

China

Client Perspectives on Elements of World Bank Support

Working Paper for
Development Results in Middle-Income Countries
An Evaluation of the World Bank's Support



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PREFACE

The Independent Evaluation Group (IEG) of the World Bank has conducted an “Evaluation of the World Bank’s Support to Middle-Income Countries”. As a contribution to that evaluation, IEG undertook background research on the topic in several countries. The aim was to use a client perspective drawn from in-country consultations—to shed light on the experiences of the Bank with its Middle-Income Country (MIC) partners.

This working paper draws upon responses from a selection of interviews conducted in mid-2006 with in-country stakeholders and a review of the relevant analytical and evaluative material. It provides valuable insights into selected issues faced by many MIC clients, and has been used as a background to the IEG evaluation. As with any research of this type, there may be contrasting views from other commentators, and this report is not intended to be a comprehensive assessment of the Bank’s country program and nor should it be considered as a formal report of the type produced by IEG in its country assistance evaluations.

The findings, interpretations, and conclusions expressed here are those of the authors(s) and do not necessarily represent views of the IEG, or the Board of Executive Directors of the World Bank or the governments they represent.

<p>This working paper was prepared by Thomas O’Brien (IEG) based on field work in China in July and August 2006.</p>
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Client Perspectives on Elements of the World Bank Support

1. INTRODUCTION

1. The Independent Evaluation Group's (IEG) Country Assistance Evaluation (CAE) on China conducted field work in 2003 and was published in 2004. Our ongoing evaluation of the Bank's support to Middle Income Countries will draw on this source, but could also benefit from more up-to-date perspective from China on specific issues of interest. To this end a mission visited Beijing and Shanghai, from July 26 to August 1, 2006. We met with 33 Chinese counterparts¹, in the principal central ministries which deal with the Bank, in line Ministries, in other government and educational institutions, in the private sector.²

2. Our objective was to gather client perspectives on elements of the Bank activity in China, especially on collaboration between the Bank and IFC, and on the Bank's work in engaging China with global programs. In this way the valuable experience of the Bank in China can cast light on issues facing the Bank and MICs as a group. This exercise is not a full or formal evaluation of the Bank's overall work in China (i.e. it is not a substitute for a Country Assistance Evaluation) and has not been designed as such. The main features of those consultations are set out below.

2. OVERVIEW OF THE BANK'S PERFORMANCE

2.1 IS THE BANK RELEVANT?

3. Most counterparts were positive about the role of the Bank in China. Many argued that up until the beginning of this decade, the rationale for Bank involvement was clearly related to boosting China's capacity to build infrastructure and tackle social issues. Even though China's own capacity is now much enhanced, counterparts uniformly considered the Bank's input to still be relevant. Indeed they envisaged Bank activity in China continuing in a significant way for some time to come³.

4. This feedback is consistent with the CAE (2004) which found that "the Bank's assistance strategy and activities have been relevant in the large, if not always in the small, context—at the broadest level of strategic focus and allocation of resources, the

¹ Listed in Annex 1.

² We also met with some Bank Group staff to help situate our mission and add to the feedback from client representatives.

³ Senior officials at the Ministry of Finance noted the China expects to borrow between \$1bn to \$1.5bn per annum from the Bank for the coming five years (to 2011), which is confirmed in the most recent Country Partnership Strategy. They gave no hint or signal what might occur beyond this date—and one was left with the impression that while borrowing might continue, it was equally plausible it might cease or be scaled back at that time.

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Bank has done the right things.” The CAE confirmed that the four main Bank objectives—promoting system reform and better macro management, poverty reduction, infrastructure development, and environmental protection—have helped address China’s most pressing development issues. It noted the Bank was sometimes slow to recognize the importance of issues such as growing inequality and vulnerability, intergovernmental fiscal problems, and the need for better coordination of environmental policy and water resource management.

5. The more recent IEG CASCR Review (May 2006) reports that for FY03-05, “the Bank’s strategy was relevant, aligning itself with the evolving development challenges facing China and recognizing the transition in the country’s relationship with the Bank.” The CAS pillars were relevant and consistent with the Government’s Tenth Five-Year Plan (2001-05). We note that the most recent Country Partnership Strategy (CPS, 2006) is also closely aligned with the Government’s Eleventh Five-Year Plan (2006-11).

6. The CASCR Review, and the CASCR itself, both highlight that the targeted outcomes (in essence, the results framework) for the FY03-05 CAS were excessively detailed (135 benchmark indicators) and inadequately prioritized. The CASCR learns a lesson from this and seeks to have a more streamlined results framework for the FY06-10 CAS, but it does not explain why the situation arose—that notwithstanding the Bank’s review processes, a program of the size and significance of China had an apparently elaborate results framework which ultimately was not used systematically to assess progress.

7. The recent CPS was discussed at the Board in May 2006, and was welcomed by, among others, the Executive Director for China. New IBRD commitments to China for FY06 were \$1.455 billion, the largest figure since FY00. That said, however, comparing the most recent six years (FY01-06) with the preceding six years (FY95-00) shows a fall in both project number (down from 86 to 47) and value (down from \$15.7 billion to \$6.2 billion). Over a sustained period, infrastructure projects have accounted for a larger share of the portfolio in China than in the average for other countries. One respondent during an interview remarked positively that the Bank had remained engaged in infrastructure in China even when globally it was retrenching, and that it showed flexibility by scaling up lending in this sector in response to shareholder criticisms. Respondents to the Bank’s client opinion survey expressed quite strong agreement that “the Bank recognizes the need for new and innovative products and services for middle-income countries like China and provides these accordingly.”⁴

2.2 HOW WELL DOES THE BANK PERFORM?

8. Counterparts’ feedback was complimentary but not effusive. Largely the Bank’s work was viewed as satisfactory. This chimes with the CAE and the CASCR Review rating the outcome of the Bank’s assistance over the respective review periods as satisfactory. It is worth noting that Bank project performance in China is exceptionally

⁴ Respondents rated this assessment with a score of 8.0 (1=strongly disagree; 10=strongly agree. The average for the countries reporting on this indicator was 7.0.

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strong—over the last 10 years, some 89 percent of projects have been rated as satisfactory⁵ by IEG, in the top echelon of portfolio performance worldwide (79 percent of projects are satisfactory in the MIC group, and 72 percent among the top 10 MIC borrowers). Management has at times suggested that given this strong project performance, and the remarkable success of China’s economic and poverty-reduction performance, the outcome of the Bank’s support might be better regarded as highly satisfactory.

9. Bank-sponsored client opinion surveys⁶, 22 of which have been conducted in MICs, are another information source. Clients reported a favorable impression of the Bank’s effectiveness in China, rating this 7.7 (on a scale of 1 being very unfavorable and 10 being very favorable). This was the highest rating recorded for any MIC, and compared to a MIC group average of 6.6 and Bank-wide of 6.5⁷.

10. The technical competence of Bank staff and the high quality of work was remarked upon by respondents. In contrast to views from several other MICs, the Chinese did not volunteer that the Bank’s independence, and ability to provide international benchmarking, were key characteristics. Rather the main skill for the Bank to deploy was in understanding the specific concerns and issues of China, and applying international knowledge to them. It was suggested that the Bank’s long history in China, together with the stability of its staffing, helped in this regard.

11. There were several attributes of the Bank’s support which were at times unsatisfactory or failed to meet client expectations. The Bank responds to requests and changing circumstances too slowly, and takes too long to deliver its specific support⁸ (comparing less favorably at times to other similar sources of help such as the ADB and certain bilaterals). Bank staff have pointed out that lead times are also influenced heavily by China’s own processing procedures and timetables, and that line agencies may often be associating some of this perceived delay with the Bank, when it may lie as much if not more at the door of the authorities themselves. One counterpart noted that even though lead times are still too long, the Bank had made progress in shortening project preparation duration.⁹ The price of Bank finance is no longer particularly attractive¹⁰, with the front-end fee being especially disliked.¹¹ While the Bank is perceived as making increasing efforts to partner with local capacity, more needs to be done for the full potential to be realized.

⁵ A rating of moderately satisfactory or above

⁶ These surveys are typically conducted by a commercial opinion survey firm, on behalf of the Bank, in the run up to preparation of a new CAS. About 45 have been produced over the last five years.

⁷ This data may not have been published on a country-by-country basis, and so should be treated in confidence at this stage. While the surveys across countries are very similar, they have not expressly been designed to draw cross-country comparisons, and so some caution may be merited.

⁸ One counterpart described the process of applying for grant support, of modest scale, as “unbearably slow and cumbersome”, with a specific request taking 7 years to come to fruition (and then only having 3 years for implementation). Another talked about a more substantial project which took 4 years to start.

⁹ From about 2 years processing time in the past to closer to 1 year now.

¹⁰ China has an A- rating (S&P) on the international capital markets and can often borrow at rates lower than the Bank’s.

¹¹ Some counterparts specifically requested the Bank to remove its front-end fee.

12. Chinese government officials noted that Bank projects worked well in the main and indeed in most cases were assessed as satisfactory by the Bank itself.¹² They reiterated that they valued the bundling together of Bank finance and knowledge (as embedded in project design and supervision), combined with the Bank’s project management disciplines (such as procurement). This position was set out by the Chinese ED recently saying “based on the experience in China, knowledge is best delivered in combination with financing because investment projects provide a platform for the country and the World Bank to practice and test ideas.” The CAE noted that the “how to” was a great strength of the Bank’s project lending.

13. The officials and Bank staff confirmed that it was the “demonstration effect” of Bank projects which provided a key rationale for their continuing use, since purely in terms of scale Bank finance is a very small share of China’s overall public investment spending.¹³ One senior official reported that Bank-supported projects generally worked better than those which were domestically financed, but did not evidence this. Neither counterparts nor Bank staff could point to an analysis which explained or assessed how this demonstration effect was working in a systematic way.¹⁴ We can note that “highly satisfactory”—a rating which arguably would be achieved by those projects most likely to have a compelling demonstration effect—occur with more frequency in the Bank’s China portfolio (11 percent of the total) than that observed for the rest of the MIC group (5½ percent) over the last six years.

2.3 VIEWS ON THE IFC

14. We had a few interviews with private sector businesses which had interacted with the IFC. They had deals with the IFC, although project implementation was still ongoing (and at a relatively early stage). Overall they were satisfied with the service provided by IFC. IFC staff’s professionalism, expertise, and responsiveness were positives. Clients also felt the IFC’s international reputation lent credibility and stature to projects, which was an important ingredient that they would find difficulty in getting from other sources.

15. On the downside, IFC took far too long to consummate deals,¹⁵ and its procedures and paperwork were overly burdensome. IFC’s financial terms were barely competitive with the market—interest rates and other charges were often a touch above that available from other lenders or investors, compensated somewhat by longer maturities offered by the IFC.

16. IFC staff indicated that much of its work was designed to be innovative, “first of its kind” investments in China. The logic is that through this approach, IFC’s involvement can help pioneer opportunities which other investors can pursue further. Since we were only able to review a small sample of work, it is not possible to judge the

¹² In IEG project ratings.

¹³ This “demonstration effect” argument is made explicitly in the most recent CSP.

¹⁴ Bank staff mentioned that some work was being done (or planned) on exactly this point.

¹⁵ One respondent noted the IFC took half as long again as he would have experienced with a Chinese-based financier; so long in fact that he actually took out a bridging loan to support his project while waiting for the IFC deal to be finalized.

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extent this approach is being implemented, nor its ultimate success. That said, IFC's recent deal to invest in United Rural Commercial Bank (URCB) falls into this category, it being the first of the many rural cooperatives in China which has been commercialized into a formal bank. Officials in the National Development Reform Commission (NDRC) also drew attention to IFC's work on the "panda bond" (a renminbi denominated bond issued on domestic capital markets), which they judged to be a satisfactory step in promoting new market opportunities.

17. Portfolio data show that the IFC is significantly picking up the pace in its investments in China. Over the years 1995 through 2001, annual commitments varied between \$30m and \$100m. In FY04 they reached \$414m, and are targeted towards \$700m in FY06 onwards. IEG evaluations carried out in the last four years for older projects in the portfolio show a satisfactory development outcome in 63 percent of the cases. It is also worth noting IFC's growing role in knowledge services (technical assistance) in China. The Private Enterprise Partnership (PEP) is scheduled to deliver around \$48 million in technical assistance programming over the next five years (FY06-10), with an office based in Chengdu in China's Sichuan province. Working directly with companies and others, it is focusing on business environment, financial market development, and public-private partnership models.

3. COLLABORATION ACROSS THE BANK GROUP

3.1 OVERVIEW

18. The most recent China Country Partnership Strategy¹⁶ is joint, i.e., covering all arms of the Bank Group. In our view it nicely presents how both the Bank and the IFC's resources will be deployed to help meet China's challenges. Indeed it is at or near the top of any MIC CAS in this aspect. This is exemplified in a clear identification of particular steps to be taken by the respective arms of the Bank Group (individually or together) within each of the five pillars of assistance in the CPS. The factors which are likely to have contributed to this include: (i) the Chinese Government, who had clear expectations for Bank Group collaboration, provided intensive and disciplined input in the preparation of the CPS; (ii) Director-level personnel in both the Bank and IFC had incentives for collaboration to feature strongly and coherently in the CPS¹⁷; (iii) working relationships between respective staff were collegial.

19. Counterparts from the key Chinese Government agencies which deal with the Bank Group (both the Bank and the IFC) had a clear view on inter-agency collaboration. They judged that the coordination of the Bank and IFC at the strategic level is satisfactory. They noted the recent CPS exemplified this, including in its attention to the commonly shared goal of developing the private sector as an engine of growth. The

¹⁶ CSP—a new label for the CAS—discussed by the Board in [May, 2006]

¹⁷ These incentives included for the Bank, a pressure to maintain relevance and positioning over a period in which the Bank's "traditional" business may decline. For the IFC, the pressure is to rapidly grow its portfolio, and be seen to be making reasonable efforts to do so, promoting development impact. And for both, the expectations from new Management—Mssrs. Wolfowitz and Thunnel—are present.

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concern expressed was that this strategic coordination did not properly filter down to the practical level, for example in terms of investment projects and specific analytical work. In this aspect they judged the coordination as less than satisfactory. IEG's CAE made no comment on Bank Group collaboration or on the IFC's work. The CASCR and CASCR Review do make references to the work of IFC and MIGA, although there do not appear to be clear evaluative judgments on the extent, quality and impact of coordination across the Bank Group.

20. One influence on coordination is the way in which communication occurs. Government counterparts noted that their relations with Bank staff and IFC staff were cordial and open. Meetings with the respective institutions were held regularly, and the responsiveness of staff was adequate. Yet there is no established formal practice of senior Government officials regularly meeting both Bank and IFC representatives together in a shared session. Indeed the officials—who had both agencies under their jurisdiction—could not actually recall any recent meeting in which all parties had been present. It was felt that it would be worthwhile considering holding such joint meetings as a step forward to more effective coordination.

21. Clients did note that they had pressing needs which better coordination could help with. Infrastructure development, particularly in the western region, was cited as an opportunity where a better coordinated package could be delivered, for example with Bank input on policy issues and IFC input on private participation in investment. Rural development was another example in a similar vein. Both of these were consistent with China's drive for more balanced development, which requires greater efforts in the center and west of the country. Counterparts noted that the Bank's portfolio had clear targets in this regard, and that over time the balance had been adjusted so now about 70 percent of IBRD finance and support went to the western region. There did not appear to be a similar target for IFC investments, and nor was there a monitoring of performance. But respondents made a rough estimate that the balance of IFC's portfolio may be the inverse of the Bank's—with some 30 percent in the west. They expressed some frustration that they had to “push” the IFC in this direction, and also argued this was a missed opportunity for practical coordination between the Bank and the IFC, to get the combined Bank Group efforts more aligned with China's needs.

22. Staff's experience with Bank-IFC collaboration had much in common with the views expressed by Chinese counterparts, but differences as well. Staff reported that the mechanisms for coordination between the Bank and the IFC on strategy were now fairly well established and working well. This included intensive joint-working on the preparation of the CPS, and regular meetings between the field based Bank Country Director and IFC Associate Director. Also Bank and IFC staff has attended flagship conferences organized by the respective arms of the Bank in recent years. Coordination at the project level (investments, analytical work) is less developed, according to staff, but does occur. They reported several factors which help facilitate this interaction.

23. First, the senior management of both institutions in the field is perceived as setting an example to their respective staff of open and collegial relations between the Bank and IFC. This accords with our own assessment, based on feedback in several

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MICs, that there is a fair-degree of open-mindedness and respect among staff of what each side does, and receptivity in principle to working together. We encountered few examples of antipathy or cynicism. Second, the Bank and IFC are located in the same building in Beijing—albeit on different floors and with separate entrances, receptions, and common services such as the telephone exchange—which permits easy-to-arrange meetings to discuss collaboration. Third, regular staff meetings include both Bank and IFC staff on the invite list.¹⁸ Fourth, more recently IFC staff has been included in the Bank country team’s retreat.

24. Staff also reported on factors which limit or mitigate against collaboration, with the chief one being “pressure of work.” This was especially noted by IFC staff that has been faced with a rapidly expanding portfolio (and targets thereto). Organizational cultural factors came into play, particularly the different lead and turnaround times the institutions are used to. Finally some staff reported that while they understood that collaboration could yield benefits, they remained to be convinced about the payoffs as compared to the costs.

3.2 PATTERNS OF COLLABORATION

25. Discussions both with clients and with staff produced only a few examples of practical collaboration. One case reported to us was the IFC making a successful investment in western China in a formerly state-owned enterprise, aided by the Bank’s work in helping spin-off the company’s social services to public agencies. Another case was an IFC investment in a paper and pulp project, where the decision to invest had been informed by the Bank’s sector analysis and expertise. In that instance there has been a joint mission with Bank experts joining IFC colleagues—which is not a common occurrence.

26. Another channel of interaction is where staff can act as “lead generators”. A specific example occurred in the run up to IFC’s investment in a rural bank. A senior financial specialist at the Bank arranged a study tour to an underdeveloped region, to examine rural finance issues. The IFC were not involved at that stage, but he had good relations with a representative of an international commercial bank who was part of the tour. He helped introduce this investor to the IFC, and along with the information from the Bank’s sector analysis, this ultimately helped facilitate an investment deal. As well as entrepreneurialism from the Bank staff member involved, the key ingredient here was the individual’s standing and networks within the country and sector concerned. This has been a feature we have observed in other countries, and it is often associated with senior national staff.

27. IFC staff highlighted coordination on a Bank-led activity—the China Development Marketplace. The Bank worked with the support of the Ministry of Finance, and the social affairs ministry, to create a competitive forum to help provide funds for innovative CSO projects to help tackle poverty at the grassroots level. IFC co-funded the program, with around \$2m, and indeed attracted some additional private

¹⁸ During the IEG mission we met with such a staff gathering.

sponsorship of the scheme from its business clients and contacts. Reportedly therefore this initiative was able to cover more ground than it would otherwise have done.

28. In the absence of any other evidence, however, the overall conclusion is that these examples are more the exception than the rule and that such joint-working is sparse. The model in which Bank activity, such as sectoral policy reform, paves the way for complementary IFC investment, does not seem to be well-established. While IFC has built up some portfolio in infrastructure sectors, for example, staff indicated this had been done largely without reference to the Bank. And senior counterparts in Government argued that there are significant opportunities for collaboration here which remain untapped. The area of carbon finance and clean technology was also mentioned as one in which the Bank has helped China significantly, and yet where the *prima facie* opportunities for IFC involvement have not been captured to date.

4. KNOWLEDGE SERVICES AND KNOWLEDGE-SHARING

4.1 OVERVIEW

29. Fundamentally, the key counterparts view the Bank's knowledge as having most value when bundled with Bank finance. That point was made much more firmly and explicitly in China than in any other field-study. Indeed counterparts clearly explained that it is this bundling together of knowledge with finance which provides a significant motivation for China's continuing borrowing from the Bank. The knowledge referred to includes not only technical expertise (for example on transport), but also project management disciplines such as procurement and legal structures. Respondents reported that the qualities brought by the Bank's knowledge remain valuable even though China's own expertise on project management has grown over the years. They suggested that the project framework was the most suitable to encourage knowledge sharing with Chinese counterparts, because the learning was so much stronger and more effective in practical cooperation with "learning by doing."

30. This feedback chimes with that gathered earlier in the decade in the Bank sponsored client survey for China. In that survey respondents agreed that the Bank's technical expertise and knowledge are of great value to middle-income countries. Specifically they assessed this characteristic with a rating of 8.0 out of 10 (1 equals strongly disagree, and 10 equals strongly agree), which was the highest rating recorded in any country.

31. The bundling of knowledge with finance was seen to some extent in IFC-supported projects. It could be argued that IFC technical and commercial expertise injected into investment projects is knowledge-sharing to help project sponsors. Counterparts in two cases highlighted more direct knowledge input. An IFC investment (alongside Rabobank) in United Rural Commercial Bank brought with it over Euro 2 million of technical assistance, much of it directly financed at IFC's expense. In the Zhongda Hydro Power project, the IFC's investment was supported by technical experts (from China and Russia) financed by the PEP TA program. In both of those cases the Chinese project sponsor welcomed this addition of knowledge to finance. IFC was also

being tapped by government agencies as a source of finance (and on occasion for delivery) of standalone TA, although officials reported that arrangements in the past for such TA had been slower and more cumbersome than necessary.

4.2 *STAND-ALONE KNOWLEDGE SERVICES*

32. The Bank does deliver stand-alone knowledge services in China, and this tool is highlighted in the most recent CPS.¹⁹ Among the counterparts we interviewed, the common view was that some of these were useful but they were very much second fiddle to the work the Bank does through its traditional projects. This contrasted with feedback from the Philippines (where counterparts viewed knowledge services and projects both as substantial tools) and from Thailand (a knowledge-based country program). Line Ministries reported on specific examples of knowledge services which they consider to be satisfactory in quality and leading to impact. These included support to external debt management; technical environmental studies including work on “green GDP” (financed with Italian Trust Funds); support for the analysis contributing to the 11th five-year plan; and a policy research program on innovation in science and technology.

33. Officials noted that certain conditions had to be in place for such stand alone knowledge services to be effective. Certainly the Bank had to demonstrate strong technical expertise on the topic under review—which counterparts judged has been achieved in the past. The increasing demand is that this knowledge also be grounded in a detailed understanding of China-specific conditions. Knowledge work has to be tailored to a specific issue being faced by counterparts (e.g. ways to meet environmental commitments under international treaties). It should be tied-in to a local need and opportunity, such as contributing to analysis for a specific policy initiative (e.g. the 11th five year plan), or a city’s development plan (the Cultural Development Strategy for Shanghai was mentioned as an example). And the work should be very clearly owned by Chinese counterparts—typically to be achieved by a strong commissioning framework and explicit reporting to (or indeed partnering with) an identified Chinese agency.

34. Looking forward, officials were of the opinion that the scope for productive knowledge services would continue. Examples cited included potential Bank support for analysis of “clean technology”; and also cooperation on project and policy evaluation²⁰. There was no indication that the authorities would pay for Bank advice delivered through the stand-alone mode. In fact there have been several examples in the past where trust funds and other Bank-supported grants have contributed to the costs of knowledge work, and counterparts envisaged this continuing in the future.

¹⁹ In recent years about \$3.6 m has been spent each year on AAA, accounting for around 18 percent of total spending on the country program (for MICs as a group the figure is 25 percent).

²⁰ Here counterparts specifically discussed the contribution which IEG could make.

4.3 *KNOWLEDGE SHARING WITH OTHER COUNTRIES*

35. Statements by the Bank and by some Chinese counterparts²¹ indicate that China is keen to share its knowledge and experience with other countries, a process which the Bank could help with in principle. During the course of our interviews, however, this topic was not raised by counterparts nor given much prominence—certainly far less than in Thailand, for example. Officials did mention approvingly the Bank support for knowledge-sharing which occurred in “flagship” settings, with the Shanghai Poverty Conference (2005) and the Beijing Avian Flu conference (2006) being cited. Only two references were made to lower level channels of knowledge sharing. The first was an offer from the Shanghai Municipal Administration (SMA) to use its expertise in providing lessons for other clients in China and beyond. For example the SMA noted its established track record in managing a mega-city, and also the experience of the Shanghai Wastewater management company, reportedly one of the world’s largest such institutions. The second was from the Shanghai National Accounting Institute (SNAI) who evaluated their cooperation with the WBI as highly satisfactory—WBI and the Bank had helped substantially in sourcing speakers and material for training programs which the SNAI runs for practitioners drawn from China and other Asian neighbors.

5. **ENGAGEMENT WITH GLOBAL PROGRAMS**

5.1 *OVERVIEW*

36. A separate case study on the Bank’s work in engaging MICs in global programs has reported that China’s involvement is more visible and pronounced than that of most countries in the group. For example in 24 of the most significant global programs which we have reviewed, China is involved active in 17 of them—a more active stance than most if not all other countries. Our interviews with Chinese officials were consistent with this picture. Compared to other countries we have sampled, policymakers in China were more knowledge—and more positive—about their country’s involvement in global programs.

37. Officials at the central ministries²² both noted that China was an “active” participant in global programs, and had received practical help from the Bank in that regard. The fields of environment and energy were brought to the fore, and health was also mentioned. Although other subject areas such as finance, trade and urban development are relevant to China, the respondents with whom we met were not actively involved in these sectors. In some cases the engagement with a global program is led by a central Ministry, in other cases by a line Ministry, and in other cases both are involved. Some of the opinions we received varied significantly by source, including contradictions between central and line Ministries.

38. The Bank’s assistance strategies for China address the issue of linking the country with global initiatives and programs with more prominence than in most other MIC

²¹ The Bank’s CSP, 2006; statement of Chinese ED in relation to the CSP

²² NDRC; Ministry of Finance.

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examples. The CAS published in 2003 noted the potential gains to the Bank and the international community from the lessons of China's experience and its contributions to thinking on global issues. China's enlarged vision of development with economic growth including dimensions of social and environmental sustainability also provided a connection with global environmental concerns. This thinking had evolved further in the Country Partnership Strategy (2006) which includes among its five pillars "helping integrate China into the world economy", to which end several global programs are noted.

5.2 *INFORMING CHINA ABOUT GLOBAL PROGRAMS AND OPPORTUNITIES*

39. Respondents in line Ministries²³ demonstrated knowledge of the global dimensions of their subject area. They noted that their connectivity with global initiatives came from both the Bank and other sources including their own professional networks, and support from bilateral agencies. The Bank had, in their view, kept them adequately informed on a range of global programs and initiatives—officials at the State Environmental Protection Agency (SEPA) remarked on their "substantial cooperation with the Bank over many years". The Global Environment Facility (GEF) was the example most oft-cited, with the Ministry of Finance reporting on the many projects delivered in China, and environment staff also drawing attention to the benefits of GEF funding. China has in fact had 45 GEF single country grants since 1991, 28 of which were over the FY00-05 period. Total approved GEF funding for China is \$510 million, making it the single largest recipient (13 percent of all single country grants for the world). China has also participated in ten regional GEF projects (\$81.3 million) and eight global GEF projects (\$31.6 million).

40. Ministry of Finance officials remarked on the Bank playing a "catalytic" role on Carbon Finance/the Clean Development Mechanism. This observation was supported by officials in the Ministry of Science and Technology (MOST) who cited the Bank's support in informing China's Committee on Carbon Finance (chaired by MOST) as being particularly helpful.

41. In the limited sample of interviews we had, no respondents were critical about the Bank failing to reach out to inform them of global programs and opportunities, although of course there were sectors from which the mission did not have the chance to canvass opinion. The China Earthquake Administration (CEA) did raise a question as to whether the Bank could do more to involve it in global thinking on the topic of disaster prediction, prevention and management.²⁴

²³ And also in the specialist units of the central Ministries.

²⁴ The CEA noted that the Bank had helped the authorities on occasion with financial support for disaster-affected areas, but had not engaged with the CEA on longer-term issues. This echoes a more general finding in IEG's Evaluation of the Bank's work on Natural Disasters

5.3 *QUALITY AND EFFECTIVENESS OF ENGAGEMENT WITH GLOBAL PROGRAMS*

42. Respondents gave mixed feedback on their experience of the quality and effectiveness of Bank support to China's engagement with global programs. There was a shared positive assessment that Bank staff working on global programs²⁵ were highly qualified, had good and relevant expertise, and were diligent. Officials reported that these attributes contributed to the impact of the Bank's work, and those from SEPA indicated that the support they had received in connection with global programs had been "deep, varied, and satisfactory". In discussion, counterparts gave some examples of what they considered to be effective Bank support, but there were few (if any) cases in which they cited specific outcomes.²⁶

43. The NDRC cited support from the GEF as having helped China in its ongoing National Climate Change program, and the MOST also suggested the Bank's input had helped accelerate the thinking and design of policy behind China's approach to climate change. NDRC officials noted GEF support in reaching out to the population in a national energy-saving educational campaign. SEPA discussed the GEF-funded work in helping China to implement multilateral environmental conventions. The counterparts particularly valued the expertise provided here in tackling a global issue—meshing together the myriad of standards and procedures to which China aspires or commits. Other more "traditional" GEF projects, including those which have helped industry and government deal with ozone-depleting substances (ODS projects) were noted by several respondents.

44. Respondents also highlighted weaknesses regarding involvement with the GEF. A repeated theme was that the process of engaging with the GEF was too slow, complicated, and consumed too much time and energy from counterparts. One official mentioned that a project the department had put forward took a full seven years from the time of its inception (the application being drafted) to approval by the GEF. She contrasted this with the implementation period scheduled for that project—three years. Officials in other Ministries made similar comments, and overall these were conveyed strongly: one labeled the application process as "unbearable", and another gave the compliment that "if you can handle the Bank and GEF processes, you are well prepared for any others."

45. Pollution is a serious issue in China, with the country being the second largest emitter of CO₂ in the world. China has set clear targets to reduce greenhouse gas emissions in the coming years, seeking to achieve this by improving energy efficiency by 20 percent, and meeting 10 percent of its energy needs from renewable sources by 2020. The globally-structured Clean Development Mechanism (Carbon Finance) is a potential contributor to China's challenges, and indeed China has been active in this arena. Of the

²⁵ During the interviews, while global programs were presented and discussed as free-standing initiatives, respondents' remarks seemed to be related in the main to experiences with Bank staff and consultants.

²⁶ This was even after we pressed on the topic. However in this case the impression created in most cases was simply that the counterparts did not have the information readily available, rather than them obliquely conveying a criticism of the Bank.

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41 Emission Reduction Purchase Agreements (ERPAs) signed by the Bank's Carbon Finance Unit (CFU) as of June 2006, six belong to Chinese projects. These are by far the largest of any deals around the world—\$1.02 billion has been committed in the Umbrella Carbon Finance Facility, including ERPAs with two huge chemical producers in China.

46. Several officials remarked that the Bank support for Clean Development Mechanism (Carbon Finance) projects was playing a significant part in getting some large Chinese companies to reduce pollution. The involvement of the Bank has led to 4 projects approved by the State Council, with a total value of around \$900m and another one awaiting a decision. Yet while the “official” position conveyed to us on the Bank's CDM work was positive, there was a dissenting view expressed from counterparts in a line ministry which led to an interesting point.

47. One respondent, closely involved in CDM work at a technical level, indicated he was very dissatisfied with the Bank's involvement. He argued that the role of the Bank was confused in this arena, since on the one hand it purported to act in the interests of developing countries, but on the other it appeared to reflect the interests of governments and business in the developed world. This played itself out during the Bank positioning on negotiations on CDM projects. As an example, he cited Bank (CDM) conditions being far too onerous—requiring some technical monitoring standards which were more stringent than those currently prevailing in China and than those in the USA.²⁷ And on the pricing of CDM deals, he argued that the Bank's involvement and pressure led to Chinese companies receiving much lower payments than prevailing on the nascent global market for emission reduction purchase agreement (ERPA) credits²⁸. He also noted that Bank staff from the EAP Environment department engaged in this topic seemed to be more attuned to China's needs than those from the central Carbon unit located in the Bank.

48. This “conflict of interest” argument contrasted with the more commonly expressed view on the value of Bank/global program involvement in specific challenges facing China. The general observation was that the very fact of a Bank-endorsed global program paying attention to an issue—such as biodiversity protection or pollution control—lent significant weight and credibility to securing proper attention from policymakers. Here again it was argued that the Bank's good standing and reputation for technically-based impartiality was a key ingredient. Bank support through global programs helped China to mainstream innovative efforts such as those on clean air and clean water.

49. The Bank's support to China in dealing with Avian flu elicited mixed responses. At a practical level, the Bank had arranged a small grant for China to gear up on Avian flu. Officials remarked that this had been a quick and efficient response. Yet a concern was raised by staff involved in on-the-ground work that the Bank's practical help had

²⁷ Specifically, companies would have to provide a report on the monitoring of dioxin once every month in the first half-year of a project, compared to the requirement in US and China standards of between one report every one or two years.

²⁸ The respondent reported that companies received around Euro 6 per ton of CO₂ in the Bank-supported CDM deals, whereas the prevailing rate on the European market is closer to Euro 15.

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been modest, and that not much progress had been made in actually accessing avian flu funds. In other interviews it was suggested that grant implementation had been delayed by coordination issues within the Chinese administration.

50. At a strategic level, the Ministry of Finance remarked positively that the Bank had formed an excellent working partnership with the authorities to help stage a large-scale meeting on avian flu of donors and partners. This was held in Beijing in early 2006. Respondents noted this had been successful in mobilizing \$1.9 billion for efforts around the world to tackle avian flu. That said, the officials were disappointed that the Multilateral Trust Fund on Avian Flu, established at that meeting, was small (less than \$100 million). They attributed this to the Bank failing to “put its money where its mouth is” and contributing directly to this fund at a substantive level. The generalized point is the tension the Bank faces on global programs which it wishes to endorse and support—but which in the eyes of counterparts it may not be able to do so credibly unless it has a clear financial stake.

51. Another factor which counterparts reported as influencing the effectiveness of Bank support to global programs was the extent to which such programs were tailored to China’s needs and built upon national capacity. The feedback noted room for improvement on both of those aspects. For examples officials from the MOST argued that the Bank could do more to help on the specific characteristics of China’s approach to dealing with climate change, and particularly linking that to China’s poverty alleviation needs. China had considerable expertise emerging on energy-saving technology suitable for developing country conditions, a capacity the Bank’s global programs could tap into further.

52. Finally on this theme, Ministry of Finance officials strongly suggested that the Bank’s global work needs to step up in its efforts to connect policymakers and practitioners across MICs. In their view this requires a significant shift in approach. Currently the prevailing model is for the Bank to at the center of a hub as it were, receiving knowledge and experiences from a client country, assembling it, and re-transmitting it to other clients. But the demands now are for a different approach, in which the Bank has a much lower-profile yet active role in facilitating peer-to-peer sharing. The Chinese counterparts argued that this is not yet happening in practice—they envisage a “Policy Exchange Network” being established by MICs. They also argued that these types of developments will come about in any case, and if the Bank fails to capture that trend its role in such global knowledge sharing will become increasingly marginalized.

5.4 CHINA’S VOICE IN GLOBAL PROGRAMS

53. All of the responses from counterparts on this topic referred to experiences with the GEF²⁹. Our draft report on global programs makes the point that governance

²⁹ Our interpretation was that this in itself does not reflect negatively on the GEF compared to other GPs; on the contrary it was the one program where counterparts had some sense of being involved in governance and having a voice, however imperfect the arrangements.

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structures in the GEF are more widely representative and long-standing than those in most other GPs³⁰. China has a full seat on the governing council of the GEF, providing a direct channel for its voice to be heard. In practice, the individual who fulfils these duties is drawn from the Ministry of Finance. Officials from that Ministry did not raise any issues with us on this topic. Those from line Ministries, however, did voice concerns. That clouds the topic somewhat, in that the problems which are reported to exist may be associated with coordination within the Chinese administration, or with the GEF, or both.

54. SEPA officials stated that the voice of China and other developing nations was not well heard in GPs. Counterparts at the NDRC made the point equally vehemently, reporting that previous complaints to the GEF about burdensome procedures and such like have not produced any changes but have instead fallen on deaf ears. Another point was raised about the disconnect in the level of debate between the Governing Council, which dealt with broad strategic issues, and regular dialogue at the project level, which had limited authority and flexibility. This meant that some generic GEF issues on which it was important to make progress fell between two stools—not far-reaching enough to command the attention of the governing council, yet too complex to be resolved on a case-by-case basis. Overall, counterparts suggested that the Bank could be more active and supportive in helping China and other partner countries to have a more influential voice in the GEF and other GPs.

5.5 OTHER ISSUES

55. Several respondents remarked that global cooperation on selected issues will continue to be important, perhaps increasingly so, and the Bank could play a useful role. Meeting the challenges of climate-friendly technology, and affordable solutions for environmental protection, fell into this category. Here technology was key—and the international community with Bank assistance could do a lot more. Indeed this was raised at the Gleneagles summit in 2005, in the setting of the “G8 plus 5” gathering. The Bank could also do more to secure greater flexibility and harmony in the plethora of international standards and commitments to which developing countries are increasingly expected to adhere. For example, China is trying to use a sector-wide approach to meeting environmental commitments under the Montreal Protocol, but is finding it difficult to match that with the more project-by-project modalities favored by global programs. Finally, there was only one case in which a respondent mentioned the IFC in connection with GPs. That was to say that the IFC had only very recently attended a Bank-sponsored discussion with counterparts on CDM opportunities—that joint gathering would have been better earlier in the process, and has yet to lead to anything.

6. CONCLUSIONS

56. Some preliminary messages—together with tentative lessons highlighted in italics—are included below to promote discussion.

³⁰ A similar observation is made in IEG’s Global Programs evaluation.

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57. China has full access to international capital markets at competitive pricing, and well-developed national capacity for analysis, policy design, and project implementation. Yet counterparts still adjudge the Bank to be relevant for meeting China's needs, and that the Bank has appropriately adjusted its role over time.

[The Bank needs to continue to be adaptable, probably more nimble and flexible than it has been in the past, to maintain relevance in the years ahead].

58. The Bank's support for projects—very much operating in the traditional business model—is valued by clients and reported as successful. Counterparts highlighted the bundling of knowledge embedded in projects as an effective tool for China. It is difficult, however, to gather evidence on the relative success of Bank projects as against comparable projects in China financed by domestic sources. Also there does not appear to be much if any real evidence on the “demonstration effect” of Bank projects.

[There is a pressing need for a much more substantive assessment and monitoring of the demonstration effect of Bank projects. This would be useful in its own right in helping identify characteristics and features which lead to successful “demonstrations” and scaling up elsewhere. It may also help in counterparts making a more informed judgment in due course as to how far they wish to utilize Bank lending over the longer term. Finally, it may be that the Bank's projects need to become more innovative as the complexity of China's development problems grows. This is both a challenge for the Bank, and an opportunity (not least in being able to share experience from China to other partner countries). The CASCR Review made a similar point “more deliberate attempts be made to extract lessons from demonstration projects in order to fully understand the determinants of success before scaling up”].

59. The Bank's free-standing knowledge work was appreciated in terms of its technical quality, and counterparts are keen that it always be clearly grounded in a full appreciation of China's particular conditions. Officials conveyed the impression that such free-standing AAA is very much second fiddle to project activity.

[It is not clear what the long-term future of free-standing knowledge work is in China, particularly if the Bank's own administrative resources devoted to this were to come under significant pressure. This is a strategic business issue which may merit continuing attention.]

60. Clients are reasonably satisfied that the Bank's knowledge does address and encourage a two-way exchange of experience between Chinese experts and Bank staff. Counterparts were less forthcoming as to how Chinese experience was being shared, with Bank support, to other developing countries. Some “flagship” initiatives such as the Shanghai Poverty conference were mentioned in this respect.

[Perhaps in regard to spreading the Chinese experience to other partner countries, the avenue most open for the Bank to play a role is in these high-profile channels which accord some global visibility to China].

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61. The coordination between the Bank and the IFC is reported by counterparts to be satisfactory at the strategic level, and is well incorporated in the Country Strategy Partnership (CPS). But officials suggested that the collaboration is less strong—perhaps even peters out—in moving from strategy to practical implementation of projects, investment and other activity. There is also prima facie evidence that there are indeed opportunities on which better and more practical Bank Group coordination could yield benefits, and for which there is client appetite.

[Bank and IFC staff could examine this further. Efforts could include a more detailed attempt to understand the factors which inhibit collaboration—such as different organizational culture, incentives for staff—and address them more systematically. It would also include a much clearer approach to monitoring of collaboration and its results.]

62. Chinese counterparts suggested that the Bank has kept them well-informed of global programs and had done a satisfactory job in linking them with key initiatives such as the GEF and the CDM. Officials suggested that even for a country of the size and importance of China, its “voice” is under-represented in the governance of global programs and the development of new initiatives.

[The Bank’s experience of engaging China with global programs seems to be relatively good compared to that in other client countries, and hence there may be features to be highlighted as good practice. The tensions of perceived or actual conflicts of interest which can emerge in Bank involvement in some global programs—such as the CDM—need to be well managed. And the long-standing complaint of developing countries being under-represented in the design and running of global initiatives seems to be as prevalent as ever even in China—reinforcing that perhaps little progress has been made on this topic and it deserves more serious attention].

ANNEX 1: CHINA FIELD WORK: INTERVIEW LIST

This field assessment conducted interviews with development practitioners across a spectrum of in-country institutions. Most of the counterparts were at a senior level—typically playing a significant role in the organization’s management team. The sample also includes some counterparts with practical operational roles. The interviews were drawn from the following diverse range:

National Development Reform Commission (NDRC)
Climate Change Department of the NDRC
State Environmental Protection Administration (SEPA)
Robobank
Ministry of Science and Technology (MOST)
China Earthquake Administration (CEA)
Ministry of Finance (MoF)
Zhongda Hydro Power
Shanghai Municipal Administration (SMA)
Shanghai Aerospace Computer System Engineering
United Rural Commercial Bank (URCB)
Shanghai National Accounting Institution (SNAI)
Resident Mission (IFC)
World Bank Office Beijing
Asia-Pacific Finance and Development Center

On occasion, the references in the working paper appropriately are associated with particular institutional vantage points, which allow the reader to see the richness of the debate. Noting this, the appendix therefore does not identify respondents by name.