



Chapter 8

EAST ASIA

The People's Republic of China, Mongolia

ADB support for the People's Republic of China (PRC) and Mongolia concentrated on mitigating the effects of the global financial crisis. Lending in the PRC complemented the government's massive fiscal stimulus program and supported rehabilitation efforts in the wake of the devastating 2008 Wenchuan earthquake. In Mongolia, ADB helped develop a social program to improve access to basic social services for the poor. ADB facilitated cooperation between the PRC and Mongolia in such areas as joint customs control, border transport development, and trade logistics. Regional trade and economic cooperation with other countries of Central Asia and the Greater Mekong Subregion were also promoted.

OVERVIEW

ADB operations in East Asia were guided by Strategy 2020 and the need to respond to the effects of the global financial crisis on the PRC and Mongolia. In the PRC, ADB lending complemented the government's massive fiscal stimulus program that moderated the impact of the crisis on the economy. Support for post-disaster rehabilitation, energy efficiency in transportation, natural resource conservation, and integrated urban–rural development were the highlights of lending operations. In Mongolia, ADB helped develop a social program that improved access of the poor to basic social services. ADB also promoted nonsovereign lending and private–public partnerships in infrastructure, and measurable progress was made in renewable energy projects in the PRC. In both countries, ADB provided technical assistance to increase access to financial services, support social services, promote clean technology and alternative energy, facilitate trade among neighboring countries, and enhance regional cooperation.

Total lending operations (Table 15) in the PRC consisted of 12 sovereign loans for \$1.8 billion and 3 non-sovereign loans for \$192.9 million. For Mongolia, financial assistance included two Asian Development Fund (ADF) grants totaling \$33.9 million, of which \$16.9 million was made in conjunction with an ADF loan of \$43.1 million

HIGHLIGHTS

- A \$400 million emergency loan to reconstruct and upgrade damaged roads, bridges, and school buildings in Sichuan and Shaanxi provinces in the wake of the devastating 2008 Wenchuan earthquake
- Greening of the PRC portfolio through projects in renewable energy, sustainable transport, urban development, and natural resource management
- A second Panda bond issue worth \$146.5 million (CNY1 billion) to support ADB private sector operations
- A \$60 million loan and grant for the Mongolia Social Sectors Support Program to mitigate the negative social consequences of the financial crisis and promote priority social sector reforms

The Global Economic Crisis: ADB's Response

The People's Republic of China

- Supported the stimulus package through investment in transport, natural resource management, urban infrastructure, environment improvement, and job creation in small cities and towns
- Provided technical assistance resources to improve access to financial services for the poor and vulnerable households and to strengthen the legal, regulatory, and supervisory framework of the PRC's finance sector

Mongolia

- Partnered with the Japan International Cooperation Agency to jointly finance \$110 million to facilitate social welfare reforms and to help establish social safety nets. This complemented the 18-month stand-by arrangement with the International Monetary Fund
- Provided a \$17 million Asian Development Fund grant for the Education for the Poor project and four Japan Fund for Poverty Reduction grants totaling \$10 million to help protect the poor and the vulnerable groups from the adverse impact of the crisis
- Provided \$2 million in technical assistance for policy and institutional support to the banking sector on systemic risk management

for the Social Sectors Support Program (Tables 13 and 15). The PRC received \$9.9 million in grants from various sources for climate change, energy efficiency, and water conservation and wastewater-related demonstration components (Table 13). Mongolia received \$10.3 million from the Japan Fund for Poverty Reduction for four projects that focused on energy conservation, early childhood education and nutrition, and health protection during the financial crisis. Total technical assistance amounted to \$40.2 million, consisting of \$24.6 million for the PRC, \$7.2 million for Mongolia, and \$8.4 million for regional technical assistance.

Knowledge management was strengthened. Filters were adopted to screen project proposals upon entry, peer reviews helped ensure quality, and knowledge products

TABLE 13 East Asia: Grant-Financed Project Approvals by Country, 2009
(\$ million)

Country	ADF	CCF	Other Sources ^a	Total
China, People's Republic of				
Capacity Building for Energy Efficiency Implementation (Supplementary) ^b	–	1.2	–	1.2
Liaoning Small Cities and Towns Development Demonstration Sector ^b	–	–	0.3	0.3
Shaanxi Qinling Biodiversity Conservation and Demonstration ^b	–	–	4.3	4.3
Integrated Ecosystem and Water Resources Management in the Baiyangdian Basin ^b	–	–	2.9	2.9
Hebei Small Cities and Towns Development Demonstration Sector ^b	–	–	0.3	0.3
Shanxi Integrated Agricultural Development ^b	–	–	0.7	0.7
Shanxi Small Cities and Towns Development Demonstration Sector Project ^b	–	–	0.3	0.3
– Support for Water/Wastewater Service Implementing Agencies and Companies	–	–	0.3	0.3
Mongolia				
Reducing Persistent Chronic Malnutrition in Children in Mongolia	–	–	2.0	2.0
Social Sectors Support Program ^b	16.9	–	–	16.9
Protecting the Health Status of the Poor During the Financial Crisis	–	–	3.0	3.0
Early Childhood Education for Rural, Nomadic, and Migrant Children	–	–	2.9	2.9
Demonstration Project for Improved Electricity Services to the Low-Income Communities in Rural Areas	–	–	2.4	2.4
Education for the Poor—Financial Crisis Response ^b	17.0	–	–	17.0
Total	33.9	1.2	18.9	54.0

– = nil, ADF = Asian Development Fund, CCF = Climate Change Fund.

Note: Totals may not add up because of rounding.

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

b Grant component of a loan project.

TABLE 14 East Asia: Portfolio Performance Indicators for Sovereign Lending, 2008–2009

Country	Ongoing Loans as of 31 Dec 2009 (no.)	Contract Awards/ Commitments		Disbursements		Loans at Risk	
		2009 (\$ million)	2008 (\$ million)	2009 (\$ million)	2008 (\$ million)	2009 (%)	2008 (%)
China, People's Republic of	66	1,122.9	1,312.0	1,341.7	1,234.3	1.5	1.8
Mongolia	10	53.2	19.0	56.7	26.7	20.0	–
Total	76	1,176.1	1,331.0	1,398.4	1,261.0	3.9	1.5

– = nil.

and services were jointly programmed with the government during country programming discussions. Thirty-two knowledge products and services were completed while knowledge sharing was conducted through 34 conferences and workshops, 8 book launches, and 8 international conferences.

PORTFOLIO MANAGEMENT

ADB continued to promote results-based portfolio management and effective development by improving project readiness and streamlining ADB procedures, aligning them with government procurement and approval processes. Resident missions were strengthened

to assume increased portfolio management responsibilities, and phased delegation of disbursement functions to the PRC was implemented. The increasing number of smaller loans approved and delays in project completion contributed to an expanding portfolio. Operational targets for project administration were met.

ADB continued to improve project readiness and streamline procedures, aligning them with government procurement and approval processes

REGIONAL COOPERATION

Regional cooperation programs promoted trade and economic cooperation among the countries of Central Asia Regional Economic Cooperation (CAREC) and the Greater Mekong Subregion. ADB also supported implementation of the joint action plan of the CAREC Transport and Trade Facilitation Strategy, and notable progress was achieved in fostering customs cooperation, measuring and monitoring transport corridor performance, and developing single-window customs clearance systems. ADB conducted a more targeted program between the

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PRC and Mongolia, such as joint customs control, coordinating transport development, improving the legal and policy framework for power trading, and enhancing trade logistics and urban infrastructure development in key border towns.

COUNTRY HIGHLIGHTS

The People's Republic of China

Partnership priorities. The 2008–2010 country partnership strategy remains closely aligned both with the government's Eleventh Five-Year Plan (2006–2010) and ADB's Strategy 2020 priorities. The global financial crisis highlighted the urgency of rebalancing from export-oriented, investment-driven growth to a consumption-driven, service-oriented economy. Another emerging challenge was to reinforce environmentally sustainable development by addressing climate change issues and adopting greener, low-carbon growth strategies.

TABLE 15 East Asia: Sovereign and Nonsovereign Loan Approvals by Country, 2009
(\$ million)

Country	OCR	ADF	Total
SOVEREIGN			
China, People's Republic of			
Emergency Assistance for Wenchuan Earthquake Reconstruction	400.0	–	400.0
Xinjiang Urban Transport and Environmental Improvement	100.0	–	100.0
Liaoning Small Cities and Towns Development Demonstration Sector	100.0	–	100.0
Shaanxi Qinling Biodiversity Conservation and Demonstration	40.0	–	40.0
Guiyang Integrated Water Resource Management (Sector)	150.0	–	150.0
Hebei Small Cities and Towns Development Demonstration Sector	100.0	–	100.0
Anhui Integrated Transport Sector Improvement	200.0	–	200.0
Lanzhou Sustainable Urban Transport	150.0	–	150.0
Railway Energy Efficiency and Safety Enhancement Investment Program – Tranche 1	300.0	–	300.0
Shanxi Integrated Agricultural Development	100.0	–	100.0
Guangdong Energy Efficiency and Environment Improvement Investment Program – Tranche 2	22.1	–	22.1
Shanxi Small Cities and Towns Development Demonstration Sector	100.0	–	100.0
Mongolia			
Social Sectors Support Program ^a	–	43.1	43.1
Urban Development Sector (Supplementary)	–	7.0	7.0
Subtotal	1,762.1	50.1	1,812.2
NONSOVEREIGN			
China, People's Republic of			
Small Hydropower Development	58.6	–	58.6
Zhangbei Wind Power	34.3	–	34.3
Municipal Waste to Energy	100.0	–	100.0
Subtotal	192.9	–	192.9
Total	1,954.9	50.1	2,005.1

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

Note: Totals may not add up because of rounding.

a Accompanied by a grant.

TABLE 16 East Asia: Cumulative Lending and Disbursements by Country as of the end of 2009 (\$ million)^a

Country	Lending	Disbursements
China, People's Republic of	22,959.1	14,905.8
Mongolia	726.7	638.1
Total^b	23,685.8	15,543.9

a Includes nonsovereign (public and private) sector loans.

b Excludes Hong Kong, China; the Republic of Korea; and Taipei, China, which have graduated from regular ADB assistance.

Impact of operations. Most projects were in the less-developed central and western regions of the PRC, where rural poverty and environmental degradation are more pronounced. Greening of the portfolio was achieved through the railway energy efficiency program under the multitranche financing facility and a nonsovereign wind power project in Hebei Province. Preparatory work was initiated for innovative projects such as the 250-mega-watt Tianjin integrated gasification combined cycle project and a concentrated solar thermal power development project in the western PRC while carbon capture and storage demonstration studies were started to identify barriers, develop road maps, and to identify potential projects. ADB continued its support for balanced and environmentally sustainable urbanization of small cities and towns in Hebei, Liaoning, and Shanxi provinces.

ADB, with the Ministry of Finance, organized a national workshop to promote sustainable urban development. The PRC–ADB knowledge-sharing platform, with its first event on sustainable urbanization, facilitated exchange between the PRC and other developing member countries on urban development.

Mongolia

Partnership priorities. To respond swiftly to the effects of the global financial crisis, ADB assisted the government in formulating a country operations business plan

The PRC–ADB knowledge-sharing platform facilitated exchange between the PRC and other developing member countries on urban development

FIGURE 3 East Asia: ADB Lending by Country, 2008–2009 (Sovereign and Nonsovereign) (\$ million)

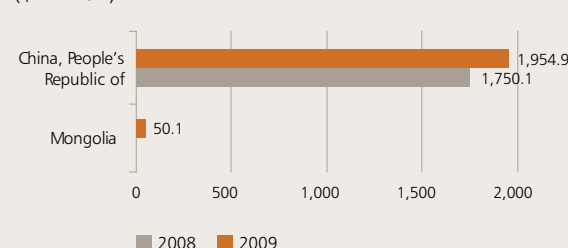
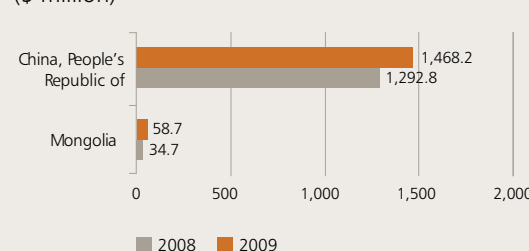


FIGURE 4 East Asia: ADB Disbursements by Country, 2008–2009 (Sovereign and Nonsovereign) (\$ million)



and a short-term crisis strategy in consultation with other development partners. ADB provided funds to help protect the poor during the crisis and discussed ways to adjust the timing, funding arrangements, and sequencing of proposed projects to support the government's crisis response program.



ADB supports targeted provision of textbooks to poor students in Mongolia

Impact of operations. ADB helped the government start reforms in the health insurance system, improving the financing of hospitals and rural health facilities, and developing incentives to encourage health workers to work in rural areas. ADB also supported overhauling the legal status of family group practices and strengthening the legal and regulatory basis for public-private partnership initiatives in the health sector. In education, an ADF grant ensured that those most affected by the crisis stay in school by helping the government meet its short-term

financing needs and by continuing longer-term policy reform.

Two projects funded through the Japan Fund for Poverty Reduction sought to promote community natural resource management by introducing alternative livelihoods to the rural poor. A grant of \$14.7 million in 2008 supported an innovative private sector development approach in agro-processing that helped the rural poor by expanding value chain processing of food products, marketing, and exports.

Methane: From Pollution to Solution

An ADB project is helping the PRC safely capture methane gas extracted from coal mines, and at the same time providing consumers, such as in Jincheng, clean alternative energy sources

The glassmakers at Jincheng East Glassware's workshops in Jincheng, Shanxi province breathe easier now because the company's switch from coal to methane gas to fuel its furnaces has improved air quality in the factory and greatly reduced the incidence of respiratory disease. The furnace upgrade saves the company \$147.10 (CNY1,000) per day, and because the consistent gas supply keeps the temperature of the furnaces steady, the glass melts evenly without trapping bubbles, reducing wastage by 20%.

The methane that fuels the glassworks is tapped from the city's extensive coal deposits. Methane is highly explosive and must be extracted from the underground coal mines to keep working conditions safe. But once captured it is one

of the cleaner energy sources since it produces no soot and does not contribute to acid rain, and it can replace dirty fuels such as coal and petroleum.

A \$117.4 million loan from ADB helped introduce new technologies that can increase the production and use of methane. Begun in 2004, the Coal Mine Methane Development Project in Jincheng captures coal mine methane from mine shafts to fuel a 120-megawatt power plant, and transmits and distributes methane to commercial, residential, and industrial consumers in the city.

For Wei Jiusheng, who drives a methane-powered taxi, the availability of this cleaner, cheaper fuel is a boon. When Wei used gasoline, filling the fuel tank was so costly that he was barely able to support his wife and child. Now that he has converted his car to methane gas, he earns an average of \$440 a month (CNY3,000), substantially more than most drivers in his city. To reduce air pollution and promote the use of methane gas, the municipal government later made the conversion mandatory for all taxis and buses, and many owners of private vehicles have made the switch, too.

Households also make major savings now that coal mine methane is widely available on tap. The average annual cost for gas supply for a family is \$52 (CNY350), compared with \$294 (CNY2,000) for coal. Making piped gas available not only reduced households' expenses but also liberated women from time-consuming cooking. The Jincheng municipal government plans to cover the whole city with pipelines to supply over 60,000 households with coal mine methane for heating and cooking by 2011.



Glassware workers breathe easier as methane gas fires furnaces

Once captured, methane gas is one of the cleaner energy sources since it produces no soot and does not contribute to acid rain

Education Comes in From the Cold

Mongolia's extensive Second Education Development Project has constructed new schools, rehabilitated old ones, provided educational materials, trained teachers, and revised school policy, among its many achievements. Preschool enrollment has increased substantially

A Mongolian herder's daughter rushes into a kindergarten in Töv, some 135 kilometers from Ulaanbaatar. With temperatures outside dropping to -30°C , the school, with its age-appropriate safety furniture, audio and video equipment, and toys, provides warmth and comfort on an early morning in January.

Extreme winter weather is difficult for young children. Six new schools built under the ADB-supported Second Education Development Project provide welcome relief and have made a tangible contribution to preschool and primary education, with preschool enrollment increasing from 45% in 2002/03 to about 57% in 2007/08. They have helped develop part of the system that has struggled since the former Soviet Union-era funding was withdrawn in the 1990s.

Approved in 2002, the project aimed to help provide universal access to quality primary and secondary education, especially in rural areas and poor urban communities.

In 2009, newly constructed schools operated one shift for kindergarten and two for primary school, with 3,179

students enrolled. The project also provided educational and developmental materials to 150 kindergartens. Parents and teachers say this is the best investment made in preschool education in the last 20 years, benefiting about 30,000 children.

Most schools were built 30 to 40 years ago and have received little maintenance. The project supported rehabilitation, including providing energy-efficient heating systems and sanitation, and installing ramps and other facilities for students with physical disabilities. By 2007, a total of 5,994 physically disabled students were enrolled in the 136 schools that ADB financing restored. The project provided much-needed teacher training and free textbooks to children from poor families. In all, the program benefited 72,653 primary school students and 124,251 secondary students in 2005/06.

The project also supported several policies, including an extension of basic education to 12 years in 2009, from 10 years in 2005, and an education master plan for 2006–2015 that the government has adopted. The Education Donors' Consultative Mechanism devised in 2005 to guide activities of ADB and its partners is viewed as a model for donor coordination for other sectors.

Total project costs of \$68.5 million comprised \$14.0 million from ADB, \$45.0 million from Japan, \$4.8 million from the Nordic Development Fund, and \$4.7 million from the Government of Mongolia.

ADB assistance has played a part in Mongolia's notable progress in reviving education since Soviet funding ceased. In 2006, the enrollment rate for primary and secondary education had recovered to 95%, from a low of 81% in 1995.

Ongoing partnerships have been a major factor in reclaiming achievements and a strong political will exists for reforms that deliver quality education.



Students benefit as the project helps restore their school system

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