

**AFDI Lecture Series**

# **Role of Multilateral Development Banks in a Developing Country's Growth Process - A Case Study of ADB-PRC Partnership -**

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# Today's Topics

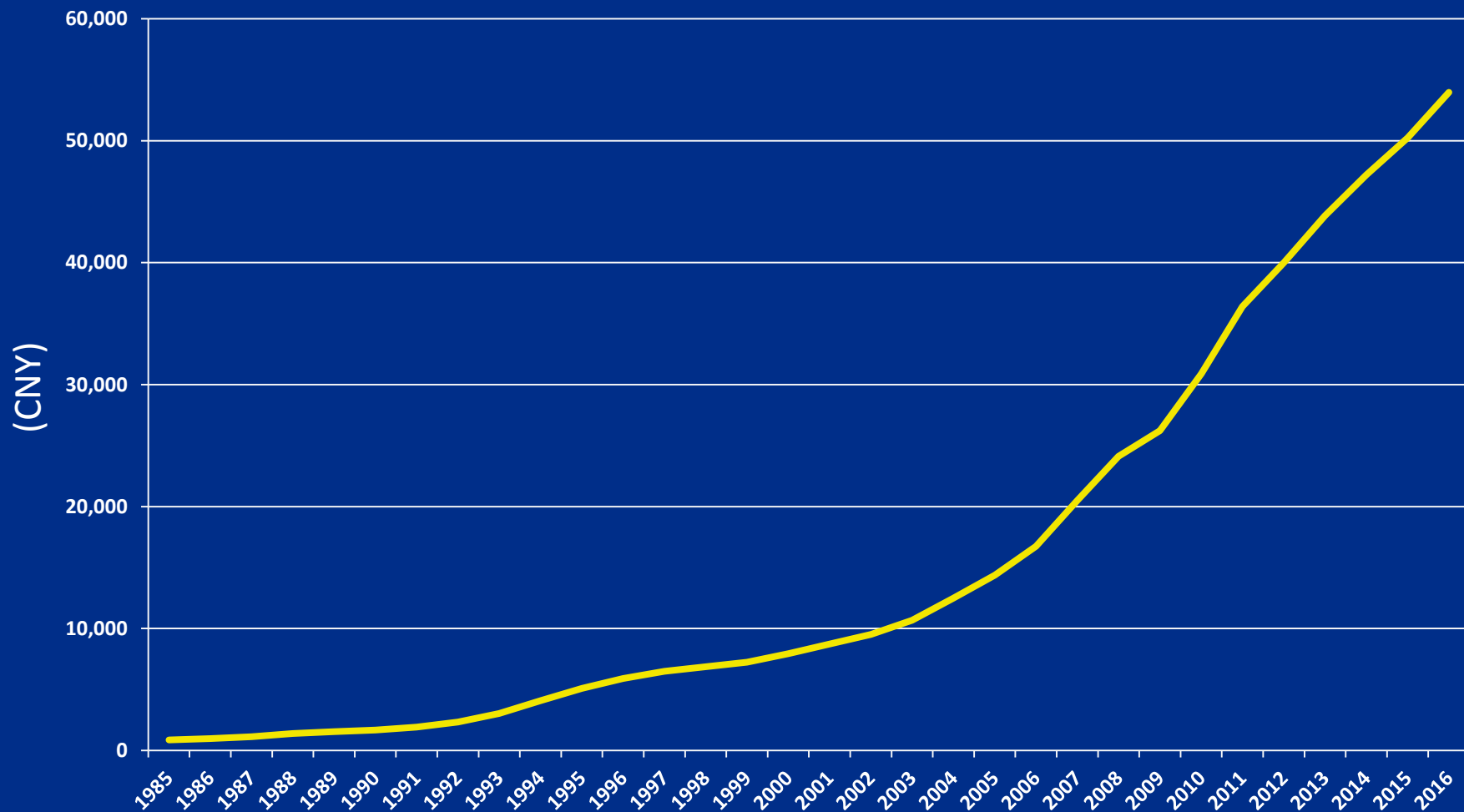
- Is ADB still lending to PRC?
- ADB–PRC relationship
- ADB's Operations in PRC
- Public Sector and Private Sector
- PRC's remaining development challenges
- ADB's Country Partnership Strategy with PRC, 2016–2020
- Why is PRC still borrowing from ADB?
- ADB's partnership with AIIB

# Is ADB still lending to PRC?

- Institutional aspect
  - “Financial Cooperative”
- Business Model
  - Financial intermediation

# PRC's Economic Growth

## GDP per Capita, 1985 – 2016 (nominal)



# On the relative “wealthiness” of PRC

Economy	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	14.2% (2015)	25.0% (2015)
Republic of Korea	1988 (ADB) excl. 1997 emergency loan	20%	31%
Singapore	1980 (ADB)	37%	56%
Japan	1966 (WB)	26%	45% (GDP PC PPP)
Hong Kong, China	1980 (ADB)	43%	55%

Note: Shares for KOR, SIN, JAP and HKG are as of year of last loan.

# 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 2016 is \$32.9 billion (2<sup>nd</sup> largest borrower)
- 2005: Became ADF donor. Also established PRC Fund for Poverty Reduction and Regional Cooperation
- 2016: Adoption of Country Partnership Strategy 2016-2020

# ADB Sovereign Operations in PRC

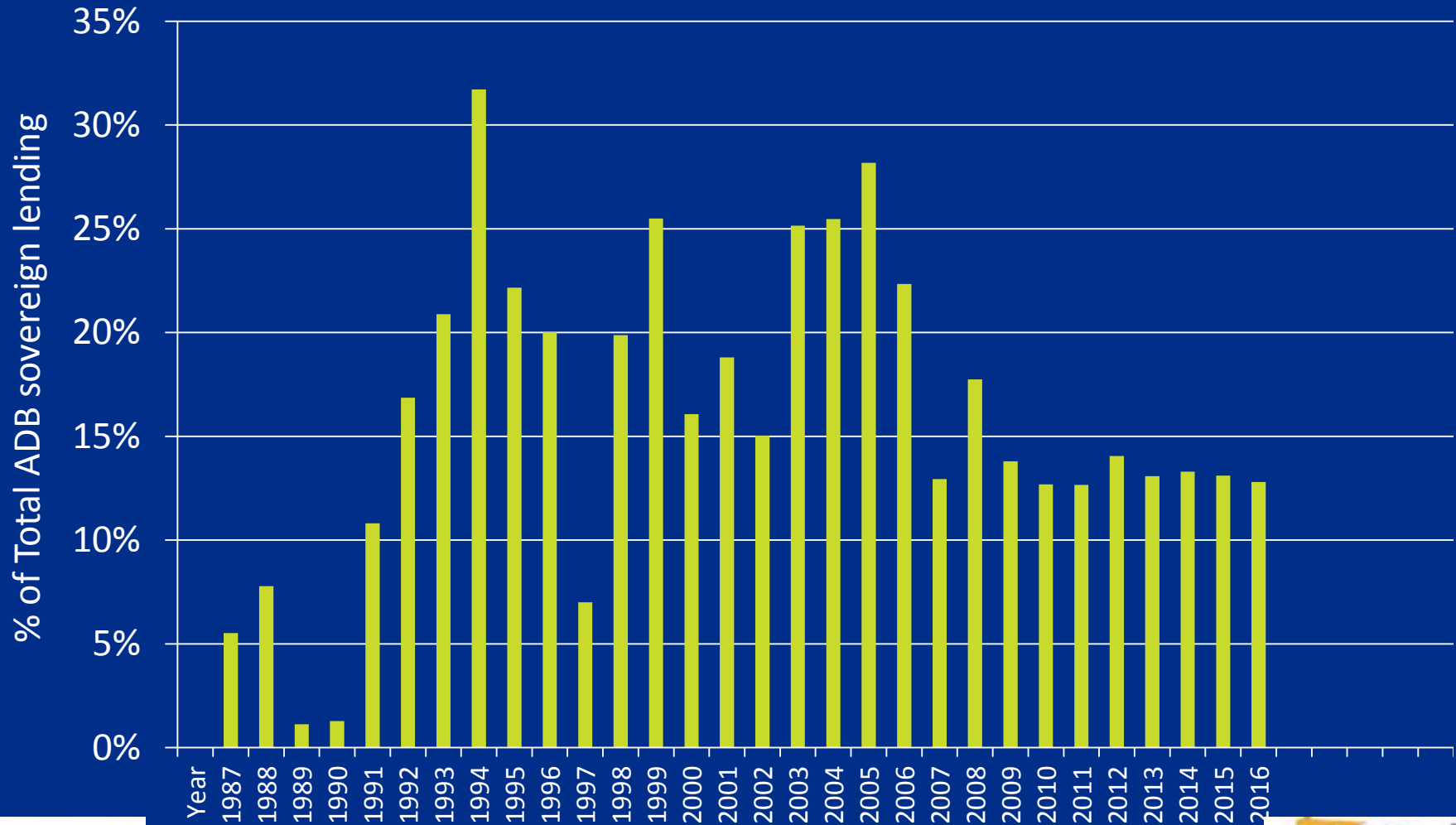
## (cumulative)

PRC Portfolio and Sector Distribution  
(1986–2016)

Sector	Number of Loans	Approved Loan Amount	
		\$ million	%
Transport and ICT	97	17,277.5	52.6
Agriculture and Natural Resources	42	4,191.3	12.8
Education	4	300.0	0.9
Water Supply and Other Municipal Infrastructure and Services	35	4,201.2	12.8
Finance	8	680.0	2.1
Industry and Trade	7	804.8	2.4
Energy	40	4,849.4	14.8
Health	1	50.0	0.2
Multisector	5	510.1	1.6
<b>Total</b>	<b>239</b>	<b>32,864.3</b>	<b>100.0</b>

# ADB's Sovereign Lending to PRC

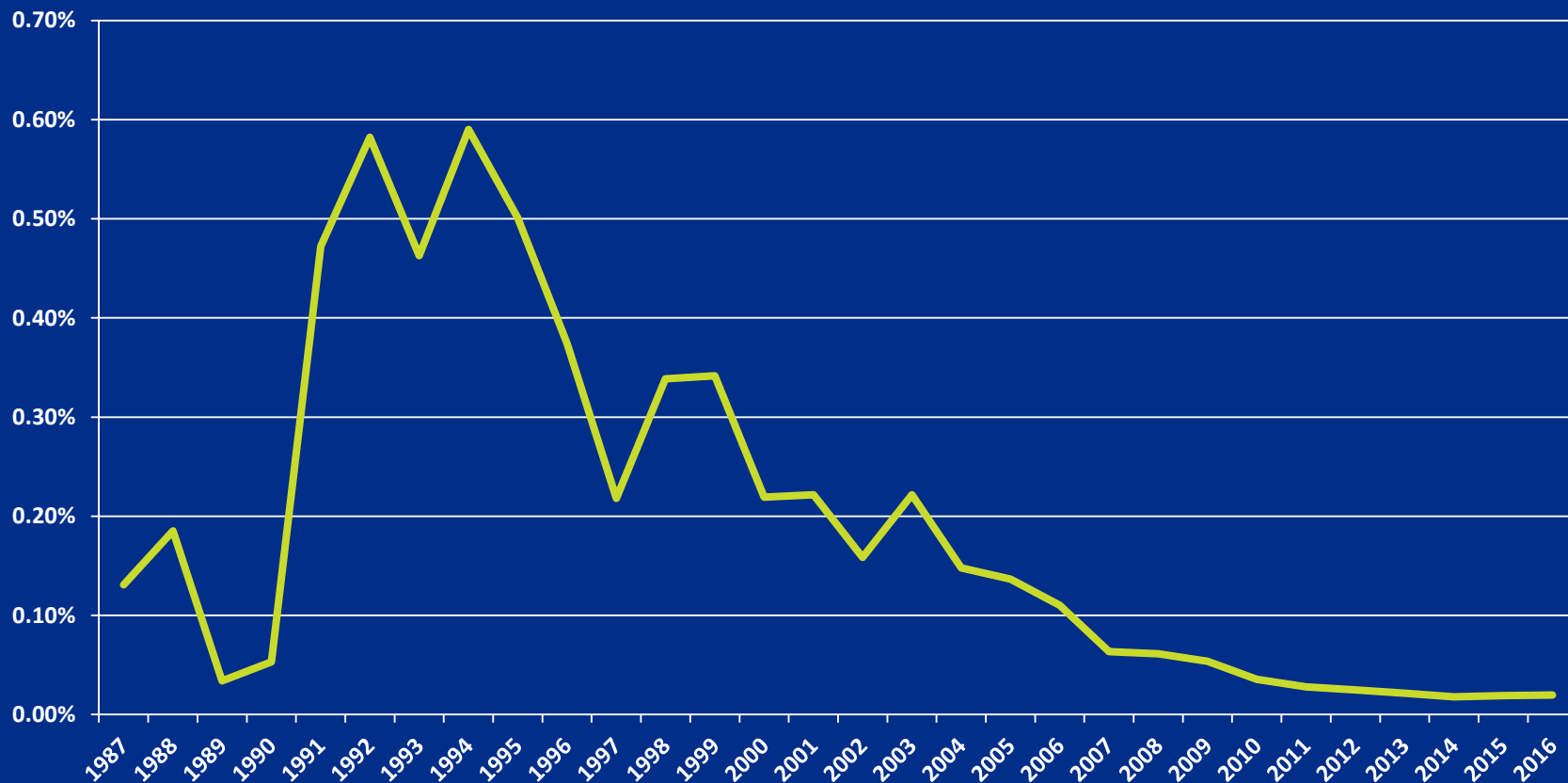
(share of ADF and OCR operations in total)





# Financial Significance of ADB lending for PRC

ADB Approvals as % of Total Fixed Asset Investment in the PRC, 1987–2016



# Projects in 1987

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

# 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
<b>Total</b>	<b>1,167.00</b>

# Projects in 2010

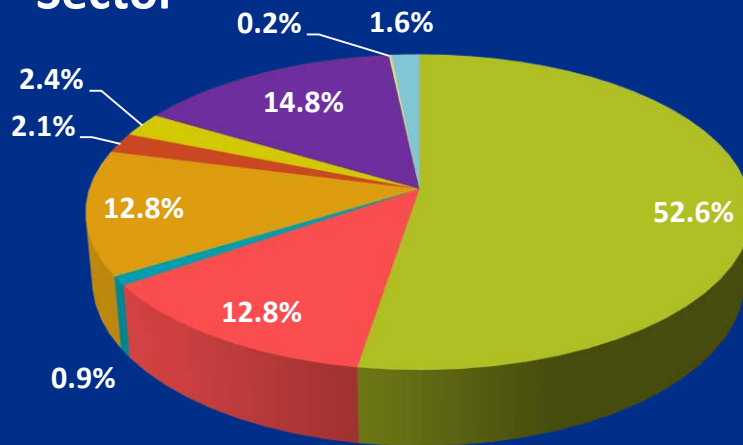
Project Name	Amount (US\$ million)
Railway Energy Efficiency and Safety Enhancement Investment Program - Tranche 2	100.00
Yunnan Integrated Road Network Development Project	250.00
Risk Mitigation and Strengthening of Endangered Reservoirs in Shandong Province Project	29.80
Jiangxi Sustainable Forest 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
<b>Total</b>	<b>1,320.88</b>

# Projects in 2016

Project Name	Amount (US\$ million)
Shaanxi Accelerated Energy Efficiency and Environment Improvement Financing Project	150.00
Air Quality Improvement in the Greater Beijing–Tianjin–Hebei Region – China National Investment and Guaranty Corporation’s Green Financing Platform Project	499.60
Shandong Groundwater Protection Project	150.00
Henan Hebi Qihe River Environmental Improvement and Ecological Conservation Project	150.00
Fujian Farmland Sustainable Utilization and Demonstration Project	100.00
Guangxi Regional Cooperation and Integration Promotion Investment Program Tranche 1	130.00
Qinghai Haidong Urban-Rural Eco Development Project	150.00
Public-Private Partnerships Demonstration Program to Transform Delivery of Elderly Care Services in Yichang, Hubei Province	50.00
Ningxia Liupanshan Poverty Reduction Rural Road Development Project	100.00
Chongqing Integrated Logistics Demonstration Project	150.00
<b>Total</b>	<b>1,779.60</b>

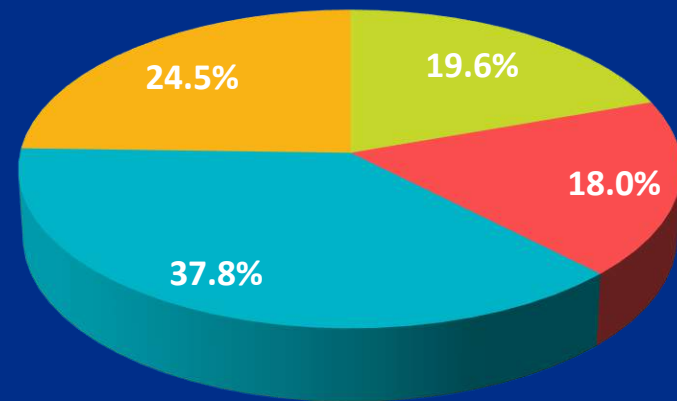
# Sector and Regional Distribution (ADB sovereign lending, 1986–2016)

**Sector**



- Transport
- Agriculture, Natural Resources and Rural Development
- Education
- Water and Other Urban Infrastructure and Services
- Finance
- Industry and Trade
- Energy
- Health
- Multisector

**Region**



- Nationwide
- Central
- Western
- East

# Current Portfolio

- Focus on Western provinces
- “Green Portfolio” to address climate change and environmental concerns
- Emphasis on key strategic issues (Beijing–Tianjin–Hebei region air pollution control, Yangtze River Economic Belt development, and regional cooperation and integration)
- Demonstrative and innovative projects
- Private sector and nonsovereign operations to complement sovereign operations

# Major Characteristics of Lending Operations in PRC

- No access to the Asian Development Fund resources from the beginning.
- “China Model”: final sub-borrower responsible for loan repayment, with guarantee from the upper government

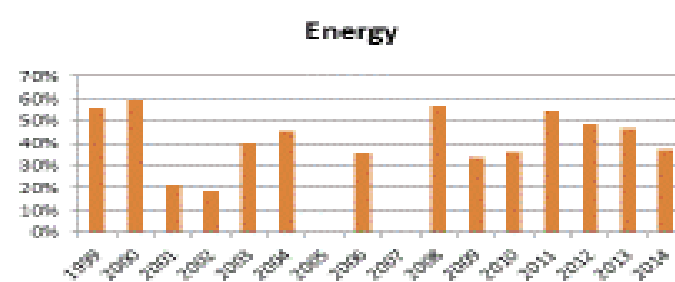
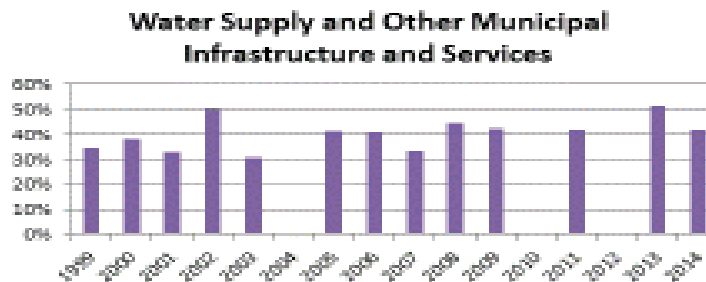
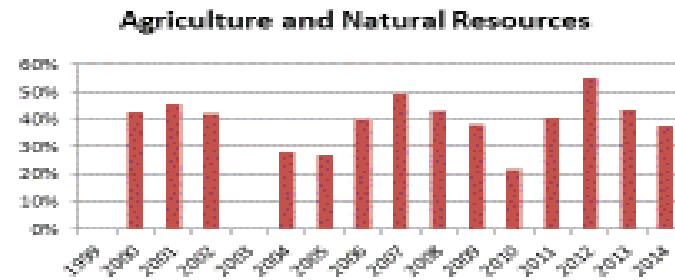
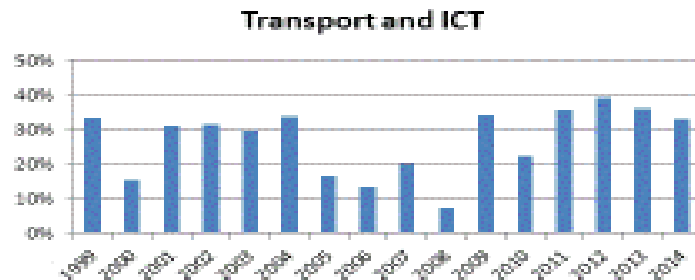


# 4 Major Shifts in Operation

- Since 2000: focus has moved to the Western Region to reduce poverty and inequality
- Since (around) 2005: shift from major infrastructure projects to demonstration projects
- 2015: approval of first policy-based and results-based loans
- 2016: adoption of a framework approach to address key development challenges

# ADB Financing Share of the Total Project Costs

## ADB Financing Percentage by Sector (1999-2014)



# Public and Private Sector Operations

	<b>EARD (\$m)</b>	<b>PSOD (\$m)</b>
<b>2011</b>	1,340	200
<b>2012</b>	1,470	519
<b>2013</b>	1,540	715
<b>2014</b>	1,490	1,058
<b>2015</b>	1,729	725
<b>2016</b>	1,780	520

	<b>World Bank (\$m)</b>	<b>IFC (\$m)</b>
<b>FY 2011</b>	1,771	428
<b>FY 2012</b>	1,293	631
<b>FY 2013</b>	1,648	778
<b>FY 2014</b>	1,655	544
<b>FY 2015</b>	1,856	1,005
<b>FY 2016</b>	1,995	1,230

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 (2011–2016):  
\$623 million
- Cofinancing with 46 banks during 2011–2016
- \$92 million invested in 4 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 and B-loans/complementary loans approvals are \$539 million in 2012, \$715 million in 2013, \$1,058 million in 2014, \$725 million in 2015, and \$520 million in 2016.

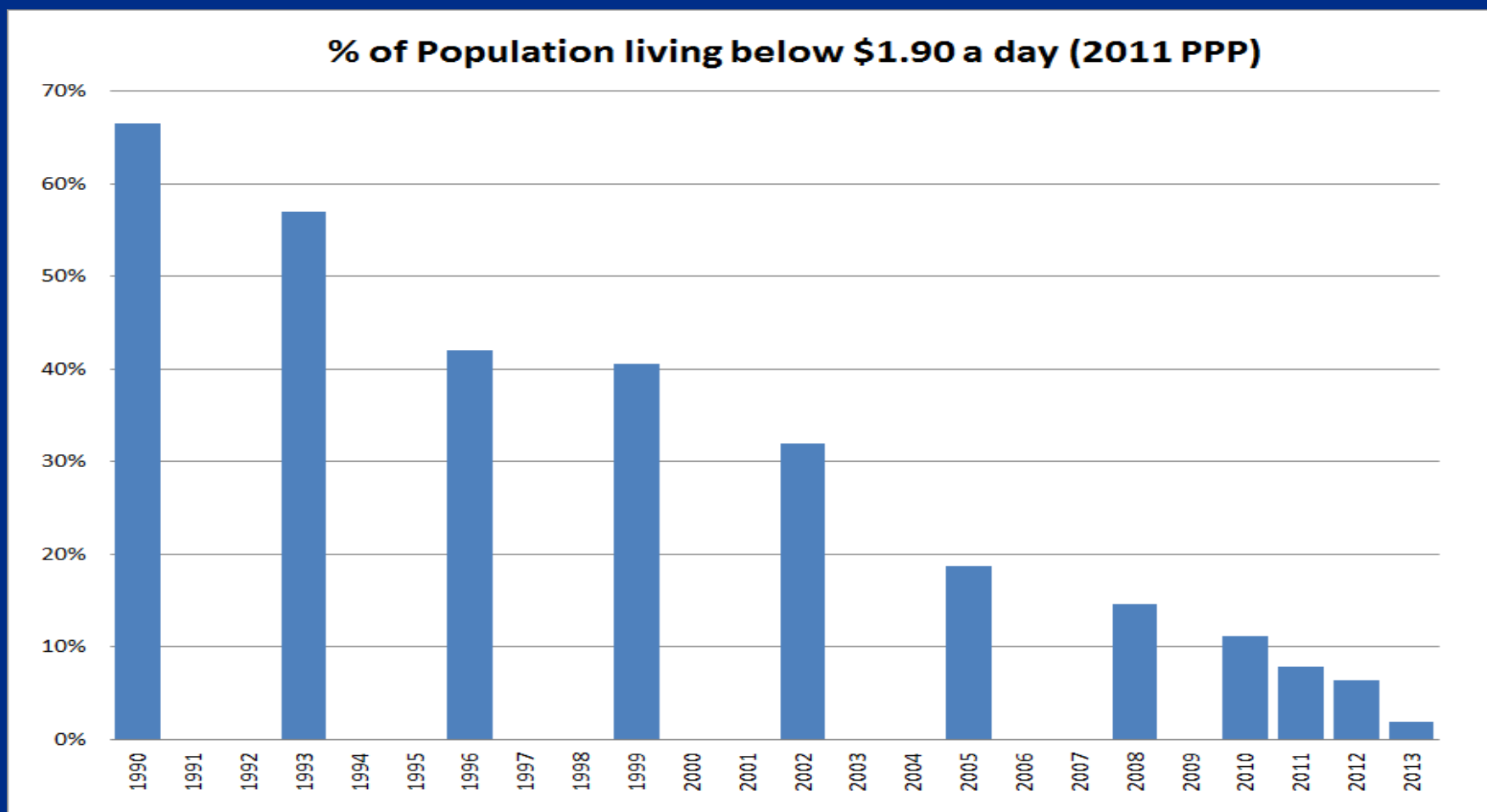
# Case Study: Inner Mongolia Wind Power Generation



- ADB considers China's energy choice is a global concern given PRC is the world's largest CO<sub>2</sub> 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 CO<sub>2</sub> emission.



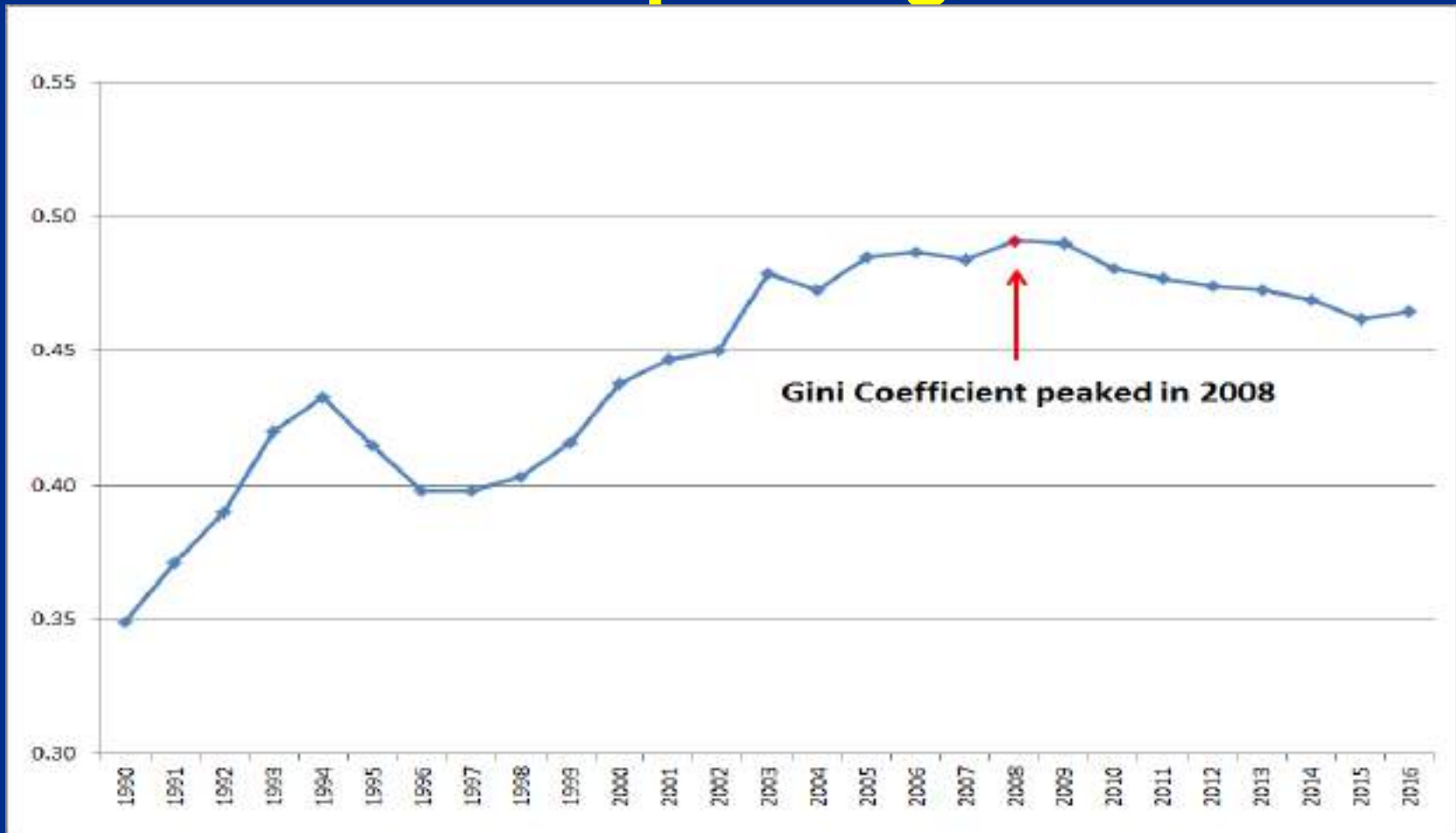
# PRC's Remaining Development Challenges



Source: *World Development Indicators Database*

The number of poor in the PRC declined from 877 million (1981) to 25 million (2013) based on the PPP \$1.9 per day poverty line

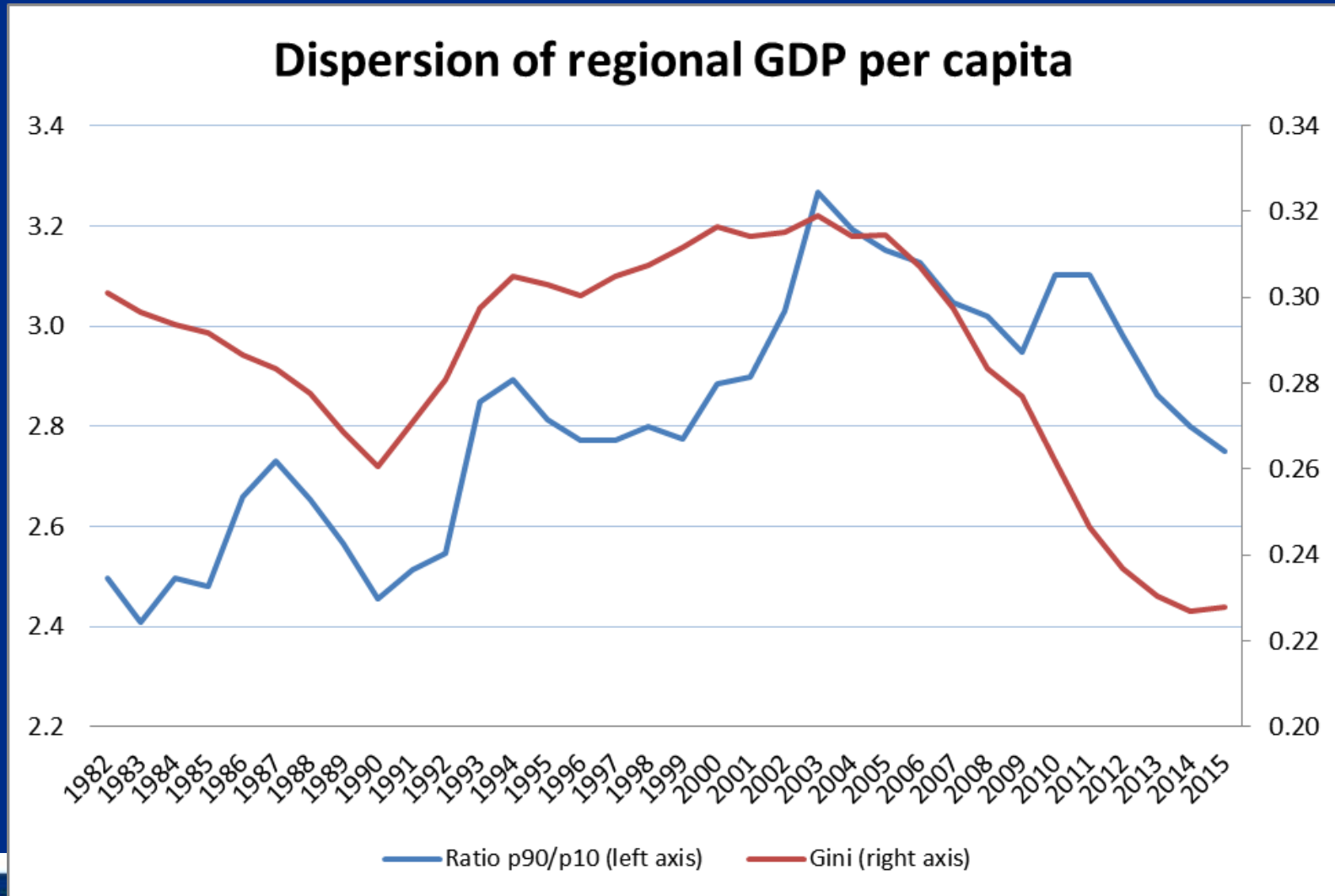
# Inequality is large but gradually improving



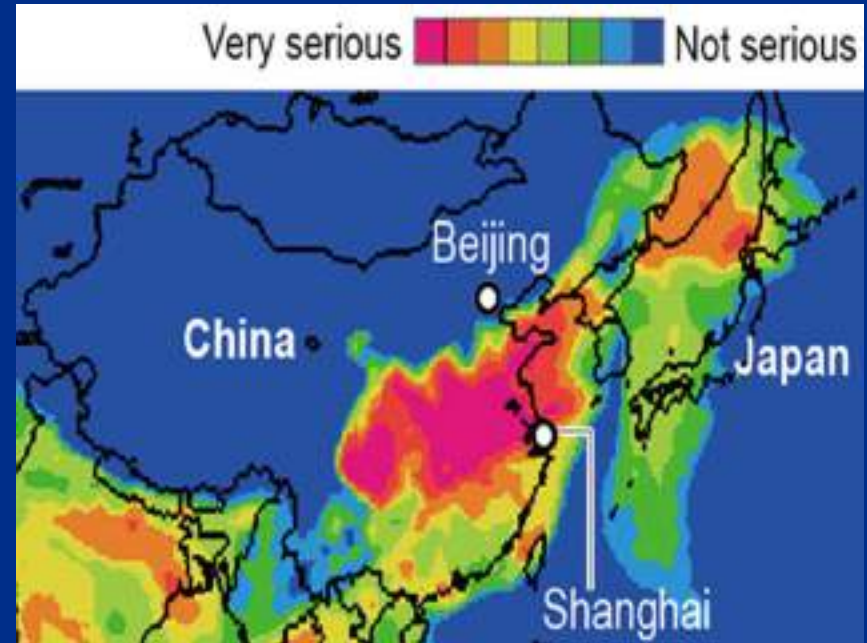
Source: NBS, [http://uschinacenter.as.nyu.edu/docs/IO/32612/Li\\_shi\\_paper.pdf](http://uschinacenter.as.nyu.edu/docs/IO/32612/Li_shi_paper.pdf)



# 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 CO<sub>2</sub> emissions

2. CO<sub>2</sub> emissions/unit of GDP

60 - 65%  
2005 levels

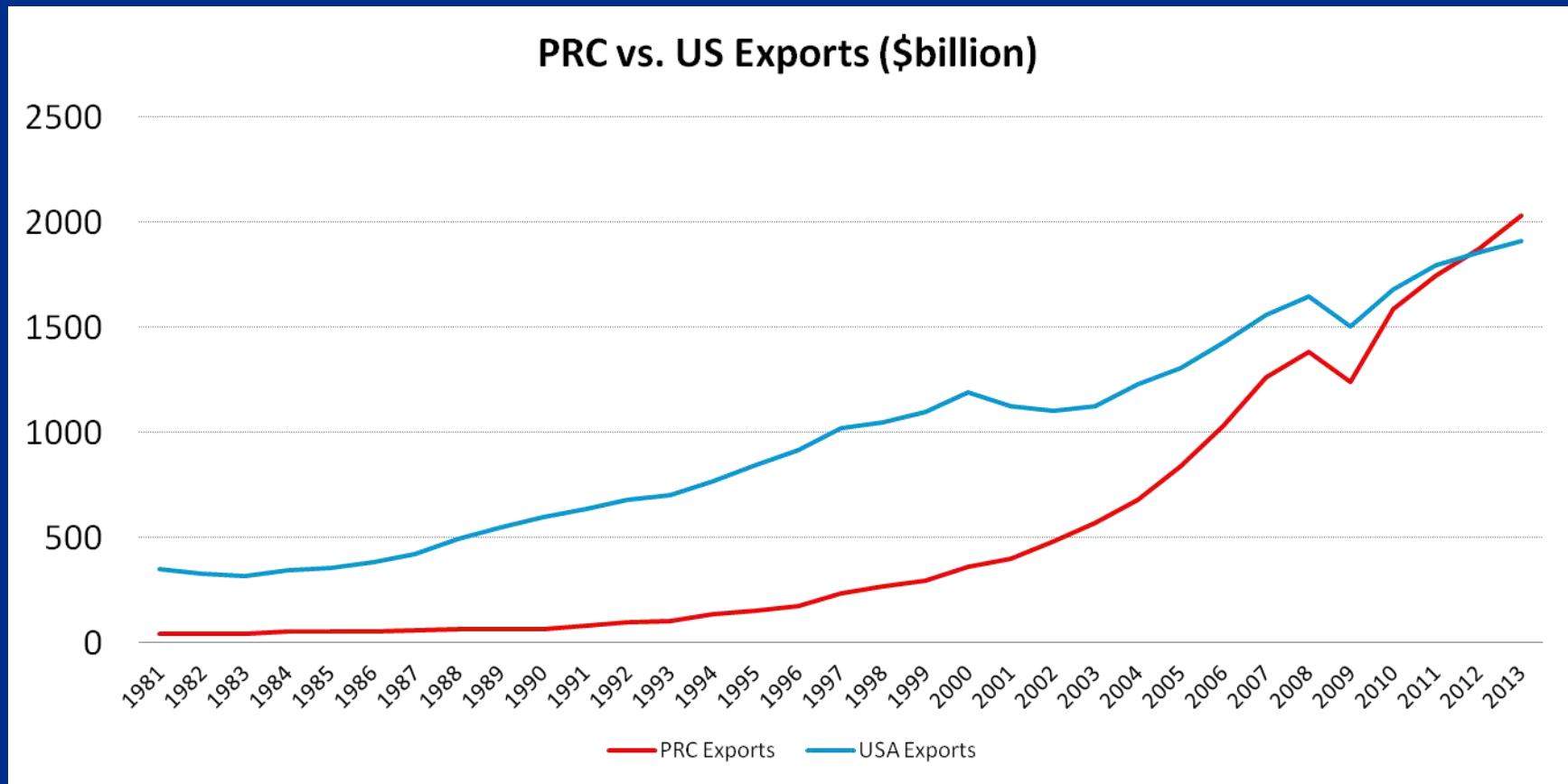
3. Share of non-fossil fuels

20%  
primary  
energy  
source

4. Forest stock volume

4.5 billion  
cubic  
meters  
2005 levels

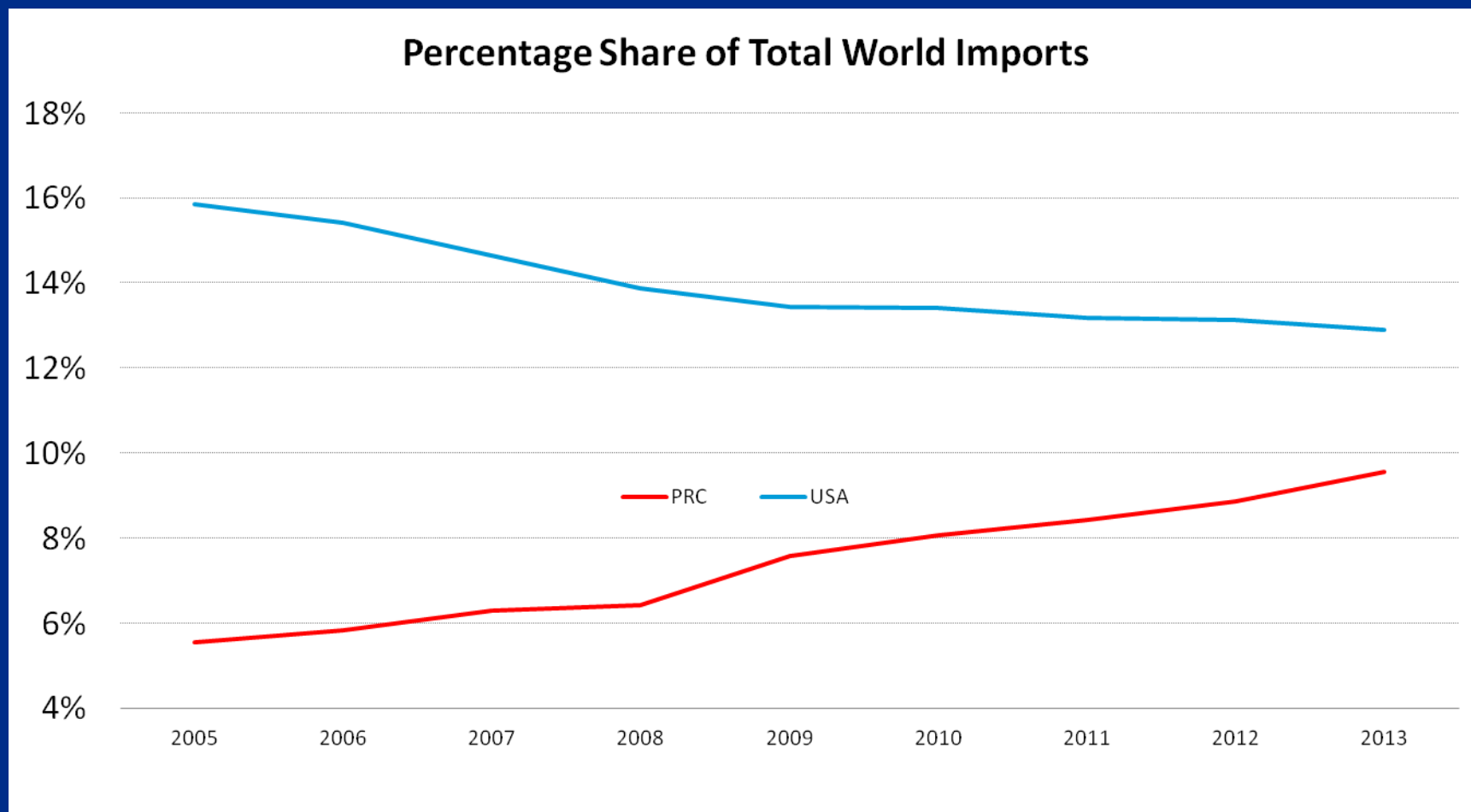
# PRC's Total Export exceeded US in 2012



- 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

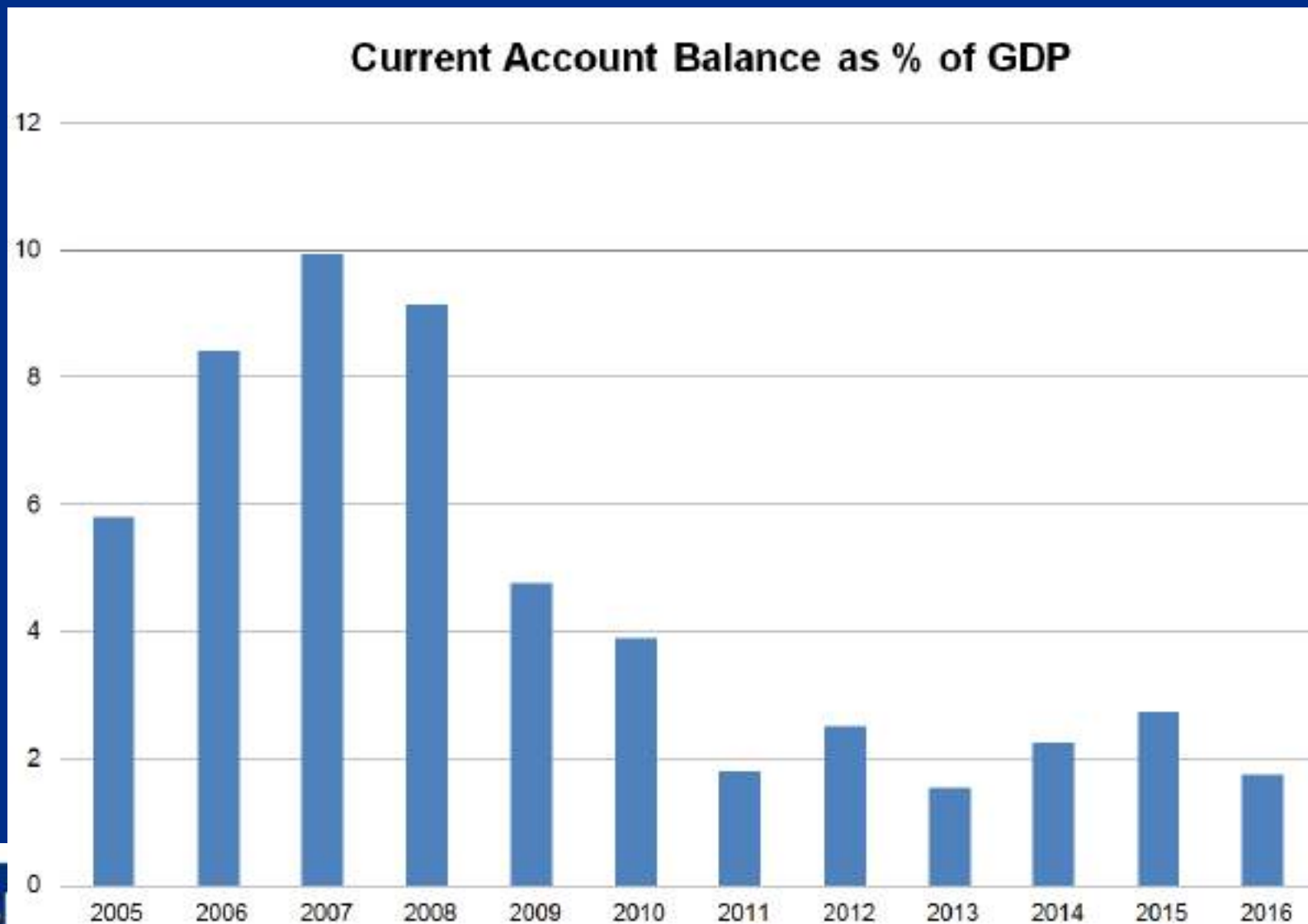
# Import is also approaching the US level

(Total imports in 2012 exceeded \$2 trillion)

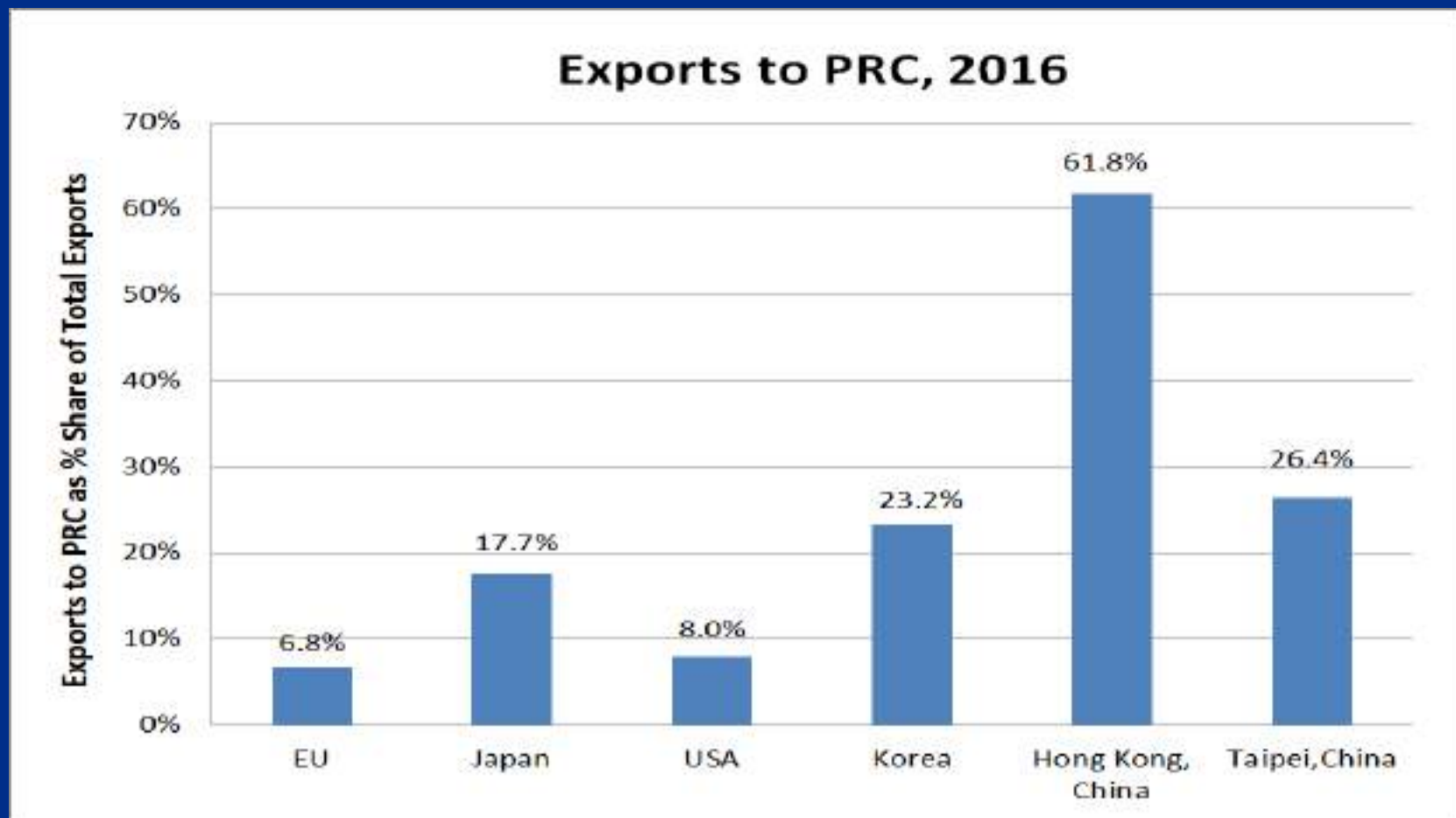


Source: ADB staff calculations from WTO data

... as a result PRC's current account surplus is declining



# PRC Market is important for its trade partners



# 5<sup>th</sup> Plenum and 13<sup>th</sup> 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 13<sup>th</sup> Five Year Plan (1)

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

# ADB's Recommendations on the 13<sup>th</sup> 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 results-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	Programmed amount (\$ Billion)
2017	1.840
2018	1.920
2019	1.950

- 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!**



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