

**AFDI Lecture Series to Commemorate
30 Years of Partnership between
Asian Development Bank and
People's Republic of China**

Role of Multilateral Development Banks in a Developing Country's Growth Process

- A Case Study of ADB-PRC Partnership -

5 April 2016

Ayumi Konishi

**Director General, East Asia Department
Asian Development Bank**



Disclaimer:

The views expressed in this document are those of the author, and do not necessarily reflect the views and policies of the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this document, and accept no responsibility for any consequence of their use. By making any designation or reference to a particular territory or geographical area, or by using the term "country" in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area

ADB

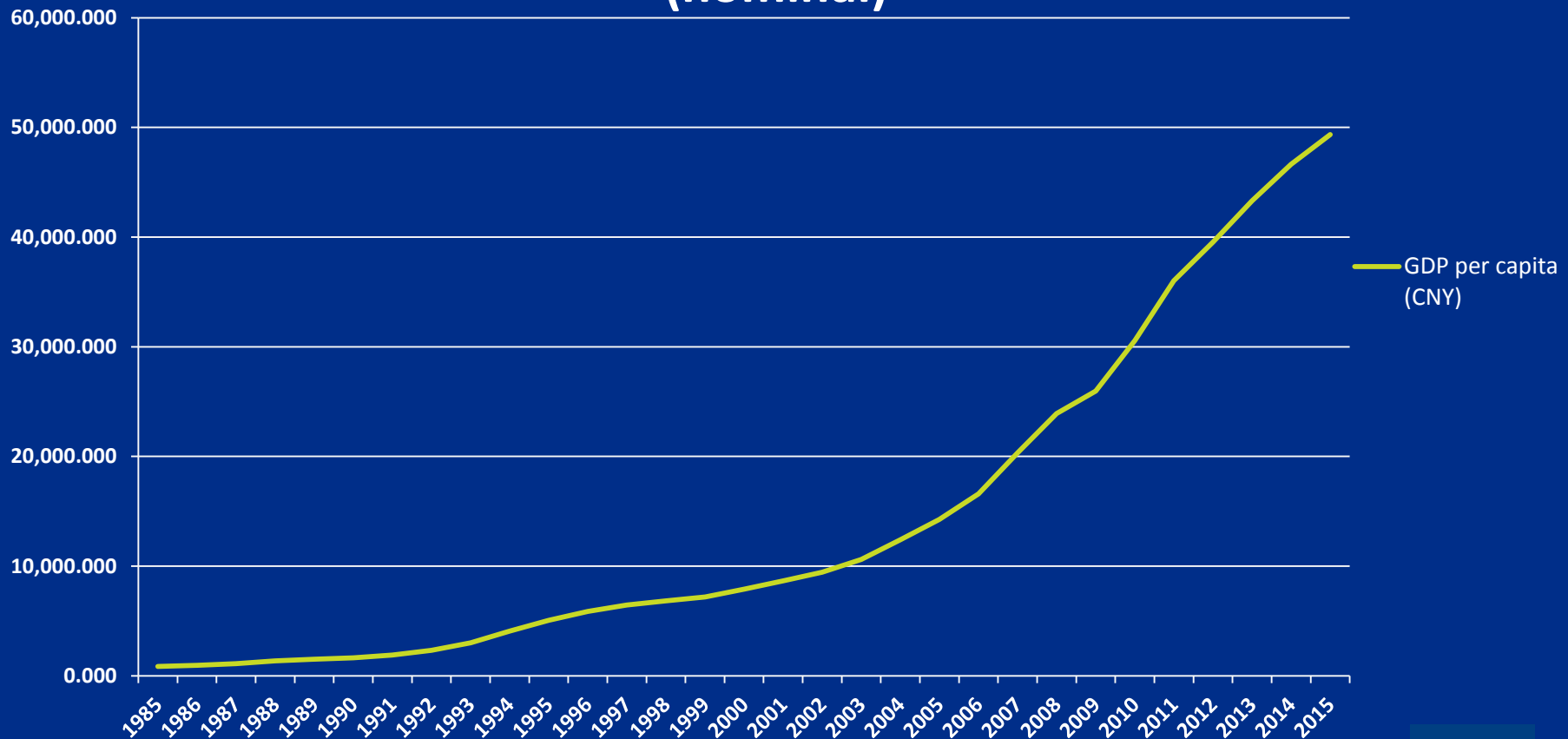
EAST ASIA

Today's Topics

- Is ADB still lending to PRC?
- ADB-PRC relationship
- ADB's Operations in PRC
- Public Sector and Private Sector
- PRC's remaining development challenges
- ADB's Country Partnership Strategy with PRC, 2016—2020
- Why is PRC still borrowing from ADB?
- ADB's partnership with AIIB

PRC's Economic Growth

GDP per Capita, 1985–2015 (nominal)



On the relative “wealthiness” of PRC

Country	Last Loan	Per Capita GNI as share of US Per Capita Income (Atlas)	Per Capita GNI as share of US Per Capita Income (PPP)
PRC	Ongoing	12% (2013)	22% (2013)
Korea	1988 (ADB) excl. 1997 emergency loan	20%	31%
Singapore	1980 (ADB)	37%	56%
Japan	1966 (WB)	26%	45% (GDP PC PPP)
Hong Kong	1980 (ADB)	43%	55%

People's Republic of China

History of Relationship with ADB

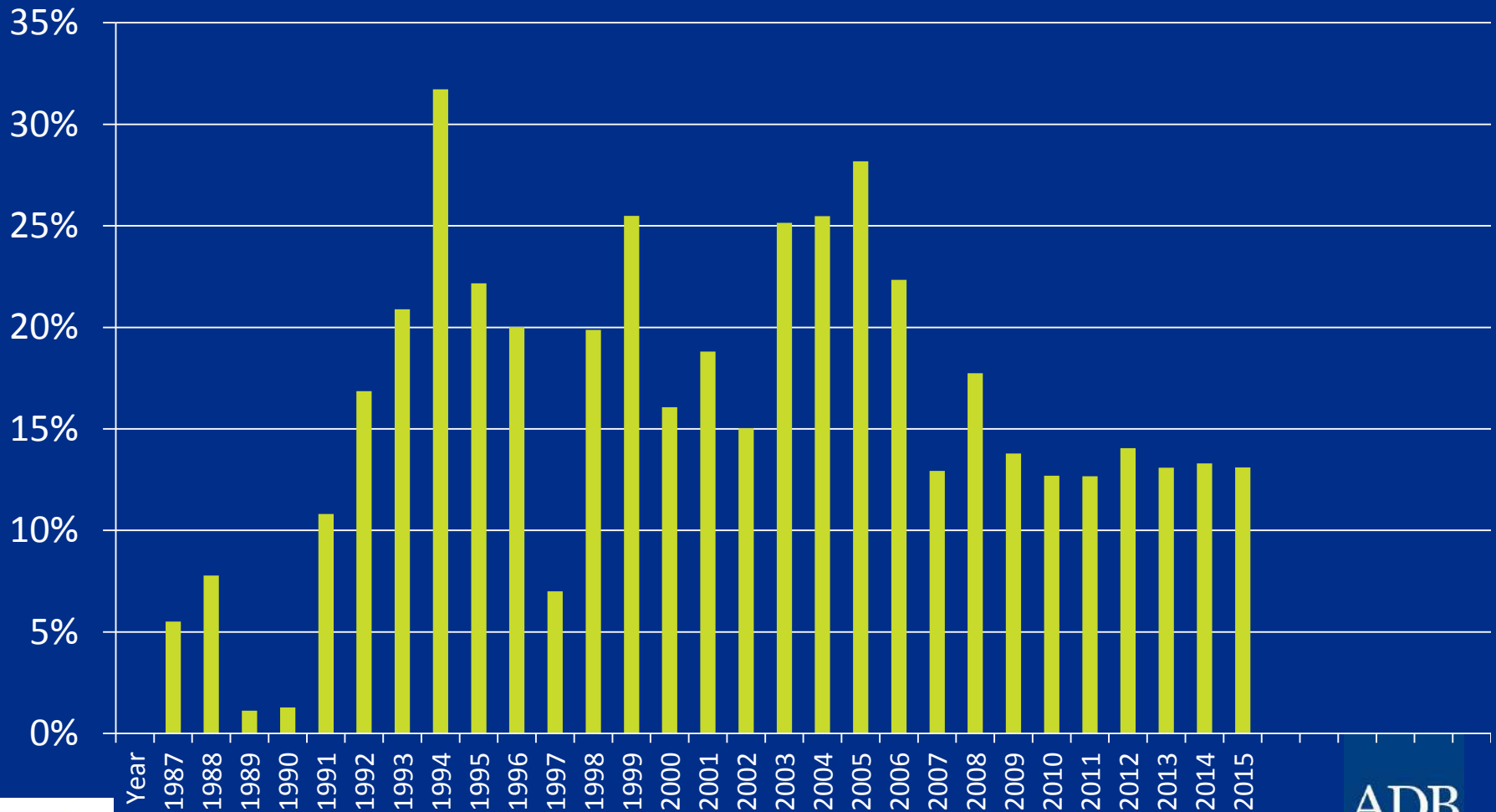
- 1986 – Became ADB Member
- 2000 – Opening of PRC Resident Mission
- Cumulative public sector lending till end 2015 is \$31.08 billion (2nd largest borrower)
- 2005 – Became ADF donor. Also established PRC Fund for Poverty Reduction and Regional Cooperation

ADB Sovereign Operations in PRC

(cumulative)

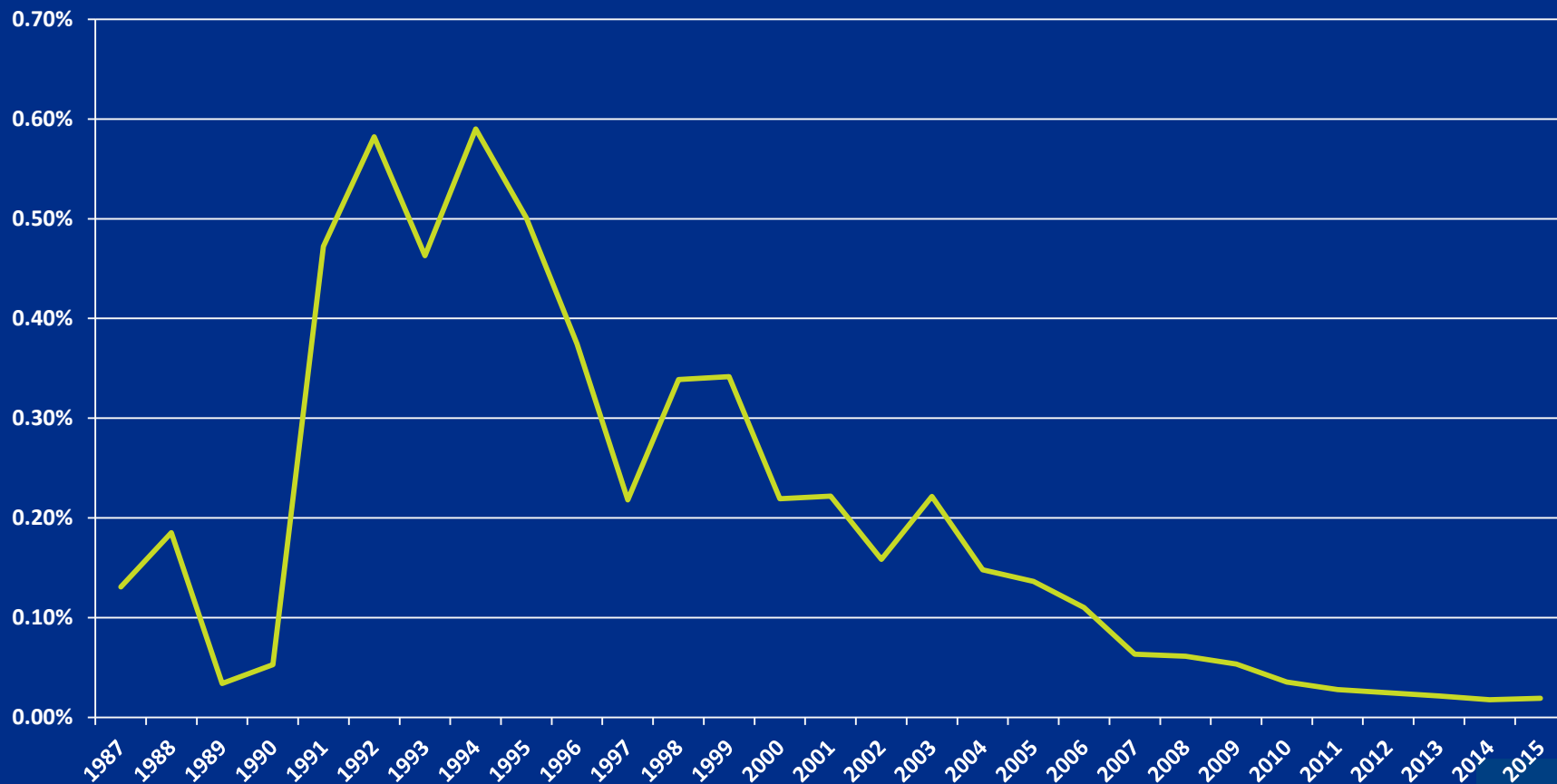
PRC Portfolio and Sector Distribution (1986–2015)			
Sector	Number of Loans	Approved Loan Amount	
		\$ million	%
Transport and ICT	95	17,027.5	54.8
Agriculture and Natural Resources	38	3,641.3	11.7
Education	4	300.0	1.0
Water Supply and Other Municipal Infrastructure and Services	34	4,051.2	13.0
Finance	8	680.0	2.2
Industry and Trade	5	674.8	2.2
Energy	38	4,199.8	13.5
Multisector	5	510.1	1.6
Total	227	31,084.7	100.0

ADB's Sovereign Lending to PRC (share of ADF and OCR operations in total)



Financial Significance of ADB lending for PRC

ADB Approvals as % of Total Fixed Asset Investment in the PRC, 1987–2015



Projects in 1987

Project Name	Amount (US\$ million)
Fuel Conversion Project	33.30
China Investment Bank Project	100.00
Total	133.30

Projects in 1994

Project Name	Amount (US\$ million)
Beijing Environmental Improvement Project	157.00
Qitaihe Thermal Energy and Environmental Improvement Project	165.00
Heilongjiang Expressway Project	142.00
Yunnan Expressway Project	150.00
Hunan Lingjintan Hydropower Project	116.00
Dalian Water Supply Project	160.00
Jing-Jiu Railway Technical Enhancement Project	200.00
Yunnan-Simao Forestation and Sustainable Wood Utilization Project	77.00
Total	1,167.00

Projects in 2010

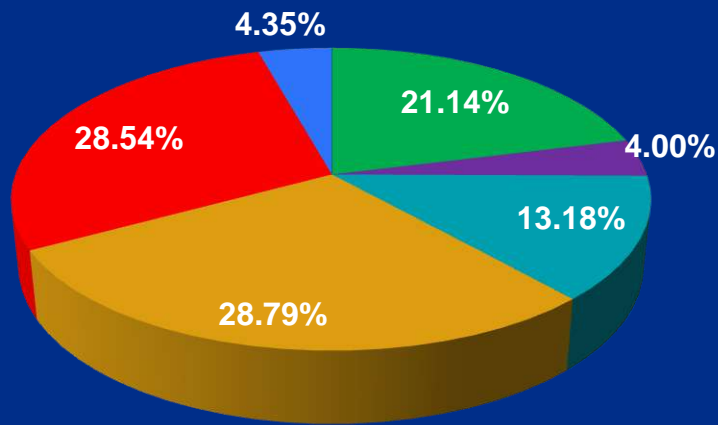
Project Name	Amount (US\$ million)
Railway Energy Efficiency and Safety Enhancement Investment Program - Tranche 2	100.00
Yunnan Integrated Road Network Development Project	250.00
Risk Mitigation and Strengthening of Endangered Reservoirs in Shandong Province Project	29.80
Jiangxi Sustainable Forest Ecosystem Development Project	40.00
Inner Mongolia Autonomous Region Environment Improvement Project (Phase II)	150.00
Guangxi Southwestern Cities Development Project	150.00
Wuhan Urban Environmental Improvement Project	100.00
Chongqing Urban-Rural Infrastructure Development Demonstration Project	100.00
Second Heilongjiang Road Network Development Project	200.00
Integrated Renewable Biomass Energy Development Sector Project	66.08
Tianjin Integrated Gasification Combined Cycle Power Plant Project	135.00
Total	1,320.88

Projects in 2015

Project Name	Amount (US\$ million)
Beijing-Tianjin-Hebei Air Quality Improvement – Policy Reforms Program	300.00
Qingdao Smart Low-Carbon District Energy Project	130.00
Guizhou Vocational Education Development Program	150.00
Hunan Dongjiang Lake Integrated Environmental Protection and Management Project	130.00
Gansu Featured Agriculture and Financial Services System Development Project	100.00
Chemical Industry Energy Efficiency and Emission Reduction Project	100.00
Henan Sustainable Livestock Farming and Product Safety Demonstration Project	69.00
Shaanxi Mountain Road Safety Demonstration Project	200.00
Jiangxi Pingxiang Integrated Rural-Urban Infrastructure Development Project	150.00
Hubei Enshi Qing River Upstream Environment Rehabilitation Project	100.00
Xinjiang Tacheng Border Cities and Counties Development Project	150.00
Xinjiang Akesu Integrated Urban Development and Environment Improvement Project	150.00
Total	1,729.00

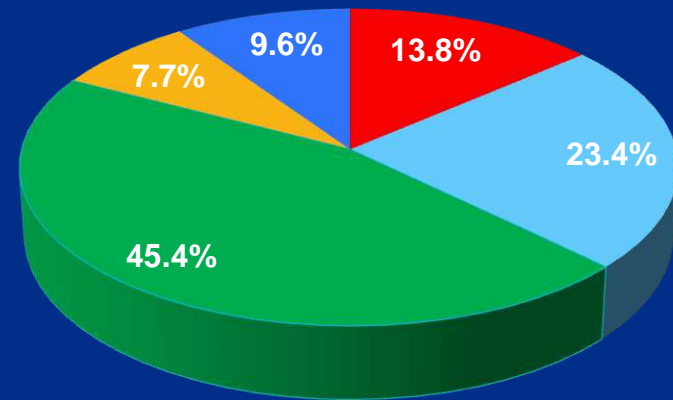
Sector and Regional Distribution (ADB sovereign lending, 2011–2015)

Sector



- Agriculture, Natural Resources and Rural Development
- Education
- Energy
- Multisector
- Transport and ICT
- Water Supply and Other Municipal Infrastructure and Services

Regional



- Nation-wide
- Central
- Western
- Eastern
- Northeastern

Current Portfolio

- Western provinces receive the largest share of ADB assistance
- “Green Portfolio” addressing climate change and environmental concerns
- Attention to TVET and aging issues to support the integrated urbanization strategy
- Pilot and demonstration projects
- Private sector operations complementing sovereign operations

Major Characteristics of Lending Operations in PRC

- PRC did not have access to the Asian Development Fund resources from the beginning.
- “China Model” of borrowing – making the final sub-borrower responsible for repayment

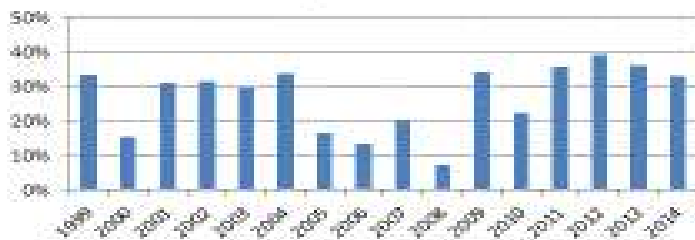
3 Major Shifts in Operation

- Since 2000: Focus has moved to the Western Region aiming at poverty reduction and reducing inequality
- Since (around) 2005: Shift from major infrastructure projects to pilot/demonstration projects
- 2015: Approval of first policy-based and result-based loans

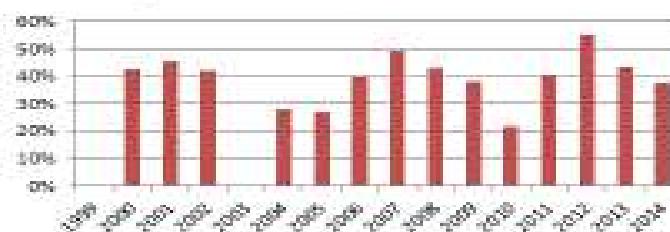
ADB Financing Share of the Total Project Costs

ADB Financing Percentage by Sector (1999-2014)

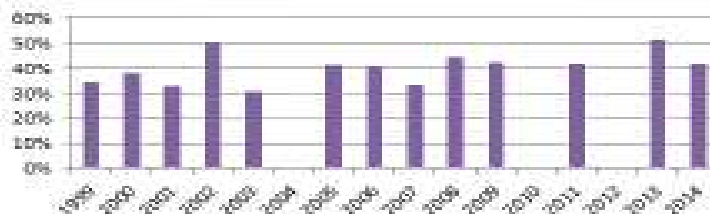
Transport and ICT



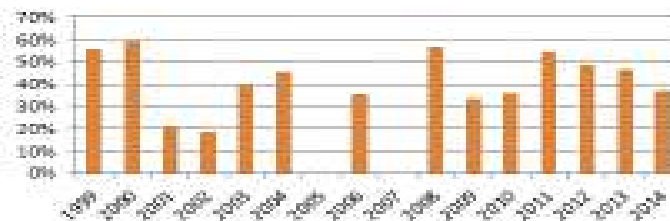
Agriculture and Natural Resources



Water Supply and Other Municipal Infrastructure and Services



Energy



Public and Private Sector Operations

	EARD (\$m)	PSOD (\$m)
2011	1,340	200
2012	1,470	519
2013	1,540	715
2014	1,490	1,058
2015	1,729	725

	World Bank (\$m)	IFC (\$m)
FY 2011	1,771	428
FY 2012	1,293	631
FY 2013	1,648	778
FY 2014	1,655	544
FY 2015	1,856	1,005

N.B. FY in WB is from 1 July of the previous year to 30 June of the year indicated.

Private Sector Operations

- Annual Average (2011–2015):
\$643 million
- Cofinancing with over 40 banks
- \$230 million invested in four regional funds (PRC-focused)
- Trade Facilitation Program

Private Sector Operations

Non-sovereign operations (lending, investment and guarantees) without the central government guarantee

What Drives Us?

Country Partnership Strategy

- ▶ Environmental Infrastructure, water, solid waste management, energy efficiency and clean energy in small/medium cities in the West)

Our Belief

- ▶ Support to sustainable development using private enterprises technologies and business models
- ▶ Public-Private Partnership

Our Clients

- ▶ Private sector's (including Japan's) projects in Asia
- ▶ Financial Institutions

What Do We Do?

- ▶ Selection of the technology based on the global best practices
- ▶ Financial structuring through rigorous due diligence
- ▶ High environmental standards (e.g., For waste for energy, adopted EU standards. For waste water management, demand the standards for the reuse of treated water)
- ▶ Require a high level of corporate governance (at OECD level)
- ▶ Co-financing with private financial institutions including Japanese institutions

Loan/Equity approvals are \$539 million in 2012, \$715 million in 2013, \$1,058 million in 2014, and \$725 million in 2015.

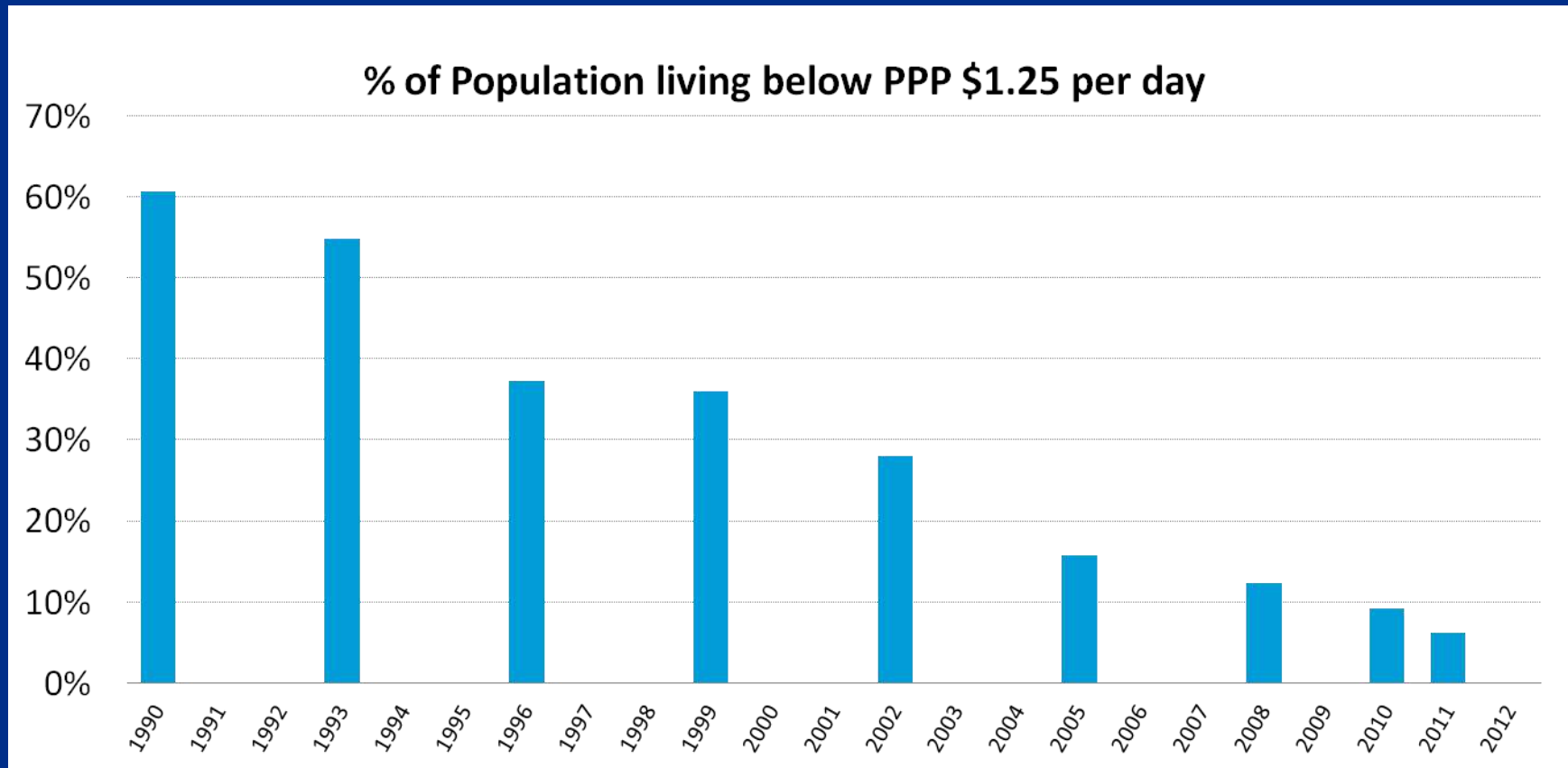
Case Study: Inner Mongolia Wind Power Generation



- ADB considers China's energy choice is a global concern given PRC is the world's largest CO₂ emitter and it is a matter of energy sources for 1.4 billion people. ADB has supported a wind-power project sponsored by Sumitomo Corp. and Kyushu Electric Company by issuing RMB Bonds. This project contributes to reducing 140,000 tons of CO₂ emission.



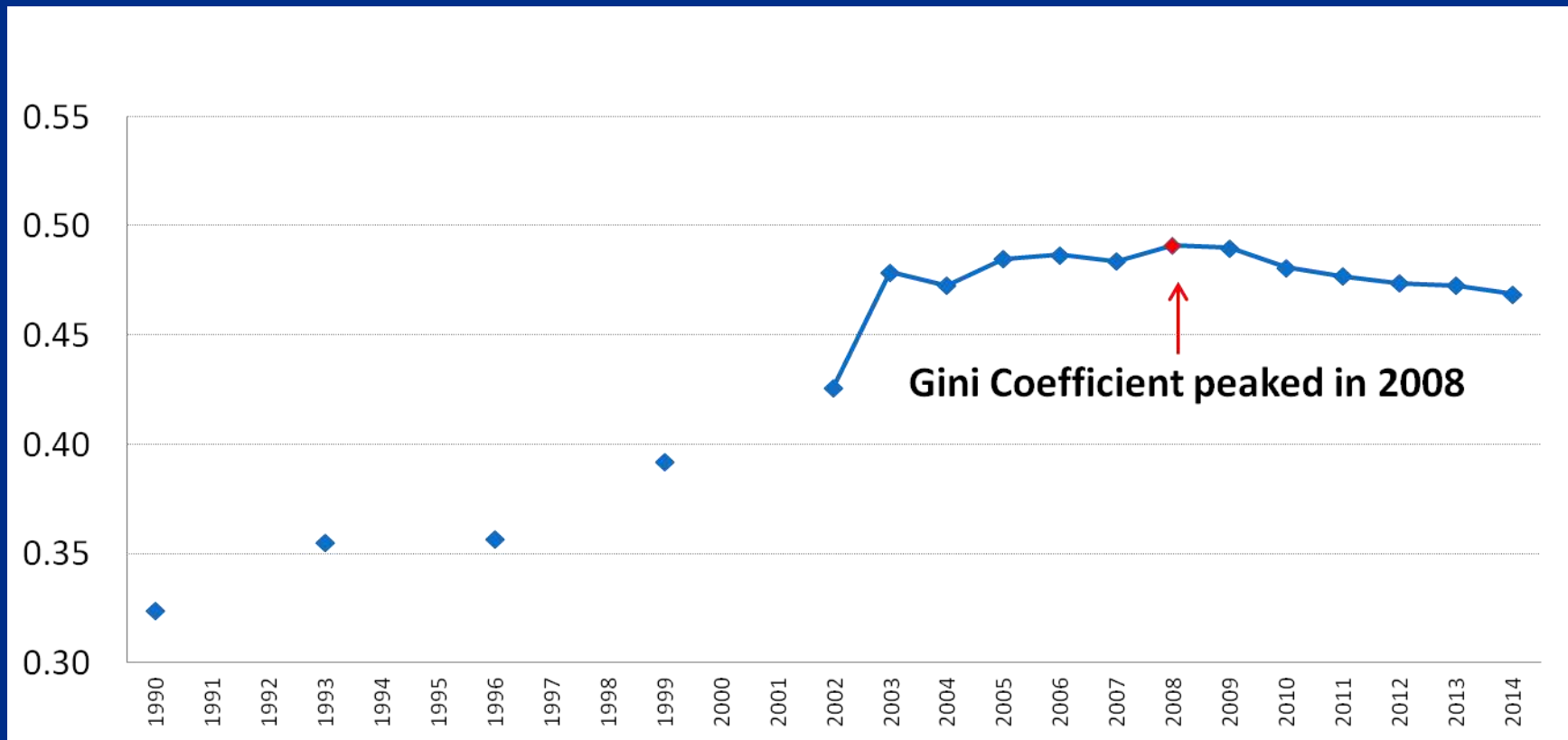
PRC's Remaining Development Challenges



Source: *World Development Indicators Database*

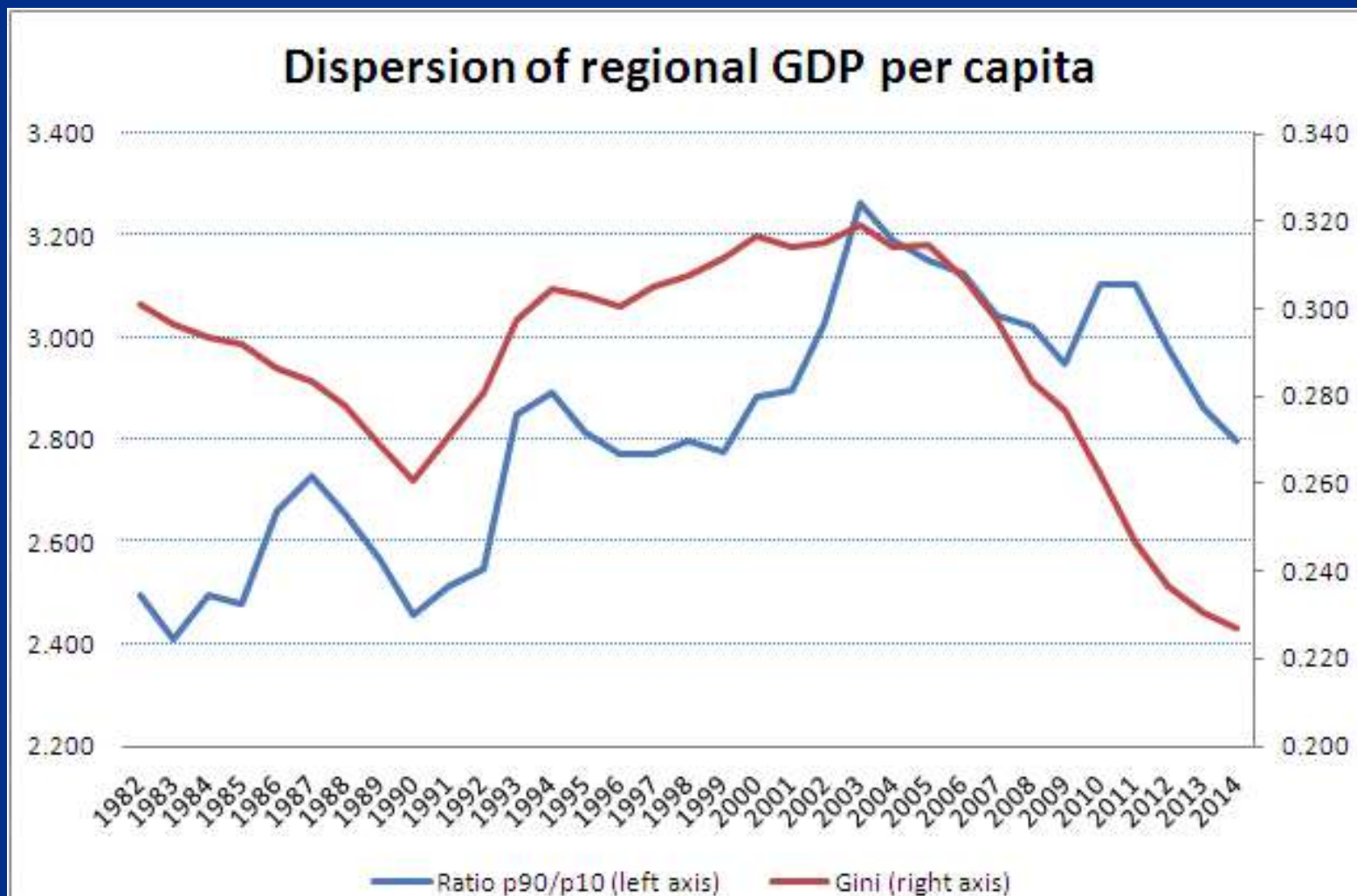
The number of poor in the PRC declined from 835 million (1981) to 84.1million (2011) based on the PPP \$1.25 per day poverty line

Inequality is large but gradually improving

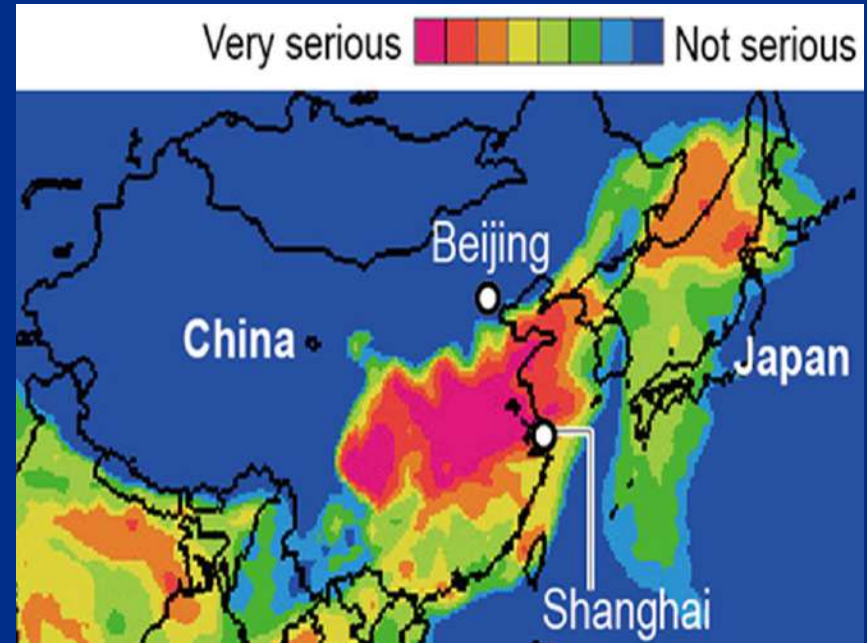


Source: NBS, World Bank

Inequality among provinces is reducing



Environment and Climate Change



Dust Particles as of noon of
1 February 2013

Source: *Asahi Shimbun*,
1 February 2013

Air pollution has no boundaries.....

COP21 in Paris, December 2015

PRC's Commitment to 2030

1. To achieve peaking of CO₂ emissions

China's Total Export exceeded US in 2012

2. CO₂ emissions/unit of GDP

60 - 65%
2005 levels

4. Forest stock volume

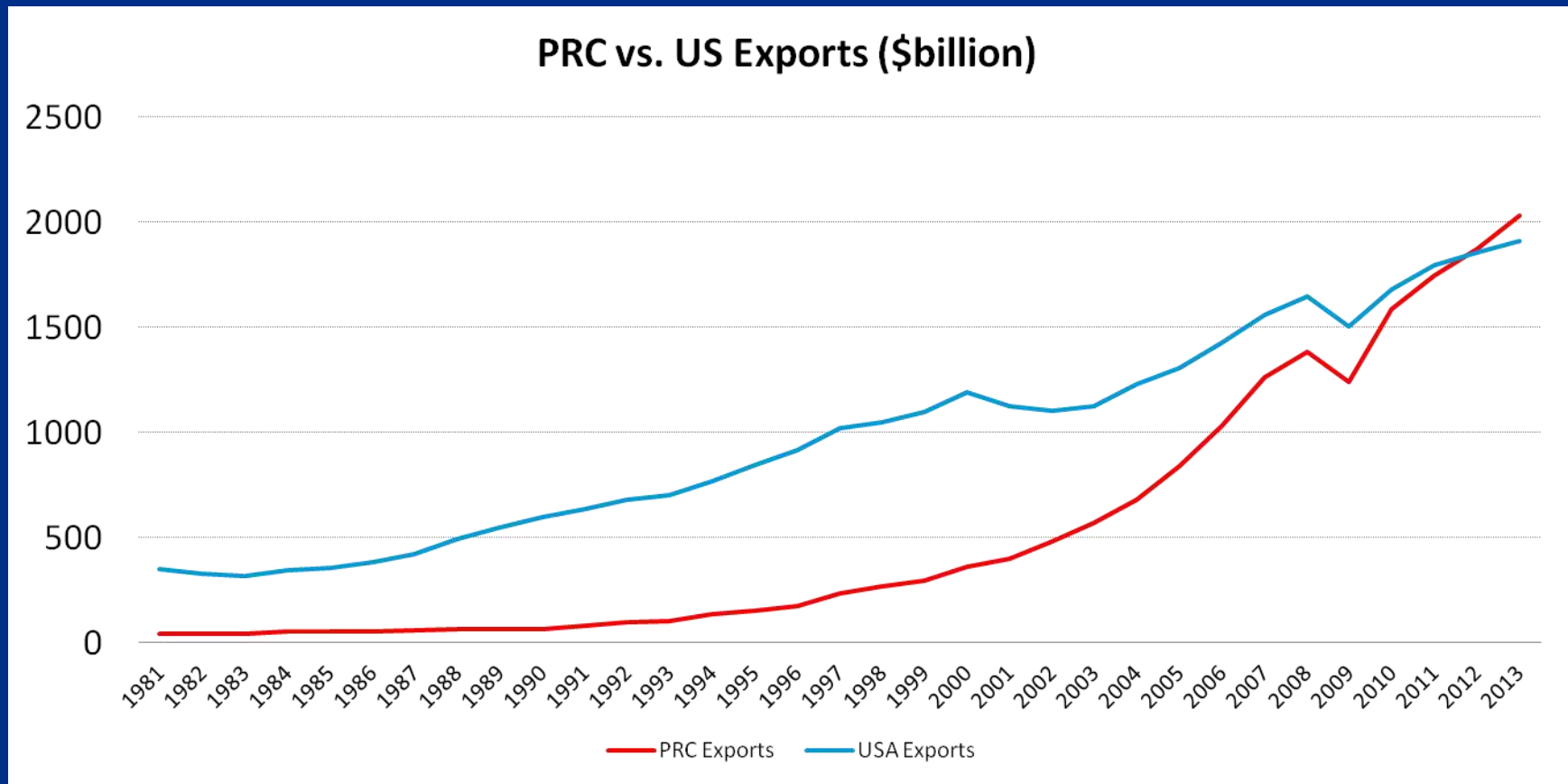
4.5 billion
cubic
meters
2005 levels

3. Share of non-fossil fuels

20%
primary
energy
source

ADB

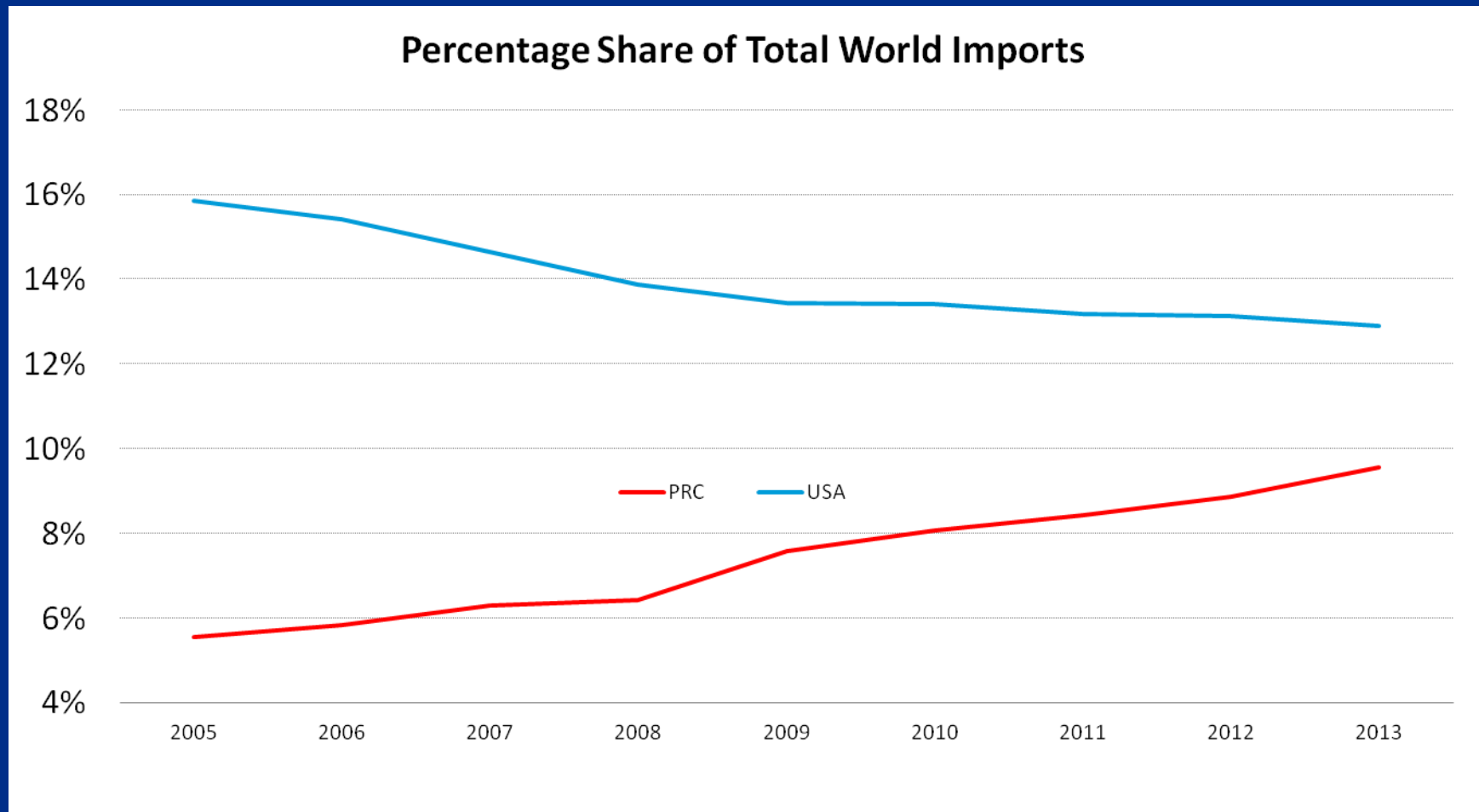
PRC's Total Export exceeded US in 2012



- Trade significant engine of growth for PRC, especially after WTO
- Yet, PRC's economy has shifted to domestic-consumption led
- In 2013, PRC became the biggest trading country in the world

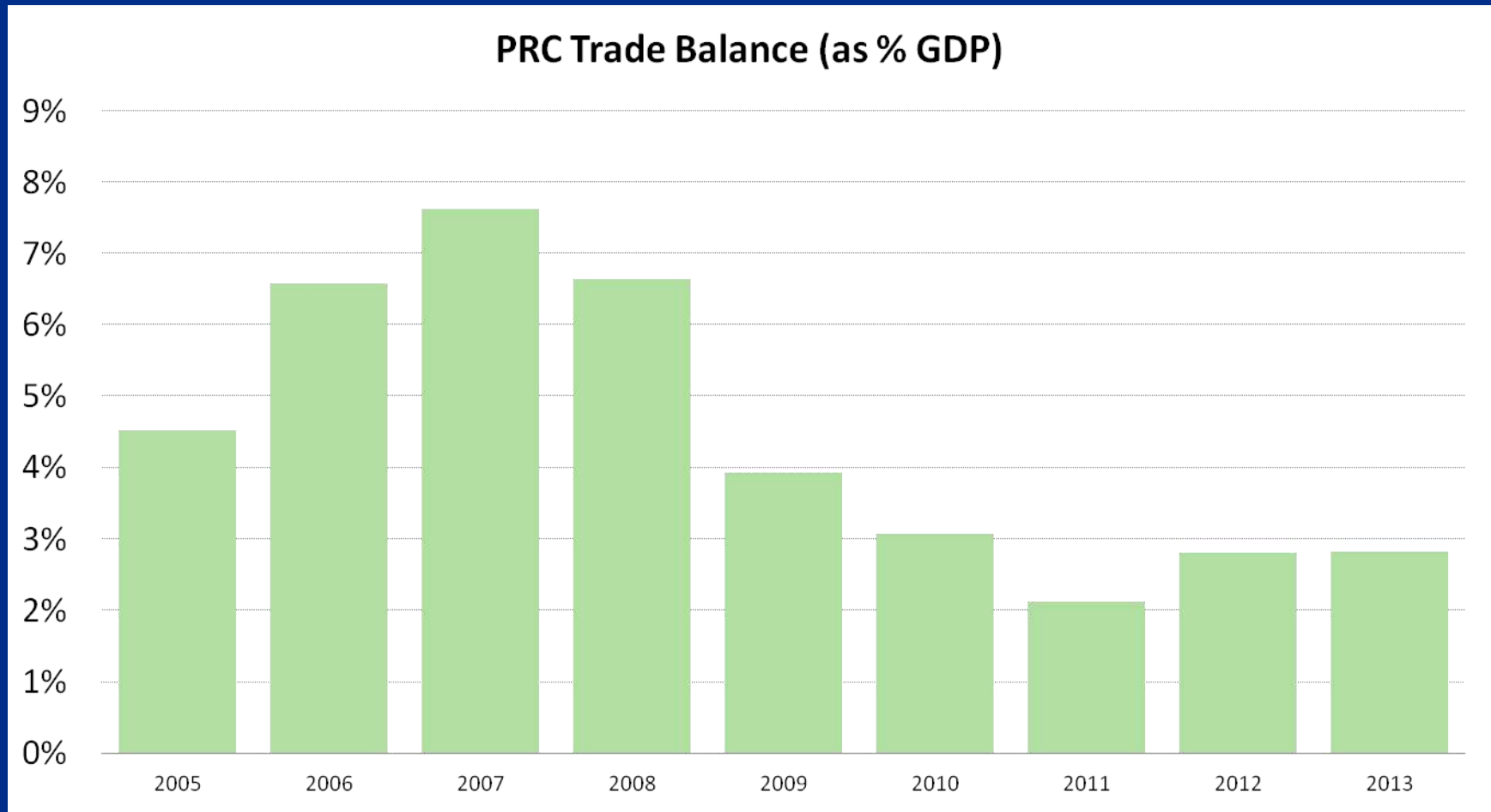
Import is also approaching the US level

(Total imports in 2012 exceeded \$2 trillion)



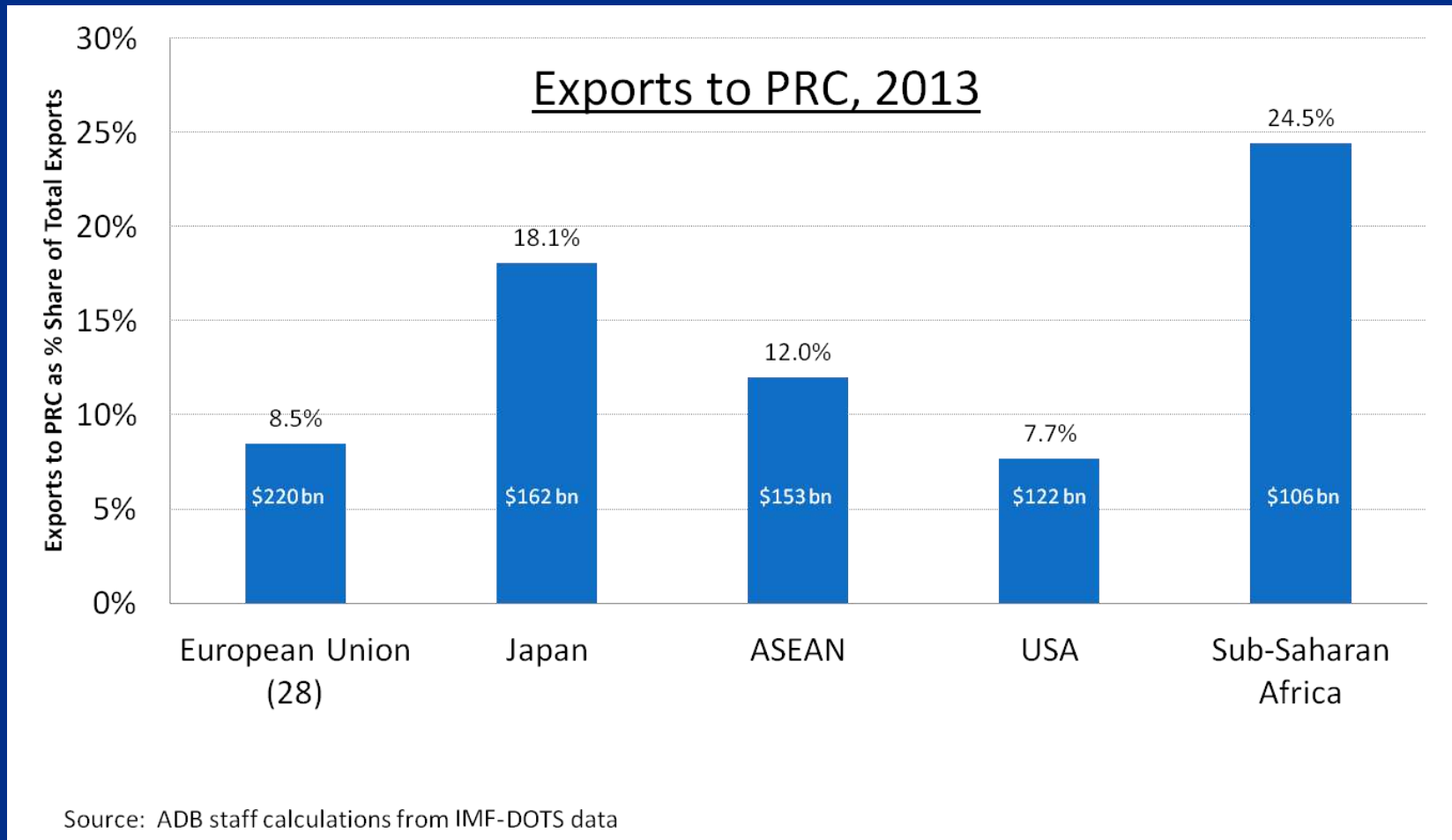
Source: ADB staff calculations from WTO data

... as a result, trade surplus is reducing



Source: ADB staff calculations from NBS Yearbooks

PRC Market is important for its trade partners



5th Plenum and 13th FYP

- Goal: Build a Moderately Prosperous Society by 2020
- Specific Targets/Actions
 - Medium-high economic growth
 - Realization of “ecological civilization” and green development
 - Inclusive development and building a modern social sector
 - Further opening up

ADB's Recommendations on the 13th Five Year Plan (1)

- Industrial Transformation
- Balanced Rural-Urban Development
- Human Resource Transformation
- Environmental Protection

ADB's Recommendations on the 13th Five Year Plan (2)

- Climate Change
- Water Resources
- Local Government Debt
- China's Further Internationalization

Country Partnership Strategy, 2016–2020

- Reflect “full scale” partnership
- Address challenges money alone cannot solve
- Focus on “regional and global public goods”
- “Knowledge ++”
- Use of ADB as “platform” for PRC’s regional contributions
- Establish a successful model to engage in upper middle income countries

“Full Scale” Partnership

- Lender-Borrower
(Public/Private Sectors)
- Knowledge Partner
- Collaborator in RCI programs
- PRC as ADB’s financial contributor

Strategic objective:
sustainable and inclusive development

Strategic priorities

Managing Climate Change
and the Environment

Promoting RCI

Supporting Inclusive
Economic Growth

Fostering Knowledge
Cooperation

Supporting Institutional
and Governance Reform

Sovereign and nonsovereign operations
to support strategic priorities

New Approaches

- Adoption of policy-based, and result-based lending
- Tapping OCR regional set-aside for cross-border projects
- Examine Government request for non/sub-sovereign public sector operations
- Public Private Partnerships

Private Sector Operations (PSO)

- Transactions with high demonstration impact under strategic priorities of CPS
- Opportunities to diversify into other areas
- Infrastructure and financial institutions

Lending Program

Year	Firm (\$ Billion)	Standby (\$ Billion)
2016	1.450	1.450
2017	1.600	1.560
2018	1.510	1.190

- \$0-500 million of stand-by projects are expected to be made firm every year
- PSO to build on earlier track record

Country Knowledge Plan

Approaches

- Ensure “One ADB” approach
- Systematize knowledge creation, management and use
- Leverage global knowledge and provide platform for South-South knowledge exchange

Themes

- Modernize state systems: filling the gaps
- Focus knowledge on climate change, environmental and social sustainability

Why is PRC still borrowing from ADB?

- Need for “top-down” reforms
- Capacity of the local governments
- “Innovation” requires knowledge
- Regional cooperation can be facilitated by an honest broker
- Mobilizing greater resources

ADB's partnership with AIIB

- Vast infrastructure investment needs in Asia
- AIIB is built on World Bank and ADB experiences
- High-level contacts
- AIIB in Heads of MDB meetings
- Project cofinancing
- Collaboration in project formulation



THANK YOU!



[For inquiries and comemnts
akonishi@adb.org](mailto:akonishi@adb.org)

