



# Technical Assistance Consultant's Report

---

Project Number: 45501-001  
December 2016

## People's Republic of China: Public Finance and Financial Management Reforms

### TA 7896: Output 1 Fiscal Policy Framework for Emergency Management

This consultant's report does not necessarily reflect the views of ADB or the Government concerned, and ADB and the Government cannot be held liable for its contents.

Asian Development Bank

# Fiscal Policy Framework for Emergency Management

---

## BACKGROUND

Previously, established fiscal policies for emergency management in the People's Republic of China (PRC) had focussed primarily on immediate disaster response and post-disaster restoration and reconstruction. Too little attention had been given to prevention through stronger infrastructure, institutions, and capacity. In addition, (i) emergency management activities and funding were fragmented among different ministries and levels of government and are ineffective; (ii) fiscal policy instruments for emergency management (expenditure, revenue, and transfer policy) were limited; (iii) budget management and monitoring of emergency funds were inadequate; (iv) laws and regulations governing fiscal policy for emergency management were incomplete; and (v) emergency-related asset use and compensation policy lacked a clear legal and institutional basis.

## OBJECTIVES

The government considered there was a need to develop a holistic fiscal policy framework for emergency management based on good international practice. At the request of the government the Asian Development Bank (ADB) approved a technical assistance (TA) project to increase fiscal effectiveness in national and subnational governments by deepening financial management reform at both levels of government. The fiscal policy framework for emergency management, which was one of four major components of the overall TA, covered three key areas:

- (i) **Infrastructure, institutions and capacity building for emergency management** – this was to make recommendations on: (a) the distribution of emergency management responsibilities; (b) early warning systems; (c) emergency storage and reserve systems; (d) technology for emergency management; and (e) capacity building;
- (ii) **Fiscal Policy instruments and public financial management systems for emergency management** – which was to cover (a) stable revenue mobilization; (b) budget and public finance management procedures; (c) expenditure and transfer payment policy; and (d) integration and strengthening of related laws and regulations;
- (iii) **Emergency-related asset use and compensation policy.**

## FINDINGS

The main goal of emergency management in the PRC is to reduce the social impact of public emergencies. These emergencies can be divided into four main categories: (i) natural disasters; (ii) accident disasters; (iii) public health emergencies; and (iv) social security incidents. Due to particular attributes of public emergencies—unpredictability, urgency, and capital

requirements—governments have the principle role to play in providing and coordinating emergency assistance. The financial demands involved have meant that the Ministry of Finance has been closely involved in the emergency management system.

In recent years the government has: (a) issued a series of regulations and policies to guide fiscal arrangements for emergency management; (b) Clarified the finance emergency support functions in various stages of emergency management; (c) Clarified the financing sources of emergency management funds; (d) established the application and disbursement procedures for fiscal resources for emergency management; (e) Built a regulatory system of fiscal funds for emergency management; (f) developed an Emergency Fiscal Plan specifying the responsibilities of financial departments in an emergency and the procedures they should follow; (g) established a disaster recovery and reconstruction fund; and (h) increased expenditure for emergency management.

However, the study found that there were still a number of problems that needed to be addressed. First, there remains a need to clarify more precisely the powers and expenditure responsibilities of various agencies involved in the management of emergencies. Secondly, it is necessary that appropriate arrangements are introduced to ensure that sufficient funding is available for emergencies. Thirdly, emergency supplies need to be available on a timely basis. Fourthly, fiscal resources for emergency management are widely dispersed among various agencies and there is little coordination of expenditure efforts. And fifthly, there is generally insufficient supervision of and accounting for expenditure with funds often being allocated on a political basis or even being used illegally.

The Emergency Coordination and Support Office (ECSO), the implementing agency for the TA, was only established in July 2010. The TA was therefore timely as it provided suggestions that were used to develop the office and regulations covering its operations. Notably, the TA had a significant influence on four national level documents—*Policies on Earthquake Relief in Yunnan*, and *Methods on Earthquake Relief in Gansu*.

Further, during the TA there were several natural disasters, of which the most significant were the Guanxi and Xinjiang earthquakes. This provided real time opportunities to put the TA's suggestions into practice. Theory was extended to real priorities.

ECSO considers that the TA was highly successful.

## RECOMMENDATIONS

**Improve the emergency management legal system and carry out fiscal management for emergency management by law.** Law-based emergency management systems are common in most developed countries. Such systems involve the adoption of laws that specify the rights and responsibilities of agencies involved in crisis management and outline crisis management procedures, restrictions on civil rights and remedies to ensure that a fast and highly efficient emergency safeguard mechanism with an orderly command system, standard procedures, and powerful guarantees can be established to handle a crisis.

**Clarify the emergency management powers and expenditure responsibilities of the central and local governments.** Most countries have clear central and local powers and expenditure responsibilities. Further, there is a clear division of responsibilities in the whole process of emergency management: Preparation for emergencies, and prevention and

measures to reduce disaster losses are largely the responsibility of the central government, while emergency relief and recovery and reconstruction are the responsibility of local governments. In general, the central government should not intervene in the local government duties, unless a major public emergency occurs beyond the capacity of the local governments, which will issue a request for assistance to the central government to deal with and arrange related work of major emergencies.

**Increase the focus on preventative spending—establish a disaster prevention and mitigation fund.** Many foreign countries have strengthened preventative spending arrangements. This involves enhancing the emergency defense capabilities of the public sector and developing infrastructure facilities to mitigate the destructive impact of unexpected public incidents. In addition, special attention needs to be given to developing and maintaining a public emergency warning system.

**Develop a risk-sharing mechanism through a catastrophe insurance scheme.** The establishment and improvement of catastrophe insurance can mitigate the adverse consequences of disasters for individuals, families, business and can reduce the pressure on fiscal resources.

**Strict supervision of fiscal investment for emergency management.** Some countries have adopted multi-form, sub-level, comprehensive supervision and management systems for the fiscal expenditure related to emergencies. For example, the American government has adopted judicial supervision, congressional supervision and audit supervision for emergency related expenditure in order to reduce the risk of misuse and misallocation of these funds.

**Develop procedures for ensuring that provision of social services continues following emergencies.** ECSO has made a commitment to undertake further research on this matter.