



Technical Assistance Report

Project Number: 47077
Policy and Advisory Technical Assistance (PATA)
September 2013

People's Republic of China: Strategy and Policy Study for Integrated and Balanced Development in the Northern Subregion of Anhui Province

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 23 September 2013)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1634
\$1.00	=	CNY6.1210

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
NSRA	–	northern subregion of Anhui
PRC	–	People's Republic of China
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Policy and advisory technical assistance (PATA)
Targeting	–	General intervention
classification		
Sector (subsectors)	–	Public sector management (economic and public affairs management)
Theme (subtheme)	–	Economic growth (promoting macroeconomic stability)
Location (impact)	–	Rural (high), urban (medium)

NOTE

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

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I. INTRODUCTION

1. During the 2012 country programming mission, the Government of the People's Republic of China (PRC) requested the Asian Development Bank (ADB) to provide technical assistance (TA) to support Anhui Province in formulating a development strategy for its northern subregion. The proposed TA is consistent with ADB's country partnership strategy, 2011–2015 for the PRC,¹ which is aligned with the priorities of the government's Twelfth Five-Year Plan for National Social and Economic Development, 2011–2015.² The proposed TA addresses issues related to regional disparity, poverty alleviation, and urban–rural integration in Anhui.³ These issues are also relevant for other parts of the PRC.

2. An ADB fact-finding mission visited Anhui on 8–11 July 2013. The mission met with government agencies and think tanks at various administrative levels. An agreement was reached on the main features of the TA, including impact, outcome, outputs, activities, financing plan, terms of reference for consulting services, and implementation arrangements with the Anhui provincial government and the Ministry of Finance. The design and monitoring framework is in Appendix 1.

II. ISSUES

3. Three decades of successful reforms have transformed the PRC into the world's second largest economy and facilitated its swift transition from a low-income to a middle-income country. However, the PRC still faces complex development challenges, including significant poverty, spreading environmental pollution, large income inequality, widening regional and rural–urban disparities, and low productivity in traditional sectors. Failure to decisively implement further reforms to address these challenges would jeopardize the PRC's long-term growth prospects.

4. These challenges also exist in Anhui. Located in the PRC's central region, the province has a population of 68 million and a territory of 139,000 square kilometers. When market reforms started in the late 1970s, Anhui piloted a rural household contract responsibility system (*hukou*), which catalyzed the success of agrarian reforms in the PRC. The province has also pioneered other significant initiatives, including the abolition of agricultural taxes and other fiscal charges on farmers. Since the market reforms, Anhui has made impressive progress in social and economic development. However, like other inland provinces, Anhui has benefited less from international trade and foreign direct investment due to weak infrastructure and limited access to overseas markets.

5. Compared to its coastal neighbor provinces, Anhui has a relatively underdeveloped economy, less integrated urban–rural development, wider disparity among its subregions, and a higher poverty incidence. The province's per capita gross domestic product (GDP) was CNY28,792 (\$4,704) in 2012, about 75% of the national average. Its urbanization rate was 46.5%, or 6 percentage points lower than the national average. Its rural poverty ratio was 14.7%, higher than the national average of 13.4%.

6. Subregional disparity is of great concern for the provincial government. Anhui stretches across the Yangtze River. Accordingly, the province is divided into three subregions in the north,

¹ ADB. 2012. *Country Partnership Strategy: People's Republic of China, 2011–2015*. Manila.

² Government of the People's Republic of China. 2011. *The Outline of the Twelfth Five-Year Plan for National Social and Economic Development*. Beijing.

³ The TA first appeared in the business opportunities section of ADB's website on 19 June 2013.

the south, and the center of Anhui. The southern subregion includes the Huangshan mountains, a world famous tourism site. For that reason, this subregion has successfully implemented a development strategy concentrated on tourism. The central subregion is an urban corridor along the Yangtze River and the most prosperous and dynamic part of Anhui. Compared with the two other subregions, the northern subregion faces more serious development challenges. Further, a consensus has yet to evolve among stakeholders on a suitable development strategy for the subregion.

7. The northern subregion of Anhui (NSRA), covering six cities and five counties, with a population of 36 million and a territory of 53,000 square kilometers, has lagged in terms of socioeconomic development. In 2012, its per capita GDP was CNY19,141 (\$3,127), its urbanization rate was 40.8%, and its rural poverty ratio was 15.2%. All of these indicators fall behind the province's average, as mentioned in paragraph 5.

8. The major development challenges in the NSRA include the following:

- (i) Less developed transport infrastructure. Water transport along the Huai River is underdeveloped as measured against its potential and market demand. The NSRA also lacks railways to connect its economic centers. While there are expressways going through the subregion, the NSRA is short of exit and entry points, including connecting roads between its major economic centers and villages. Lack of an integrated transport system has become the bottleneck in the subregion's development.
- (ii) Underdeveloped industries and services. The NSRA is rich in natural resources, particularly minerals. This is why mining rather than industry was prioritized in the past. While there is potential for developing tourism thanks to abundant cultural heritage and natural scenery, the region has few successful tourism sites. Underdeveloped services, such as finance, logistics, and cultural industries, are also hampering growth.
- (iii) Slowed urbanization and low productivity. The NSRA has 53% of the province's population, but produces only 33% of its GDP. The NSRA's population density is well above Anhui's average, and as a result the NSRA's per capita arable land area is well below the provincial average. Most of the residents are farmers with limited education and skills. As young and educated farmers have moved to industry and service sectors outside the subregion, urbanization in the NSRA faces many other constraints, including the large number of farmers, water scarcity and water pollution, inadequate public infrastructure, underdeveloped industries and services, long distances to major economic centers, and high migration rates.
- (iv) Frequent floods and water scarcity. The NSRA is largely located in the Huai River Basin. Rather than being a resource for socioeconomic development as in other river basins, the Huai River constrains development due to frequent flooding. At the same time, the region faces serious water scarcity because of low rainfall and uneven water distribution. Water pollution and overexploitation of underground water also threaten the region.

9. The Anhui provincial government requested ADB's help in developing an integrated development strategy for the NSRA to address and mitigate the key development challenges outlined in paragraph 8. The proposed TA aims to assist the Anhui provincial government in formulating an integrated and balanced development strategy for the NSRA. The strategy will

address five strategic needs: (i) developing an integrated transport network to better connect the NSRA's economic centers; (ii) improving banking and financial services to effectively use financial resources and improve financial inclusion; (iii) promoting the development of resource-efficient industries and sustainable urbanization; (iv) improving water resources, including watershed and flood risk management; and (v) developing social policies to deal with emerging social issues, in particular those related to population migration and land reform to help farmers attain increased living standards.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

10. The expected impact will be improved socioeconomic development in the NSRA. The performance targets include an increase of 1 percentage point annually in the urbanization rate until 2019, from a baseline of 40.8% in 2012. The outcome will be an improved enabling policy, legal, and regulatory environment for balanced and sustainable development in the NSRA. As a performance target, policy recommendations under the TA will be incorporated into the province's new policies and planning documents issued during 2014–2017.

B. Methodology and Key Activities

11. The outputs will be (i) a comprehensive report on promoting socioeconomic development in the NSRA, and (ii) five policy notes. The report will comprise an overview report and five subreports on (i) integrated road-, rail- and water-based transport systems; (ii) development of banking and financial services; (iii) development of resource-efficient industries and sustainable urban development; (iv) water resources management, watershed management, and flood risk management; and (v) social development related to migrant workers and land management. The policy notes will summarize key findings and recommendations on targeted and selected topics during TA implementation. The policy notes will be distributed to senior government officials at various administrative levels for consideration in policy making. They will also serve as progress reports to inform senior government officials of the TA findings and conclusions. In addition, review workshops and dissemination seminars involving key stakeholders will be organized at different stages of TA implementation.

12. Drawing on experience and lessons learned from similar TA projects, the proposed TA will conduct an analysis of strengths, weaknesses, opportunities, and threats, including diagnostics to reveal underlying constraints; review relevant policy and legal documents to identify institutional impediments; combine international and national expertise; seek guidance from senior local government officials; and set up an independent expert review panel to ensure the quality of the TA outputs.⁴

13. The main assumptions include the development of the NSRA remaining a high priority for the provincial government, policy recommendations being reviewed and selected by

⁴ Since 2003, ADB has provided eight technical assistance projects to 13 provincial governments in the PRC to help formulate provincial development strategies. The recipients were Anhui Province, Chongqing Municipality, Gansu Province, Guizhou Province, Guangdong Province, Hebei Province, Heilongjiang Province, Hubei Province, Hunan Province, Inner Mongolia Autonomous Region, Jiangxi Province, Jilin Province, and Xinjiang Uygur Autonomous Region. The assistance to Anhui, Hubei, and Guangdong is still ongoing. The Anhui TA component focuses on improving the rural environment and aims to assist the province in developing policies and programs to (i) protect rural ecosystems, (ii) deal with industrial pollution in the countryside, (iii) manage rural household solid waste, and (iv) reduce water and soil pollution stemming from the use of chemicals in agriculture.

government agencies objectively, and senior government officials guiding the TA implementation.

14. The key activities for the first output will be (i) submission of the draft inception report, (ii) holding of an inception workshop, (iii) submission of a draft interim report, (iv) holding of an interim report review workshop, (v) submission of draft final report, (vi) holding of a draft final report review workshop, and (vii) holding of a dissemination workshop. The key activities for the second output will be (i) submission of two policy notes based on the interim report and (ii) submission of three policy notes based on the final report.

C. Cost and Financing

15. The TA is estimated to cost \$480,000, of which \$400,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The government will provide counterpart support in the form of counterpart staff, office facilities, and logistical support. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

16. The TA will be implemented over 20 months, from 1 November 2013 to 30 June 2015. The Anhui Provincial Development Research Center will be the executing agency. To guide and monitor TA implementation, a steering committee led by the Anhui Provincial Development Research Center will be established, comprising members from the Anhui Provincial Finance Department, the Anhui Provincial Development and Reform Commission, the Anhui Provincial Environment Protection Department, the Anhui Provincial Agricultural Department, the Anhui Provincial Housing and Construction Department, the Anhui Provincial Economy and Information Department, the Anhui Provincial Land Department, government think tanks, and other government agencies.

17. The executing agency will set up a project management office to administer the TA project and provide logistical support to the consultants. The government counterpart staff of Anhui will assist the consultants in carrying out their assignments by providing basic statistical data, updating policy information, and arranging consultation meetings with local government officials. The executing agency will administer the training, conferences, and seminars. An advance payment facility may be established if requested.

18. The executing agency will provide office space with computers, utilities, and telecommunication equipment (including a broadband internet connection). The executing agency will also cover remuneration and per diem for counterpart staff, designate a TA focal point with strong English speaking and writing skills, and facilitate all TA activities to ensure effective TA implementation.

19. In consultation with the executing agency, ADB will recruit international and national experts to provide inputs as consultants, and act as short-term resource persons and task-specific experts. The international and national consultants (including resource persons and task-specific experts) will be selected and engaged on an individual basis by ADB in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). A total of 31.5 person-months of consulting services are required, including 3.5 person-months of international consulting services and 28.0 person-months of national consulting services. The international consultant will be a regional development strategy specialist. The national consultants will include (i) a financial economist, (ii) an industrialization and

urbanization specialist, (iii) a water resources management specialist, and (iv) a social development specialist. The outline terms of reference for consultants are in Appendix 3. The proceeds of the TA will be disbursed in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). All procurement under the TA will be carried out in accordance with ADB's Procurement Guidelines (2013, as amended from time to time). The equipment purchased will be turned over to the executing agency upon completion of TA activities.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$400,000 on a grant basis to the Government of the People's Republic of China for the Strategy and Policy Study for Integrated and Balanced Development in the Northern Subregion of Anhui Province, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved socioeconomic development in the NSRA	Urbanization rate in the NSRA increases by 1 percentage point annually until 2019, (baseline: 40.8% in 2012)	Government publications Statistical yearbooks Media reporting Government-sponsored websites	Assumption Development in the NSRA remains a high priority for the provincial government. Risk There could be catastrophic floods in the Huai River Basin.
Outcome Improved enabling policy, legal, and regulatory environment for balanced and sustainable development in the NSRA	Incorporation of policy recommendations under the TA into the province's new policies and planning documents during 2014–2017	Government publications Media reporting Government-sponsored websites	Assumption Policy recommendations under the TA are relevant and reviewed by government agencies objectively. Risk Ineffective cross-agency coordination delays policy changes and institutional reforms recommended under the TA.
Outputs 1. Report on promoting social and economic development in the NSRA, including an overview report and five subreports on (i) integrated road-, rail- and water-based transport systems; (ii) development of banking and financial services; (iii) development of resource-efficient industries and sustainable urban development; (iv) water resources management, watershed management, and flood risk management; and (v) social development related to migrant workers and land management 2. Policy notes	At least three written case studies assessing international experience relevant to Anhui by December 2014 A survey on the NSRA's challenges and opportunities by December 2014 About 150 participants in the workshops familiar with TA findings by March 2015 Five policy notes and	Periodic TA progress reports by consultants Minutes of joint meetings between the government and ADB	Assumption Senior government officials guide TA implementation. Risk Data and information needed for the consultants to identify high-priority needs may be inaccessible or delayed.

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	in-process knowledge products submitted to ADB and the Anhui provincial government by January 2015		
Activities with Milestones Output 1: Report on promoting socioeconomic development in the NSRA <ol style="list-style-type: none"> 1.1. Draft inception report submitted by February 2014 1.2. Inception workshop held by March 2014 1.3. Draft interim report submitted by June 2014 1.4. Interim report review workshop held by July 2014 1.5. Draft final report submitted by October 2014 1.6. Draft final report review workshop held by November 2014 1.7. Dissemination workshop in Anhui held by March 2015 Output 2: Policy notes based on the findings and conclusions of the study <ol style="list-style-type: none"> 2.1. Two policy notes based on the interim report submitted by September 2014 2.2. Three policy notes based on the final report submitted by January 2015 			Inputs ADB: \$400,000 (TASF-other sources) The government will provide counterpart support in the form of counterpart staff, office facilities, and logistical support.

ADB = Asian Development Bank, NSRA = northern subregion of Anhui, TA = technical assistance, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Total Cost
Asian Development Bank ^a	
1. Consultants	
a. International consultants	
i. Remuneration and per diem	70.0
ii. International travel costs ^b	15.0
b. National consultants	
i. Remuneration and per diem	130.0
ii. Domestic travel costs ^c	25.0
c. Reports and communications ^d	35.0
2. Training, seminars, and conferences ^e	50.0
3. Equipment ^f	30.0
4. Miscellaneous administration and support costs	5.0
5. Contingency	40.0
Total	400

Note: The technical assistance (TA) is estimated to cost \$480,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office facilities, logistical support, and other in-kind contributions. The value of government contribution is estimated to account for 16.67% of the total TA cost.

^a Financed by the Asian Development Bank (ADB) Technical Assistance Special Fund (TASF- other sources).

^b Includes internal travel in the People's Republic of China.

^c Includes local intercity travel in Anhui.

^d Includes costs for translation and interpretation.

^e Includes honoraria for resource persons in the workshops and costs for final report dissemination. Specific budgets and arrangements are subject to prior ADB approval.

^f Includes computers, printers, fax machines, scanners, copy machines, and other office consumables. The specific package is subject to prior ADB approval. The equipment purchased will be turned over to the executing agency upon completion of TA activities.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. Five individual consultants will be engaged to provide advisory and technical services to the Anhui provincial government. The team will be composed of one international consultant and four national consultants. The consultants will carry out their assigned tasks in close cooperation with Anhui government agencies.
2. The team of consultants will produce (i) a comprehensive report on promoting socioeconomic development in the northern subregion of Anhui (NSRA), and (ii) policy notes. In addition to the tasks listed for each consultant, all consultants are required to (i) summarize key policy recommendations periodically for distribution to senior government officials; (ii) present findings and conclusions in conferences; (iii) propose project concept profiles for potential high-priority projects that could be implemented in the short term (1–2 years) and medium term (3–5 years), in particular those suitable for the involvement of the Asian Development Bank (ADB); (iv) act as resource persons for training programs, as required; and (v) share the results and analytical tools and methodologies of identifying development constraints with the designated team of government officials.
3. The comprehensive report will be written in Chinese and submitted to ADB and the Anhui provincial government for review at various stages. The final report will be submitted in Chinese and English to the provincial government and ADB for dissemination. The inception report should be submitted 1 month after implementation. The midterm report should be submitted 3 months from the inception report review workshop. The final report should be submitted 3 months from the midterm report review workshop.

A. International Consultant (3.5 person-months)

4. The regional development strategy specialist and team leader (3.5 person-months) should have a degree in economics or a related subject, preferably at the postgraduate level. The consultant should have knowledge and experience in regional transport planning, development strategy formulation, rural–urban integration, and infrastructure construction. Responsibilities include (i) refining the project design, structuring the comprehensive report, identifying tools and methodologies for the study, and assigning tasks to the team members; (ii) advising the national consultants in undertaking their studies; (iii) completing the inception report, midterm report, and final report with inputs from the other consultants; (iv) identifying key challenges for sustainable socioeconomic development in the NSRA; (v) identifying key infrastructure projects to strengthen the NSRA's investment climate; (vi) attending review workshops; (vii) writing the subreport on developing an integrated transport system in the NSRA; and (viii) assuring consistent quality of the reports prepared for ADB and the Anhui Provincial Department Research Center.

B. National Consultants (28.0 person-months)

5. The financial economist and deputy team leader (10.0 person-months) should have a degree in finance and economics or a related subject, preferably at the postgraduate level. The consultant will be responsible for (i) assisting the team leader in supervising the consulting team, refining the project framework in full consultation with government agencies and ADB, and ensuring overall quality of outputs, in particular the reports in Chinese; (ii) writing the subreport on banking and finance services as an input to the main report; (iii) using inputs from other national consultants to prepare a brief socioeconomic overview of the NSRA,

including a compilation of recent and available information on the economic, social, poverty, environment, and investment areas; (iv) summarizing the NSRA's competitive advantages and disadvantages; (v) conducting a strengths, weaknesses, opportunities, and threats analysis, including preparing a problem tree that outlines constraints to the NSRA's socioeconomic development; and (vi) recommending a time-bound action plan for strengthening sustainable development in the NSRA.

6. The industrialization and urbanization specialist (6.0 person-months) should have a degree in industrial economics or a related subject, preferably at the postgraduate level. He or she should have a good knowledge of and experience in industrial restructuring and upgrading, high-tech industrialization, rural economics management, rural-urban integration, and innovation management. Responsibilities include (i) assisting the team leader in refining the TA design, particularly regarding industrial development and urbanization; (ii) jointly with the other consultants, designing and carrying out sampling surveys, and analyzing them to identify the challenges related to industrial restructuring, upgrading, and rural-urban integration; (iii) undertaking a literature review on the areas assigned; (iv) conducting field consultations with local officials in the areas assigned; (v) assessing the effectiveness and efficiency of ongoing government policies on industrial upgrading and relocation while identifying weaknesses for further improvement; and (vi) writing the report on the current situation and trends in industrial restructuring and upgrading, service and tourism development, as well as rural-urban integration, including recommending technical solutions for developing industries and urbanization in line with the NSRA's resource endowment and geographic location, and adjustments to the industrial structure following the new urbanization strategy.

7. The water resources management specialist (6.0 person-months) should have a degree in hydrology and water resources management, environmental sciences, or a related subject, preferably at the postgraduate level. He or she should have a good knowledge of and experience in water resources planning, water ecology, environment protection, and technologies for addressing the frequent floods and water shortages in the NSRA. Responsibilities include (i) assisting the team leader in refining the TA design, particularly on water resources protection and management; (ii) jointly with the other consultants, designing and carrying out sampling surveys, and identifying and analyzing the water management issues and development constraints; (iii) undertaking a literature review in the areas assigned; (iv) conducting field consultations with local officials in the areas assigned; (v) assessing the effectiveness and efficiency of ongoing government policies on conservation of water resources and improvement of water utilization efficiency while identifying areas for further improvement; and (vi) writing the report on the current local situation and international development trends of water resources management, and recommending technical solutions for improving the ecological environment and general living conditions in the NSRA.

8. The social development specialist (6.0 person-months) should have a degree in sociology or a related subject, preferably at the postgraduate level. The specialist should have a good knowledge of and rich research experience in population migration. Responsibilities include (i) assisting the team leader in refining the TA design, particularly on land integration and reform; (ii) jointly with the other consultants, designing and carrying out sampling surveys, analyzing and identifying the challenges related to land integration and system reform, livelihood improvement, skill development, *hukou* system reform, poverty alleviation, and gender imbalance; (iii) undertaking a literature review on the areas assigned; (iv) conducting field consultations with local officials in the areas assigned; (v) assessing the effectiveness and efficiency of ongoing government policies on land utilization, integration, and transfer,

including identifying weaker areas for further improvement; and (vi) writing the report on the current situation and existing problems of population migration and land management in the NSRA, including providing targeted and feasible technical recommendations for integrating migrant workers into cities.