PROGRAMMING AND MODALITIES

A. Country Programming

1. The Asian Development Bank (ADB) and the People’s Republic of China (PRC) hold joint country programming missions (CPMs) annually. All sovereign and nonsovereign lending and nonlending activities under the country program are discussed at these CPMs, and they have provided the basis for the country operations business plans (COBPs) for the PRC since 2011.

2. Timing of country programming missions and country operations business plans. Traditionally, the CPMs have been held toward the end of the calendar year, and the COBP for the next 3 years has been finalized by the middle of the first year of this 3-year period. This has meant that the COBPs have actually covered only 2 full years of the 3-year period, and that some loan and technical assistance (TA) projects in the COBP were not firm. Since 2013, ADB and the PRC have tried to hold a CPM earlier in the calendar year to avoid this problem. In 2013, the CPM was held in October, and the COBP was finalized near the middle of the year in May 2014. The CPM was moved up to August in 2014 in an attempt to finalize the COBP for 2015–2017 by the end of the year. Delays occurred, however, and this COBP was not finished until February 2015.

3. Content of country operations business plans. The COBP updates the relevant country partnership strategy (CPS) results framework and lists ADB’s program of firm and standby sovereign loan and TA support activities for 3 years. It covers the year in which it is released and the next 2 years. Issues related to nonsovereign operations (NSOs) are discussed at the CPM. The COBP describes the broad framework of support for NSOs, but it does not list firm or standby nonsovereign projects or borrowers. ADB’s knowledge products and services are discussed at the CPMs, and the COBPs acknowledge them as an important relevant component of ADB’s country program and regional programs. Nonetheless, the COBPs do not list knowledge products.

4. Resource allocations in country operations business plans. COPBs provide an indicative allocation of ADB’s ordinary capital resources support to the PRC that is in line with ADB’s work program and budget framework. These allocations have been fairly stable during the 2011–2015 12th five year plan period, although they have declined marginally through successive COBPs. Indicative ordinary capital resource allocations were $4.427 billion for 2011–2013, $4.410 billion for 2012–2014, $4.210 billion for 2013–2015, and $4.066 billion for 2014–2016.

5. Each COBP provides TA resource envelopes for 2 years—normally the year in which the COBP is finalized and the subsequent year. TA resource allocations for the PRC, including those from trust funds, increased from $16.00 million in 2011 to $19.20 million in 2012 before declining to $15.95 million in 2014. COBPs do not provide indicative resource envelopes or allocations for private sector operations, knowledge work, or operations under regional cooperation programs.

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4 NSOs include private sector operations and public sector nonsovereign lending.
5 Since ADB’s Board of Governors approved the fifth general capital increase in 2009, ADB has tried to keep ordinary capital resources lending operations in the PRC fairly stable, while significantly increasing lending to the poorest and most vulnerable of its developing member countries.
6. **Sovereign lending operations.** ADB holds meetings prior to the CPM with the Ministry of Finance (MOF), the National Development and Reform Commission (NDRC), and central government line ministries to discuss the loan pipeline, but it has only limited interaction with provincial and local governments on this matter.

7. Provincial and local governments seeking ADB loans identify projects from their development plans and propose them to the central government as candidates for ADB support. The MOF screens the projects and presents those that match the CPS objectives and are more or less in line with the indicative resource envelope to ADB on a short list. In recent years, the projects presented by the MOF and the NDRC have tended to have some innovative aspect. The short-listed projects are discussed at the CPM.

8. ADB meets with the MOF, the NDRC, and national line ministries to discuss the loan pipeline. Since 2012, these participants have been joined by the executing and implementing agencies in workshops on newly introduced loan pipeline projects. The workshops help flesh out the details of project concepts and provide ADB with the opportunity to suggest innovative design features. Until the workshops began, ADB had limited interaction with provincial and local agencies during the project feasibility study phase even though they were the clients of most loan projects.

9. **Technical assistance operations.** TA proposals are received and screened by the MOF before they are short-listed for discussion with ADB at the CPM. Until the beginning of the 12th five-year plan period, ADB knew little about the many TA proposals on the list before the CPM, other than the project names. Since then, the country programming process has become more participative to overcome this problem. TA programming workshops now precede the CPM. They enable ADB to engage with the MOF, the relevant central and local government agencies, scholars, and think tanks early in the TA project formulation process. At these workshops, ADB discusses the candidate projects with the PRC officials in relation to (i) the directions, trends, and challenges of the country’s economic reform efforts; and (ii) its priorities in the infrastructure, finance, governance, and social sectors.

10. At a TA workshop in May 2014, ADB presented officials with its key information requirements for TA proposals (Box 1). A notable requirement is for the proposing agency to provide a candidate TA project’s expected value addition. Information on proposed TA projects is expected to be discussed at the TA programming workshop or the CPM in the future. This would make it possible for ADB and the MOF to decide the TA portfolio on the basis of complete information needed for proper discussion and consideration.

### Box 1: ADB’s Information Requirements for Technical Assistance Project Proposals

The information that the Asian Development Bank (ADB) requires to be provided by the government agencies of the People’s Republic of China when proposing technical assistance (TA) projects for support are similar to those required in an ADB TA concept paper. They include (i) a definition of key issues to be addressed by the proposed TA, along with the rationale for addressing them; (ii) a review of relevant literature; (iii) identification of gaps that need to be addressed through the proposed TA; (iv) delineation of what the proposed TA is expected to achieve; and (v) the scope of work in the proposed TA and a broad outline of the methodology for the proposed work.


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7 Among the MOF’s screening criteria is the need to maintain a balance in accordance with national development priorities. The MOF also applies its own perspective on where ADB’s support can be best deployed.
8 When necessary, ADB staff may also participate in a special joint mission to confirm the inclusion of a project in the pipeline. Such a joint mission was organized for the proposed Ningxia Luopanshan Poverty Reduction Rural Road Development Project in 2013. A project preparatory TA was approved in 2014 and the loan is expected to be approved in 2016.
9 The TA workshop includes sector working group sessions that come up with a list of potential areas for TA support.
11. **Knowledge operations.** ADB activities to support the creation and sharing of knowledge grew in prominence during the country assistance program evaluation (CAPE) study period (2006–2013). ADB’s East Asia Department holds knowledge programming meetings with the MOF to identify the type and scope of the knowledge products that ADB should provide. Requests for knowledge support may be initiated by other ministries and clients in the PRC.

12. In the August 2014 CPM, ADB departments and the ADB Institute presented an overview of the breadth and scope of their knowledge work relevant to the PRC, and the government indicated the areas aligned with the PRC’s broad reform goals for which knowledge input needs could be anticipated over the next few years.

13. The fact that COBPs currently do not list knowledge operations provides flexibility but is also symptomatic of an absence of the “One ADB” approach. Although the COBPs acknowledge that knowledge products and services can focus on the same sectors and issues as TA projects, no specific information on knowledge products and services is provided, with the possible exception of specific TA projects that are intended to undertake knowledge work.

14. **Nonsovereign operations.** Private sector development (PSD), private sector operations, and public sector nonsovereign lending are discussed at the CPMs and mentioned in the COBPs. The COBPs have emphasized that NSOs will complement sovereign operations and explore synergies with sovereign operations to support the CPS goals. They will also continue efforts to (i) mobilize commercial financing and private participation in ADB-financed projects; and (ii) support catalytic projects with a particular focus on public-private partnerships, demonstration of advanced technologies, and game-changing business models.

15. The PSD theme was identified for sovereign lending projects in all COBPs prepared within the CAPE period. The updated CPS results frameworks presented in most COBPs identify the share of the resource allocation for PSD in sovereign lending operations.

16. **Regional cooperation and integration.** Because the CPS covering 2011–2015 aims to strengthen the country program to complement regional cooperation programs, the CPMs during this period have appropriately included broad discussions of interventions that strengthen regional cooperation and integration (RCI). This has also been covered in COBPs. The RCI dimensions of prominent lending and nonlending operations are outlined in the COBPs, and the RCI theme is highlighted in the listings of the sovereign lending and nonlending operations pipeline. The updated CPS results frameworks presented in the COBPs highlight the RCI component of planned investment in various sectors.

17. Many TA projects under the Central Asia Regional Economic Cooperation (CAREC) and Greater Mekong Subregion programs are overlooked in the COBPs. The rationale for not including these regional TA projects in the COBPs is not clear. The PRC provinces that participate in these two programs are the major beneficiaries of these regional TA projects, and the central government supports these provinces in the regional programs. Some regional TA projects under the CAREC program are managed by the East Asia Department.

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10 The “One ADB” approach refers to measures that ADB can adopt to enable developing member countries address complex challenges, improve the impact of their development programs, and evolve into knowledge economies. For further information, refer to Box 1 in Linked Document 2.


12 For instance, this includes the establishment of a knowledge hub that focuses on green development and eco-compensation best practices under the COBP for 2013–2015, and sustenance of the urban knowledge hub under the COBP for 2011–2013. Knowledge product support to complement TA support is specifically mentioned only for the energy sector in the COBP for 2011–2013. Knowledge activity from TA support in other sectors is not mentioned in any COBP.

13 During the study period, only the COBP for 2012–2014 does not provide the share of resources allocated for PSD.

14 The Inner Mongolia Autonomous Region and the Xinjiang Uighur Autonomous Region are the major beneficiaries of the CAREC program. The Guangxi Zhuang Autonomous Region and Yunnan Province are the major beneficiaries of the Greater Mekong Subregion program.
B. Lending and Nonlending Modalities

18. Experience from various types of TA and lending operations in the PRC during the CAPE period indicates that some modalities should be discontinued or modified and new ones should be introduced.

1. Technical Assistance Modalities

19. The PRC Government recognizes that advisory and policy TA projects support the lending program by strengthening the knowledge base and improving the sector policy environment. It also appreciates that TA provided on a project-by-project basis supports corporate governance reforms, risk management, environmental and social safeguards, and knowledge sharing between the PRC and other countries.

20. The government views TA as an effective modality for fostering regional cooperation. TA projects can help to distill experience and knowledge gained from the PRC’s socioeconomic performance and progress since the 1980s and use this to benefit other developing countries. In addition to benefiting from regional TA projects under the CAREC and Greater Mekong Subregion programs, the PRC has also provided TA support to other countries through its Poverty Reduction and Regional Cooperation Fund.

21. The government considers ADB TA to have been useful in supporting the implementation of reforms. It expects this to continue as the government pursues ambitious new reforms proposed in 2013. Although the basic objectives and scope of the government’s reform programs are firm, how they will and can be carried out is uncertain. The reforms are complex in themselves and made more complicated by the fact that reform in one theme area is often linked to the reform and potential implications in others. Unforeseen issues may emerge that could have adverse consequences at the local, provincial, and national levels. Because a rapid response will be needed in such situations, the PRC Government would like ADB’s TA support to align with the pace and sweep of the reforms process as closely as possible.

22. **Facility technical assistance.** Facility TA can be flexible in terms of scope and content and is the modality best suited for aligning ADB’s TA program with the reform processes. Compared with traditional TA, the facility TA allows the scope of some subprojects to be defined during the term of the facility rather than at approval. Subproject approval thus entails relatively less time than standalone traditional TA projects. The subprojects under facility TA are prioritized by the MOF and selected jointly with ADB’s resident mission in the PRC on the basis of a set of pre-defined selection criteria that include requirements for innovation and learning value added.

23. To the extent that multiple subprojects in facility TA projects are focused on a certain theme, the subprojects are interlinked, and facility TA thus offers a potentially more programmatic approach to addressing complex issues than the traditional TA modality. Nonetheless, ADB does not assign one specific theme upfront to a facility TA. This gives flexibility to design and approve subprojects that can be aligned with changing or emerging government priorities. ADB’s seventh and latest facility TA project was approved in December 2014 to focus on capacity development and four thematic areas that are in line with the government reform agenda set in 2013.15

24. From the government’s perspective, facility TA could be more effective if the time required to procure consulting services for subprojects was shortened. Facility TA can be made more effective if (i)  

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ADB assigns adequate staff resources for simultaneous work on multiple subprojects at various stages of the subproject cycle (design, processing, administration, implementation internally and/or with consultants, and monitoring of subproject outcomes), (ii) the TA project provides adequate budget for translation services to facilitate quality assurance, since all subproject leaders would be able to read and comment on the entire subproject output report rather than a short version, and (iii) ADB staff with a vast range of skill sets can interface closely with the client entities.\(^{16}\) Locating such staff at ADB’s resident mission in the PRC would therefore have advantages. The findings and recommendations from an evaluation by ADB’s Independent Evaluation Department of six facility TA projects in 2013 are summarized in Box 2.

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<th>Box 2: Findings and Recommendations from an Evaluation of Facility Technical Assistance Projects</th>
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<td>An evaluation by the Independent Evaluation Department (IED) of the Asian Development Bank (ADB) in 2013 gave an overall rating of successful for four completed and two ongoing facility technical assistance (TA) operations in the People’s Republic of China. Subratings under the four standard IED evaluation criteria were relevant, effective, efficient, and likely sustainable.</td>
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<td>The IED report stated that ADB’s TA facilities had gained in their importance to the government, with ADB serving as a sounding board for policy analysis on priority topics. It also cited concerns about shortcomings that the IED’s 2015 country assistance program evaluation has found to be valid. These shortcomings included (i) only limited information about the use of some products of subprojects, (ii) weak feedback of the knowledge created by the TA into ADB’s country operations, and (iii) insufficient quality assurance in facility TA operations (despite this being resource intensive) for their overall success.</td>
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<td>The IED report offered two major recommendations to strengthen the value-addition of facility TA operations, which this 2015 country assistance program evaluation endorses and reiterates: (i) ADB should continue to work with facility TA and strengthen the use of ADB staff and international consultants in providing international perspectives, supervisory support, and peer review of locally produced studies. It should also pursue further delegation of consultant recruitment and procurement functions to the PRC resident mission. (ii) ADB should improve the monitoring of subproject outcomes through the preparation of sector and thematic assessments and make these assessments part of each facility TA.</td>
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25. **Delegated technical assistance.** ADB introduced the delegated TA modality with the intention of increasing government ownership of TA projects and harmonizing policies and procedures with other development partners, especially the World Bank Group.\(^{17}\) Although this TA modality can help ease the administrative burden of ADB staff, the results in the PRC have not been satisfactory. When the executing agency procures consulting services, the consultant is liable under the country’s laws to pay tax in the PRC, and it has been difficult to find a way to compensate consultants for these tax payments. To overcome this problem, ADB has signed contracts with consultants selected by the concerned executing agency. However, this means that both the executing agency and ADB are involved at each stage of the consultant selection process, which delays TA implementation.

\(^{16}\) For instance, an ongoing $1.5 million TA facility for policy reform and capacity building includes support for subprojects that span the following areas: environmental policy; energy efficient lighting; emission reduction; environmental modeling and water-quality monitoring in a reservoir; coordinated development of urban agriculture, urbanization, and industrialization; housing legislation; the tourism industry; fiscal systems; industrial upgrading; health reform; elderly care; and technical and vocational education. ADB, 2009, Facility for Policy Reform and Capacity Building III, Manila, July (TA 7313).

\(^{17}\) Under this modality, the consultant selection and supervision is delegated to the executing agency. The decision is based on a technical assessment of the executing agency’s ability to supervise consulting services and an assessment of its capacity for efficient procurement and management of contracts.
2. Loan Modalities

26. In any project-based lending modality, whether a project loan, a sector loan, or a multitranche financing facility, ADB generally follows the same approval procedure—the ADB loan is tied to a specific project. Project preparatory TA has preceded all loan projects in the PRC.

27. **Results-based lending.** ADB is introducing results-based lending (RBL). The RBL focuses on results rather than inputs and is suited to financing large government programs that concentrate on a particular type of investment projects that have minor or no safeguards implications—for example, education and energy efficiency. While loan performance is monitored in the same way that traditional project-based loans are, the drawdown process is different. Drawdowns of RBL are determined by the extent to which certain performance-linked indicator targets are met. Although ADB experience is limited so far, this seems to provide an incentive for executing agencies and borrowers to monitor performance on the agreed RBL indicators throughout an entire program, even if the RBL actually supports only a portion of it.\(^{18}\)

28. **Policy-based lending.** ADB provides policy-based lending (PBL) to drive policy changes that improve the growth prospects and economic efficiency in its developing member countries. However, the PRC has not accepted any PBL until 2014—PRC has not received any of the almost 200 policy-based loans ADB has approved to date. Because the pace at which the PRC’s ambitious 2013 reform program can be achieved is uncertain, and unforeseen issues are likely to arise from time to time, the government will probably prefer not to avail of the PBL modality. However, instances may arise when policy and regulatory requirements to address a specific issue is clear enough to warrant government consideration of PBL to help move the process forward.

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\(^{18}\) For instance, ADB’s limited experience so far with disbursements release and other RBL features indicates the need to modify and streamline the interface protocols between the ADB loan processing department and other ADB departments on various matters such as contracting, disbursements, and funds release.