

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: EARG

TA No., Country and Name			Amount Approved: \$875,000	
TA 3979-PRC : Fiscal Management Reforms			Revised Amount:	
Executing Agency: Ministry of Finance		Source of Funding: TASF	Amount Undisbursed: \$100,321.93	Amount Utilized: \$774,678.07
TA Approval Date: 8 Nov. 2002	TA Signing Date: 4 Dec. 2002	Fielding of First Consultant(s): 30 May 2004	TA Completion Date Original: 31 Mar. 2004 Actual: 31 Jan. 2007 Account Closing Date Original: 31 Mar. 2004 Actual: 28 Feb. 2007	
Description <p>The Government of the People's Republic of China (PRC) has been pursuing fiscal management reforms with support from external donors that include the World Bank (WB), International Monetary Fund (IMF), and Asian Development Bank (ADB). Since the late 1990s, WB and IMF have supported efforts to institute reforms in public expenditure management, including the establishment of the treasury department in the Ministry of Finance (MOF), the enactment of the Budget Law, the introduction of new procedures for budget preparation and approval, and the adoption of a new budget classification scheme. ADB has supported an evaluation of subprovincial fiscal relations and efforts to reduce extra-budgetary funds at the central government level.</p> <p>The Government still needed to tackle the issues of (i) lack of proper macroeconomic coordination; (ii) off-budget spending; (iii) weak budget formulation and execution that result in resource leakages, wastage, and misuse; (iv) contingent liabilities stemming from quasi-fiscal operations, distortionary taxes and revenue inadequacy; (v) inadequate levels of vital public services provided by poor local governments; and (vi) lack of coordination in formulating fiscal and monetary policies.</p> <p>During the 2002 Country Programming Mission, the Government requested ADB to provide further technical assistance (TA) support to strengthen its fiscal management. In response, ADB approved TA 3979-PRC on 8 November 2002.</p>				
Expected Impact, Outcome and Outputs <p>The TA was expected to strengthen fiscal management in PRC. Its expected outcomes included (i) improving macroeconomic and fiscal coordination to meet national strategic priorities leading to a fair and equitable distribution of growth across the provinces; and (ii) instituting sound internal control systems to ensure that the budget is executed effectively. Its major expected outputs were (i) recommendations to MOF and the State Council for improving the linkage between established policy priorities, and budget formulation and resource allocation in key sectors; and (ii) redesigned internal control systems within MOF and provincial finance bureaus (PFBs) to improve the use of budgetary funds. The design of the TA was relevant and the TA was adequately formulated in terms of the TA objective for strengthening financial management in PRC. The consultants' terms of reference (TORs) were consistent with the TA's objectives and scope.</p>				
Delivery of Inputs and Conduct of Activities <p>The TA's initial inputs required 17 person-months of three international consultants (e.g. a fiscal policy specialist, a taxation policy expert, and an internal control and audit expert) and 18 person-months of four national consultants who had the same fields of expertise. All were recruited individually.</p> <p>The TA was composed of Component A: Improving Macroeconomic and Fiscal Coordination, and Component B: Instituting Sound Internal Controls and Audit on Budget Preparation and Execution. The consultants provided a substantial amount of materials, that included international studies in some of the areas of interest, to the Executing Agency (EA) and relevant agencies on fiscal management. They held a series of workshops and seminars in both components to disseminate their outputs and to strengthen the capacities and knowledge of officials from the EA and relevant agencies. The external training/study program for selected officials, aimed at increasing knowledge on internationally-accepted sound practices for improving macroeconomic and fiscal coordination was held in Australia.</p> <p>The consultants were able to implement the TA's activities in line with their TORs. Their inputs, which they provided efficiently, were of high quality, although the performance of one international consultant was rated as marginal and one local consultant was replaced. Both the EA and ADB were satisfied with the inputs provided under the TA.</p>				

Although the inception of the TA was delayed due to difficulties of recruiting appropriate consultants and the replacement of one local consultant, the project was thereafter implemented as scheduled. Most of the TA work was completed in May 2006 with the submission of the Final Report. The completion date of the TA was extended to prepare for the distribution of the final report. This extension did not have any effect on the TA's cost.

ADB's administration of the TA was satisfactory. Its review missions and other supervision works were adequate. The performance of EA was satisfactory. The EA and relevant agencies contributed to TA implementation with their complete support for the TA objectives.

Evaluation of Outputs and Achievement of Outcome

The consultants successfully produced the outputs expected of them. For Component A, they recommended the (1) alignment of budgetary expenditure with strategic priorities formulated by the State Council; (2) rationalization of expenditure assignment through a review by a committee of fiscal experts; (3) augmentation of local government revenues at the grassroots level by allowing local governments to vary tax rates and tax bases in accordance with their revenue requirements; (4) rationalization of fiscal transfers to local governments by increasing the share of general purpose transfers through measures to increase the stability and certainty of transfer payments, and to improve the transparency of allocation criteria; (5) attaining regional balance and fiscal equalization through a series of specific-purpose programs for poorer regions to address shortcomings in basic services; (6) strengthening of the management of non-tax revenues by integrating extra-budgetary revenues into budgetary management; (7) extension of the focus of fiscal policy to both medium-term and long-term stability; and (8) coordination between the fiscal policy and the monetary policy by establishing a Fiscal Policy Committee. For Component B, the consultants suggested: (1) some effective internal control measures to strengthen budget preparation and execution; (2) an effective method of controlling extra-budgetary funds; (3) improved monitoring system of treasury operations; (4) the integrated and consistent internal audit system with public servants' reporting to the senior managements of MOF and PFBs; and (5) the interface between the internal supervision department and other line ministries within MOF and PFBs as well as between MOF/PFBs and the other ministries. The consultants also provided in-country seminars to enhance the skills and capacities of internal controllers and auditors in MOF and the selected PFBs.

These outputs were provided efficiently and in a timely manner. Some of the outcomes of the TA were achieved effectively through the workshops/seminars, external study-tour, and comprehensive final reports. The quality of these outputs was high and the EA was satisfied with the outputs and the outcomes of the TA. Therefore, the performance of the consultant was satisfactory.

Overall Assessment and Rating

The TA is rated as successful. It was implemented effectively and efficiently due to the satisfactory performance of consultants and the active participation of the EA. Although the fiscal management reform of PRC, including the measures recommended by the TA is still ongoing, the TA's benefits will be sustainable since relevant government officials of the EA and other government agencies including PFBs gained enhanced knowledge and understanding of fiscal management based on international best practices, which, in turn, will contribute to the strengthening of fiscal management in PRC.

Major Lessons

This TA covered many areas of fiscal management policies of the PRC and the expected outputs covered a broad range. This resulted in some difficulty finding appropriate consultants. In designing future TA, it would be helpful if the theme and scope of the TA were specified as clearly as possible. Recruiting appropriate consultants is essential for effective and efficient project implementation, and project officers should ensure that enough time is provided to allow thorough search process to find the most appropriate consultants.

Recommendations and Follow-Up Actions

ADB has helped the Government improve fiscal policy reform through several projects. It should continue to provide support to the Government in this area, especially effective budget execution, and the policy coordination among the relevant government agencies. It should also closely cooperate with other external donors such as World Bank, IMF, and UNDP to ensure that there are no overlaps.

Prepared by: Takeshi Goto Designation: Economist, EARG