

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: EARG

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| TA No., Country and Name | | | Amount Approved: \$500,000 | |
| TA 4399-PRC : Agricultural Taxation Reform Project | | | Revised Amount: | |
| Executing Agency: Ministry of Finance | | Source of Funding: TASF | Amount Undisbursed: \$98,046.55 | Amount Utilized: \$401,953.45 |
| TA Approval Date: 29 Sep 2004 | TA Signing Date: 18 Oct 2004 | Fielding of First Consultant: 23 May 2005 | TA Completion Date Original: 30 Nov 2005 Actual: 30 Nov 2007 | Account Closing Date Original: 30 Nov 2005 Actual: 25 Apr 2008 |
| Description <p>In the People's Republic of China (PRC), agricultural taxes contributed considerably to national tax revenues and were a major source of financing for local public goods and services. Local governments, especially counties and villages, had chronic fiscal deficits and charged various fees on farmers in addition to formal taxes. Such discretionary fees and regressive agricultural taxes, which were levied based on the size of farmers' land, regardless of actual outputs or farmers' incomes, were a disproportionately heavy burden on farmers, discouraged them from investing in their farmland, and thus hindered rural development.</p> <p>The Government of PRC (the Government) recognized the need to establish an appropriate tax system and balanced rural public finances, and began to adopt reforms to lighten the burden on farmers. The Government reduced and abolished agricultural taxes and fees, and compensated local governments by fiscal transfers to maintain basic rural public goods and services.</p> <p>The Asian Development Bank (ADB) had previously helped the Government improve public administration and fiscal management through several projects including Fiscal Management Reform (TA3979) and the Study of Sub-provincial Fiscal Relation (TA1840). During the 2003 Country Programming Mission, the Government requested ADB to provide technical assistance (TA) to the Ministry of Finance (MOF) to establish an appropriate tax system and tax administration, and a balanced revenue transfer system to address the fiscal difficulties of local governments.</p> | | | | |
| Expected Impact, Outcome and Outputs <p>The expected impact of the TA was establishment of an appropriate and equitable tax system for agriculture sector. The outcome expected from the TA was replacement of the outdated, distorting, and disproportionate agricultural tax system with a modern, fair, neutral, and unified urban and rural tax system that reduces farmers' burden and encouraged rural development. The major expected outputs of the TA included: (i) a study on the agricultural tax system and related issues in the PRC; (ii) an international study on agricultural taxes in developed and developing countries; (iii) recommendations on establishing an appropriate tax system; and (iv) a reform strategy with estimated impacts. The TA was well designed and adequately formulated for reforming the agricultural tax system and establishing balanced rural public finances.</p> | | | | |
| Delivery of Inputs and Conduct of Activities <p>The TA's initial inputs required 7 person-months of international consultants (e.g. an agricultural tax policy specialist and economist, a tax administration specialist, and a rural development planner and sociologist) and 10 person-months of national consultants who had the same fields of expertise, and furnished background information, translated documents, and organized workshops.</p> <p>The consulting team, from SEA Consultants Inc., conducted a detailed literature survey and field research through questionnaires. They organized workshops for government officials to share the findings from domestic and international studies and recommend solutions to the problems of the agricultural tax system. The quality of these inputs was high and the Government and ADB were satisfied with the consultants' performance.</p> <p>The TA completion date was extended from November 2005 to November 2007 due to the Government's requests to hold the overseas study tour and the TA's final conference in June and September 2006, respectively, and to publish the summary version of the Final Report in Chinese and English language for distribution to other PRC government agencies. The delay did not affect the TA's cost.</p> <p>The performance of ADB's TA administration was satisfactory. Appropriate support and supervision were given during TA implementation through review missions and exchange of e-mails with the Executing Agency (EA) and the</p> | | | | |

consulting team.

The performance of the EA was satisfactory. The EA gave its complete support to achieve the TA's objective. The EA contributed to the TA implementation with strong commitment and worked closely with the consultants.

Evaluation of Outputs and Achievement of Outcome

The consulting team significantly contributed to the delivery of the outputs in line with their terms of reference.

The consulting team conducted extensive research on the history, effects and phases of reforms of agricultural taxation in the PRC to identify its key problems through impact analysis of the previous reforms. In addition, they examined other related taxes and fees in the agriculture sector and measured the burden on farmers and peasants. The consultants further identified the deficiencies in the delivery of rural public goods and services by local governments. They also conducted comprehensive studies of the tax systems of Australia, Brazil, Canada, France, Germany, India, Indonesia, Japan, the Philippines, Republic of Korea, United Kingdom, and the United States, to identify international best practice for an equitable, unified, and easy to administer tax system.

The consulting team estimated potential impacts of agriculture tax reform on the rural economy, farmers' livelihood, and the fiscal condition of different levels of the governments, and proposed recommendations on the next steps for the reform of the tax system, including time frame, priorities, sequencing, and necessary conditions, with focus on the unification of urban and rural taxation after abolishing the agricultural tax.

The TA strengthened the capacity of relevant government officials through training and workshops. Government officials updated their knowledge on tax policy formulation, including international best practices on several types of taxes, e.g., real property tax, individual income tax, and value added tax; and gained better understanding of the tax administration systems of various countries. The day-to-day discussions with highly experienced consultants were also valuable for the EA counterpart staff involved in this TA.

A comprehensive final report was produced. The report was well received by both ADB and the Government.

The TA's results were effective and the Government was satisfied with the outcomes of the TA.

Overall Assessment and Rating

This TA is rated as successful. It was implemented effectively and efficiently due to the satisfactory performance of the consulting team and the active participation of the relevant government officials. Its benefit will be sustainable since its reforms were acted upon by the Government, and government officials gained enhanced knowledge and understanding of tax policy and administration.

Major Lessons

The positive lesson that can be adopted from this TA is that active participation of government officials, through trainings and workshops, can maximize the impact and the quality of policy reform measures. Participation of relevant officials coming from the different levels of governments and from different regions in training programs and workshops enabled them to share knowledge and to appreciate different approaches. This interaction was particularly useful and contributed significantly to the success of a nationwide policy reform and its subsequent implementation.

Recommendations and Follow-Up Actions

ADB has helped the Government improve public administration and fiscal management through several projects. ADB should continue to provide support to the Government in areas of fiscal policy reform, particularly in the areas of focus identified in the Country Partnership Strategy.

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