

SECTION V

PRIVATE SECTOR DEVELOPMENT ACTIVITIES OF OTHER FUNDING AGENCIES

Multilateral and bilateral funding agencies have directly or indirectly addressed impediments faced by the private sector in the PRC. Assistance generally takes the form of policy dialogue, experts financed by TA or trust funds, and direct investment in private sector companies without government guarantees (Appendixes 11 and 12).

Three observations are noteworthy. First, most funding agencies share a common development assistance goal in supporting the PRC's reform process in line with government policy and initiatives, such as assistance in SOE reforms, SME development for job creation, social security reform, and WTO accession. Some funding agencies provide a wide range of assistance directly addressing impediments cited by private sector players, while others have a narrower and indirect scope through, for example, the provision of WTO-related training to government officials. Table 22 summarizes the areas of bilateral and multilateral aid interventions to help address impediments faced by the private sector.

Table 22: Funding Agencies' Efforts to Address Impediments to Private Sector Development

Item	Policy		Legal					Financing				Human Resources				
	Taxation/Audit	Market Entry	Rule of Law	Drafting Laws	Accessibility	IPR	Exit (Bankruptcy)	Financial Sector	SOE Reform	SME (supply)	SME (demand)	Infrastructure	Training	Social Security	Corporate Governance	Access to Information
ADB	x	x	x	x			x	x	ix	ix	ix	x	x	x	x	x
AusAID		x						x		x	x		x	x		
CIDA	x	x	x							x	x	x	x			
EU	x	x	x	x	x	x		x	x	x	x		x	x	x	x
Ford Foundation											x		x			x
GTZ	x	x	x	x			x	x	x	x			x	x		x
IFC		x		x			x	ix	x	ix	ix	ix	x	x		x
JBIC/JICA		x						x		x	x					
OECD	x	x	x	x	x	x	x	x	x	x	x	x	x	x		x
UK DFID	x								x	x	x	i		x		x
UNDP		x	x			x		x	x	x	x		x	x		x
UNIDO		x						x		x	x		x			x
World Bank	x	x	x	x			x	x	x	x	x	ix	x	x		x

I: Investments and guarantees; X: Policy dialogue, TA, and research.

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, CIDA = Canadian International Development Agency, EU = European Union, GTZ = German Agency for Technical Cooperation, IFC = International Finance Corporation, JBIC = Japan Bank for International Cooperation, JICA = Japan International Cooperation Agency, OECD = Organisation for Economic Co-operation and Development, UNDP = United Nations Development Programme, UNIDO = United Nations Industrial Development Organization, UK DFID = United Kingdom's Department for International Development.

Second, given the size of the PRC, each aid intervention has inevitably been limited in magnitude and geographical coverage. Most interventions have served as pilot projects and programs. The replication of successful interventions continues to be a major challenge for the funding community.

Third, some funding agencies have started to forge partnerships and arrange joint projects and programs in an attempt to increase their impact on PSD. Examples include the China Project Development Facility (CPDF), which is a multidonor TA facility set up by IFC in 2000 to develop private SMEs in Sichuan Province. Major bilateral funding agencies participating are Australia, Switzerland, and the UK. The Public-Private Infrastructure Advisory Facility (PPIAF) is a World Bank-led TA facility aimed at helping developing countries improve the quality of their infrastructure through private sector involvement. PPIAF's major funding agencies are Japan and the UK.

The CPDF is structured to address impediments faced by SMEs from both the supply and demand sides. The CPDF has four components: (i) an enterprise-level support program to help local SMEs prepare bankable business plans to be presented to financial institutions; (ii) a financial institution strengthening program to help local partner financial institutions lend to SMEs in Sichuan; (iii) a training and capacity-building program to help develop local SME support services; and (iv) business environment assistance program to help identify and relieve key constraints that small companies face in the local business environment.

The PPIAF supports three projects in the PRC for a total amount of \$1.295 million: (i) regulatory and institutional reform in the telecommunication sector; (ii) privatization strategy for competitive electricity generation at the provincial level; and (iii) options for private participation in water and sanitation services in Chongqing.

The World Bank and IFC share development goals that are similar to ADB's, including poverty reduction through PSD, and their assistance addresses issues and impediments faced by the private sector. As of 30 June 2002, World Bank (World Bank 2003b) commitments to the PRC stood at \$346.1 billion for a total of 2,349 projects. About half of these projects are still being implemented, making the PRC's portfolio the largest in the World Bank. Infrastructure (transport, energy, industry, urban development) accounts for more than half of the total portfolio. Agriculture, social sector, environment, and water supply and sanitation comprise the remainder.

The World Bank's assistance for PSD is designed to help countries develop needed legal and regulatory frameworks and institutions in a way that protects the interest of poor people (World Bank 2002a). The World Bank's operations encompass lending, guarantees, and stipulating private provision of infrastructure. As for enterprise reform, the World Bank is involved in the PRC's important corporate reform agenda through policy advice, technical analysis, and policy seminars, often in conjunction with IFC. The study, *Bankruptcy of State-Owned Enterprises in China—An Agenda for Reforming the Insolvency System*, is assisting the PRC to build an improved insolvency system with an appropriate legal framework for both state and nonstate enterprises. A corporate governance study, one of the World Bank's focal areas, is expected to assist the PRC in dealing with issues that arise in connection with the ownership transformation of state enterprises. Training in corporate governance issues by the World Bank Institute has already been provided in the PRC through the Global Development Learning Network.

The World Bank and IFC have taken an integrated approach to address issues faced by the private sector through joint programs such as a World Bank-IFC Private Sector Advisory Service, the SME program, and the creation of global product groups. Major World Bank activities to support PSD include (i) assessment of the PRC's knowledge economy and requirements for technological innovation in collaboration with the Organisation for Economic Co-operation and Development (OECD); (ii) the Economic Law Reform Project, which is financing the preparation of economic laws; and (iii) the Accounting Reform Project, which is helping government auditors curb waste and other misuse of resources and strengthen public sector financial management.

IFC is mandated to make direct loan and equity investments in private sector companied without government guarantees and provide advisory services jointly with the World Bank through

the Foreign Investment Advisory Services. The PRC is one of IFC's fastest growing recipient countries and ranks ninth in terms of portfolio. As of 30 June 2002, IFC had supported 54 enterprises in the PRC with total gross IFC financing of about \$1.3 billion (including \$522 million syndications) (IFC 2002). Recent IFC operations in the PRC include (i) equity investment in the finance and insurance sectors, and (ii) support to SMEs through loans and equity investment. Other ongoing activities include (i) policy dialogue with PBOC regarding a regulatory framework on leasing, in general, and a relevant chapter in the Contract Law, in particular; (ii) cooperation with CSRC to provide training for directors of listed companies (as of March 2002, 120 directors had received training); (iii) advisory services to the Shanxi provincial government on FDI promotion; (iv) a study on revising the prevailing BOT circular that was submitted to SDPC in November 2001 and is currently under review; and (v) a study on bankruptcy, and another on corporate governance.

UNDP has undertaken public-private partnership initiatives to address issues faced by the private sector. Ongoing programs include (i) the Small Credit Guarantee Fund with a total amount of \$300,000, (ii) Capacity Development of Chinese Business on IPR Compliance, and (iii) Strategic Sustainable Development Planning Training for Chinese Business Executives. The Small Credit Guarantee Fund was set up in collaboration with SETC in Jiangsu Province to provide SMEs with better access to credit and improve the services provided to large multinational companies. The IPR Compliance project is intended to address counterfeiting issues, one of the key challenges in IPR protection, through the Chamber of Commerce in Fujian. UNDP, the Government, and the Quality Brands Protection Committee of over 70 multinational companies operating in the PRC conducted a survey on counterfeiting hot spots in Fujian province. Consensus was reached to forge partnerships to support the development of business associations to replicate the project model in other parts of the PRC. The objective of the project is to promote members' products and deepen IPR compliance awareness by setting up regulations to be followed by members. To address human resources constraints, particularly managerial skills in the western region, UNDP announced in early 2002 that it would launch a program to train professionals in the western region.

The United Nations Industrial Development Organization launched a new joint initiative to address development of SMEs in Shaanxi Province during 2002–2004, with total funding of \$10 million. The intervention includes (i) industrial investment promotion by establishing and strengthening VC mechanisms and FDIs; (ii) development of competitive SMEs; (iii) information technology and e-commerce for SMEs; and (iv) food and agro-industrial development.

Other active funding agencies that are engaged in activities supporting the private sector include EU, UK Department for International Development (DFID), and Germany through the German Agency for Technical Cooperation (GTZ) (Appendix 11). EU's assistance programs encompass (i) the rule of law and good governance initiatives, including an IPR cooperation project and a legal and judicial cooperation program; and (ii) an economic and social reform initiative, including a WTO accession project, financial services cooperation project, and enterprise reform to contribute to the development of the SME sector. DFID's development assistance priorities include support for PSD, particularly the encouragement of greater investment and development of the micro- and small enterprise sector to contribute to poverty reduction. DFID's activities include (i) an SOE reform project that addresses enterprise restructuring and development in Sichuan and Liaoning; (ii) contribution to IFC's Project Development Facility; (iii) a WTO accession project; and (iv) policy support for fiscal reforms. In addition to SME development assistance, GTZ provides assistance to the PRC's economic and structural reforms through the Sino-German Cooperation in Economic Law and other initiatives, which support the transformation of the PRC's legal system to facilitate the move toward a market economy.

Japan International Cooperation Agency's PSD activities in 2000–2002 include housing finance reform support research and a study on SME development in the model cities of Hanzhou and Shengyang. JBIC's primary support for private activity in the PRC is to assist Japanese companies investing in the PRC through the Private Sector Investment Finance program. Two

investments were made in 1992 and 1995 in an industrial zone management company and a property management company, respectively.

OECD addresses issues faced by the private sector through research and policy dialogue with the Government. The policy dialogue has centered on the establishment of the institutional framework for effective governance of enterprises, development of the capital market, the role of regulatory reform in a state of transition, and competition policy.

There are some NGOs providing support for PSD. The World Resources Institute (WRI) is an environmental NGO that has already established its unique position in Latin America by helping SMEs in the environment sector fill the gap between potential investors and investees. In October 2002, WRI launched its New Ventures Program in the PRC in collaboration with the PRC Chapter of the Leadership for Environment and Development, a global network of individuals and NGOs committed to sustainable development. Its mandate is threefold: (i) to provide free consulting services to selected SMEs that are promising in terms of their business concept but which require more sophisticated business plans, strategies, and governance in order to be considered by potential investors; (ii) to offer cost and time saving avenues for potential investors that have constraints on “investable” deal flow; and (iii) to provide an investors forum where both potential investors and already “trained” investees can meet. WRI is funded to recruit volunteer “coaches” (professors, business people, and MBA students from prominent business schools). The Ford Foundation has funded Phase I of the program under which over 400 SME managers have been trained in seven provinces. The first investor forum in the PRC is planned for September 2003.

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