

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: EARG

TA No., Country and Name			Amount Approved: \$400,000.00	
TA 3980-PRC : Strengthening Public Debt Management			Revised Amount:	
Executing Agency: International Department of the Ministry of Finance		Source of Funding: TASF	Amount Undisbursed: \$74,995.60	Amount Utilized: \$325,004.40
TA Approval Date: 8 November 2002	TA Signing Date: 4 December 2002	Fielding of First Consultant(s): 1 December 2003	TA Completion Date Original: 31 Dec. 2003	Actual: 31 Aug. 2006
			Account Closing Date Original: 31 Dec. 2003	Actual: 31 Aug. 2006

Description

At the time of formulation of this TA, debt management was becoming more important for the People's Republic of China (PRC) as foreign debt began to accumulate at a faster rate than the growth of the PRC's Gross Domestic Product (GDP). This situation posed a challenge to the three organizations who manage PRC's public debt, namely, the Ministry of Finance (MOF), State Development Planning Commission (later renamed to National Development and Reform Commission-NDRC), and the State Administration of Foreign Exchange (SAFE). Although institutional arrangements among these organizations had been streamlined, the overall approach to public debt management (PDM) had a number of constraints. The analytical capacity to assess the impact of interest rate or exchange rate changes on the government's asset and liability positions was limited. The macroeconomic framework and debt policy formulation were not necessarily consistent with overall fiscal planning and forecasting.

As a result of the above perceived problems, the PRC Government requested ADB in 2002 to provide the technical assistance to strengthen its external PDM and examine the feasibility of consolidating its external and domestic PDM functions.

Expected Impact, Outcome and Outputs

The expected impact was to strengthen the overall management of public debt in the PRC. The expected outcome was to strengthen and streamline the institutional, legal and regulatory arrangements for external debt management and consolidate all PDM functions into a single unified framework. The expected outputs included: (i) a detailed review of the current policy, legal and institutional structures governing external debt management (EDM); (ii) guidelines and regulations on EDM; and (iii) a comprehensive report that discusses various options for streamlining PDM functions, including the establishment of a PDM office.

Delivery of Inputs and Conduct of Activities

At the time of TA processing, the TA was adequately formulated as it initially conformed to MOF's requirements of enhancing PDM in the PRC. However, upon review of the project's key activities during the TA's Inception Mission, MOF reported that it would discontinue its original intention to promote a policy that would combine domestic and external PDM. This reduced the importance of the development of a blueprint that would consolidate all PDM functions into a single unified framework. Only a preliminary study would be conducted which outlined the principles of PDM, a cost-benefit analysis and general strategic guidelines for a consolidated PDM framework. MOF realized that the TA would be more beneficial if a further PDM study would be undertaken on risk management (which became the project's revised third output). The revised scope included assessments of exchange rate and interest rate risks, contingent liabilities, performance measurement methods, asset liability management (ALM) systems, and provision of risk management guidelines for policy makers and practitioners. Based on these changes, the Terms of Reference (TORs) of the International PDM Advisor/Economist were also adjusted.

The TA was expected to be completed over a period of ten months following commencement of activities in February 2003. Due to the outbreak of the Severe Acute Respiratory Syndrome (SARS) from March to July 2003, the services of the International PDM Advisor/Economist could start only in December 2003 after the travel ban to Beijing was lifted. Although he was contracted for 7 person-months, his inputs totalled 1.03 person-months due to his marginal performance in the field (e.g., he did not gather appropriate information from the MOF and other government agencies) and his difficulty of adhering to mission schedules which resulted in his inability to properly complete the assignment. Given the considerable delays already experienced by the project, minor changes in scope and implementation arrangements were made in August 2004 to divide the TORs of the International PDM Advisor/Economist among three additional individual international consultants for a total of 7.06 person-months. These new consultants were engaged using ADB's direct selection method and began their services in October 2004. At the end of TA implementation, 8.09 person-months were rendered as inputs of the International PDM Advisor/Economist which exceeded the original allocation of 7 person-months. The planned inputs of the local consultants (i.e., a debt management statistics expert and a legal expert) of 10 person-months were augmented by 0.33 person-months. Despite the increases, the additional inputs by all consultants were contained within the cumulative negotiated contract cost of \$283,326.47 which was 71% of the total TA amount.

The team of three additional International PDM Advisor/Economists and two local consultants performed satisfactorily and completed the tasks specified in their TORs. Their activities included: (i) evaluating the objectives of the PRC's PDM policy framework and its linkage to medium- and long-term macroeconomic planning and forecasting; (ii) assessing the legal, regulatory and institutional framework for PDM, with focus on intra- and inter-agency coordination among MOF, NDRC, and SAFE; (iii) assessing current approaches to and institutional capacity for research and analysis of various options for managing sovereign debt; (iv) examining risk management focusing on exchange rate and interest rate risks, ALM systems, as well as performance measurement methods adopted by various agencies; (v) formulating PDM guidelines based on an evaluation of the PRC's adherence to international standards; and (vi) organizing capacity building initiatives which involved domestic and international seminars and study visits. These inputs provided a solid basis for the improvement of PRC's PDM system. The consultants worked closely with the Executing Agency (EA) and had extensive discussions on existing PDM practices with the different branches of government in other countries. Both ADB and the EA were satisfied with the inputs provided.

The Final Report was submitted in May 2005. However, the TA was financially closed only in August 2006 (3 years and 8 months after the TA became effective in December 2002) because of the slow response of consultants in finalizing their claims and in submitting their Certificates of Full Payment. Notwithstanding the delays in the TA's completion, the EA performed satisfactorily by providing two of its staff to assist the consulting team. ADB's performance was also satisfactory since an adequate level of supervision was provided through TA review missions and other means of communications.

Evaluation of Outputs and Achievement of Outcome

The consulting team conducted a range of discussions and analyses, and based on that, a comprehensive TA final report was produced. It covered the project's outputs, assessment of current status of PDM in PRC, and the challenges and specific recommendations for its future development and improvement. The TA report also addressed contingent liabilities as a potential PDM issue. This was to consider the wider debt management picture within the PRC. The TA report also produced five broad-category recommendations and an analysis for each proposal was made. This met the expectations of the EA and was well received by both ADB and the Government.

Three workshops were held in Beijing in November and December 2004 on various aspects of PDM (including the recommendations for improvement) which were attended by officials from MOF, SAFE and provincial governments involved in debt management. Likewise, a ten-day study tour to Australia and New Zealand was arranged in January 2005 for eight PRC officials (six from MOF, one from SAFE, and one from the Jiangxi Province). These involved training sessions with the Australian Office of Financial Management, the Victorian Department of Treasury and Finance and the New Zealand Debt Management Office, as well as with academic and private sector groups. The workshops and the study tour enhanced the participants' understanding as well as strengthened their capabilities on PDM.

The TA (i) developed a new framework for strengthened legal and regulatory arrangements for external debt management; (ii) introduced the Columbian debt-service-at-risk model and recommended to develop an 'early warning system' in terms of risk management; (iii) provided a tailored forecasting system to improve cash management procedures including detailed day-by-day forecasting and control processes; (iv) provided actuarial techniques to estimate the future pattern of losses based on historical trends; and (v) recommended modalities to enhance closer links between PDM and macroeconomic policy.

The new framework, modality and recommendations were in line with the orientation of the Government and were satisfactorily adopted by the MOF. MOF (i) arranged meetings every three months with the Treasury and the Finance Departments to improve its internal PDM system in monitoring external debt operation; (ii) has started to formulate a unified law, the Government Regulation on External Debt, in coordination with related departments within the State Council. Promulgation of the law is expected to occur in 2009. The TA final report, provided only to the Government, played a positive role in the improvement of the PRC's external debt management.

Overall Assessment and Rating

The TA is rated successful. It was implemented effectively and efficiently with satisfactory performance of majority of the consultants and active participation of the EA. Its benefit will be sustainable since the workshop/training activities enhanced understanding of public debt management and contributed to improving the institutional and operational capacities of the staff of MOF and other agencies on PDM.

Major Lessons

With the exception of *force majeure* situations such as the SARS outbreak, delays in TA implementation can be avoided by carefully screening the qualifications and commitments of the lead international consultant (in this case, the International PDM Advisor/Economist) *vis-à-vis* his/her other consultancy projects.

Recommendations and Follow-Up Actions

The continued strengthening of the PRC's PDM capacity remains important even though the PRC's net foreign asset position has improved significantly over the last five years. Prudent and efficient PDM contributes to macro-economic stability and in turn to sustained economic development.