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Helping Accelerate Poverty Reduction in Asia and the Pacific

IMPROVING THE HEATING SUPPLY FOR THE URBAN POOR: A PRC EXPERIENCE

Technical Assistance (TA) 4402, Heating Supply for Urban Poor in Liaoning Province, was designed to support the provincial government of Liaoning in reforming the urban heating supply sector.

Urban heating demand in the People's Republic of China has grown rapidly because of rising incomes, privatization of housing, and rapid urban development. Increased heating demand is particularly evident in Liaoning Province, which has experienced a 14% annual growth rate over the past decade—between 1992 and 2003.

The province has a population of about 41 million, 55% of whom live in urban areas. Liaoning is the highest energy-consuming province in the PRC due to its industrial structure and large urban population. During winter, temperature can dip to minus 35 degrees Celsius; thus, insufficient heating severely affects the quality of life and health of the poor.

Because of limited public resources, the Government of Liaoning Province (GLP) relied on households to finance their own heating costs, but this created significant problems for the urban poor. Recognizing this, the GLP developed assistance programs to reduce heating costs.

In 2001, the Asian Development Bank (ADB) provided Technical Assistance (TA) 3673,¹ Pro-Poor Urban Heating Tariff Reforms, to help the Ministry of Construction reform the urban heating sector and promote sustainable urban heating supply in the PRC by formulating pro-poor national heating tariff guidelines and establishing an effective heating tariff collection mechanisms. In October 2005, the Ministry of Construction and the National Development and Reform issued a heating tariff adjustment guideline to incorporate coal price changes. Liaoning was a pilot province under TA 3673. The aim was to help solve the urban heating shortage, improve the financial viability of heating service companies, and ensure adequate and affordable heating for the poor.

Successful implementation of the national-level recommendations² of TA 3673 required specific actions and investments at the provincial level. This depended on the GLPs ability to institutionalize a system of close monitoring,

supervision, and evaluation of policy implementation, and impact at the provincial and local levels.

Reforming Heating Tariffs and Developing Assistance Programs

TA 4402-PRC:Heating Supply for Urban Poor in Liaoning Province³ was designed to support the provincial government of Liaoning in reforming the urban heating supply sector. The TA aimed to help the GLP provide adequate and affordable heating for the urban poor by supporting the GLP: (i) develop a plan to implement consumption-based two-part heating tariffs, (ii) improve heating tariff collection, and (iii) design heating assistance programs for the poor.

After going through the preparatory phase, the TA: (i) produced an action plan for implementing national heating assistance guidelines; (ii) designed heating assistance programs and assessments; (iii) developed a monitoring, supervision, and evaluation system; (iv) carried out an international field study to expose selected personnel to the latest trends and international best practices (Poland, Hungary, Bulgaria, Estonia, Lithuania, Latvia, and the United States) in heating assistance programs for the poor; and (v) an international seminar on heating supply for the poor, to which international and domestic experts were invited to present papers and participate in discussions.

The TA significantly contributed to producing and implementing a heating supply strategy for Liaoning Province that was sustainable and appropriate to the needs of the population. It ensured that the program design to implement policy was responsive to the needs of the urban poor at large. It helped the provincial government (i) implement national heating tariff guidelines; (ii) improve heating tariff collection; (iii) design heating assistance programs for the poor; and (iv) develop an effective monitoring, supervision, and evaluation system at the provincial and local levels. The TA also encouraged the GLP to

engage in policy dialogue with service providers and potential service users to design an appropriate heating supply strategy.

TA 4402's pro-poor approach was consistent with and supported both the GLP's development objectives and ADB's energy sector strategy.

TA 4402 Recommendations⁴

Implementation of the heating strategy in Liaoning Province has led to the following recommendations:

1. Heating Subsidy Programs for the Poor

- The GLP should request the central Government to provide adequate funding for the heating subsidy programs on a long-term basis.
- The need for simple eligibility criteria. In the case of Liaoning, monthly household income was used as the sole eligibility criterion for heating subsidies.
- Heating supply is a problem not only of the poorest households but also of poor households living above the poverty line. Subsidy programs should thoroughly assess need and be designed with sufficient flexibility to be able to appropriately expand their program coverage.

2. Implementation of Consumption-Based Heating Tariffs

- Two-part heating tariffs are appropriate to the requirements of both suppliers and consumers so that: (i) fixed heating charges recover the fixed costs of providing heating services regardless of units of heat consumed; and (iii) variable heating charges cater for consumer differences in heating requirements.

3. Facilitating Private Sector Participation

- Participation of the private sector is essential to help finance the enormous capital requirements in the sector.
- If the private sector funded 20–40% of the total incremental capital requirements, this would reduce the need for government financing by between CNY11 billion–22 billion over the next 10 years, such savings can be used to fund other basic services that the poor need.
- Encouraging private investment may require institutional reforms of state-owned heating companies.
- Private sector engagement may require different options for their participation such as an operation/management contract, leasing, concessions, joint venture equity participation through the stock market, or some form of privatization.

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⁴ TA 4420-PRC Final Report: Heating Supply for Urban Poor in Liaoning Province. PA Consulting Group, 25 May 2006.

Endnotes

¹ Technical Assistance to the People's Republic of China for Pro-Poor Urban Heating Tariff Reforms.

² TA 3673 was completed in December 2004. In October 2005, the Ministry of Construction and the National Development and Reform issued a heating tariff adjustment guideline to incorporate coal price changes. The issued guideline is similar to the recommendations made in that TA. Since 2003, over 40 cities have participated in the nation's pilot program on the heating sector reform similar to the reform recommendations made in TA 3673.

³ TA 4402-PRC: Heating Supply for Urban Poor in Liaoning Province. Executing Agency: The Liaoning Provincial Development and Reform Commission (LPDRC).

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