

German Development Cooperation with China

Short Version of the Evaluation “Public Private Partnership (PPP)” - Country study China -

Summary

The evaluation of the China PPP Programme is part of an evaluation programme of the Ministry for Economic Co-operation and Development (BMZ), designed to be carried out over three different phases. The analysis will assess the impact of the PPP programme on the quality of German development co-operation and elaborate recommendations for the further development of the concept and procedures. Special attention will be given to the question of whether the co-operation between development co-operation and the private sector has contributed to developmental impulses within the partner countries, complementing traditional development co-operation. During phase 1, a desk study elaborated some of these questions. During phase 2, field surveys in China, Vietnam, Thailand, Uganda, Rumania and Albania were carried out by independent consultants to assess the current PPP programmes. The results of these different country evaluations will be analysed during a third phase and general conclusions will be drawn (synthesis report).

In its ten-year programme in 1990, China made a commitment to a long-term policy of economic reform and the opening of its market. The concept of a socialistic market economy has been part of the constitution since 1993. Despite these reforms the Communist Party of China remains as the important decision making power. According to the tenth Five-Year Plan (beginning in 2001) China is targeting an average growth rate of 7% a year over the next five years. Development priority will be given to the central and western provinces. China's accession to the World Trade Organisation (WTO) in 2002 requires a further opening of the market and further adjustment towards world market rules.

While China is expecting positive developments in the long run from joining the WTO, in the short and medium term huge problems have to be solved, which may well have been underestimated so far. Structural weaknesses and bottlenecks in the Chinese economy can be seen especially in the performance of the finance sector, in social security, in state enterprises and in the agricultural sector.

German direct investment in China between 1979 and 2000 – according to Chinese sources – includes 2,421 investment projects with a value of 12.2 billion US dollars (planned direct investment) and 5,853 billion US dollars in direct investment realised. This German share of realised direct investment is equal to 1.7% of German investments world wide. Despite being so small in relative terms, German direct investments in China are important due to their concentration in key sectors of the Chinese economy (car manufacturing industry, chemical industry and mechanical engineering). In 2000, German net direct investment was 739 million EURO (without reinvested profits and losses). Measured against these figures the contribution of the PPP facility is fairly small: the public contribution by the DEG (Deutsche Investitions- und Entwicklungsgesellschaft) is 2,512,451 EURO; that of the GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit) is 3,340,678 EURO for planned and realised projects.

PPP facilities are being carried out in the environmental sector, in the banking sector and in education/further education. They are also to be found in the processing industry, in the printing industry and in high-tech-infrastructure.

Despite intensive advisory assistance in the legal sector from a number of foreign organisations and the existence of reformed laws, there is as yet no legal security in China. The banking sector needs urgent restructuring. The Chinese banks often lack the know-how for assessing credits, for risk management and the administration and use of securities, as until recently credit business in China dealt exclusively with state borrowers. Environmental problems have increased due to fast industrial growth and population pressure. Economic losses due to environmental damage are estimated at up to 8% of gross national product by

the Chinese authorities. There is a lack of qualified manpower, especially of qualified workers and executives in the technical and the commercial sectors.

The Ministry for Foreign Trade and Development MOFTEC is responsible for the co-ordination of bilateral technical co-operation, at the provincial level responsibility lies with the affiliates of MOFTEC, the DOFTECs. For MOFTEC the co-operation between public aid and private enterprises is new. The Ministry has, however, an interest in supporting the private sector, although there is no special PPP concept at the national level. In the provinces local authorities are explicitly interested in co-operating with the private industry.

With a total of 38 PPP projects, China is the leading country among the countries using this instrument of development aid. 12 projects are part of bilateral co-operation, 26 are part of the PPP facility. Implementing agencies are so far only the DEG and GTZ.

Findings

The 12 analysed PPP facilities in China have a relatively heterogeneous institutional set-up, following the pattern laid down by the specific priority areas and possibilities of co-operation. Three PPP facilities, for example, are directly connected with the regional state environmental authorities. Direct and indirect contacts exist with regional and local industry support institutions. To summarise, there is an institutional environment, which is in general supportive of the implementation of PPP facilities.

The German PPP portfolio in China is targeted towards productive and service-oriented activities. In the energy sector structural change is supported by the implementation of alternative energy sources as well as energy saving activities to reduce pollution. The chemical sector, mechanical engineering and building materials are being supported in improving their competitiveness in general, in introducing modern production technologies as well as adjusting them to the market economy.

The targets of all players on the German side (BMZ, GTZ, DEG and entrepreneurs) are not at odds with the general targets of the partner country China. The compatibility of the developmental and the entrepreneurial targets is given on the German as well as on the Chinese side, considered within the context of the support for the private sector. Seen within China's overall developmental framework they do not contradict the general targets, but they ignore to a large extent one of the main aims of the government, to develop the western and central provinces. Within the developmental context and given the scarcity of resources, the assumptions, risks and development possibilities on the donor's side should have been questioned more closely. The planning process corresponds to a process adjusted to PPP projects. The criticism concerning the time frame for the implementation of PPP facilities by the GTZ, which normally exceeds 12 months twice or threefold, does not apply to the technical implementation of the planning, but to the starting point of a too far-reaching aim. There is the impression that PPP facilities with a generous time frame of two to three years are adopting the lean planning process of a one-year project.

The technical implementation of the PPP facilities was assessed positively in all cases. The implementation organisations searched for fairly experienced and well reputed German companies, which were screened carefully.

The handing over of the responsibility for implementation to the enterprises and the implementing organisations' limitation to monitoring are assessed positively, with some reservations. The same applies to the BMZ's delegation of project decisions to the implementing agencies.

To assess the duration of the impact of the projects a differentiation according to technical projects and education/further education projects is necessary. Where technical hardware has been installed, it can be assumed that implementation and maintenance will be done appropriately, especially as the companies are contributing at least 50% to the facilities. In the case of education/further education facilities sustainability is given, if these programmes are carried out by the companies alone. As none of these long-term oriented programmes was

finished within the facility's time frame during the evaluation, no final assessment can be made at this point. In some of the cases there are signs that at the end of the facility's duration state support might be needed.

For at least two of the analysed PPP facility cases (technical projects) so-called "take along" effects cannot be excluded. In the case of education/further education projects, which had a long-term orientation from the beginning, the original BMZ guidelines, which allow 12-18 months only, were not observed. But this was never questioned by the BMZ. It should be mentioned that the Ministry already changed this point in the guidelines during the evaluation process by extending the time-frame. Within the instrument mix of development co-operation the PPP facility can be rated positively. One-year term facilities are, however, more applicable in investment projects than in education projects.

Recommendations

The PPP facilities should be carried on, but as an integrated part of bilateral development co-operation in China.

PPP is a valuable addition, where private interest and private initiatives are connected with a positive developmental impact.

The German definition of the PPP facility should be comprehensible within the international context.

The present German definition is different from the common international definition, which is oriented towards strategic sectors and not towards very limited micro-co-operation between a foreign company and a Chinese company/organisation.

PPP facilities should be included in clearly defined tasks, possible follow-up costs of the PPP facilities have to be identified and assessed.

Not all developmental tasks are suitable for PPP facilities. The private sector is mainly interested in whether its investments are useful in the sense of their targets. In some areas this interest can, however, be in contradiction to strategically oriented development policy.

The PPP facilities should continue to be carried out by the implementing organisations GTZ and DEG. In specific areas the CDG should also be included.

The GTZ and DEG have a decentralised structure, which can be used for PPP. The CDG has long-term experience in the area of education/further education. All three organisations have developmental know how.

Further institutions may be included in the identification and preparation of PPP facilities, but not in the implementation.

Not all organisations or bodies representing the interests of the private sector have the relevant developmental know-how to be able to accompany the tasks in development terms.

PPP projects in China should be carried out more frequently in Central and West China.

The Chinese government is giving developmental priority towards these regions over the coming years.

General conclusions

PPP can be a valuable addition, if used where private interest and private initiatives can be linked with positive developmental impacts. PPP is not a substitute for traditional development co-operation.

Differences between PPP facilities carried out by the DEG and GTZ are based on the fact that the DEG supported facilities are concentrating exclusively on production-oriented areas, while the GTZ concentrates its support mainly on the services area where the education/further education projects are to be found.

PPP facilities are much more important for companies which are preparing their first involvement in China than for companies which are already involved there.

Despite the positive impression of the impact of the PPP facilities, the programme has not gone beyond its pilot phase yet. There is a lack of conceptual basis and lasting organisational integration into the structures of the implementing agencies.

Basic data

Start of project:	1999
End of project:	2004 (2nd Phase)
<u>Financial input:</u>	
DEG:	1,929,579 EURO (net disbursements 1999 –2001) 582,872 EURO (planned investment for ongoing projects)
GTZ:	3,340,678 EURO (total)
GTZ partner:	5,389,034 EURO (total)
Others:	746,220 EURO (total)
Implementing agencies:	DEG; GTZ
Responsible division in the BMZ:	410
Date of evaluation:	January 2002