Statement by Jiayi Zou, Executive Director for China  
Date of Meeting: August 1, 2006

**Sub-National Development Program (SDP)**

This chair supports this Sub-National Development Program (SDP) and commends the management and staff for presenting us this succinct report and a good program. The program not only combines a number of important strategies of the World Bank Group, such as Infrastructure Action Plan, Middle Income Country Strategy, local currency financing, and deepening local financial markets, but also taps the synergy between the member institutions of the Group, IBRD and IFC in particular. This chair believes that this innovative product will not only help better meet the huge unmet demand in terms of providing more infrastructural services at sub-national level in member countries, but also make the World Bank Group more relevant in an ever changing world of reality.

We particularly appreciate that the financial support under SND will be offered mainly in local currency, which will help develop local capital markets as well as mobilize local resources for essential infrastructure investments.

We note that some changes are being made with respect to cost sharing mechanism, size of program, etc., compared to the draft document we discussed in January. As such, we would like to raise a couple of questions as follows:

1. **Sovereign consent:**

   We appreciate Management’s clarity in stress the importance of seeking sovereign consent by stating that the Program would only operate where there is agreement with the national government and would not seek Board approval for any transactions which is not acceptable to the national government. However, we see a possible problem here with following IFC’s established procedures for each transaction. Given the fact that such programs affect the relationship between local and national governments, we believe that the current IFC procedures for private sector projects which seek consent from national government on no-objection basis at late stage is not sufficient. Therefore, we consider it important for the Bank Group to engage in consultation with national government from early stage of each project designing.

2. **Cost sharing**
The original proposal of cost-sharing mechanism is a more sophisticated one which involves more responsibility and therefore stronger incentive for IBRD. Under current proposal, however, IFC is responsible for all the program financing and financial risk. I wonder whether it is enough to align incentives for Bank departments and staff by reflecting sub-national financing and portfolio performance in operational reports in IBRD regional departments. We want to hear from Management how such a change will affect the overall level of risk for IFC and how IBRD will remain a high level of involvement, or put it in a different way, how the ownership of IBRD could be reflected, so as to make this program a joint efforts in the real sense?

3. Technical Assistance

We also take heed of the fact that the budget for technical assistance has been dwindled from $12 million in the January document to $6 million from IFC in the current one, with the counterpart portion from IBRD unspecified. Given the critical importance of technical assistance at sub-national level and lessened IBRD role in this program, this is an area where IBRD should have contributed more by capitalizing on its wide experience and expertise. That probably is one way to make IBRD a more substantial collaborator in light of the new cost-sharing structure. Moreover, a stronger capacity of sub-national entities will also help to reduce the financial risk of the program. Meanwhile, in view of the implication of sub-national programs for national debt sustainability, it is also important that national governments’ monitoring and managing capacity in this area should also be improved through such technical assistance activities or other channels.

4. Pricing

In providing this new product to sub-national entities, we would like to call for attention to the pricing of product. While we have no problem with Management’s statement “pricing of these instruments would be based on market conditions and underlying risks”, we would emphasize that the pricing should be competitive and the criteria to judge the success of this program is whether it can increase lending and reduce cost of doing business so that developing countries can really benefit from this program. In this connection, we would also like to know whether it is possible for Management to explore some bilateral avenues to reduce the financial costs of the clients under this program.