

VII. Donor Assistance

This chapter describes donor-coordination mechanisms and discusses donor activities in relation to financial management and governance arrangements. It is structured as follows:

- 1 – Overview
- 2 – Coordination Mechanisms
- 3 – Asian Development Bank
- 4 – International Monetary Fund (IMF)
- 5 – The World Bank
- 6 – United Nations (UNDP)
- 7 – Australia (AusAID)
- 8 – Canada (CIDA)
- 9 – Germany (GTZ)
- 10 – Others

1. Overview

Table 12: Overall External Assistance to the PRC (1996-1999)⁶⁴

External Source (US\$ million)	Period	Ordinary Loans	Soft Loans	Mixed Credit / Export Credit	Grant Assistance
Multilateral					
ADB	1998	1,202.0	..	..	23.5
UNDP	1996–2000	..	..	..	194.1
World Bank	FY 1998/99	1,676.4	447.6	..	..
Bilateral					
Australia	FY 1998/99	..	..	..	85.7
Canada	1998	..	..	..	47.4
France	1997	..	50.1	..	..
Germany	1998	..	601.8	12.8	76.1
Italy	1996–1998	..	235.8	..	14.0
Japan	FY 1998	791.5	3,714.3	..	140.0
Spain	1997	..	600.0	..	Na
United Kingdom	1999	..	23.7	Na	Na
United States	1997	..	..	700.0	..

⁶⁴ Asian Development Bank. January 2000. *Country Assistance Plan: People's Republic of China* p. 35.

The PRC receives the lowest per capita level of external assistance of the seven countries participating in RETA-5877 (Table 13 refers).

Table 13. Official Development Assistance⁶⁵

	Cambodia	People's Republic of China	Mongolia	Pakistan	Papua New Guinea	Uzbekistan	Viet Nam
Dollars per capita	36	2	99	5	78	6	13
Percentage of GNP	12.1	0.2	26.7	1.0	7.8	0.5	4.1

2. Coordination Mechanisms

The State Planning Commission (SPC), under the guidance of the State Council, acts as the overall coordinating arm of the Government, including reviewing and approving projects proposed for external assistance. The MOF coordinates with major lenders to the PRC⁶⁶. The Ministry of Foreign Trade and Economic Relations coordinates with agencies that provide grant financing. In addition to government coordination, the UNDP office in Beijing published a report on development assistance in 1995, based on information submitted by major donors. This exercise has not been repeated.⁶⁷

3. Asian Development Bank

As of 31 December 1999, cumulative net lending to the PRC totaled \$9,300 million with contract awards and disbursements reaching \$5,300 million and \$5,000 million, respectively. ADB has also provided technical assistance for 328 projects totaling \$166 million as of 31 December 1999 – project preparatory TAs (PPTAs) accounted for 26 percent.

ADB is supporting broad governance activities through the technical assistance program. Support for the drafting of the *Public Procurement Law*, its Standard Bidding Documents and Implementing Regulations; improved audit standards and procedures; strengthening the inspection function; support for the *Bankruptcy Law* and other key

⁶⁵ Data is for 1997 and is sourced from: World Bank. 2000. *World Development Report 2000*.

⁶⁶ ADB, World Bank, JBIC, and most bilateral export credit agencies.

⁶⁷ UNDP. 1995. *The People's Republic of China: Development Co-operation Report*.

economic laws; and construction industry regulations and registration procedures are a few examples.⁶⁸

More specifically, ADB is initiating policy dialogue to support the Government in the development of an efficient and commercially oriented banking sector. To achieve this goal, the Government needs to: (i) establish a sound legal framework, (ii) enhance corporate governance and raise accounting and financial disclosure standards, (iii) improve banking regulatory and supervisory systems and liquidity management, (iv) improve legislation for bankruptcy and loan foreclosures, (v) develop efficient market infrastructures for payments, clearing, and settlements, (vi) deregulate interest rates, (vii) develop an effective strategy for debt resolution of state-owned enterprises, and (viii) ensure general public confidence in the banking system.⁶⁹

The PRC was selected as the first country for a broad-based Country Assistance Program Evaluation (CAPE). In general, ADB considers that the PRC portfolio is performing well, and that physical implementation is proceeding on schedule. As of 31 December 1999, audited accounts were due for 34 loans. Of these, 22 had complied, 10 complied late by less than six months, and two had not yet complied.⁷⁰

Loan Projects

No loans for financial governance or capacity building have been issued, nor are any planned. However, until recently, technical assistance to strengthen financial management within executing agencies was often provided alongside loans.⁷¹ Including covenants in loan agreements that require executing agencies to maintain a certain standard of financial management practices has superseded this policy.

⁶⁸ Asian Development Bank. January 2000. *Country Assistance Plan: People's Republic of China*. p. 11.

⁶⁹ Ibid. p. 20.

⁷⁰ Asian Development Bank. March 2000. *Semi-Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 1999*. pp. 41-44.

⁷¹ For instance: TA No. 2493-PRC: *Strengthening the Accounting and Financial Management Systems in SHPC* \$330,000, approved on 21 December 1995. TA No. 2288-PRC: *Institutional Strengthening of Commercial Finance, Management, and Accounting* \$830,000, approved on 12 January 1995.

Technical Assistance

Along with the assistance provided to executing agencies to strengthen their financial management capacity, assistance has also been provided to coordinating agencies to improve their loan administration and accounting procedures (in relation to ADB projects).⁷² The major initiatives that ADB has supported, or intends to support in the future, are as follows:

Pipeline 2003: Financial Strengthening of Water Utilities

The Ministry of Commerce is likely to be the executing agency for this TA for which \$600,000 has been allocated. The TA will involve the development of a sector-specific Accounting Information System. This is likely to include: the development of a generic set of internal management and external reporting formats, the development of guidelines on internal controls and financial management practices, and associated training materials.

Pipeline 2003: Governance Reform

The objectives of, and the executing agency for, this TA have yet to be determined. \$500,000 has been set aside.

Pipeline 2002: Governance Reform

The objectives of, and the executing agency for, this TA have yet to be determined. The amount of \$500,000 has been set aside.

Pipeline 2001: Strengthening Accounting Profession

CICPA is likely to be the executing agency for the TA for which \$600,000 has been allocated. The recommendations in this report will be considered when the details of this TA are decided.

TA No. 3103-PRC: Strengthening the Government Audit System

This TA for \$700,000, which was approved on 26 November 1998, began in 1999 and will continue through to 2001. It is providing assistance to help strengthen the Government's audit system to conform to the

⁷² See, for instance: TA No. 3101-PRC: *Capacity Building in Loan Administration and Accounting Procedures* \$40,000, approved on 25 November 1998. (Ministry of Finance). TA No. 2231-PRC: *Loan Administration and Subproject Accounting Systems Support*. \$100,000, approved on 9 December 1994. (People's Bank of China).

requirements of the *Audit Law* and, as far as practicable, International Standards on Auditing (ISAs). The particular objectives are to assist CNAO to: (i) formulate government auditing standards and procedures, and (ii) design and implement an audit training program to promote full and consistent adherence to such auditing standards. Under the first part of the TA, the existing 38 audit standards are being reviewed with lessons being drawn from the implementation of these standards and the *Audit Law*. The revised and additional standards will, as far as practicable, conform to IFAC Guidelines and ISAs. Under the second part of the TA, training programs to promote full compliance with the auditing standards and procedures will be designed and delivered.

TA No. 2509-PRC: Strengthening Financial Management in Provincial Power Utilities

This TA for \$600,000 was approved on 22 December 1995. It involved the development of prototype Accounting Information Systems for power utilities (in particular, a generic model for internal management reporting supported by training materials).

TA No. 2257-PRC: Enterprise Accounting System Reform

This TA for \$467,000 was approved on 21 December 1994. The objective of this TA was to provide training and capacity building for SOE financial managers.

TA No. 1483-PRC: Audit Administration of the PRC (1991–1995)

This TA for \$600,000 was approved on 21 February 1991. It improved the CNAO's capacity to audit externally-assisted projects, including those of ADB. The objectives of the TA were to (i) improve the auditing standards, particularly those of the Foreign Fund Application Audit Department (FFAAD) and bring them up to international levels, (ii) upgrade the skills of FFAAD staff, both at headquarters and in selected provincial bureaus, and (iii) enhance FFAAD's operational efficiency by recommending measures for office automation. The TA was generally successful and achieved the stated objectives. Major outputs were the Audit Manual and Sectoral Guidelines that were well received, and the provision of international training, which was well utilized.

Other Technical Assistance

The above TAs were directly related to improving accounting and auditing. The following TAs are relevant to broader financial management and governance arrangements:

- Pipeline 2002: *Evaluation of Methods and Standards for Efficient Corporate Management* (MOF – \$700,000). This TA will assist the MOF to improve its monitoring of SOEs. It is likely that it will assist in the development of a financial monitoring regime.
- Pipeline 2002: *WTO Membership and Law Reform* (MOFTEC – \$500,000). This TA will support the translation of laws into English so that they can be relied upon in court.
- Pipeline 2001: *Strengthening Capacity of Public Financing* (MOF – \$600,000). This TA will support fiscal reform initiatives, for instance, a review of inter-governmental fiscal relations.
- Pipeline 2000: *Government Procurement Law* (NPC – \$500,000). This TA will support the development of legislation covering public sector procurement.
- Pipeline 2000: *Implementation of the Tendering and Bidding Law and Related Regulations* (SDPC – \$500,000). The tendering and bidding law was enacted in 1999 and applies to large infrastructure projects. This TA will support the implementation of that law and the development of associated regulations.
- TA No. 3304-PRC: *Capacity Building of the Capital Markets' Regulatory System*. This TA for \$1 million, which was approved on 24 November 1999, will support the development of regulations stemming from the passing of the 1999 Securities Law. These regulations will cover issues such as financial disclosure requirements.
- TA No. 3279-PRC: *Development of Economic Laws*. This TA for \$1.4 million, which was approved on 19 October 1999, will involve the review of seven laws and regulations, just before their final consideration. The laws are likely to include: redrafts of the bankruptcy law, the companies law, the trust law, the social security law, the regulations for closing insolvent financial institutions, and the administrative licencing law.
- TA No. 2845-PRC: *Establishment of National Procurement Regulations for the Public Sector*. This TA for \$565,000, which was approved on 20 August 1997, produced six sets of draft regulations and three sets of

sample bidding documents that contain provisions relating to corrupt and fraudulent practices.

- TA No. 2118-PRC: *A Study of Sub-Provincial Fiscal Relations*. This TA for \$500,000, which was approved on 28 June 1994, examined federal-provincial fiscal relations and associated revenue and expenditure assignments. It also supported the publication of a book on fiscal management in the PRC.⁷³

4. International Monetary Fund (IMF)

China was a founding member of the IMF in 1944 and resumed its membership in 1980. The IMF has provided ongoing technical assistance for government budgeting and is heavily involved with the World Bank and the UNDP with the public expenditure management and treasury management project.

5. The World Bank

When the World Bank was established in 1944, China was one of the founding members. The PRC resumed its membership in May 1980. The World Bank's lending program has mirrored the Government's efforts to cope with the Asian financial crisis. Several projects in 1999 supported critical reform initiatives of the new government, such as reforms of the accounting system, pension system, State-owned enterprises and container transport.⁷⁴

The World Bank has been the major provider of external assistance in relation to the development of accounting and auditing arrangements. World Bank assistance for public finance reform has included the Fiscal Technical Assistance Project (1995), which helped develop the National Tax Administration, a central-provincial grants scheme, and budget management systems, as well as build the PRC's capacity to analyze tax policy.

⁷³ Wong, Christine, Christopher Heady, and Wing Woo. 1995. *Fiscal Management Reform in the People's Republic of China*. Asian Development Bank.

⁷⁴ Yukon Huang (Director of the World Bank China Program). 8 July 1999. World Bank Press Release.

Accounting Reform and Development Project (1999–2004)^{75,76}

The World Bank has provided a \$27.4 million loan and a \$5.7 million equivalent credit to assist in the modernization of the PRC's accounting system. The total project cost is \$85 million – the Government is financing the balance of \$52 million. CICPA and the CASC are the project implementing agencies. The project is building upon the Financial Sector Technical Assistance (FSTA) project (see below). Its objectives are to further strengthen the caliber and training of members of the accounting profession and to develop and promulgate additional accounting standards. The project has three components as follows:

Establish National Accounting Institute (NAI) (\$79.1 million)

The key element of the Government's plan to upgrade professional accountants is the establishment of a large-scale national training center for accounting and finance training. The NAI will be a Beijing-located residential facility that can accommodate up to 1,500 students at one time.

The NAI will provide training and continuing education to the PRC's 900,000 accountants and finance managers.⁷⁷ It will offer a wide selection of short courses on specific accounting and business topics and continuing professional education issues. The minimum course length will be five days – instructors will be contracted from foreign and domestic accounting firms and universities.

The World Bank assistance will focus on the provision of educational and training equipment and materials, curriculum design, financing of high-level trainers who can help build local training capacity, and the provision of overseas training for educators. The contract for the planning and design of the curriculum, programs and training courses was signed with KPMG Canada (who will be assisted by experts from the Canadian Institute of Chartered Accountants) on 11 May 2000.

Institutional Strengthening of CICPA (\$1.3 million)

The World Bank considered that, because of its access to advisory resources from other accounting societies and from its membership base,

⁷⁵ Approved 23 February 1999.

⁷⁶ World Bank. 1998. China Accounting Reform and Development Project: Project Appraisal Document.

⁷⁷ World Bank Estimates for 1998. Source: 1998. China Accounting Reform and Development Project: Project Appraisal Document. p. 20.

CICPA was not in need of operational technical assistance. The World Bank assistance is providing short-term support for computers, software and other equipment essential to the expanding operations of CICPA. Bidding documents were prepared for release in mid-2000.

Accounting Standard Development and Dissemination (\$4.3 million)

This component is supporting the Government's ongoing efforts to develop and promulgate accounting standards based upon Internationally Accounting Standards (IAS). In respect of this, assistance to the China Accounting Standards Committee (CASC) has four sub-components:

- (i) Supporting the promulgation of the remaining 17 standards that were prepared under the FTSA. Funds are being provided for the delivery by consultants of four high-level seminars (1999-2002) that will disseminate information and provide training to senior provincial accounting and finance policy makers – each seminar will address the most recently-issued batch of standards. A training manual and videocassette will also be prepared in relation to each standard.⁷⁸
- (ii) Preparing, promulgating, disseminating around 17 new general and sector/industry-specific standards. A research study into the feasibility of developing accounting standards for government and not-for-profit organizations will also be supported.
- (iii) Establishing an Accounting Standards Public Information Center. This component will support the procurement/development of library books, periodicals, office equipment, and a web site.
- (iv) Providing institutional support to the CASC. This support will include three 14-day annual study tours together with longer-term overseas training and secondments for Committee members. It will also support the procurement of information technology and presentational equipment.

⁷⁸ The contract for technical advice on accounting standards was signed with Deloitte Touche Tohmatsu in March 2000.

Technical Assistance to the CNAO (1997–2000)⁷⁹

The World Bank is providing technical assistance of \$487,000 to the Foreign Funds Application Audit Department (FFAAD) of CNAO to:

- establish a management information system that will enable the FFAAD to efficiently and accurately collect and distribute audit data among its nationwide network of offices
- familiarize senior FFAAD management with the experiences of Supreme Audit Institutions in performance auditing
- enhance the skills and knowledge of selected senior FFAAD auditors in specialized areas of accounting and auditing practice with an emphasis on performance auditing, and
- establish a core-training program to develop the knowledge and skills of auditors in areas of modern audit theory and practices. This includes the preparation of a manual on performance auditing and the first draft of the manual was completed in July 2000.

Fiscal Technical Assistance Project (1995–2001)

The objective of the Fiscal Technical Assistance Project, which was originally for \$50 million, is to assist in implementing fiscal reforms and preparing for future reforms. The project will support the fiscal reforms by: (a) developing and implementing a new tax administration; (b) strengthening capacity for tax policy analysis; (c) developing and implementing a central-provincial grants scheme; and (d) improving budgetary process and practices.

Despite the 1995 starting date, very little was accomplished under this project until April 2000, with completion of a comprehensive Public Expenditure Management (PEM) Review, by a World Bank team. A plan to reform and computerize government budgeting and accounting systems and procedures, is currently being developed by the MOF, the World Bank, and the IMF – the plan is drawing on the findings of the PEM, and will be implemented using the funding set aside in the Fiscal Technical Assistance Project.

⁷⁹ Reference TF 27549.

Financial Sector Technical Assistance (FSTA) Loan (1992–)⁸⁰

This credit for \$60 million equivalent remains the largest World Bank operation in the PRC's financial sector in recent years. Around \$39 million is disbursed, the rest is fully committed. Most components have been completed. Implementation of the pilot China National Payments System is proceeding. An assessment of the primary and secondary government bond market was initiated in November 1999.

In the period 1992–1995, using funds from a component of the FSTA credit, the MOF's Task Force on Accounting Standards prepared 25 accounting standards in harmony with International Accounting Standards (IAS). The first of these standards was promulgated in May 1997. The 24-member Task Force was set up within the MOF's Department of Accounting, to work alongside an international firm of accounting consultants (Deloitte Touche Tohmatsu), to draft new accounting standards for the PRC. In March 1998, the Government drew on the experience gained by the Task Force to establish the China Accounting Standards Committee (CASC).

6. United Nations (UNDP)

The UNDP works in close cooperation with the World Bank and the IMF. In particular, the UNDP provides supplementary technical assistance.

In May 1999, the UNDP supported a study tour for CNAO officials to European countries to examine fiscal and taxation auditing practices.⁸¹ The UNDP supported the development of a master plan for reforming aspects of public administration reform.⁸²

7. Australia (AusAID)

Australia is supporting a five-year \$11 million, capacity-building program to help strengthen the public sector. The program aims to enhance the ability of institutions to develop and implement policies relating to the transition to a market economy, and improve their capacity to deliver public sector services. Assistance is being provided through technical assistance, study tours, short-term training in

⁸⁰ World Bank. 1998. China Accounting Reform and Development Project: Project Appraisal Document.

⁸¹ UNDP Reference: CPR / 98 / 002.

⁸² UNDP Reference: CPR / 96 / 510.

Australia and in the PRC, and personnel placements in Australia. Around 15 government agencies have taken part in the program since it began in 1998. The following financial management activities have been undertaken.

The program has supported Australian training for nine middle-ranking managers from the China National Audit Office (CNAO). The training, which took place from March to August 2000, was designed to assist CNAO improve the quality and efficiency of the financial statement audits of SOEs. The suitability of computerized audit approaches was also investigated. A key output will be a Financial Statements Audit procedures manual for conducting audits of SOEs. Multimedia and information technology specialists have worked with CNAO who will produce highly interesting interactive training material for CNAO's auditors conveying the content of this manual.

In addition to assisting the Ministry of Finance (MOF) on human resource management practices, the program has supported several study tours and training initiatives for MOF officials. In 1999, seminars were conducted in China on the Australia's leading-edge budgeting practices (for instance, accrual-based budgeting). In July 2000, a study tour to Australia examined capital budgeting (for instance, cost-benefit analyses, and a policy-driven budget allocation process).

8. Canada (CIDA)

In the late 1980s, CIDA provided early support to CNAO in terms of how to train auditors. More recently, CIDA has supported the Certified General Accountants (CGA) Association of Canada CPA training program. This training program is conducted in the PRC. CIDA's funding of this initiative finished at the end of 1999. CGA is continuing the program, which is now self-funding.

To be awarded the CGA designation, students must not only complete the program of professional studies, but also satisfy CGA-Canada's practical experience requirement and earn an undergraduate university degree. The first members earned certification as CGAs in 1996. The program is operated out of seven Chinese universities. Around 100 CGA memberships had been awarded by the end of 1999.

9. Germany (GTZ)

GTZ is providing ongoing support to the CNAO, in particular, to the Continuing Education Centers. The support is being provided by the

German Audit Office and involves the provision of equipment (information technology, office equipment, and training equipment), short-term experts, and in-Germany training.

10. Others

While the Japan International Cooperation Agency (JICA) has provided substantial assistance concerning management training and SOE restructuring, there has been no direct assistance in terms of financial management. The PRC is a non-presence country in terms of USAID operations.

A number of national accounting organizations have cooperative linkages with the Chinese accounting profession, for instance:

- the Hong Kong Society of Accountants (HKSA) provides significant assistance, for instance the quarterly journal, *China Accounting and Finance Review*, is published with the assistance of the HKSA.
- the Certified General Accountants (CGA) Association of Canada conducts an in-country certification program (see section 8 above).