

PRC: Success Drives Demand for More Innovative and Responsive Services

- ADB and others have provided the PRC with a successful development experience by bringing in state-of-the-art technical, financial, and management expertise.
- The PRC is now a middle-income developing member country and it does not follow that the services that helped in the past will add value in the future. Diversification focused on limited geographic areas or sectors will allow ADB to innovate and continue to add value.

Background

Economic growth in the **People's Republic of China** (PRC) over the past twenty years has been exceptional. In the Asian Development Bank (ADB), the PRC is now categorized as a **middle-income developing member country**. ADB's **country assistance program** in the PRC is solid. Because ADB's portfolio there is one of the best, the second **country assistance program evaluation**¹ focused on strategic and institutional aspects of **ADB interventions in the PRC** and on the thrust of operations from 1998–2005. The study team drew on recent **evaluation studies**, examined ongoing projects, and carried out surveys on the effectiveness of technical assistance and client perceptions of ADB.

Summary of Findings

In keeping with the **Guidelines for the Preparation of Country Assistance Program Evaluation Reports**, ADB's success was assessed in terms of strategic positioning, institutional positioning, value-added to development results, and sectoral performance. The first three perspectives led to a top-down assessment of whether ADB had done the "right thing". The fourth embodied a bottom-up approach querying whether ADB had "done things right".

The study rated strategic positioning successful bordering on highly successful. It rated institutional positioning partly successful. Value added to

development results and sectoral performance were rated successful. The overall rating of ADB's program was successful. The main weaknesses identified pertained to institutional positioning, and are systemic concerns for middle-income countries. ADB's shortcomings have related to (i) the way technical assistance has been used; (ii) weak capacity and incentives to support knowledge transfer and innovation; and (iii) institutional structures and bureaucratic procedures that weaken responsiveness, notwithstanding improvements due to the establishment of the **PRC Resident Mission** in 2000.

The PRC would have succeeded with or without ADB. But, progress has been more rapid, consistent, and sustainable within the framework of its partnership with ADB. ADB has added value as a consistent, trusted, and long-term partner, appreciated equally as a reliable financier as for transferring knowledge and developing options through 140 loan and 500 technical assistance projects. At the same time, the PRC's development experience has been marked by strong government ownership—a major reason for the quality of the program—and rapid development of capacity. For ADB, continuation of "business as usual" in traditional sectors is, in some provinces, not advisable.

- **Alignment of Country and ADB Strategies.** If the Government's strategy and policies are deemed to be working, ADB should draw on its comparative

advantages and skills mix to develop programs and provide services where it can add the most value within the Government's framework. However, a delicate balance must be struck between relying excessively on client preferences and providing alternative views that might challenge current views.

- **Building on the Positive Aspects of Strong Client Ownership and the "Beneficiary Must Pay" Principle.** The enhanced accountability resulting from beneficiaries being responsible for repaying a portion or most of the loan has been a powerful instrument to ensure that a project is well designed and implemented. However, the country's financial and monitoring systems are now more developed and some flexibility would be appropriate for projects that offer potential for innovative solutions to address social and poverty problems.
- **Regional Cooperation.** The ADB-PRC partnership has potential to determine the future path of regional cooperation and economic prosperity in Asia. As an honest broker with a regional focus and expertise, ADB can support the PRC in continuing with a multilateral approach while intensifying efforts in other areas of regional cooperation.
- **Overcoming the Inertia and Bureaucratic Obstacles to Providing Better Services.** In the PRC, there are concerns about the efficiency of ADB's operations. These relate to cumbersome procedures, excessive delays, and inadequate core project-related services. More systemic issues revolve around ADB's operational reliance on consultants.
- **Rationalizing the Use of Advisory Technical Assistance.** The PRC has the capacity and commitment to take on responsibility for implementation of advisory technical assistance projects. This could free ADB staff resources, which might be deployed in project supervision or in innovation initiatives and technology transfer.
- **Creating the Atmosphere for a More Innovative and Knowledge-Oriented Bank.** ADB's systems have not evolved quickly enough to fit the PRC.

Recommendations

The study gave directional inputs to the preparation of a new country partnership strategy. In short:

- **Strengthen the Quality of Nonlending Operations for Better Innovation and Knowledge Products.** ADB should leverage advisory technical assistance

projects, raise the efficiency of project preparatory technical assistance projects, and use the ideas of counterpart agencies and local think-tanks.

- **Diversify the Lending Program.** ADB should select areas to focus on, retain a critical mass of lending there, and develop the supporting skills base.
- **Increase Private Sector Operations.** ADB should draw a roadmap and equip the PRC Resident Mission for proactive business development in private sector operations.
- **Increase ADB Responsiveness to Client Concerns.** ADB should strengthen the PRC Resident Mission's capacity to improve client services, strike a balance between in-house expertise and consulting skills, move to client execution of advisory technical assistance projects, and pilot test the use of country systems for environmental safeguards against ADB's updated environment policy.
- **Deepen Regional Cooperation Initiatives.** ADB should provide a strategic framework and intensify its involvement as an honest broker in a few key areas such as transport and trade facilitation, cooperation on cross border issues, trade agreements on energy and commodities, and dissemination of development knowledge and lessons learned.

Feedback

ADB Management's Response agreed with all the recommendations, noting that these validate the importance of ADB-wide reform initiatives. The **Chair's Summary of the Development Effectiveness Committee Discussions** confirmed the overall assessment rating. It acknowledged the very strong relationship that exists between the PRC and ADB. However, it noted that the relationship needs to be renegotiated a little to give ADB more room to maneuver in terms of program design, project location, and financing issues. Knowledge transfer from ADB to the PRC should include learning how to use already available knowledge and drawing lessons from other countries.

¹ ADB. 2007. *Country Assistance Program Evaluation for the People's Republic of China: Success Drives Demand for More Innovative and Responsive Services*. Manila. Available: <http://www.adb.org/Documents/CAPES/PRC/CAPE-PRC.asp>