

A woman with dark hair, wearing a yellow cardigan over a blue top, is looking down at a laptop screen. The scene is dimly lit, with a warm, yellowish light source creating a soft glow on her face and the laptop. The background is dark and out of focus.

# East Asia

People's Republic of China, Mongolia

The People's Republic of China (PRC) has emerged as a leading producer of manufactured exports, with strong growth occurring across a range of sectors. Mongolia has also experienced strong growth recently. Both countries are active in regional cooperation programs.



A new country partnership strategy for 2008–2010 was drafted for the PRC in consultation with the Government. The strategy focuses on resource efficiency and environmental sustainability, inclusive growth and balanced development, regional cooperation, and private sector development. Knowledge, innovation, and governance support are crosscutting themes. In Mongolia, ADB's assistance is directed mainly at private sector-led economic growth and inclusive social development to achieve the country's Millennium Development Goals. Infrastructure projects remain a key component of the program. ADB's nonsovereign approvals in the region totaled \$534 million (Statistical Annex 10).

The PRC has been active in regional cooperation programs and initiatives, including the Central Asia Regional Economic Cooperation (CAREC) Program and the Greater Mekong Subregion (GMS). Demand from the PRC has strengthened economies in the region and beyond. Regional transport development is a focus of Mongolia's participation in CAREC. Mongolia also participates in CAREC's Coordination Committee on Trade Facilitation to promote cross-border trade and customs cooperation. Both the PRC and Mongolia have participated as well in subregional cooperation initiatives to prevent sand and dust storms and reduce transboundary pollution in Northeast Asia. Technical assistance to the PRC and Mongolia has helped develop investment regulations, economic development strategies, competition policy, laws, and standards.

The comprehensive project performance management system and portfolio management action plan of the East Asia Department have constantly guided project processing and implementation, and have improved project design from concept design to project completion. Project-readiness filters and checklists specific to countries are an important component

## HIGHLIGHTS

- Reinforced ADB's leading role in advancing health sector reforms in Mongolia through the Third Health Sector Development Project
- Encouraged policy discussion with the Government on sustainable development and environmental management through three loans and six technical assistance projects in the PRC urban sector
- Provided knowledge products and services to the PRC, including a policy note on food safety submitted to senior officials and a study on inclusive growth
- Supported efforts to lower the carbon intensity of energy development in the PRC by promoting renewable energy and energy efficiency projects in Gansu and Guangdong provinces
- Promoted interprovincial cooperation, knowledge sharing, and public-private partnership in the energy, and water supply and waste management sectors

of the action plan. In the case of the PRC, a six-point portfolio management action plan was reconfirmed with the Government during the country portfolio review mission in August. A strong focus on project administration and more mission days spent on problem projects helped resolve implementation issues.

At the end of December, 52 loans were under administration in the PRC. Contract awards and disbursements under sovereign loans reached 118% and 108% of projections, respectively. In Mongolia, 14 loans were under administration (Table 19). Contract awards and disbursements under sovereign loans reached 52% and 100% of projections, respectively. Two loans—the

## A strong focus on project administration and more mission days spent on problem projects helped resolve implementation issues

TABLE 17 East Asia: Assistance by Country, 2007  
(\$ million)

Country	Loans				Credit Enhancements			Grants		
	OCR	ADF	Total ADB	Official Cofinancing <sup>a</sup>	Guarantees <sup>a</sup>	Syndications <sup>a</sup>	Equity Investment	Grant-Financed Projects <sup>b</sup>	Technical Assistance Grants <sup>c</sup>	Multitranche Financing Facility <sup>d</sup>
China, People's Republic of	1,306.7	–	1,306.7	–	107.0	200.0	57.0	–	20.5	–
Mongolia	10.0	–	10.0	–	–	–	–	19.5	2.6	–
<b>Total</b>	<b>1,316.7</b>	<b>–</b>	<b>1,316.7</b>	<b>–</b>	<b>107.0</b>	<b>200.0</b>	<b>57.0</b>	<b>19.5</b>	<b>23.0</b>	<b>–</b>

– = nil, ADF = Asian Development Fund, OCR = ordinary capital resources.

Note: (i) For reference to sovereign and nonsovereign approvals, see Statistical Annex 1 (Sovereign and Nonsovereign Loan Approvals by Country) and Statistical Annex 10 (Nonsovereign Approvals and Total Project Costs by Country). (ii) Loans and grants include those that are officially cofinanced by external sources, and fully or partially administered by ADB. (iii) Totals may not add up because of rounding.

a For reference, see Tables 6a and 6b (Direct Value-Added Cofinancing Arrangements).

b For reference, see Statistical Annex 2 (Grant-Financed Project Approvals by Country).

c For reference, see Statistical Annex 17 (Technical Assistance Grants). Excludes regional technical assistance grants.

d Multitranche financing facilities are facilities that will give rise to loans. Loans arising from the facilities are included under loans when approved by ADB.

TABLE 18 East Asia: Grant-Financed Project Approvals by Country, 2007  
(\$ million)

Country	ADF	Other Sources <sup>a</sup>	Total
<b>Mongolia</b>			
Community-Driven Development for Urban Poor in Ger Areas	–	1.5	1.5
Community-Based Heating Supply in Rural Remote Areas	–	2.0	2.0
Third Health Sector Development	14.0	–	14.0
Access to Health Services for Disadvantaged Groups in Ulaanbaatar	–	2.0	2.0
<b>Total</b>	<b>14.0</b>	<b>5.5</b>	<b>19.5</b>

– = nil, ADF = Asian Development Fund.

a Officially cofinanced by external sources, and fully or partially administered by ADB.

TABLE 19 East Asia: Portfolio Performance Indicators for Sovereign Lending, 2006–2007

Country	No. of Ongoing Loans (as of Dec 2007)	Contract Awards/Commitments		Disbursements		Loans at Risk	
		2007	2006	2007	2006	2007	2006
		(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)	(%)
China, People's Republic of	52	1,419.7	733.7	1,189.6	984.8	1.9	2.1
Mongolia	14	11.2	52.4	24.2	28.6	7.1	5.6
<b>Total</b>	<b>66</b>	<b>1,430.9</b>	<b>786.1</b>	<b>1,213.8</b>	<b>1,013.4</b>	<b>3.0</b>	<b>3.1</b>

TABLE 20 East Asia: Sovereign and Nonsovereign Loan Approvals by Country, 2007

(\$ million)

Country	OCR	ADF	Total
<b>SOVEREIGN</b>			
China, People's Republic of			
Anhui Hefei Urban Environment Improvement	150.0	–	150.0
Eastern Sichuan Roads Development	200.0	–	200.0
Western Guangxi Roads Development	300.0	–	300.0
Jilin Urban Environmental Improvement Project	100.0	–	100.0
Kunming Qingshuihai Water Supply Project	80.0	–	80.0
Railway Safety Enhancement Project	100.0	–	100.0
Henan Sustainable Agriculture and Productivity Improvement Project	66.7	–	66.7
Xinjiang Regional Road Improvement Project (Korla-Kuqa Section)	150.0	–	150.0
<b>Subtotal</b>	<b>1,146.7</b>	<b>–</b>	<b>1,146.7</b>
<b>NONSOVEREIGN</b>			
China, People's Republic of			
Central and Western Airports Development Project	160.0	–	160.0
Mongolia			
Khan Bank	10.0	–	10.0
<b>Subtotal</b>	<b>170.0</b>	<b>–</b>	<b>170.0</b>
<b>Total</b>	<b>1,316.7</b>	<b>–</b>	<b>1,316.7</b>

– = nil, ADF = Asian Development Fund, OCR = ordinary capital resources.

TABLE 21 East Asia: Cumulative Lending and Disbursements by Country as of the end of 2007

(\$ million)<sup>a</sup>

Country	Lending	Disbursements
China, People's Republic of	19,254.1	12,144.7
Mongolia	676.5	544.8
<b>Total</b>	<b>19,930.6</b>	<b>12,689.5</b>

<sup>a</sup> Includes nonsovereign (public and private sector) loans.

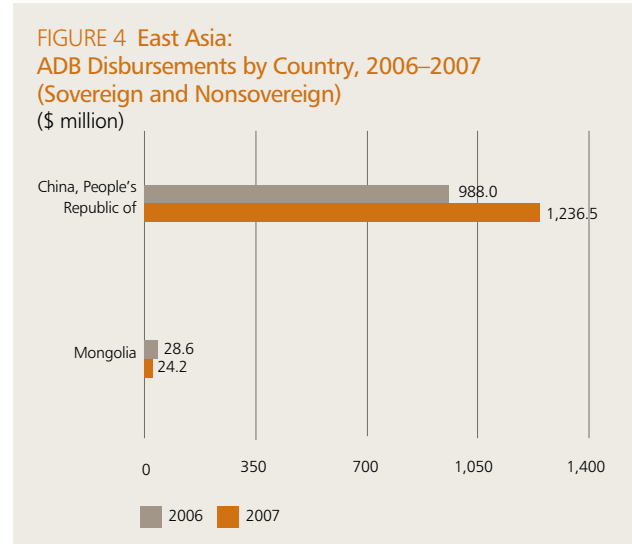
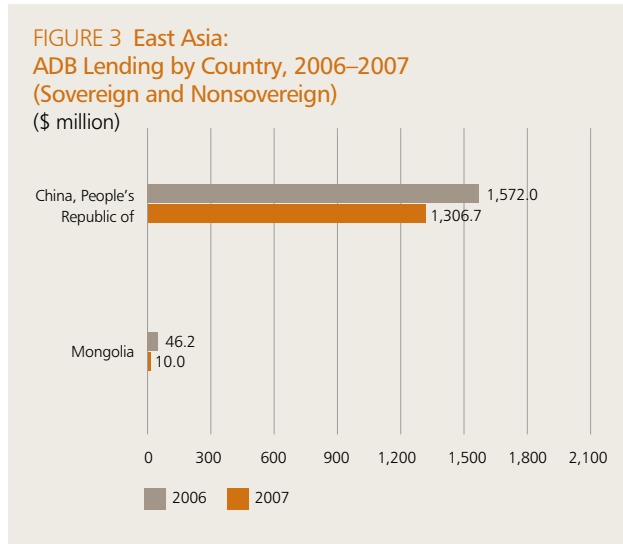
**Contract awards and disbursements under sovereign loans reached 117% and 108% of projections**

PRC's Southern Gansu Roads Development Project and Mongolia's Urban Development Sector Project—were at risk because of delays in loan effectiveness.

## COUNTRY HIGHLIGHTS

### People's Republic of China

**Partnership priorities.** High priority was accorded to removing infrastructure bottlenecks and supporting policy and institutional reforms in the road and railway sectors. To help meet the various challenges resulting from the PRC's rapid growth, ADB diversified its support, increasingly emphasizing urban development and environmental management. ADB also supported developments in energy efficiency, urban infrastructure, and financial services. To strengthen the legal framework for sound environmental management, ADB



helped improve the skills and institutional capacity of environmental protection agencies. ADB's assistance dealt with climate change, subregional cooperation, and knowledge sharing. Technical assistance helped the National Development and Reform Commission devise new strategies of using foreign capital. A new country partnership strategy to cover the remaining 3 years of the Eleventh Five-Year Plan (2008–2010) was prepared.

**Impact of operations.** Having helped develop transport corridors in the eastern region, ADB's activities in the road sector have shifted to the poorer western

and central provinces. In the railway sector, priority has been given to projects in poor regions, supporting the development of selected strategic corridors in the national railway system, and enhancing safety on the national railway network.

ADB continued to support small and medium-sized enterprises (SMEs) by making a follow-on investment in Credit Orientwise Group, a credit guarantee company for SMEs. This investment complements the \$10 million that ADB invested in the company in 2005.

ADB also supported urban environment improvement and water pollution control projects and policy



ADB supports health projects such as HIV/AIDS prevention in Yunnan, PRC

## Developing the Carbon Market in the People's Republic of China



Residents use clean energy

Carbon emissions trading has become an important tool for achieving the objectives of the Kyoto Protocol, which took effect in 2005 to ease global warming. With over 91 million average annual carbon emission reductions, or 48% of the total registered under the clean development mechanism of the Kyoto Protocol, the People's Republic of China (PRC) has become the leading supplier in the international carbon market. The PRC has therefore announced policies, targets, and measures to promote clean energy technologies, improve energy efficiency, and conserve resources.

ADB's assistance to the PRC energy sector is mainly in the carbon market. The Asia Pacific Carbon Fund, recently established by ADB under the Carbon Market Initiative, contracted the purchase of carbon emission reductions from the Erlongshan Hydropower Project in Gansu province, with payment to be made to the project company in advance of clean power generation. ADB also extended an aggregate of over \$2 million in nonlending assistance to encourage more clean energy projects. These projects should improve planning and management of clean energy development in Gansu, and measuring and evaluation of energy conservation nationally. They should also lead to more biomass-based power generation in Heilongjiang province, the promotion of shallow ground geothermal energy technology, and better use of external assistance to improve energy efficiency and develop renewable energy in the PRC.

**The People's Republic of China has become the leading supplier in the international carbon market**

reforms in water supply, sanitation, and waste management. Wastewater management made significant progress through tariff and enterprise reforms, a stronger legal and regulatory framework, and better private sector participation. A key achievement of ADB's urban infrastructure projects was corporate governance reform, particularly in the urban water and wastewater sector, where private sector participation is increasing.

ADB continued to help the PRC develop clean and renewable energy supplies through hydropower, biomass, landfill methane, geothermal, and coal mine methane (CMM) projects. It is financing a CMM power plant in Shanxi, the largest in the world. To tackle the problem of climate change, up-front financing from the ADB-managed Asia Pacific Carbon Fund for the Erlongshan Hydropower Project—a medium-sized hydropower development in remote, rural Gansu province—was approved in exchange for future emission reduction credits. Strategic studies on a medium-

term wind power development in Gansu and biomass power generation in Heilongjiang were started. A joint seminar with the Private Sector Operations Department was held in Gansu to showcase ADB's ability to promote commercially viable, clean energy projects through loans and credit enhancement to enterprises with no need for sovereign guarantees.

Since late 2004, ADB has been providing advisory technical assistance to the PRC's State Food and Drug Administration in cooperation with the World Health Organization and various stakeholders to improve national food safety. ADB's advice to senior officials on a range of technical and policy issues was well received. In August, the State Council formed a leading group to look into product quality and food safety; and in October, it endorsed a draft food safety law that substantially departs from earlier legislation to provide a comprehensive, overarching legal framework.

ADB's Economics and Research Department and East Asia Department carried out a joint study on inclusive



Education remains a priority in Mongolia

growth in the PRC. The study helped clarify characteristics of the PRC's growth over the last three decades, examined the challenges posed by increasing inequalities, and discussed policy options for the future.

ADB supported the Ministry of Civil Affairs in drafting a policy document for the State Council on establishing a system to protect minimum rural living standards (*dibao*). The nationwide *dibao* system, which was subsequently set up, is a fundamentally new antipoverty tool directly targeting the hard-to-reach,

**ADB has cooperated closely with the Government of Mongolia in identifying and implementing reform priorities, and in upgrading health service infrastructure in mainly poor rural areas**

destitute poor (e.g., the elderly, the chronically ill, and others without productive capacity).

The sharing of knowledge and experience based on interprovincial cooperation and partnership by showcasing success stories is proving effective in capacity building. ADB helped organize the first showcase workshop to enable Hebei share its experience in improving wastewater management with other provinces. ADB funded a workshop attended by central and provincial officials to share the experiences of the five best-practice advisory technical assistance projects selected by the Ministry of Finance.

### Mongolia

**Partnership priorities.** ADB's country operations business plan for 2008–2010 was discussed with the Government in June. Education, health, finance, urban development, transport, and natural resources remain priority sectors. Mongolia was eligible for Asian Development Fund grant resources in 2007 and will be so in 2008. Private sector operations in capital market development, transportation and communication, and urban infrastructure are expected to grow.

## Agriculture Sector Development Program in Mongolia Benefits Rural Poor



Tsogt Batsukh and *aimag* officials

Approved in 2000, the Agriculture Sector Development Program was designed to spur growth in private agriculture. A \$7 million program loan was aimed at limiting the role of the Government to providing essential support services and enabling the private sector to take over functions that used to be carried out by the state, such as supplying inputs, processing and marketing outputs, and providing financial services. An investment loan of \$10 million was directed at four relatively poor provinces in the country's western region. The results were positive and dramatic. Over 7,900 vegetable growers benefited from the seed and equipment supplied by the program.

Six years ago, Tsogt Batsukh was jobless and his family of five had to survive on social security payments. He decided to establish the Uran Zurvas cooperative with nine members in November 1999. The cooperative grew potatoes, vegetables, and fodder crops.

In 2002, the program started in Uvs *aimag* (province), and Mr. Batsukh attended a training course on developing a business plan. With equipment and credit supplied through commercial banks, Mr. Batsukh and the other cooperative members harvested bumper crops of vegetables. By 2004, the cooperative members totaled 53 and the program had created 35 new jobs for low-income people. Mr. Batsukh now also manages a cooperative training center and runs demonstration training for locals who want to learn how to grow vegetables. Further support from the program and a commercial bank enabled the cooperative to establish a vegetable-processing factory, which now supplies the market in Uvs. Mr. Batsukh says he owes his success to the program.

**Over 7,900 vegetable growers benefited from the seed and equipment supplied by the program**

ADB started to prepare its country partnership strategy for 2009–2013. The strategy will be closely aligned with the National Development Strategy of Mongolia for 2008–2021, which the Parliament approved in February 2008 and which emphasizes the achievement of Mongolia's Millennium Development Goals. ADB approved technical assistance to help improve government investment planning.

**Impact of operations.** Overall, ADB's program contributed significantly to Mongolia's transition. Since 2000, poverty reduction has been the primary focus. The program has had important impact on policy development,

institution building, and economic growth, laying the foundation for a sustained effort to reduce poverty.

Since 1997, ADB has helped Mongolia reform its health system, which needs an overhaul of the hospital sector, primary health care, financing systems, human resources and planning, and regulatory processes. ADB has cooperated closely with the Government in identifying and implementing reform priorities, and in upgrading health service infrastructure in mainly poor rural areas. The result has been significantly improved health, including reduced infant mortality and maternal mortality rates, helping attain the Millennium Development Goals.