculture, Environment, and Natural Resources Division, EARG = Country Coordination, Regional Cooperation, Governance, Finance, and Trade Division, EAEN = Energy Division, EASS = Social Sectors Division, EATC = Transport Division, ITS = Intelligent Transport Systems, OGC = Office of the General Counsel, PPTA = project preparatory technical assistance, PRC = People's Republic of China, PRCM = PRC Resident Mission, TA = technical assistance, TASF = Technical Assistance Special Fund, TBD = to be determined.

Source: Asian Development Bank.

Table A6.3: Summary Information on Proposed Indicative Lending Products and Services for 2008

Project Name	Description
Shaanxi Qingling Biodiversity Conservation and Demonstration Project	<p>Impact Sustainable conservation and use of Qingling mountains' resources accompanied by rural well-being through a reduction in degraded land and soil erosion, increased area that protects endangered species, increased tourism revenue, increased investment and business opportunities, and increased rural incomes and employment.</p> <p>Major Components (i) Enhancing biodiversity conservation, (ii) participatory natural resources management, and (iii) institutional arrangements to support biodiversity conservation.</p> <p>Expected Outputs and Outcomes Improved and integrated biodiversity management providing sustainable livelihoods for the population of the project area demonstrated to the rest of Qingling mountains. The Project will provide significant environmental, economic, and social benefits throughout the project area, and will address underlying causes and effects of both historical and contemporary resource degradation. The main targets and indicators are (i) demonstration of an integrated spatial plan for the project area, (ii) livelihood management for farmers and residents in project area, (iii) management plans prepared for at least six endangered species, (iv) measurable increases in the extent and quality of habitat within the project area, (v) increased tourist visits to more than 1 million by 2020, and (vi) contributions to well-managed conservation breeding programs.</p>
Ecosystem and Environment Protection of Baiyangdian Lake	<p>Impact Improved quality of life, sustainable ecosystem, and biodiversity conservation in the Baiyangdian Basin. The water quality in the basin and lake will improve and water quantity in the lake will be maintained. Improved sanitation and clean water supply will improve quality of life and help contain morbidity and mortality rates, Biodiversity management will increase the population of endangered species and improve the habitat of migratory birds. In-lake communities will gain viable and sustainable livelihoods without degrading the environment.</p> <p>Major Components (i) Subproject investments, (ii) biodiversity conservation, (iii) institutional strengthening, and (iv) project management support. The first component will support 22 subprojects of different categories, the second component will support the GEF-financed activities, the third component will strengthen the institutional capacity through a range of activities, and the fourth component will support project management.</p> <p>Expected Outputs and Outcomes Integrated ecosystem and water management and improved environmental conditions in the Baiyangdian Basin through: (i) reduced point-source pollution loading, (ii) improved sanitation, (iii) clean water supply, (iv) reduced total suspended particulates in Baoding City, (v) reduced sulfur dioxide, (vi) reduced carbon dioxide, (vii) enhanced flood protection, (viii) Baiyangdian communities take up eco-friendly alternative livelihoods, and (ix) water in Baiyangdian Lake is maintained at sustainable level.</p>
Ningxia Integrated Ecosystem and Agricultural Development Project	<p>Impact Improved environmental management to rehabilitate the ecosystems and increase rural incomes in the Yinchuan area.</p> <p>Major Components (i) Building integrated ecosystem management (IEM) capacity and project management; (ii) land and water resource management; (iii) improving rural</p>

Project Name	Description
	<p>livelihoods; and (iv) conservation and tourism.</p> <p>Expected Outputs and Outcomes Introduction of an IEM approach to provide sustainable livelihoods for the population of the project area.</p>
<p>Guiyang Integrated Water Resources Management Sector Project</p>	<p>Impact Sustainable and inclusive socioeconomic growth in Guiyang municipality.</p> <p>Major Components Two main components: nonstructural and structural measures. Nonstructural measures include institutional strengthening and capacity development, stakeholder participation, water tariff adjustments, and other demand-management measures. Structural measures include five key infrastructure development activities: (i) urban water supply; (ii) rural water supply and irrigation; (iii) irrigation system rehabilitation; (iv) soil and water conservation; and (v) small water storage structures.</p> <p>Expected Outputs and Outcomes (i) Improved water quality; (ii) increased water for domestic, industrial, and irrigation purposes; (iii) improved water efficiency; and (iv) the sustainable development of institutional and technical capacity to manage water resources. The outcome will be that water supply and demand in Guiyang municipality are balanced in a sustainable manner.</p>
<p>Dryland Sustainable Agriculture Project</p>	<p>Impact Increase in per capita net farm incomes and reduced numbers of poor people in the project areas. An essential aspect of the sustainability of the project impacts will be a reduction in the rate of farmland degradation. The Project will reduce the increasing rural–urban income gap by reducing rural poverty in project counties through increased incomes and livelihood opportunities from sustainable use of agricultural resources.</p> <p>Major Components (i) Sustainable dryland agriculture; and (ii) support capacity for sustainable agriculture.</p> <p>Expected Outputs and Outcomes Outcome: Increased agricultural productivity and adoption of sustainable farming practices in the project area to support higher value on-farm and post-harvest activities. Through partnership between enterprises, farmers, and local governments, the Project will facilitate farmer access to finance, technology, and markets so that higher value crops can be produced using sustainable agricultural practices—including, but not limited to conservation agriculture—which will improve farm incomes while reducing the rate of land degradation. The expansion of agro-processing enterprises will increase rural value added and off-farm employment opportunities.</p> <p>Outputs: (i) Promotion of financially and environmentally sustainable agriculture in dryland areas; (ii) the second output consists of three sub-outputs: sustainable agricultural production capacity, providing service and input support to the farmers, and production bases; (ii) support for market access by farmers through marketing information centers and product testing laboratories; (iii) improved project management, monitoring, and evaluation.</p>
<p>Inner Mongolia Energy Efficiency and Environment Improvement Project</p>	<p>Impact Improved efficiency and environmental conditions in Inner Mongolian Autonomous Region.</p> <p>Major Components (i) Rehabilitation of inefficient and polluting district heating systems; (ii) use of renewable energy, such as geothermal, for district heating; (iii) rehabilitation of gas</p>

Project Name	Description
	<p>distribution systems; and (iv) implementing of district heating sector reforms and capacity building.</p> <p>Expected Outputs and Outcomes Improved air quality in 10 urban areas of Inner Mongolia Autonomous Region. The following outputs will be available in targeted urban area, (i) improved district heating systems, (ii) comprehensive utilization of geothermal resources, (iii) improved gas transmission and distribution systems, and (iv) improved institutional strengthening and capacity building.</p>
MFF-Energy Efficiency Improvement Project (Guangdong)	<p>Impact Improved energy efficiency and environmental conditions in Guangdong province.</p> <p>Major Components The investment program will enable sub-lending to end users, energy service companies and manufacturers of efficient transformers and motors for retrofitting equipment in enterprises and budget-supported institutions with more energy efficient equipment and machines.</p> <p>Expected Outputs and Outcomes Improvement in energy efficiency in industry and commercial sectors in Guangdong. The outputs include (i) establishment of an onlending model that will enable an efficiency power plant (EPP) to be developed with annual 532 GWh energy savings and an equivalent 107 MW capacity, (ii) development of the energy service sector in Guangdong, (iii) development of capacity for promoting and assessing energy efficiency projects, and (iv) replication of the EPP model in other provinces. Implementation of the EPP will avoid consumption of 175,813 tons/year (t/y) of coal, resulting in emission reductions of 415,560 t/y of CO₂, 1,785 t/y of total suspended particulates, 4,795 t/y of SO₂, and 1,068 t/y of NO_x.</p>
MFF: Gansu Heihe Rural Hydropower Development (Project 2)	<p>Impact Environmentally clean power supply in rural areas of the Gansu province.</p> <p>Major Components The investment proposed for financing under the requested periodic financing request 2 (PFR 2) is for Dagushan hydropower project. It is a hydropower plant under the Heihe river cascade hydropower development scheme. The Project includes construction of a 65 MW power plant and its connection to the 110 kV transmission grid in Zhangye.</p> <p>Expected Outputs and Outcomes Hydropower generation closer to the rural areas in Zhangye and the Hexi corridor. This additional generation capacity in conjunction with the ongoing and planned government-financed rural grid rehabilitation and modernization program will (i) meet the additional rural power demand to overcome shortages; (ii) improve the reliability of power supply to rural areas; (iii) facilitate loss reduction; and (iv) advance policy reforms in the areas of clean and renewable energy development in Zhangye and Gansu.</p>
Central Yunnan Road Development	<p>Impact The Project will help the Yunnan Provincial Communications Department (YPCD) provide efficient, safe, and environmentally sustainable road transport system by lowering the cost of transport, relieving traffic congestion, and improving access in the project area.</p> <p>Major Components (i) Construction of a 64 km, four-lane access-controlled toll expressway from Wuding to Kunming, including access roads, interchanges with toll stations, tunnels, bridges, administrative stations, and service areas; (ii) upgrading of 194 km of local roads and four township passenger stations to improve access to poor remote areas; (iii) procurement of equipment for road maintenance of local roads, expressway maintenance, toll collection surveillance and communications, tunnel operation</p>

Project Name	Description
	<p>facilities, vehicle weigh system, road safety, vehicle emission control, and office administration; (iv) land acquisition and resettlement; and (v) consulting services for construction supervision, road safety audit, monitoring and evaluation, and capacity building.</p> <p>Expected Outputs and Outcomes (i) Reduced traffic accidents and vehicle operating costs; (ii) improved access within Yunnan province, facilitating the movement of goods and people between the PRC and GMS; (iii) additional transport capacity to accommodate growing traffic; and (iv) improved access to markets and social services in a poor area.</p>
Chongqing–Lichuan Railway Development	<p>Impact To increase standards of living and reduce poverty in the project area by removing a transport constraint to sustainable economic growth. This will be achieved by providing efficient, affordable and environmentally friendly railway transportation in unserved, less developed areas to create the conditions necessary for developing local resources and generating employment and income-enhancing opportunities.</p> <p>Major Components (i) Construction of double-track electrified standard gauge Class I railway from Chongqing to Lichuan; (ii) construction of new railway stations complete with facilities; (iii) safety initiatives, including provision of modern technology and equipment for enhancing safety; (iv) signaling, communication and management information system; (v) provision of training on the use and maintenance of modern equipment; (vi) land acquisition and resettlement; (vii) environmental protection and mitigation of adverse environmental effects; (viii) consulting services for construction supervision, monitoring and evaluation, and marketing and business development; and (ix) strengthening of institutional capacity.</p> <p>Expected Outputs and Outcomes The output will be a double-track electrified standard gauge Class I railway from Chongqing to Lichuan, complete with facilities including the railway stations, signaling, communication and management information systems. The outcome will be an efficient, safe, reliable, environmentally friendly, and affordable mode of railway transport in the region.</p>
Lanzhou–Chongqing Railway Development	<p>Impact To increase standards of living and reduce poverty in the project area by removing a transport constraint to sustainable economic growth. This will be achieved by providing efficient, affordable and environmentally friendly railway transportation in unserved, less developed areas to create the conditions necessary for developing local resources and generating employment and income-enhancing opportunities.</p> <p>Major Components (i) Construction of double-track electrified standard gauge Class I railway from Lanzhou to Chongqing; (ii) construction of new railway stations complete with facilities; (iii) safety initiatives, including provision of modern technology and equipment for enhancing safety; (iv) signaling, communication and management information system; (v) provision of training on the use and maintenance of modern equipment; (vi) land acquisition and resettlement; (vii) environmental protection and mitigation of adverse environmental effects; (viii) consulting services for construction supervision, monitoring and evaluation, and marketing and business development; and (ix) strengthening of institutional capacity.</p> <p>Expected Outputs and Outcomes The output will be a double track electrified standard gauge Class I railway from Lanzhou to Chongqing, complete with facilities including the railway stations, signaling, communication and management information systems. The outcome will be an efficient, safe, reliable, environment-friendly, and affordable mode of railway transport in the region.</p>

Project Name	Description
Songhua River Basin Water Pollution Treatment	<p>Impact Improved urban environment and enhanced quality of life in the municipalities of Baishan, Changbaishan, Changchun, Huinan, Jilin, and Tonghua, in Jilin province; and Harbin, Heihe, Jiamusi, Qiqihar, Qitaihe, and Shuangyanshan in Heilongjiang province.</p> <p>Major Components Water supply, wastewater treatment, river improvement, and solid waste management, and capacity building in the above identified cities and counties in Heilongjiang province and Jilin province. This will be further detailed during PPTA implementation.</p> <p>Expected Outputs and Outcomes Improved water supply, wastewater management, solid waste management, river improvement in the cities mentioned above, all collectively contributing to integrated water resource management, and pollution control in the Songhua River Basin (This will be further detailed during PPTA implementation).</p>
Gansu Baiyin Urban Development Project	<p>Impact Urban development of Baiyin City—a resource-exhausted mining city in PRC sustained in an environmentally friendly manner.</p> <p>Major Components To develop an industrial land by providing all the basic public infrastructure as platform to support economic transformation; to construct and upgrade the urban road systems including water supply and wastewater pipelines in the two main urban districts in Baiyin City; to expand the central district heating service; and to provide assistance for capacity development and institutional strengthening for urban planning and management.</p> <p>Expected Outputs and Outcomes The outcome will be the facilitated urban economic transformation and improved quality of life in Baiyin City. The outputs will be the accomplished infrastructure and strengthened urban management capacity.</p>
Xinjiang Municipal Infrastructure and Environmental Improvement Project	<p>Impact Sustained socioeconomic growth and improved living standards in the border areas of north Xinjiang Uygur Autonomous Region (Altay Administrative District, Boertala Mongolian Autonomous Prefecture, and Yili Kazak Autonomous Prefecture).</p> <p>Major Components Three components: Alashankou land port, Kanas scenic region, and Yining City, which are all located near northern and north-western Xinjiang Uygur Autonomous Region bordering with countries in Central Asia. The Project is aimed to strengthen cross-border trade, tourism development and economic growth to raise the living standards while protecting the environment of the people living and working in one of the most remote and poorest parts of the country. The Project also will provide institutional development and capacity building measures in municipal infrastructure and environmental management and policy reforms to ensure sustainability of the Project and related facilities.</p> <p>Expected Outputs and Outcomes The outcome is improved municipal infrastructure and a better living and ecological environment in Alashankou land port, Kanas scenic region and Yining City. The Yining component seeks to (i) improve the existing road infrastructure to relieve traffic congestion, assist commercial access to the transshipment trade and improve urban living conditions; and (ii) expand roads and utility services into new development areas of the city to support industrial activity, improve the local economy, increase employment, and reduce the incidence of poverty. The Alashankou land port component will develop first-time city infrastructure services to</p>

Project Name	Description
	improve basic living conditions, encourage expansion of cross-border trade, expand the local economy, and protect the local environment from pollution. The Kanas national nature reserve requires provision of first-time water supply, sanitation, solid waste management, and road network to develop its local economy and tourism, improve the living conditions and health of ethnic minorities, and protect the environment. The area includes a national AAAA sightseeing tourist destination, which is a top-ranked tourism area in the PRC.

Table A6.4: Summary Information on Proposed Indicative Nonlending Products and Services for 2008

Project Name	Description
Preparing National Strategies for Payment of Environmental Services and Soil Pollution Management	<p>Impact Sustainable water resources management and soil pollution rehabilitation. Specifically, the TA will support the PRC's development of national strategies for payment of environmental services (PES) in river basins and long-term soil pollution rehabilitation and prevention. The TA will support strategy development through surveys, analysis, assessments, and recommendations covering institutional, financial, and technical aspects.</p> <p>Major Components (i) National Strategy for PES Implementation: (a) Lessons learned from international experiences and implications on the PRC's situation; (b) case studies: key elements of adopting PES mechanism in selected river basins; (c) evaluation of policy and instruments to implement PES; and (d) national strategy for establishing PES in the PRC (ii) Long-Term Strategy for Soil Pollution Management: (a) Survey on soil pollution and its root causes in selected areas; (b) international experiences and implications for the PRC situation; (c) evaluation on national action program for pollution management; and (d) national strategy for soil pollution control and prevention</p> <p>Expected Outputs and Outcomes (i) National strategy for PES application in the PRC and policy notes (ii) Long-term strategy for soil pollution management in the PRC and policy notes</p>
River Basin Water Resources Allocation and Management Policy	<p>Impact Sustainable economic and social development in the People's Republic of China through integrated water resources management.</p> <p>Major Components (i) Review, analysis, and evaluation of international and domestic water allocation practices; (ii) formulation of water allocation principles and methods; (iii) formulation of pollution discharge load control principles and methods; (iv) formulation of river basin water resources allocation and management policy; and (v) capacity building.</p> <p>Expected Outputs and Outcomes The output is the development of a river basin water resources allocation and management policy and the outcome will be the implementation of this policy.</p>
Design of the National Sulfur Dioxide Emission Trading System	<p>Impact Reduced acid rain in the People's Republic of China.</p> <p>Major Components (i) Design of the sulfur dioxide (SO₂) trading scheme, (ii) development of operational procedures, (iii) development of support software, (iv) capacity building activities, and (v) development of draft regulatory policies to support SO₂ trading.</p> <p>Expected Outputs and Outcomes The outcome will be the establishment of an SO₂ trading system. The outputs will be the necessary hardware and software for the proposed SO₂ trading scheme.</p>
China Clean Development Mechanism Fund (CDM) Capacity Building	<p>Impact Mitigation of climate change.</p>

Project Name	Description
	<p>Major Components (i) Operational manuals for the CDM Fund, (ii) capacity building for the staff of the CDM Fund, (iii) studies on international experience in supporting climate change activities, and (iv) development of draft policies and regulations to support the CDM Fund.</p> <p>Expected Outputs and Outcomes The outcome of the TA will be improved capacity of the CDM Fund to provide financial support for clean energy projects. The outputs would include required manuals, guidelines, training material, and list of priority areas for CDM Fund intervention.</p>
Utilization of Foreign Capital to Promote Energy Conservation, and Energy-Efficient Power Generation Scheduling	<p>Impact Resource conservation and environment improvement in the People's Republic of China.</p> <p>Major Components (i) Identifying opportunities to increase energy efficiency and implement renewable energy projects, and building capacity at the provincial level to develop suitable project proposals and evaluation systems, and (ii) developing procedures for energy-efficient and environmentally friendly power generation scheduling system.</p> <p>Expected Outputs and Outcomes The expected outcome of the TA will be a reduction in carbon dioxide emissions in the People's Republic of China. The outputs will be a priority list of energy efficiency and renewable energy project proposals for external assistance, and adoption of the environmentally friendly generation scheduling by regional power grids.</p>
Public Expenditure Management for Henan	<p>Impact Establishment of a prudent yet proactive fiscal policy framework for economic and social development in Henan province.</p> <p>Major Components (i) Strategies for fiscal reform and development that are conducive for economic growth of the central region; (ii) recommendation of fiscal policies for specific sectors, such as agriculture, food processing, petrochemical, automobile, textiles, energy, primary commodities, transportation and finance; and (iii) introduction of international experience in regional fiscal reforms.</p> <p>Expected Outputs and Outcomes A series of studies on specific subjects, such as fiscal policy designs for (i) modernizing agriculture; (ii) supporting the six major pillar industries; (iii) strengthening basic industry and basic infrastructure in central region; (iv) financial sector development in central region, (v) accelerating urbanization in central region; (vi) transforming the economic growth modality in central region; and (vii) promoting opening up and market liberalization of the central region. The specific subjects also include (i) streamlining the provincial public finance framework and (ii) designing a provincial economic and fiscal forecasting model.</p>
Fiscal Policy Reforms	<p>Impact Initiation of the fiscal reform process by streamlining fiscal policies in selected areas, and introducing prudent risk management and control mechanisms.</p> <p>Major Components (i) Fiscal policy for health and medical sectors, (ii) local government indebtedness risk warning and control, and (iii) administrative cost study.</p>

Project Name	Description
	<p>Expected Outputs and Outcomes Policy studies and strategy papers on fiscal reform issues related to health and medical sectors, local government fiscal risk management, and administrative costing.</p>
Rural Finance Development and Supervision	<p>Impact Establishment of effective and conducive supervisory framework for rural financial institutions.</p> <p>Major Components (i) Recommendations on institutional setup, and policy and regulatory framework for effective supervision; and (ii) pilot testing in selecting localities of the PRC.</p> <p>Expected Outputs and Outcomes Policy papers and strategies for establishment of effective and conducive supervisory framework for rural financial institutions.</p>
Study on Asset-Backed Securitization (ABS) Financing for Vocational Education and Training Schools in Guangdong	<p>Impact Broadening long-term resources available for vocational education and training schools in Guangdong through access to capital markets.</p> <p>Major Components Investigating ABS transaction-specific issues including projected availability and stability of cash flow from residual tuition income, legal and regulatory issues for ABS; and market demand for ABS and investor base, and recommending an optimal transaction structure.</p> <p>Expected Outputs and Outcomes A report providing detailed executable plans for carrying out the formulation and transaction of the proposed ABS issuance.</p>
Urban Wastewater Reuse and Energy Generation from Sludge	<p>Impact Strengthened resource conservation and utilization and improved environmental sustainability through introduction of more effective water and wastewater management mechanisms and technologies. The TA is aimed at assisting the Government in developing policies, strategies and action plans on promoting and effectively implementing urban wastewater reuse and energy generation from sludge.</p> <p>Major Components (i) Review and assessment of the current urban wastewater reuse policies, planning and implementation in the PRC and international best practices in planning and managing urban wastewater reuse, (ii) review and analysis of the current PRC technologies and application of energy generation from sludge; (iii) review and assessment of lessons and experiences of existing piloting experiment application of urban wastewater reuse in municipalities; (iv) review and assessment of lessons and experiences of generating biogas from sludge in municipal and industrial wastewater treatment plants (WWTPs), and (v) policy advice and operational recommendations on (a) urban wastewater reuse and management and (b) energy generation from sludge in the PRC.</p> <p>Expected Outputs and Outcomes The outcome of the TA will be well-prepared policy advice and action plans for the Government on (i) urban wastewater reuse and management and (ii) energy generation from sludge. The study outputs are: (i) one report on the systematic review of current urban wastewater reuse policies, planning and implementation in the PRC and international best practices in planning and managing urban wastewater reuse, (ii) one report on the systematic review of current PRC technologies and application of energy generation from sludge; (iii) two case study reports, one on the review of lessons and experiences of existing piloting</p>

Project Name	Description
	<p>experiment application of urban wastewater reuse in municipalities and the other on the review of lessons and experiences of generating biogas from sludge in municipal and industrial WWTPs, and (iv) a conclusion report with policy advice and operational recommendations on (a) urban wastewater reuse and management and (b) energy generation from sludge in the PRC.</p>
<p>Strategy for Employment Generation in Urban/Rural Labor Market in the Western Region</p>	<p>Impact Strengthened capacity and effectiveness of employment services for rural-urban workers in the western region.</p> <p>Major Components The ADTA will select one to two case study provinces in the western region and will include the following components: (i) an analysis of the issues related to employment services for the rural-urban labor market including, but not be limited to, weak organizational structure for employment management, (a) ineffective rural-urban employment system, (b) insufficient vocational training opportunities, (c) lack of public–private partnership, and (d) inadequate labor and social protection for workers; (ii) a survey of rural-urban workers in the case study province(s); (iii) recommendations to improve the rural-urban employment management system; (iv) workshops to discuss the study findings; and (v) dissemination of study results and recommendations.</p> <p>Expected Outputs and Outcomes The outcomes of the TA are policies, strategies and institutional development measures for improving employment services to meet the need of the rural-urban labor market in the western region. The expected TA outputs are (i) policy recommendations on measures and mechanisms for improving public and private employment services for the rural-urban labor market, (ii) capacity development plan for employment services staff, and (iii) effective modes and means of information dissemination to rural-urban workers.</p>
<p>Enhancing the Competitiveness and Efficiency of Passenger Railway Operations</p>	<p>Impact Affordable, sustainable, and environmentally friendly mode of railway passenger transport on a national network basis.</p> <p>Major Components (i) Undertake an analytical review of the form and characteristics of the transport organization of status of dedicated passenger lines (DPL) and mixed traffic lines (MTL) (ii) review the transport demand for DPL and MTL; (iii) review the impact of alternatives of passenger transport services in terms of quality of service and affordability; (iv) identify the key issues for developing an optimal model and method for reasonable role division and coordination of transport organization between DPL and MTL; and (v) make recommendations on the optimized usage of the DPL and MTL.</p> <p>Expected Outputs and Outcomes The TA will critically evaluate the quality and quantity of railway passenger transportation in the PRC, and make recommendations on the optimized usage of the DPL and the existing MTL. The TA will help MOR prepare an optimal model for reasonable role division, and coordination of transport organization between the DPL and the existing MTL.</p>
<p>Transport Efficiency through Logistics Development</p>	<p>Impact Improved transport efficiency through developing local and international passenger and logistics and integrating individual logistics for better administration, and reduce transportation logistics cost, which will contribute to economic growth as well as cross-border facilitation among CAREC and GMS countries.</p>

Project Name	Description
	<p>Major Components (i) Undertake an analytical review of the current problems caused by rapidly growing freight distribution and logistics; (ii) identify the key issues for developing efficient transport services and enhancing capacity building on human resource development for improving logistics operation; and (iii) make recommendations to accommodate the need to improve the efficiency of local and international passenger and freight terminal operations and to integrate individual terminals for better administration.</p> <p>Expected Outputs and Outcomes The TA will help MOC develop main activities to achieve the goals through (i) developing inter-regional wide logistics information system; (ii) enhancing capacity building on human resource development and efficiency improvement of both public and private sector operation; and (iii) facilitating policy reforms for logistics development including upgrading the level of transport organization for effective administration and improving government supervision. The TA will improve efficiency of the transport terminal operation which will contribute to economic growth in the region. Accordingly, cross-border facilitation is expected to be enhanced by induced increase in border traffic flows. The establishment of integrated logistics information exchange system may improve the efficiency of terminal operation and management reducing transportation logistics costs.</p>
Capacity Building on Economic Laws	<p>Impact Strengthened governance in developing the market economy through judicial system's enforcement of economic laws.</p> <p>Major Components (i) Develop a training program to be conducted in PRC's National Judges College (NJC) on laws and regulations in banking, capital market, bankruptcy and insolvency and mergers and acquisitions; (ii) conduct pilot training in NJC, with particular emphasis on the judges from the western and in-land regions, and (iii) conduct advanced level research and study workshops organized by the Supreme People's Court for the judges from the economic advanced areas in PRC on rationale, jurisprudence, international experiences on the above mentioned laws and regulations and adjudication practices.</p> <p>Expected Outputs and Outcomes (i) Increased capacity in adjudication practices for the cases relating to the banking and market law and the ability of NJC in conducting such training for continuous legal education for the judges, and (ii) improved capacity of the civil courts in PRC in handling complicated cases relating to banking and financial market law and development by the Civil Court of SPC of the guidance for adjudication of such cases.</p>
New Models for Civil Society Participation in Poverty Reduction	<p>Impact The longer-term impact is reduced rural poverty, with NGOs and other civil society actors mainstreamed within more effective, efficient, and well-targeted poverty programs and pro-poor social development efforts throughout the PRC.</p> <p>Major Components (i) Context Analysis, Mechanism Design, and Framework Formulation (ii) Capacity building for NGO-Government Partnership (iii) Pilot Test (iv) External Monitoring and Evaluation (M&E)</p> <p>Expected Outputs and Outcomes The TA's overall outcome is formulation and demonstration of replicable models and mechanisms for civil society participation in national programs to address poverty's multiple facets. More specifically, the TA will help formulate, and build</p>

Project Name	Description
	<p>consensus behind, a comprehensive framework for mainstreaming civil society actors (e.g., NGOs, volunteers, and private contributors) into national poverty-related programs.</p> <p>The TA's core outputs are:</p> <ul style="list-style-type: none"> (i) Consensus reached on a comprehensive framework for civil society participation in national PA programs, incorporating demonstrated models and mechanisms and concrete recommendations for institutional and policy reform; (ii) Key capacities built among government and civil society proponents during the pilot test, and dissemination of guidelines and core resource materials to support post-TA replication; (iii) Successful pilot test completion, with new mechanisms proven viable in target localities; (iv) Objective and externally credible assessment completed on the efficacy and impact civil society participation in state-supported poverty programs, including quantitative and qualitative dimensions.
Provincial Development Strategy IV	<p>Impact</p> <p>Enhanced sustainability of rural banks, rural guarantee firms and rural insurance firms, sufficient rural financial resources, more small and/or medium-sized enterprises (SMEs), more emerging industries to replace energy industries, and strengthened public-private partnership.</p> <p>Major Components</p> <ul style="list-style-type: none"> (i) Heilongjiang strategy. A main report on inclusive social and economic development supported by 4 sector reports on public-private partnership, transformation of energy resource-oriented cities, rural finance and SME financing. (ii) Jilin strategy. A main report on modern agricultural development supported by three sub-reports on agricultural industrialization, agricultural technology and rural finance. <p>Expected Outputs and Outcomes</p> <p>Output: The Heilongjiang strategy will focus on public-private partnership, transformation for energy resource-exhausted cities, SME financing and rural finance. The Jilin strategy will focus on agricultural industrialization, agricultural technology and rural finance.</p> <p>Outcome: Inclusion of policy recommendations in the 12th 5-year development plan in Heilongjiang and Jilin provinces; new or improved policies and plans regarding modern agriculture development, public-private partnership, rural, SME financing; more appropriate and rational policy making and management by decision makers and senior management in the government agencies.</p>