



EAST ASIA

People's Republic of China, Mongolia

Regional cooperation is a core element of the People's Republic of China's country partnership strategy with ADB and will also be prominent in Mongolia's new strategy. A high priority for ADB will be building cross-border infrastructure in both countries for better connectivity with Central Asia Regional Economic Cooperation members and the Greater Mekong Subregion.

OVERVIEW

ADB's operations in East Asia were fully aligned with Strategy 2020's core priorities and focused on achieving environmentally sustainable inclusive growth. Private sector development remained a strategic priority in both the People's Republic of China (PRC) and Mongolia. Further, ADB endeavored to promote nonsovereign lending and private-public partnerships in infrastructure. In both countries' finance sectors, ADB focused on providing technical assistance to increase access to financial services, improve financial infrastructure, and facilitate trade among neighboring countries.

East Asia sovereign lending operations (Table 18) comprised 13 loans to the PRC for \$1.5 billion, and five Asian Development Fund (ADF) grants to Mongolia for \$74.3 million. In addition, Mongolia also received \$8.0 million from Japan Fund for Poverty Reduction for four projects covering local roads, energy conservation, water supply for the poor, and community-based natural resource management.

ADB provided \$28.1 million in technical assistance consisting of \$19.5 million for the PRC, \$5.5 million for Mongolia, and \$3.2 million for regional technical assistance. ADB's nonsovereign approvals in the region totaled \$424.1 million plus an estimated portion of \$45.0 million from the Equity Investment in Asian Clean Energy Private Equity Funds, a regional project (Statistical Annex 10). The \$424.1 million includes a \$200 million B-loan provided by commercial lenders with ADB acting as lender of record.

PORTFOLIO MANAGEMENT

ADB has been making sustained efforts to promote results-based portfolio management, monitoring, and evaluation in East Asia. Notable initiatives in the PRC included assistance to the National Development and Reform Commission to establish a results-based project monitoring and evaluation system, and modern project management training programs for government project staff. The six-point portfolio management action plan was further

refined to focus on improving project readiness for better quality at entry, and streamlining government and ADB procedures. ADB also strengthened the resident missions to assume increased portfolio management responsibilities. Consequently, as of 31 December 2008, only one project (1.5% of all projects under implementation) was considered at risk (Table 17). Operational targets for project administration were fully met.

REGIONAL COOPERATION

As a key policy dialogue theme, regional cooperation was incorporated into the PRC's country partnership strategy and will be prominent in Mongolia's new strategy. ADB accorded high priority to building cross-border infrastructure in both countries for better connectivity with Central Asia Regional Economic Cooperation (CAREC) members and the Greater Mekong Subregion. To ease trade, ADB played a critical role in developing the Joint Transport and Trade Facilitation Action Plan and the Work Program for Integrated Trade Facilitation and Customs Cooperation. The CAREC Ministerial Conference recently endorsed both and prioritized a list of short- to medium-term activities to support them. ADB also contributed to the CAREC region's considerable progress in simplification and harmonization of customs procedures and documentation, customs modernization and the use of information technology,



In the People's Republic of China, a \$100 million ADB loan package means the Beijiao and Nanjiao Sewage Treatment Plants will treat about 70% of wastewater flowing into the Yiton River from Changchun City

risk management and post-entry audit, data exchange and joint customs control, and regional transit development.

COUNTRY HIGHLIGHTS

The People's Republic of China

Partnership priorities. The country partnership strategy for 2008–2010 was approved in April. It is closely aligned with the government's Eleventh Five-Year Plan (2006–2010) and Strategy 2020 priorities. The strategy aims to promote inclusive and balanced development; resource efficiency and environmental sustainability; regional cooperation, including regional public goods; and private sector development. It also emphasizes diversifying ADB operations in the PRC to reflect greater emphasis on the harmonious development of rural and urban areas, energy efficiency, and climate change. ADB will promote energy efficiency in urban transport systems and energy-efficient transport modes, and will encourage greater private sector participation in infrastructure projects in partnership with the public sector. ADB and the PRC's strategic partnership will be built on promoting knowledge and innovation as a crosscutting theme across all operations.

Impact of operations. To promote cleaner energy, ADB continued to implement the Coal Mine Methane Development Project with a loan of \$117.4 million approved in 2005. The project began coal-bed methane production in

HIGHLIGHTS

- A \$12 million grant to Mongolia for the Food and Nutrition Social Welfare Program and Project provided to protect at least 100,000 poor households threatened by the sharp increase in food prices and to improve the targeting and effectiveness of existing social safety nets
- About \$500 million in lending and technical assistance provided to support sustainable and inclusive urban development, urban environmental improvement, and river basin pollution control in the People's Republic of China
- An Asian Development Fund grant of \$37.6 million and a \$2.0 million Japan Fund for Poverty Reduction grant approved for the Western Regional Road Corridor Development Project in Mongolia to facilitate regional trade

TABLE 15 East Asia: Assistance by Country, 2008
(\$ million)

Country	Loans				Credit Enhancements		Equity Investment	Grants		
	OCR	ADF	Total ADB	Official Cofinancing ^a	Guarantees ^a	Syndications ^a		Grant-Financed Projects ^b	Technical Assistance Grants ^c	Multitranche Financing Facility ^d
China, People's Republic of	1,750.1	–	1,750.1	–	–	200.0	–	5.7	19.5	100.0
Mongolia	–	–	–	–	–	–	–	82.3	5.5	–
Regional ^e	–	–	–	–	–	–	45.0	–	–	–
Total	1,750.1	–	1,750.1	–	–	200.0	45.0	88.0	25.0	100.0

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

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

a For reference, see Tables 4a and 4b (Direct Value-Added Cofinancing Arrangements).

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

c For reference, see Statistical Annex 16 (Technical Assistance Grant Approvals by Country and Regional Activities).

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

e Refers to the Asian Energy Private Equity Funds Project. Amount is an estimate.

TABLE 16 East Asia: Grant-Financed Project Approvals by Country, 2008
(\$ million)

Country	ADF	Other Sources ^a	Total
China, People's Republic of			
Capacity Building for Energy Efficiency Implementation	–	0.8	0.8
Ningxia Integrated Ecosystem and Agricultural Development ^b	–	4.5	4.5
Dryland Sustainable Agriculture ^b	–	0.4	0.4
Mongolia			
Western Regional Road Corridor Development – Phase I	37.6	–	37.6
Community-Based Local Road Upgrading and Maintenance in the Western Region of Mongolia	–	2.0	2.0
Water Point and Extension Station Establishment for Poor Herding Families	–	2.0	2.0
Poverty Reduction through Community-Based Natural Resource Management	–	2.0	2.0
Energy Conservation and Emissions Reduction from Poor Households	–	2.0	2.0
Agriculture and Rural Development	14.7	–	14.7
Education Sector Reform	10.0	–	10.0
Food and Nutrition Social Welfare Program	9.0	–	9.0
Food and Nutrition Social Welfare – Capacity Development Project	3.0	–	3.0
Total	74.3	13.7	88.0

– = nil, ADF = Asian Development Fund.

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

b Grant component of a loan project.

March 2008 from the Sihe mine in southern Shanxi to feed a 120-megawatt power plant—the largest methane-based plant in the world. The project is being considered for clean development mechanism benefits under the Kyoto Protocol. By demonstrating new drilling and gas collection technologies not used in the PRC, the project is expected to encourage similar investments, both private and public, in other methane-intensive coal mining areas.

ADB continued to provide assistance for road and railway projects in the PRC. In the railway sector, ADB focused on investing in areas where it can add value,

such as safety enhancement, adaptation of best management practices, and adoption of advanced clean technologies. In the road sector, emphasis was given to safety

To promote cleaner energy, ADB continued to implement the Coal Mine Methane Development Project with a loan of \$117.4 million

TABLE 17 East Asia: Portfolio Performance Indicators for Sovereign Lending, 2007–2008

Country	No. of Ongoing Loans (as of 31 Dec 2008)	Contract Awards/ Commitments		Disbursements		Loans at Risk	
		2008 (\$ million)	2007 (\$ million)	2008 (\$ million)	2007 (\$ million)	2008 (%)	2007 (%)
China, People's Republic of	57	1,312.0	1,419.7	1,234.3	1,189.6	1.8	1.9
Mongolia	11	19.0	11.2	26.7	24.2	–	7.1
Total	68	1,331.0	1,430.9	1,261.0	1,213.8	1.5	3.0

– = nil.

Note: Totals may not add up because of rounding.

TABLE 18 East Asia: Sovereign and Nonsovereign Loan Approvals by Country, 2008
(\$ million)

Country	OCR	ADF	Total
SOVEREIGN			
China, People's Republic of			
Gansu Baiyin Urban Development	80.0	–	80.0
Gansu Heihe Rural Hydropower Development Investment Program – Dagushan Hydropower Project – Tranche 2	28.0	–	28.0
Xinjiang Municipal Infrastructure and Environmental Improvement	105.0	–	105.0
Guangdong Energy Efficiency and Environment Improvement Program – Tranche 1	35.0	–	35.0
Integrated Ecosystem and Water Resources Management in the Baiyangdian Basin	100.0	–	100.0
Ningxia Integrated Ecosystem and Agricultural Development	100.0	–	100.0
Central Yunnan Roads Development	200.0	–	200.0
Lanzhou–Chongqing Railway Development	300.0	–	300.0
Dryland Sustainable Agriculture	83.0	–	83.0
Chongqing–Lichuan Railway Development	150.0	–	150.0
Songhua River Basin Water Pollution Control and Management	200.0	–	200.0
Guangxi Wuzhou Urban Development	100.0	–	100.0
Qingdao Water Resources and Wetland Protection	45.0	–	45.0
Subtotal	1,526.0	–	1,526.0
NONSOVEREIGN			
China, People's Republic of			
Municipal District Energy Infrastructure Development	200.0	–	200.0
Inner Mongolia Wind Power	24.1	–	24.1
Subtotal	224.1	–	224.1
Total	1,750.1	–	1,750.1

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

TABLE 19 East Asia: Cumulative Lending and Disbursements by Country as of the end of 2008
(\$ million)^a

Country	Lending	Disbursements
China, People's Republic of	21,004.2	13,437.5
Mongolia	676.5	579.5
Total	21,680.7	14,017.0

^a Includes nonsovereign (public and private) sector loans.

and strengthening regional cooperation and integration. Transport sector projects are in the less-developed central and western regions.

The Capacity Building to Combat Land Degradation Project, approved in June 2004 for \$8.7 million, was ADB's first project under the PRC–Global Environment Facility Partnership on Land Degradation in Dryland Ecosystems. In 2008, the government acknowledged that this project has promoted the integrated ecosystem management concept; enhanced national and local capacities to plan and combat land degradation; enhanced multilevel and multiagency coordination, cooperation, and information exchange; and improved the legal and regulatory framework. Solving land degradation has been integrated into provincial planning and strategies, and pilot sites have demonstrated

Helping Keep the People's Republic of China Rolling

As the People's Republic of China (PRC) expands its rail network and adds high-speed trains, an ADB loan is helping upgrade technology and increase safety

In the crowded Beijing West Railway Station, Huo Quanfu, a 36-year-old migrant worker from Henan Province, is sitting on a pile of luggage. Each year since 2005, he journeys to Beijing to work with a crew maintaining the city's parks and gardens. Now returning to his hometown on the midnight train, he is one of millions throughout the PRC who depend on long-distance rail travel.

Over the past three decades, passenger volume on the PRC's railways has grown at an annual rate of 7%, topping 1 billion passengers in 2007. Rail is also the main mode of transport for freight, and traffic has been rising by an average of 5% a year, exceeding 3 billion tons in 2007.

The PRC's railways have the highest freight density in the world and the second-highest passenger transport volume after Japan. Their growth rates are putting great pressure on capacity, making the reduction of bottlenecks a key goal.



Rescue crew leader Wu Zhanlin says his base has carried out rescue missions more efficiently since receiving a new large-tonnage rescue crane

A review of three completed ADB railway projects shows that gross regional domestic product (GRDP), per capita GRDP, rural incomes, and average income per farmer all increased because of improved access to markets, new jobs, reduced costs of travel, and cheaper goods. GRDP increased in the first 3–5 years by 10%–12% annually and by about 18% annually over 10 years, after construction in these three railway project areas.

The government plans to extend and upgrade the PRC's rail network—which covers more than 78,000 kilometers—as well as provide more high-speed trains. Along with this rapid expansion, it seeks to increase security and enhance safety. The safety issue is a challenge, as trains crisscrossing the length and breadth of the country encounter difficult operating conditions amid varying geological features.

In 2007, ADB approved a \$100 million loan to help the government bring in modern technology for responding quickly to emergencies, provide capacity building for handling emergencies more efficiently, and develop an institutional framework for an efficient emergency rescue and restoration system.

As well as improving safety and reliability, the system's increased mobility and reduced downtime will help achieve higher productivity and capacity.

"This project is ADB's first stand-alone, sector-wide intervention to enhance railway safety on a network basis," says Manmohan Parkash, an ADB principal transport specialist. "The project will help improve the emergency management system by providing a quick, responsive rescue and restoration system."

The PRC's railways have the highest freight density in the world and the second-highest passenger transport volume after Japan

rural infrastructure improvement and empowered community members to reverse local land degradation. This has strengthened the pipeline of ADB's projects.

To improve living conditions in poverty-stricken, geographically remote, and vulnerable minority regions, ADB helped implement gender- and culturally sensitive programs in the country's central and west regions. An example is the \$80 million urban development project

for Baiyin, a medium-sized city in the autonomous Gansu Province that used to be the country's third-largest copper-producing city until resources were exhausted.

Mongolia

Partnership priorities. Mongolia was assessed to be eligible for 100% of grants under the new ADF grants framework.

FIGURE 3 East Asia: ADB Lending by Country, 2007–2008 (Sovereign and Nonsovereign) (\$ million)

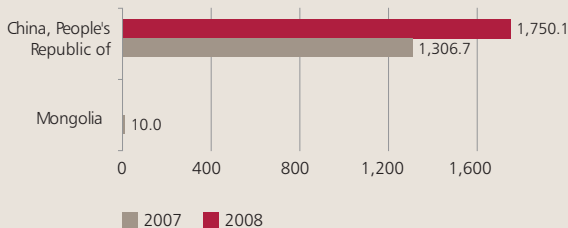
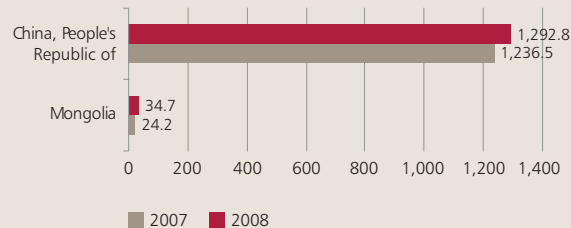


FIGURE 4 East Asia: ADB Disbursements by Country, 2007–2008 (Sovereign and Nonsovereign) (\$ million)



Education, health, environment management, and urban development were determined to be the priority sectors for ADB assistance. Decline in debt stress and growth in per capita income will improve the possibility of accessing ordinary capital resources (OCR) of ADB. Therefore, a strategic shift in ADB operations, in line with these developments, will be reflected in the new country partnership strategy, which is scheduled for management consideration by early 2010. It is expected to emphasize the creation of an enabling environment for the private sector and the promotion of private investment. The possibility of Mongolia borrowing both ADF and OCR will be considered.

Impact of operations. ADB spearheaded donor coordination efforts in the education sector based on the government's education sector master plan. In close collaboration with the Government of Japan, ADB helped finalize this plan and further assisted Mongolia in submitting a request for funding to the Education for All Fast Track Initiative, which resulted in a \$8.9 million grant in 2008 and a total commitment of \$29.4 million. In addition, a memorandum of understanding was signed to improve governance in the education sector, as a follow-up to a sector risk assessment.

Major investments in road transport and mining have recently created a high-risk HIV/AIDS environment. As part of ADB's renewed commitment to the health sector, a \$1.0 million advisory technical assistance project was directed toward HIV-prevention services along major transport routes, mining sites, and cross-border areas. The Cooperation Fund for Fighting HIV/AIDS in Asia and the Pacific financed this initiative in partnership with the Mongolian Employers' Federation, private mining companies, three ministries, and nongovernment organizations involved in education about HIV/AIDS.

To improve living conditions in poor, remote, and vulnerable minority regions, ADB helped implement gender- and culturally sensitive programs in central and western PRC

Emergency Response to Wenchuan Earthquake

An earthquake measuring 8.0 on the Richter scale—the worst that the People's Republic of China had witnessed in 30 years—struck Sichuan Province on 12 May with its epicenter in Wenchuan County. The disaster killed over 69,000 people and rendered millions homeless. Within 2 weeks of the earthquake, ADB extended a \$1 million technical assistance grant to fund essential equipment and supplies for basic services, review the disaster management framework for the earthquake-affected area, and conduct a preliminary physical and social infrastructure damage and needs assessment for possible ADB support. The grant featured flexible design and implementation arrangements for quick response to the substantial uncertainties and risks associated with a major disaster. The procurement was completed by 31 July, and the framework review and preliminary assessment were completed by 30 November. The preliminary assessment then provided the basis for preparing lending support for physical and social infrastructure rehabilitation in Sichuan and Shaanxi provinces, two of the most damaged. A \$400 million emergency assistance project was processed for consideration of the Board of Directors.

Education for All in Mongolia

An ADB education project gives children a better education and teachers decent pay

Winter is long and hard in Mongolia. Even on an early morning in mid-November, the temperature is -12° Celsius and the wind bitterly cold. Students bundled up in long coats and fur hats trudge down the frozen streets of Dzuunmod, a town of about 20,000, south of the Mongolian capital of Ulaanbaatar. The clanging of the School of Humanity's bell makes them sprint the last few meters to the school's door.

Cheeks ruddy from the cold, students welcome the warmth of the building, but heat is precious during Mongolian winters—and costly. Schools commonly spend a third of their budget on heating alone, leaving little money for paying teachers, buying textbooks, and maintaining facilities.

The School of Humanity received \$120,000 from the ADB-supported Second Education Development

Project to repair its badly decaying roof and provide everything from chemistry and physics laboratories, computers, and desks to chairs, chalkboards, and new books. Under ADB's Second Education Development Project, the School of Humanity also gained a newly built primary school.

Part of a comprehensive ADB-supported restructuring and reform program of the education system, the assistance finances basic building rehabilitation, textbook provision, and teacher training. Using a \$6.5 million loan from the Asian Development Fund, the government has reorganized schools to be more efficient.

The improved efficiency has freed resources for financing essential items, such as teachers' salaries. Today, Mongolia's teachers are enthusiastic and can expect to receive up to \$250 per month. By comparison, a doctor earns \$300 a month, so the teachers' salaries put them well ahead of counterparts in the region's other former socialist countries.

Schools are now more accessible for Mongolia's youth. Nyamdavaa Namjil, a 15-year-old student and dormitory resident at the School of Humanity, wants to be a doctor and live in a town.

"I don't want to be a herder. I want to be a professional. That's why I'm interested in science," he says.

Nyamdavaa's youngest sister, Byambadulam, loves animals and wants to take over caring for 150 sheep, 50 goats, 50 horses, 17 cattle, and 2 camels from her father, Zuudi Namjil, who is undaunted by this break from tradition.

"I prefer Nyamdavaa to continue his studies," said Mr. Namjil. "I want him to be an excellent student and become a doctor for the people of Mongolia."



Computer laboratories are popular additions to the school, and students get to learn more about computers while improving their English skills since there are no computer programs in Mongolia schools

Schools commonly spend a third of their budget on heating alone, leaving little money for paying teachers, buying textbooks, and maintaining facilities

ADB continued its support to transport through projects that improved pavement conditions, helped reduce vehicle operating costs and travel time, and promoted in-

ternational trade along the north-south arterial highway. ADB's assistance to the finance sector helped develop 16 private banks.