



# Country Partnership Strategy

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January 2016

## Transforming Partnership: People's Republic of China and Asian Development Bank, 2016–2020

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 12 January 2016)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.15
\$1.00	=	CNY6.59

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CAPE	–	country assistance program evaluation
CPS	–	country partnership strategy
DMC	–	developing member country
GDP	–	gross domestic product
NDRC	–	National Development and Reform Commission
PPP	–	public–private partnership
PRC	–	People’s Republic of China
RCI	–	regional cooperation and integration
RKSI	–	Regional Knowledge Sharing Initiative
TA	–	technical assistance
TVET	–	technical and vocational education and training

## **NOTE**

In this report, "\$" refers to US dollars.

<b>Vice-President</b>	S. Groff, Operations 2
<b>Director General</b>	A. Konishi, East Asia Department (EARD)
<b>Country Director</b>	H. Sharif, People's Republic of China Resident Mission (PRCM), EARD
<b>Team leader</b>	P. Chang, Principal Country Specialist, EARD
<b>Team members</b>	I. Bain, Social Sector Specialist, PRCM, EARD A. Bhargava, Director, Energy Division, EARD C. Bodart, Principal Health Specialist, EARD J. Conrad, Principal Economist, EARD Y. Fernandez Lommen, Principal Economist, EARD G. Giannetto, Senior Financial Sector Specialist, EARD R. Guild, Director, Transport and Communications Division, EARD H. Kimura, Principal Investment Specialist, Private Sector Operations Department J. Liang, Principal Economist, EARD X. Lu, Advisor, Sustainable Development and Climate Change Department (SDCC) C. McDeigan, Unit Head, Portfolio Management, EARD L. Peng, Senior Economics Officer, PRCM, EARD S. Penjor, Director, Urban and Social Sectors Division, EARD P. Perera, Principal Energy Specialist, EARD S. Shakil, Senior Education Specialist, EARD D. Sobel, Principal Results Management Specialist, EARD F. Radstake, Principal Environment Specialist, EARD S. Rau, Urban Development Specialist, EARD S. Saxena, Principal Transport Specialist, EARD C. Sugden, Principal Public–Private Partnership Specialist, EARD Y. Qian, Director, Public Management, Financial Sector, and Regional Cooperation Division, EARD H. Uchimura, Financial Sector Specialist, EARD T. Ueda, Senior Natural Resources Economist, EARD M. Villareal, Principal Portfolio Management Specialist, EARD W. Walker, Principal Social Development Specialist, EARD J. Yang, Senior Programs Officer, PRCM, EARD X. Yang, Programs Officer, PRCM, EARD F. Yu, Senior Economist, EARD Q. Zhang, Director, Environment, Natural Resources, and Agriculture Division, EARD Y. Zhang, Senior Regional Cooperation Specialist, EARD L. Zou, Principal Financial Management Specialist, EARD
<b>Peer reviewers</b>	N. Ahmad, Deputy Director General, SDCC K. Lao-Araya, Principal Results Management Specialist, Strategy and Policy Department J. Zhuang, Deputy Chief Economist and Deputy Director General, Economic Research and Regional Cooperation Department

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## CONTENTS

	<b>Page</b>
COUNTRY AT A GLANCE	
I. DEVELOPMENT TRENDS AND ISSUES	1
A. Development Challenges	1
B. Highlights of Previous ADB Country Strategy	2
C. ADB–People’s Republic of China Partnership	4
II. THE COUNTRY STRATEGY	4
A. Government National Strategy	4
B. ADB Country Strategy	5
III. STRATEGY IMPLEMENTATION	10
A. Indicative Resource Parameters	10
B. Program Overview	11
IV. RESULTS MANAGEMENT	12
A. Monitoring	12
B. Risks	12
APPENDIXES	
1. Country Partnership Strategy Results Framework	13
2. List of Linked Documents	16

## COUNTRY AT A GLANCE

<b>Economic</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015<sup>a</sup></b>
GDP (\$ billion, current)	7,492.5	8,461.5	9,490.9	10,356.5	11,067.6
GDP per capita (\$, current)	5,574.3	6,264.5	6,992.1	7,591.2	7,917.2
GDP growth (% , in constant prices)	9.5	7.7	7.7	7.3	6.8
Agriculture	4.2	4.5	3.8	4.1	4.0
Industry	10.6	8.2	7.9	7.3	5.8
Services	9.5	8.0	8.3	7.8	8.3
Gross domestic investment (% of GDP)	47.0	46.5	46.6	46.2	45.7
Gross domestic saving (% of GDP)	50.1	49.1	48.8	48.2	47.3
Consumer price index (annual % change)	5.4	2.6	2.6	2.0	1.5
Liquidity (M2) (annual % change)	17.3	14.4	13.6	11.0	9.4
Overall fiscal surplus (deficit) (% of GDP)	0.3	(0.8)	(1.4)	(1.8)	(2.7)
Merchandise trade balance (% of GDP)	3.3	3.8	3.8	4.6	5.5
Current account balance (% of GDP)	1.8	2.5	1.6	2.1	2.4
External debt service (% of exports of goods and services)	1.7	1.6	1.6	1.9	...
External debt (% of GDP)	9.3	8.7	9.1	8.6	...
<b>Poverty and Social</b>	<b>2000</b>	<b>Latest</b>	<b>Year</b>		
Population (million)	1,267.4	1,367.8	2014		
Population growth (annual % change)	0.7	0.5	2014		
Maternal mortality ratio (per 100,000 live births)	63.0	32.0	2013		
Infant mortality rate (below 1 year per 1,000 live births)	30.0	11.0	2013		
Life expectancy at birth (years)	71.4	75.0	2013		
Adult literacy (%)	90.9	95.4	2013		
Primary school gross enrollment (%)	...	103.8	2014		
Child malnutrition (% below 5 years old)	10.0	3.0	2010		
Population below the poverty line <sup>b</sup> (million)	462.2	70.2	2014		
Population with access to safe water (%)	63.9	97.2	2010		
Population with access to sanitation (%)	34.3	87.3	2012		
<b>Environment</b>	<b>Latest</b>	<b>Year</b>			
Carbon dioxide emissions (million tons)	10,000.0	2013			
Carbon dioxide emissions per capita (tons)	7.2	2013			
Forest area (million hectares)	208.0	2013			
Urban population (% of total population)	53.9	2013			
<b>ADB Portfolio (as of 31 December 2014)<sup>c</sup></b>	<b>OCR</b>	<b>ADF</b>	<b>Cofinancing</b>	<b>Total</b>	
Total number of loans <sup>d</sup>					
Sovereign	79.0			79.0	
Non-sovereign	25.0			25.0	
Net loan amount (\$ million, cumulative) <sup>d</sup>					
Sovereign	10,499.3			10,499.3	
Non-sovereign	2,297.6		2,143.0	4,440.6	
Disbursements (2014)					
Total funds available for withdrawal (\$ million)					
Sovereign				6,385.8	
Non-sovereign				389.1	
Disbursed amount (\$ million)					
Sovereign				1,303.2	
Non-sovereign				351.0	
Percentage disbursed (disbursed amount/total available)					
Sovereign				21.0%	
Non-sovereign				90.2%	

... = not available, ( ) = negative, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2 = broad money, OCR = ordinary capital resources.

<sup>a</sup> Projections.

<sup>b</sup> PRC Government figures. Based on the current official rural poverty line of CNY2,300 at 2010 prices.

<sup>c</sup> Figures as of 31 December 2015 are being finalized and expected to be available in March 2016.

<sup>d</sup> For ongoing projects.

Sources: Asian Development Outlook database; ADB. 2015. *Key Indicators for Asia and the Pacific 2014*. Manila; Ministry of Foreign Affairs of the People's Republic of China, 2013 and United Nations System in China, 2013; *China's Progress Towards the Millennium Development Goals, 2013 Report*. Beijing; World Bank. 2009. *From Poor Areas to Poor People: An Assessment of Poverty and Inequality in China*. Washington D.C.; World Development Indicators Online database, World Bank; State Forestry Administration. 2014. *Eighth Survey of Forestry Resources*. Beijing; and Ministry of Environmental Protection. 2014. *China's Fifth National Report on the Implementation of the Convention on Biological Diversity*. Beijing.

## I. DEVELOPMENT TRENDS AND ISSUES

### A. Development Challenges

1. The economic performance of the People's Republic of China (PRC) has been spectacular over the past 3 decades. Gross domestic product (GDP) growth has averaged 9.7%, and per capita income has increased 8.6% per year between 1980 and 2014. The PRC is now an upper middle-income country with a GDP per capita of \$7,591 in 2014.<sup>1</sup> Rapid economic growth has led to significant improvement in human well-being and quality of life. However, accelerated growth has also resulted in economic, social, environmental and climate change, and institutional and governance challenges which constrain the country's inclusive and sustainable development. GDP growth has moderated as the PRC moves towards the "new normal" where it focuses on the quality rather than the quantity of economic growth. It declined from 7.7% in 2013 to 7.3% in 2014 and 6.9% in the first 9 months of 2015.<sup>2</sup> The lower growth rate reflects the adjustment of the economy as the government implements structural reforms to address development challenges. The growth moderation is also impacting the PRC's major trading partners.

2. **Economic challenges.** On the demand side, consumption is now the largest contributor to GDP growth. However, the share of consumption in GDP was 51.4% in 2014, which is still low compared with other countries with similar or higher income levels. Investment still contributes a large share to GDP growth. Previous experience shows that overinvestment leads to inefficient resource allocation, poor asset quality, and high level of debt. With the current slow pace of global economic recovery, external demand may not be able to contribute to the PRC's growth as much as in the past. On the supply side, the services sector is now the key growth driver, and domestic rebalancing from industry to services is continuing. The share of services in GDP was 48.1% in 2014, still substantially below that of other countries with similar or higher income levels. In addition, labor supply is tightening as the rural surplus declines and the population ages, which puts upward pressure on wages. Real wage growth in many industries has exceeded labor productivity gains. Therefore, economic growth in the PRC needs to be driven increasingly by productivity improvement.

3. **Social challenges.**<sup>3</sup> The PRC has achieved the Millennium Development Goal of reducing income poverty, and most other Millennium Development Goals have been met. However, the PRC still has the second-largest national concentration of poverty globally and there are 592 poverty-stricken counties in the country. In 2014, 70.17 million people lived below the rural poverty line of CNY2,300 per annum. In addition, inequality is still a significant challenge for the PRC. The Gini coefficient was 0.469 in 2014, which remains high, and greater efforts are needed to reduce income inequality. The per capita income of urban households was 2.75 times that of rural households in 2014. Millions of rural migrants live in urban areas but are not eligible for urban social service entitlements because of the *hukou* (household registration) system. Further, about 18.77 million poor urban residents received actual minimum social security subsidies of CNY3,432 per annum on average in 2014.

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<sup>1</sup> The PRC's per capita gross national income in 2014 was \$7,380 in 2014 US dollars, based on the Atlas method, exceeding the operational gross national income threshold of \$7,175 under the Graduation Policy (ADB. 1988. *A Graduation Policy for the Bank's DMCs*. Manila) and its review (ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila)."

<sup>2</sup> Economic Analysis (Summary) (accessible from the list of linked documents in Appendix 2).

<sup>3</sup> Poverty Analysis (Summary) (accessible from the list of linked documents in Appendix 2).

4. While the social safety net has expanded rapidly, benefit levels, funding, and service provision are not equally distributed. Moreover, some social groups, such as ethnic minorities and women, continue to experience inequality. The position of women has improved in areas such as political empowerment and new draft legislation regarding domestic violence but gender disparities regarding wage equality are widening. The legacy of the one child policy and preference for male children has led to gender imbalance, with a male–female ratio of 116:100. As government policy shifts to support urbanization and economic growth, there is a risk that women will continue to be a large majority of those left behind economically and in rural areas.<sup>4</sup>

5. **Environmental and climate change challenges.**<sup>5</sup> The cost of pollution damage in the PRC is estimated to be around 6%–9% of GDP.<sup>6</sup> Less than 1% of the 500 larger cities in the PRC meet the World Health Organization’s fine particle (PM<sub>2.5</sub>) standards for air quality. In heavily populated areas, such as the Beijing–Tianjin–Hebei region and Yangtze River Delta, poor air quality is caused by emissions from both local sources and neighboring areas. Water demand is outstripping available supply and the water quality is not high enough for it to be used for drinking in more than half of the monitored sections of major rivers passing through large cities. Groundwater sampled in more than half of the major cities was severely polluted. Similarly, 16% of the samples of a nationwide soil survey indicated contamination by heavy metals and pollutants from waste disposal, undermining the safety of local food production. In addition, the PRC is the world’s largest energy consumer with a coal-dominant energy mix (about 66%) and is the world’s largest greenhouse gas emitter. The PRC will face an even greater challenge in meeting the targets of carbon intensity improvements during the 13th Five-Year Plan, 2016–2020 because higher requirements on greenhouse gas mitigation are needed. Climate change is also a serious threat to the ecological environment. Associated extreme weather events, including droughts and floods, have already undermined economic progress and threatened food and water security in the PRC.

6. **Institutional and governance challenges.** While the PRC has undertaken reforms to improve its institutions, governance, and the rule of law, they are still inadequate to meet the emerging needs of a well-functioning market economy and to address the economic, social, and environmental challenges. Protection of property rights, institutional capacity, and policy coordination among different agencies are all weak. Public participation in the process of policy making and drafting laws and/or rules remains low, and the administrative system is highly compartmentalized. This reduces policy consistency and the effectiveness of law enforcement. Further, there is large scope for improvement in the rule of law in the PRC. For example, laws are not fully implemented and are often vague and open to bureaucratic determination, and courts have mandates with unclear boundaries. New challenges such as the cross-sector environmental challenges, an ageing society and creation of social safety nets for a modern state call for more agile institutional responses. Continuous institutional development will be a feature of the PRC’s transformative process.

## B. Highlights of Previous ADB Country Strategy

7. The Asian Development Bank (ADB) country partnership strategy (CPS), 2011–2015 for the PRC focused on three strategic pillars: inclusive economic growth, environmentally sustainable growth, and regional cooperation and integration (RCI).<sup>7</sup> It supported four priority

<sup>4</sup> Gender Analysis (accessible from the list of linked documents in Appendix 2).

<sup>5</sup> Environment Assessment (accessible from the list of linked documents in Appendix 2).

<sup>6</sup> Asian Development Bank (ADB). 2012. *Toward an Environmentally Sustainable Future – Country Environmental Analysis of the People’s Republic of China*. Manila.

<sup>7</sup> ADB. *Country Partnership Strategy: People’s Republic of China, 2011–2015*. Manila.

sectors (natural resources and agriculture, energy, transport, and urban development) and four drivers of change (private sector development and operations, good governance and capacity development, gender equity, and knowledge solutions). Sovereign lending during 2011–2015 averaged \$1.51 billion per year for ordinary capital resources and \$18 million per year for technical assistance (TA) from ADB’s Technical Assistance Special Fund. Private sector operations were fully consistent with the CPS themes and averaged \$643 million annually during 2011–2015, mobilizing cofinancing with more than 40 banks. Furthermore, ADB invested \$230 million in four regional funds (mainly focusing on the PRC) to support areas such as climate change mitigation and adaptation, financial services, agribusiness, health care, and infrastructure development. ADB implemented the Supply Chain Finance Program with 70 transactions valued at over \$80 million, and supported more than 40 small and medium-sized enterprises (SMEs). ADB also facilitated trade through its Trade Finance Program by providing guarantees and loans to local banks, and supported PRC export transactions. Through these sovereign and nonsovereign operations, ADB’s intervention during the CPS period reduced the emission of 25 million tons of carbon dioxide (CO<sub>2</sub>) equivalent per year. ADB also provided knowledge support to the PRC through a policy notes series, special publications, a sector and thematic paper series, and a good practice series.<sup>8</sup> ADB has also promoted South–South knowledge cooperation, such as through the Regional Knowledge Sharing Initiative (RKSI) and sector-focused knowledge hubs.<sup>9</sup>

8. **Performance and lessons.** The country assistance program evaluation (CAPE) 2015 evaluated the performance of ADB’s country strategies during 2006–2013.<sup>10</sup> The CAPE assessed the country program *successful*. The program was considered relevant as it reflected the government’s ownership of the country program. It was considered effective as most ADB interventions achieved their targets and provided value addition through demonstration effects and policy support. The program was assessed as efficient as ADB loans achieved the required rates of economic returns. The program was evaluated as sustainable given the government’s commitment to reforming public financial management, regulating shadow banking activity, improving sustainability of asset management, subsidizing public goods, and meeting shortfalls in cost-recovery for public services. The CAPE suggested the following areas for improvement: strengthening the role of an honest broker to foster cooperation within the Central Asia Regional Economic Cooperation and Greater Mekong Subregion programs and with other countries, increasing support for addressing climate change and protecting the environment, focusing on reducing social inequalities and poverty, supporting tracking the implementation of the reform program,<sup>11</sup> intensifying support for public sector management, and continuing to provide private sector finance and engage in policy dialogue.

9. **Portfolio performance.** By the end of 2015, ADB had provided 226 public sector loans to the PRC totaling \$31.08 billion in commitments during 1986–2015. ADB had also provided \$5.68 billion for 40 nonsovereign projects and \$460.0 million in grants for 801 TA projects over the same period. While ADB’s sovereign portfolio performance in the PRC has traditionally been strong with annual disbursement ratios mostly in line with or above ADB-wide averages, there were delays in the implementation of some loan and TA projects as the loan portfolio became more complex. ADB’s sovereign portfolio has been diversified to support a large number of

<sup>8</sup> East Asia Department. 2011, 2012, 2013, and 2014. *Knowledge Management Initiatives*. Manila: ADB.

<sup>9</sup> The RKSI promotes knowledge exchange and dissemination between the PRC and other developing member countries. ADB–PRC sector-focused knowledge hubs with the PRC’s centers of excellence promote knowledge sharing in a particular sector.

<sup>10</sup> ADB. 2015. *Country Assistance Program Evaluation: People’s Republic of China*. Manila.

<sup>11</sup> ADB Management disagreed with the Independent Evaluation Department’s recommendation on “supporting tracking the implementation of the reform program.”

sectors and subsectors and poorer provinces in central and western PRC. The lower capacity of executing agencies in implementing ADB loan projects in these areas contributed to delays. Sovereign loan project implementation was also delayed by issues of land acquisition and coordination of numerous subprojects with activities undertaken by other development agencies. Despite these delays, the ADB loan portfolio was effective in achieving targeted outputs and outcomes. Moreover, TA project implementation was delayed by changes in ADB project officers and focal points of executing and/or implementing agencies, consultant recruitment, and additional requests from some executing and implementing agencies.

### **C. ADB–People’s Republic of China Partnership**

10. ADB’s relationship with the PRC has evolved into a full partnership. The PRC is an important client, collaborator, and contributor to ADB. The PRC was the second-largest sovereign borrower, and ADB’s private sector financing in the PRC expanded substantially during the CPS 2011-2015 period. ADB issued a series of off-shore local currency bonds to support some of its private sector operations. The PRC is also an important collaborator in the area of knowledge, such as policy research, capacity development, innovation and value addition, and development experience. Moreover, the PRC is collaborating with ADB in jointly supporting South–South knowledge cooperation. The PRC is an active participant in and important contributor to ADB’s RCI programs. In addition, the PRC is an important contributor to ADB’s development finance, such as the Asian Development Fund (\$110 million). It has also established the PRC Poverty Reduction and Regional Cooperation Fund, with a contribution of \$40 million. The PRC will continue to make its due contribution consistent with its capacity to support poverty reduction and economic development of the Asia-Pacific Region through ADB.

## **II. THE COUNTRY STRATEGY**

### **A. Government National Strategy**

11. The 13th Five-Year Plan of the PRC covering 2016-2020 period translates the comprehensive reform agenda of the Third Plenary Session of the 18th Central Committee of the Communist Party of China held in 2013 into a set of concrete actions to address the development challenges and help achieve the PRC’s development goals of inclusive and sustainable growth and *xiao kang* (moderately prosperous society) by 2020.<sup>12</sup> It also aims to identify, delineate, and balance the roles of the government, the market, and society. As confirmed at the Fifth Plenum in October 2015, during the 13th plan period the PRC aims to

- (i) double its GDP and per capita income of both urban and rural residents, in real terms, by 2020 from its 2010 level;
- (ii) promote economic rebalancing, industrial upgrading, and innovation-driven growth;
- (iii) eradicate extreme poverty, narrow income inequality, and strengthen social protection;
- (iv) balance development of rural and urban areas to improve agricultural productivity, transport connectivity, and rural incomes as well as to facilitate inclusive urbanization;

<sup>12</sup> In 2014, the National Development and Reform Commission (NDRC) invited ADB to support the preparation of the 13th plan. ADB undertook research and submitted to the NDRC a set of comprehensive recommendations on eight key development challenges: industrial transformation, balanced development of rural and urban areas, human resource transformation, environmental protection, mitigation and adaptation of climate change, water security, subnational debt management, and further integration of the PRC with the international economic system.

- (v) realize an “ecological civilization” to promote sustainable development and help curb costs associated with resource depletion and environmental damage;
- (vi) promote energy conservation, emissions reduction, and low-carbon development to help address climate change;
- (vii) establish a national carbon emission trading system;
- (viii) promote institutional reforms and strengthen governance to improve economic efficiency and the rule of law;
- (ix) accelerate public sector management reform;
- (x) improve and expand social services such as education, health, and elderly care;
- (xi) encourage greater private sector participation; and
- (xii) further open up the economy.

12. The government also emphasizes the importance of promoting initiatives to reduce air pollution in the Beijing–Tianjin–Hebei region; supporting the development of the Yangtze River Economic Belt; and promoting the RCI.

## **B. ADB Country Strategy**

### **1. Strategic Priorities**

13. ADB’s resources are limited when compared with the nature and scale of the development challenges that the PRC faces. Nonetheless, more than finance, the PRC needs knowledge based solutions as it seeks to put its economy on a more sustainable trajectory while dealing with a wide array of complex issues from environmental pollution to creating social safety nets. ADB, therefore, has put knowledge at the center of its operations as described in the Country Knowledge Plan.<sup>13</sup> ADB can still add considerable value in the PRC by (i) helping to translate innovative ideas into actual projects and programs for implementation; (ii) supporting transformative and demonstration projects and programs, which can be replicated and scaled up; (iii) supporting institutional reform efforts; and (iv) supporting private sector participation through public–private partnerships (PPPs) and ADB’s private sector operations. In addition, ADB can apply the successful experiences in the PRC to other developing member countries (DMCs) that are facing or will face similar challenges. Augmenting regional and global public goods will be a key consideration of ADB operations in the PRC.

14. Specifically, ADB’s country strategy will support the government’s reform agenda by focusing on the following strategic priorities: managing climate change and the environment, promoting regional cooperation and integration, supporting inclusive economic growth, fostering knowledge cooperation, and supporting institutional and governance reform. These strategic priorities are aligned with the PRC’s 13th plan, ADB’s Midterm Review of Strategy 2020,<sup>14</sup> and ADB’s approach to supporting upper middle-income countries.<sup>15</sup>

<sup>13</sup> Country Knowledge Plan (accessible from the list of linked documents in Appendix 2).

<sup>14</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

<sup>15</sup> ADB. 2015. *Clients–Contributors–Collaborators: A New Partnership with Upper Middle-Income Countries*. Manila.

### a. **Managing Climate Change and the Environment (realizing an Ecological Civilization)**<sup>16</sup>

15. As discussed in detail in para. 5, environmental degradation and the impacts of climate change are serious threats to the ecological environment and natural resources in the PRC. ADB welcomes the PRC's commitment to an ecological civilization and focus on environmental protection and increasing its efforts to address climate change. ADB will support the government's efforts in realizing an ecological civilization through environmental sustainability and pollution control and climate change mitigation and adaptation measures. This will also support sustainable consumption and production by promoting resource and energy efficiency, and sustainable infrastructure, and minimizing degradation and emissions of waste and pollutants. In particular, ADB will support operations that foster regional and global public goods.

16. **Climate change mitigation and adaptation.** The PRC's Intended Nationally Determined Contribution committed the PRC to peak CO<sub>2</sub> emissions by around 2030; lower CO<sub>2</sub> per unit of GDP by 60% to 65% from the 2005 level; increase the share of non-fossil fuels in primary energy consumption to around 20%; and increase the forest stock volume by around 4.5 billion cubic meters from the 2005 level.<sup>17</sup> ADB will work with the PRC to achieve this target or even to advance this target earlier than 2030.

17. ADB will support (i) structural transformation of the PRC's energy sector, in particular promoting emerging renewable technologies such as the Gansu Jinta Concentrated Solar Power project, advancing carbon capture and storage; and implementing energy conservation projects; (ii) smart urban energy systems;<sup>18</sup> (iii) expanding access to finance for energy efficiency investments in the industry sector such as the Shaanxi Accelerated Energy Efficiency and Environment Improvement Financing Program; (iv) transportation modes with lower emissions and energy consumption, such as sustainable urban public transport systems, railways, and inland water transport as well as freight logistics (e.g. the Subregional Rail Link projects, Chongqing Integrated Logistics Demonstration project, and Shandong Spring City Green Modern Trolley Bus Demonstration project);<sup>19</sup> (v) strengthening the capacities of cities and rural areas in climate change adaptation and climate resilience, especially in vulnerable areas by helping to improve sustainable use of land and natural resources, strengthen water security, and enhance green infrastructure and disaster risk management;<sup>20</sup> and (vi) financing private sector-led initiatives to support climate change mitigation and adaptation. In addition, ADB will work with the government to implement the memorandum of understanding to address climate change, which is an integral part of ADB operations.<sup>21</sup>

18. **Environmental sustainability and pollution control.** ADB will (i) pilot projects that help reduce air, water and soil pollution (such as the Beijing-Tianjin-Hebei Air Quality

<sup>16</sup> "Ecological civilization" refers to achieving harmony between growth, people, and nature. It includes activities to mitigate ecological damage, relieve pressures on natural resources, and improve the balance between the environment and the economy.

<sup>17</sup> The Intended Nationally Determined Contribution was submitted to the United Nations Framework Convention on Climate Change on 30 June 2015.

<sup>18</sup> Sector Assessment (Summary): Energy (accessible from the list of linked documents in Appendix 2).

<sup>19</sup> Sector Assessment (Summary): Transport (accessible from the list of linked documents in Appendix 2).

<sup>20</sup> Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development; and Sector Assessment (Summary): Urban and Urban-Rural Development (accessible from the list of linked documents in Appendix 2).

<sup>21</sup> The memorandum of understanding between ADB and the NDRC signed on 8 January 2014 seeks to strengthen collaboration between ADB and the NDRC in the areas of low-carbon development, adaptation, national emission trading scheme, South-South cooperation, innovative climate financing, and carbon capture and storage technology.

Improvement – Hebei Policy Reforms Program, and Shandong Groundwater Protection project); (ii) support integrated water resources management and sustainable land management, including strengthening water security and governance, wetland protection, reforestation, river basin clean-up and lake restoration, biodiversity protection, and land degradation prevention; (iii) promote greater use of market-based instruments to help address environmental problems, including innovative ecocompensation mechanisms; (iv) improve environmental enforcement and compliance; and (v) finance private sector projects with innovative technologies and business models to protect degraded rural ecosystems and support green cities development. In addition, ADB will work with the government to implement the memorandum of understanding to promote environmental protection.<sup>22</sup>

#### **b. Promoting Regional Cooperation and Integration (fostering regional public goods)**

19. The Government of the PRC aims to promote RCI through the Silk Road Economic Belt and 21st Century Maritime Silk Road (the Belt and Road Initiative). The objectives are to strengthen infrastructure and economic links between border provinces in the PRC and other countries, and to promote PRC investment in other countries, particularly in infrastructure, for which international agreements need to be forged among all the countries concerned to develop a shared vision. In this context, ADB will strengthen its role as an honest broker in fostering further cooperation within the Central Asia Regional Economic Cooperation and Greater Mekong Subregion programs and in the PRC's relations with other ADB DMCs. ADB will promote regional connectivity, trade and investment, and regional public goods.

#### **c. Supporting Inclusive Economic Growth (reducing poverty and inequality)**

20. Inequality and extreme poverty especially in ecological vulnerable zones is still a significant challenge for the PRC. ADB will work with the PRC to help address the types of inequality where ADB has a comparative advantage and can be effective, such as helping to reduce regional and rural–urban disparities, building a social safety net, and promoting equal access to services. ADB will assist the government's efforts in reducing extreme poverty and certain types of inequality through inclusive economic growth by focusing its operations particularly on the poor in the lesser-developed regions of the PRC and by promoting balanced development of rural and urban areas through inclusive and green cities development and rural development, human development, and financial inclusion.

21. **Inclusive and green cities development.**<sup>23</sup> The urban population in the PRC is 749 million in 2014, which is projected to grow to 816 million by 2020. The rural population will be shrinking correspondingly. There are currently 658 cities and 20,173 townships. Large influxes of migrants significantly increase demand for urban services, and further expansion and linkages into rural areas are needed. Unequal access to public services between urban dwellers with and without urban *hukou* is a source of inequality of opportunity. Continuing rapid urbanization also puts significant pressure on scarce land and natural resources and contributes to pollution.

<sup>22</sup> The memorandum of understanding between ADB and the Ministry of Environmental Protection signed on 8 January 2014 aims to strengthen collaboration in the areas of air and water pollution, management of soil pollution and contaminated lands, environmental governance and capacity building, regional cooperation on environmental issues, and knowledge sharing.

<sup>23</sup> This is one of the strategic directions set out in the paper on ADB's approach to upper middle-income countries.

22. ADB will promote integrated, green, inclusive, and competitive urban development, focusing on small and medium-sized cities in the less-developed regions that could be used as a model for other cities in Asia. ADB will support (i) city cluster development, including urban infrastructure development and institutional coordination (including functions and policies); (ii) smart city development to enhance efficiency of land and resource use, and infrastructure systems; and (iii) sustainable municipal finance, property taxes, municipal bonds, and PPP. In addition, ADB will support knowledge partnerships and innovation in priority areas, such as innovative solid-waste and wastewater management; management systems for air and water pollution reduction; advanced storm water, flood, and climate risk management; and city cluster coordination.<sup>24</sup>

23. **Rural development.** Poverty in the PRC remains primarily a rural phenomenon. Agricultural and environmental factors, such as low farm productivity, exposure to natural disasters, and inadequate finance and marketing mechanisms, contribute to rural poverty. ADB will support rural development by promoting good practice to strengthen agricultural productivity, market connectivity, and climate resilience, which will help to generate employment, increase incomes, and reduce inequality between urban and rural areas. In particular, ADB will support the PRC to develop suitable approaches to (i) modernizing agriculture; (ii) improving rural financial services; (iii) promoting circular agriculture through value chains to reduce resource inputs and waste outputs, and control pollution; (iv) improving food safety, including related infrastructure and capacity development; (v) maintaining sustainable rural connectivity, road asset management, and road safety; (vi) promoting disaster and climate resilience through agricultural infrastructure, technology, and practices, and piloting comprehensive approaches to poverty reduction in ecologically fragile regions; and (vii) financing private sector-led solutions to improve access to water and sanitation in rural areas, access to finance, and modernization of agriculture.

24. **Human development.** About 15% of the population in the PRC is over the age of 60 in 2014; by 2020 this is expected to rise to 20%. This demographic shift creates new challenges, such as a declining workforce, the need for elderly care services, and an adequate social protection system. In addition, upward pressure on wages and a declining labor force will require substantial increase in labor productivity for the PRC to maintain a moderately high growth rate. To achieve this would require that the PRC modernizes its technical and vocational education and training (TVET) and higher education systems. ADB will support human development by focusing on skills development and education, health, and social protection.

- (i) **Skills development and education.** ADB will support (a) expanding school–industry partnerships to make training and education more relevant; (b) improving the quality of TVET; (c) strengthening pathways between TVET, universities, and enterprise to enhance skills and employability of the workforce; and (d) ensuring the employability of students through policy development in the areas of graduate employment and tertiary education reform.<sup>25</sup>
- (ii) **Health.** ADB will mainly focus on elderly care.<sup>26</sup> ADB will support (a) developing and implementing elderly care policies; (b) developing effective planning for and management of elderly care services; (c) developing elderly care services and

<sup>24</sup> Sector Assessment (Summary): Urban and Urban-Rural Development (accessible from the list of linked documents in Appendix 2).

<sup>25</sup> Sector Assessment (Summary): Education (accessible from the list of linked documents in Appendix 2).

<sup>26</sup> Sector Assessment (Summary): Health (accessible from the list of linked documents in Appendix 2). The World Bank and the World Health Organization are collaborating with the Government of the PRC to conduct a comprehensive review of the health sector. There is an understanding that ADB will focus on various dimensions of the issue of ageing.

the role of the nonprofit and private sector as service providers; (d) investing in elderly care infrastructure; and (e) developing age-friendly cities, including planning and retrofitting urban spaces for the elderly.

- (iii) **Social protection.** ADB will support (a) improving the portability of social protection benefits, (b) strengthening the links between social assistance and social security systems; (c) scaling up social security fund pooling management at the provincial level, with an aim of helping to establish a national pooling system; and (d) improving coordination between urban and rural social protection systems and government and other service providers to help improve administrative and operational efficiency.

25. **Financial inclusion.** It is difficult for low-income groups and small and medium-sized enterprises to access financial services to expand their economic opportunities and reduce disparities. An underdeveloped micro and rural finance system is also a major challenge to financial inclusion. ADB will support the development of community banking models to sustainably support the goal of developing a multitiered finance system, review of the supervisory and legal framework of the finance sector, the development of private capital in the banking system,<sup>27</sup> and enhancing support for small and medium-sized enterprises under ADB private sector operations' Supply Chain Finance Program. ADB will also continue supporting the local currency bond market development.

#### **d. Fostering Knowledge Cooperation**

26. Knowledge solutions are a powerful catalyst for propelling development in the PRC and enhancing its effects. Knowledge work underpins and is an integral part of ADB's sovereign and nonsovereign operations in the PRC. ADB will support knowledge work through a "One ADB" approach by drawing on expertise within ADB and the ADB Institute, and by intensifying knowledge transfer and knowledge sharing. The PRC's knowledge needs are embedded in increasingly policy-oriented TA and sovereign loan pipelines focused on the PRC priority reform areas. In addition, ADB has a TA facility that provides a quick response to deal with the urgent needs of the PRC authorities. ADB has various channels to disseminate knowledge products from its operations, such as the RKS and other South–South knowledge-sharing activities, and ADB's sector and thematic groups. The knowledge generated in the PRC will be actively shared with other DMCs. ADB's overall knowledge support for the PRC (including dissemination) is reflected in the country knowledge plan.

#### **e. Supporting Institutional and Governance Reform (making the public sector and markets work better)**

27. ADB will support the government's efforts to strengthen institutions and governance<sup>28</sup> to address the country's development challenges and support sustainable and inclusive development, with well-functioning markets, strong distributive mechanisms, reliable social safety nets, assured social entitlements and engaged citizenry (including industry associations and non-governmental organizations). Institutional and governance reform cuts across the above strategic priorities, and is an integral component of ADB's operations in the PRC. Strong institutions and sound governance can help make the public sector and the markets work better to support sustainable and inclusive development. That is, they can help improve policy making, public service delivery, and accountability; support market-based instruments to address

<sup>27</sup> Sector Assessment (Summary): Finance (accessible from the list of linked documents in Appendix 2).

<sup>28</sup> Institutional and governance challenges facing the PRC were discussed in para. 6.

environmental and climate change issues, and promote competition and greater private sector participation.

28. In particular, ADB will (i) assist in strengthening the necessary regulatory, institutional, and legal frameworks to let the market play a decisive role in allocating resources to their productive use; (ii) support the government's efforts to improve governance to promote greater transparency, accountability, and anticorruption; (iii) support the strengthening of public sector management, such as fiscal reforms in areas of taxation, local government bonds, and debt management; (iv) support state-owned enterprise reforms, including strengthening corporate governance and competition; (v) support PPPs through advisory work, regulatory and institutional reform, financing, and capacity building; and (vi) promote private sector development through improving the legal and regulatory framework, removing entry barriers, supporting tariff reform, and improving access to finance.<sup>29</sup> Promoting private sector development will also help crowd in the private sector to support the strategic priorities of the CPS.

### III. STRATEGY IMPLEMENTATION

#### A. Indicative Resource Parameters

29. **Future Lending Volumes.** The future lending volumes for both sovereign and private sector operations will be determined based on the need for ADB involvement in the PRC's development, ADB's value added in the specific sectors, regional and global benefits of the proposed interventions, the size of the lending programs of other institutions, and ADB's resource availability. In this regard, the government has expressed its strong hope for ADB to allocate more financial and staff resources to help the PRC address its critical development challenges. ADB will respond positively to this request along the ADB's anticipated increase in its lending operations following the merger of the Asian Development Fund and ordinary capital resources balance sheet.<sup>30</sup> Sovereign lending to the PRC is expected to increase in absolute terms but such increase will be managed broadly in line with the expansion of the ADB's overall lending program. In addition to the country allocation, the PRC sovereign operations may also access bank-wide set aside resources (currently there is a set aside to promote regional projects and there may be more in future). While private sector financing is inherently more volatile given changing market conditions, ADB expects that its private sector financing volume will build upon the results achieved during the CPS 2011-2015 period (during which annual volumes ranged from \$200- \$1,000 million, with an average over the period of \$643 million<sup>31</sup>).

30. **Cost-sharing arrangements.** Under the current cost-sharing arrangements for the PRC, ADB's sovereign financing share for individual projects is expected to remain well below the approved 99% level. The share of ADB financing in the key sectors has been relatively low: between 1990 and 2014 the share was 21% in transport and information and communication technology; 37% in energy; 40% in water and other urban infrastructure and services; and 41% in agriculture, natural resources, and rural development.

<sup>29</sup> ADB's support for private sector development is discussed in the Private Sector Assessment (accessible from the list of linked documents in Appendix 2).

<sup>30</sup> ADB. 2015 Work Program and Budget Framework, 2016-2018 (Sec.M25-15, Revision 1, Final), paras. 5-7.

<sup>31</sup> Private sector financing is particularly sensitive to several key factors, including the availability of commercially viable opportunities that are consistent with ADB and CPS priorities, and favorable economic and financial market conditions. As a result, actual results may vary materially from those estimated, anticipated or projected.

31. **Assistance from other development partners.** The World Bank's assistance is concentrated in the environment, energy, water resources management, urban and rural development, transportation, and human development. The Agence Française de Développement focuses its support on climate change adaptation and sustainable development. The International Fund for Agricultural Development's support has shifted towards enhancing income opportunities and increasing resilience. German development cooperation through KfW has a large portfolio of projects in TVET. The Japan International Cooperation Agency mainly engages in technical cooperation in environmental protection, infectious disease control, and food security.

## B. Program Overview

32. **Sovereign operations.** ADB's engagement in the PRC is evolving. ADB will support the government's "top-design" and programmatic approach to implement the reform agenda within the five strategic priorities, compared with the bottom-up and project-by-project approach of the previous CPS. In addition to the traditional lending modality through project loans and multitranches financing facilities, ADB will use other lending models which are new to the PRC, such as results-based lending, policy-based lending, and PPPs, as appropriate, to implement the country strategy and support the government's implementation of top-design reforms. ADB will ensure that project investments support pilots and demonstration projects to achieve greater impact beyond the project itself. ADB will deepen sector dialogues to better understand the PRC's needs, and ensure continued high-quality and relevant loan and TA projects. ADB will ensure gender mainstreaming in design, implementation, and monitoring of gender action plans. The country operations business plan for 2016–2018 presents indicative loans and TA pipelines for 2016–2018.<sup>32</sup>

33. **Private sector operations.** ADB's private sector operations will focus on private sector transactions with high demonstration impact in the following strategic priority areas: managing climate change and the environment, regional cooperation, and inclusive economic growth. In particular, ADB will

- (i) finance private sector infrastructure transactions that offer innovative solutions to environmental problems, with particular focus on cross-sector, cross-jurisdiction private sector participation; new opportunities to address the water, energy, and food security nexus; and demonstration of advanced technologies;
- (ii) provide financing to banks, non-bank financial institutions and other financial intermediaries to support access to finance, climate change finance, inclusive business, and social development, including health and education;
- (iii) support agribusiness projects that enhance productivity, inclusion of smallholder farmers in value chains, and food safety;
- (iv) explore opportunities to support commercially viable business models in areas such as climate change finance, environmental protection, and social development, including health and education;
- (v) pursue opportunities to further catalyze commercial cofinancing into its transactions through parallel loans, guarantees and risk transfers;
- (vi) leverage its capital and knowledge to invest in private equity funds and to manage third-party capital for potential investment in the PRC; and

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<sup>32</sup> Country Operations Business Plan (accessible from the list of linked documents in Appendix 2).

(vii) continue support for PRC exports to developing Asia through the Trade Finance Program and enhance support for small and medium-sized enterprises through the expansion of activities under the Supply Chain Finance Program.<sup>33</sup>

34. Recognizing the diverse and evolving needs of the market, ADB will also selectively seek out opportunities to diversify into other areas that meet the development needs of the PRC and its private sector.

35. **Leverage through partnership.** Leveraging through partnerships is an avenue to scale up financial resources and technical know-how to meet the development needs of the PRC. ADB will actively explore cofinancing opportunities with multilateral financing partners, domestic policy and commercial banks, and international commercial banks. ADB will also continue to mobilize grant resources from ADB-administered and global trust funds for activities related to environmental protection and climate change. In addition, ADB will explore cofinancing opportunities with the PRC financial institutions in ADB projects in the other DMCs.

#### IV. RESULTS MANAGEMENT

##### A. Monitoring

36. The CPS results frameworks will be used to track progress toward achieving the targeted results (Appendix 1). It will be updated annually during the preparation of the country operations business plans. The sector outcome data will be gathered and analyzed together with the government as part of regular updates of project design and monitoring frameworks. Progress reports on achievements of the 13th Plan will also be used to track development results, and project reviews and completion reports will focus on ADB's contribution to these results.

##### B. Risks

37. The PRC has made good progress in establishing the regulatory framework for financial management and procurement. The financial management legislation, structure, and system are in place. Major risks remain at the subnational levels, particularly below the provincial level. As most ADB-financed projects are becoming more complex because of the PRC's growing needs, some lower levels of government and executing and/or implementing agencies in the poorer regions may not have sufficient capacity to implement the projects. Continued support is needed to assess and strengthen the capacity of lower levels of government. It is important to support both skills training and knowledge sharing in areas such as accrual accounting and green procurement.

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<sup>33</sup> Private Sector Assessment (Summary) (accessible from the list of linked documents in Appendix 2).

## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

<b>Country Development Impact Indicators with which the CPS is Aligned</b>				
<ol style="list-style-type: none"> <li>1. Achieve GDP growth of no lower than 6.5% per annum during 2016–2020</li> <li>2. Eradicate extreme poverty by 2020</li> <li>3. Reduce carbon dioxide emissions per unit of GDP by 40%–45% (from 2005 level) by 2020</li> <li>4. Increase the share of nonfossil fuel in primary energy consumption to 15% by 2020</li> <li>5. Limit the total energy consumption to 4.8 billion tons of coal equivalent by 2020</li> <li>6. Increase the urbanization ratio by 60% (with 45% urban household registration (<i>hukou</i>) holders) by 2020</li> </ol>				
<b>CPS Objectives and Related Impacts</b>	<b>CPS Priority Areas</b>	<b>Key Outcomes that ADB Contributes to</b>	<b>Outcome Indicators<sup>a</sup></b>	<b>CPS Resources</b>
Improved environment and management of climate change by realizing “ecological civilization”	Environmental sustainability and pollution control  Climate change mitigation and adaptation	<p>Improved urban–rural environmental protection and expanded green infrastructure</p> <p>Improved quality and management of water and natural resources, including reduced water pollution</p> <p>More energy efficiency and fewer greenhouse gas emissions</p> <p>Help develop and implement an energy regulation system and low-carbon development strategies and established carbon trading platforms</p> <p>Better and more accessible low-carbon transport developed</p> <p>Disseminated sustainable transport best practices and established a transport knowledge hub</p> <p>More climate-smart agricultural technology and practices promoted</p> <p>Enhanced capacity of climate change adaptation in cities</p>	<p>Forest cover increased to 23.0% of the total land area in 2020, from 21.6% in 2015</p> <p>Water quality compliance rate (the number of water function zones complying with the water quality standard) increased to 80% (2020) and 95% (2030) (2012 baseline: 46%)</p> <p>Fine particle (PM<sub>2.5</sub>) reduced in the Beijing–Tianjin–Hebei region by 25% by 2017 (2013 baseline: 106 µg/m<sup>3</sup>)</p> <p>Total energy consumption limited to 4.8 billion tce by 2020 compared with 4.26 billion tce in 2014</p> <p>Share of coal reduced to 62% by 2020 compared with 66% in 2014</p> <p>Share of non-fossil energy in primary energy supply increased to 15.0% by 2020 compared with 11.3% in 2014</p> <p>Share of natural gas in primary energy supply increased to 10.0% by 2020 compared with 5.7% in 2014</p> <p>Inland waterway traffic for freight grows by 1% per annum for freight traffic during 2016–2020 (2014 baseline: 9,188 billion ton-km)</p> <p>Public transport ridership increases by 5% per annum during 2016–2020 (2014 baseline: 86 billion passenger trips)</p>	<p><b>Ongoing portfolio</b></p> <p>Ongoing sovereign loan projects (as of 31 December 2014): Number: 79 Net Loan Amount: \$10,499.3 billion</p> <p><b>Planned operation and contribution:</b></p> <p><b>Sovereign</b></p> <p>Lending (\$4.5-6.0 billion of ordinary capital resources for 2016–2018)</p> <p><b>Technical assistance</b></p> <p>Nonlending (\$31.55 million for 2016-2018 -tentative)</p>

Strengthened regional cooperation and integration	Regional connectivity  Trade and investment  Regional public goods	Improved transport and energy connectivity  Promoted border cities development Increased intra-regional trade and investment  Greater supply of regional public goods	Goods transported from Guangxi and Yunnan to other Greater Mekong Subregion countries increased to at least 500,000 million ton-km by 2020 (2013 baseline: 277,916 million ton-km)  Greater Mekong Subregion intraregional trade share increased to about 12.0% by 2020 (2013 baseline: 7.4%)	
More inclusive and sustainable growth	Inclusive and green cities development      Rural development    Skills development and education  Health (elderly care)   Financial inclusion   Social protection	Integrated, expanded, and improved city-cluster, urban, and urban-rural infrastructure Expanded and improved access to municipal and social services  Improved agricultural productivity and water use efficiency Increased participation of rural households in agricultural value chains  Improved skills and employability of graduates of post-secondary institutions  A three-tiered elderly care system (home, community, and institutional care) developed  Enhanced financial sector infrastructure and oversight framework, with increased availability of finance to rural sector and small and medium-sized enterprises and for green finance Expanded social protection coverage	Urban water supply increased to 90% and urban wastewater treatment increased to 95% by 2020; 2012 baseline: 81.7% and 87.3%, respectively  Irrigation efficiency increased to 55% (2020) and 60% (2030) (2012 baseline: 50%)  By 2020, build new high-standard farmland by 53.3 million ha (2014 baseline: 39.7 million ha of high-standard farmland)  Number of students in higher vocational colleges increased from 13.0 million in 2013 to 14.8 in 2020  Employment rates of technical and vocational education and training graduates maintained (2013 baseline: 92%)  At least 35.0 institutional care beds provided for every 1,000 senior citizens nationwide (2015 baseline: 27.5 per 1,000)  Small and medium-sized enterprise lending increases to 30% by end of 2020 (2014 baseline: 24%)  Full basic pension insurance coverage increased by 2020 (2014 baseline: 842 million)	

Increased knowledge cooperation	<p>Stronger knowledge alignment with PRC reform needs</p> <p>Strengthened knowledge co-management between ADB and MOF TA Division</p> <p>PRC regional knowledge sharing among DMCs</p>	<p>Reform orientation of TA and knowledge outputs increased</p> <p>MOF TA Division database on knowledge management created and implemented</p> <p>Increased participation of DMCs in knowledge sharing workshops</p>	<p>Mainstream third party TA proposal review and tripartite discussion (2014 baseline: one year pilot undertaken)</p> <p>Increased collaboration with think tanks, universities and centers of excellence and measured in terms of joint seminars, research, training, etc</p> <p>2016 PRC TA for Capacity Building on Operational Knowledge and other TA support country-based knowledge management</p> <p>ADB-MOF knowledge management and tracking mechanisms piloted and operational (Baseline: Initial Country Knowledge Plan discussions)</p> <p>ADB supported PRC development experience shared through ADB platforms, including Regional Knowledge Sharing Initiative (RKSI) (2015 RKSI baseline: 2 meetings)</p>	
Improved institutions and governance	<p>Efficient public sector management</p> <p>Private sector development</p>	<p>Improved budget system</p> <p>Advanced tax reform</p> <p>Increased coverage of public pension to rural residents</p> <p>Strengthened enabling environment for private sector investment and private enterprises</p>	<p>More than 50% of local government financing provided by open and transparent bonds or public-private partnerships by 2020 (2014 baseline: less than 10%)</p> <p>Local government debt assessed at sustainable levels by debtsustainability assessments in 2020 (2013 baseline: 30.6% of GDP)</p>	

ADB = Asian Development Bank, CPS = country partnership strategy, GDP = gross domestic product, ha = hectare, km = kilometer, MOF = Ministry of Finance, TA = technical assistance, TBD = to be determined, tce = tons of coal equivalent,  $\mu\text{g}/\text{m}^3$  = microgram per cubic meter

<sup>a</sup> Subject to updates when the PRC 13th plan is formally launched.

Source: The Government of the PRC and ADB staff estimates.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/CPS/?id=PRC-2016>

1. Economic Analysis (Summary)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
7. Sector Assessment (Summary): Education
8. Sector Assessment (Summary): Energy
9. Sector Assessment (Summary): Finance
10. Sector Assessment (Summary): Health
11. Sector Assessment (Summary): Public Sector Management
12. Sector Assessment (Summary): Transport
13. Sector Assessment (Summary): Urban and Urban-Rural Development
14. Risk Assessment and Risk Management Plan (Summary)
15. Country and Portfolio Indicators
16. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters
17. Country Partnership Strategy Formulation
18. Country Operations Business Plan
19. Country Assistance Program Evaluation
20. Country Knowledge Plan (Summary)
21. Climate Change Assessment (Summary)
22. Regional Cooperation and Integration (Summary)