



Completion Report

Project Number: 45501-001
Technical Assistance Number: 7896
August 2017

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

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TA Number, Country, and Name:			Amount Approved: \$1,200,000.00	
TA 7896-PRC: Public Finance and Financial Management Reforms			Revised Amount: Not applicable	
Executing Agency: Ministry of Finance		Source of Funding: ADB's Technical Assistance Special Fund (TASF-other sources)	Amount Undisbursed: \$110,835.50	Amount Utilized: \$1,089,164.50
TA Approval Date: 20 October 2011	TA Signing Date: 20 December 2011	Fielding of First Consultant: 24 April 2013	TA Completion Date Original: 31 December 2013 Account Closing Date Original: 24 November 2015	Actual: 24 November 2015 Actual: 9 June 2016
Description				
<p>The Government of the People's Republic of China (PRC) requested the Asian Development Bank (ADB) for a technical assistance (TA) in financial management. The PRC country partnership strategy for 2008–2010, under the “inclusive growth and balanced development” pillar, emphasizes the strengthening of governance in public resource management. The TA addressed four key topics (i) fiscal policies for emergency management with an emphasis on the immediate disaster response and post disaster restoration and reconstruction; (ii) issues faced in implementing the 2010 Social Insurance Law; (iii) ways of developing local government bond markets and overcoming a reliance of infrastructure investment on revenues from land leases and off-budget borrowings through local government investment vehicles; and (iv) capacity development initiatives for the accounting profession, specifically the Ministry of Finance's (MOF's Leading Accounting Talent Project [LATP]).</p>				
Expected Impact, Outcome, and Outputs				
<p>The TA's expected impact was increased fiscal effectiveness in national and subnational governments. Performance was to be assessed with the implementation by 2015 of local government bonds issued by seven pilot provinces. The expected outcome was a deepened financial management reform at both levels of government. Performance was to be measured by (i) improved fiscal policy framework for emergency management by 2015; (ii) improved framework for social insurance fund (SIF) management by 2015; (iii) established framework for smooth transition to systems for local government bond issues prepared by 2015; and (iv) improved capacity-building framework for LATP by 2015.</p> <p>The outcome was to be achieved by delivery of four outputs: (i) fiscal policy framework for emergency management; (ii) study on the reform of SIF management; (iii) study on the development of local government bond markets; and (iv) support for LATP.</p>				
Delivery of Inputs and Conduct of Activities				
<p>The TA provided a total of 101 person-months of services from an international consultant (7 person-months) and 4 national consultants (94 person-months). For an additional study on revenue bonds, five more consultants specializing in public finance were engaged on an individual basis for a total of 13 person-months: one international (1 person-month) and four national specialists (3 person-months each). The TA engaged a firm and international experts for each output. The national firms were engaged using the consultants' qualifications selection method and the international consultants were engaged through individual consultation selection. All consultants were engaged following ADB's <i>Guidelines on the Use of Consultants</i> (2013, as amended from time to time).</p> <p>The original TA completion date of 31 December 2013 was extended twice from 31 December 2014 to 24 November 2015, a cumulative extension of 22 months. Implementation was delayed due to difficulties in securing the interest of potential firms and then negotiating contracts. Resolution ultimately resulted to a change in the management approach that required implementing agencies within the MOF to assume more responsibility for consultant identification and management. A minor change in implementation arrangement was approved in April 2014 to simplify method of recruitment.</p> <p>Around 10% of the TA funds were not used (\$110,835.50), due to the savings from consultant contracts, an unutilized international study tour budget from the implementing agency of output 1, and a higher than expected cost sharing by the implementing agency to cover workshop and other costs. Some savings were reallocated prior to closure to fund a further study on revenue bond markets.</p> <p>The International Department of MOF was the executing agency, with other departments of MOF as implementing agencies—the Department of Economic Construction (output 1); the Social Security Department (output 2); the Treasury Department (output 3); and the Accounting Regulatory Department (output 4). The performance of the</p>				

executing agency and the implementing agencies was satisfactory. A high degree of ownership was demonstrated and each IA actively led the consultants in delivering their outputs and organizing workshops and studies. The implementing agencies efficiently adjusted TA implementation to ensure it aligned with the emerging public finance and financial management reforms.¹

The performance of the consultants was satisfactory except for the output 4, which was rated satisfactory due to some delays in the delivery of outputs (resulting from difficulties in completing the surveys in November 2014). The performance of ADB was also satisfactory, with responsiveness to emerging policy needs and demonstrated a flexible approach to recruitment which was effective in overcoming difficulties in hiring consultants.

Evaluation of Outputs and Achievement of Outcome

The relevance of the TA design was confirmed by the alignment between the issues examined under the TA and public finance reforms initiated in November 2013. The final consultant reports of all outputs were made available in the ADB's website.

The TA facilitated increasing fiscal effectiveness in national and subnational governments. In 2014, a pilot local government bond program commenced that allowed 10 of the fiscally stronger local governments the right to issue bonds themselves without recourse to the MOF. The outcome was achieved given that the TA outputs were submitted and adopted by the government which resulted in improved frameworks on public finance.

Under output 1, the TA contributed to the preparation of four national level documents on emergency management approved by the State Council, including the Policies on Earthquake Relief in Yunnan and Methods on Earthquake Relief in Gansu.

Under output 2, the TA set out a new investment framework and deliberated the mutual beneficial relationships between social insurance investment and capital market development. This work contributed to the revision of the fiscal system for social security funds, including an increase to 30% in the share of such funds that can be invested in equities. Based on the consultant recommendations, MOF worked with the People's Bank of China to formulate the next phase of information system reforms for SIFs.

Under output 3, the study report produced by the TA helped MOF formulate the local government bond reform policies that started in 2014 (see footnote 1). The TA also played an important role in the introduction of a hybrid revenue bond for local governments, and with support of government policy and regulations; and around CNY1,900 billion of which were issued in 2015.

Under output 4, the TA prepared an outline of a revised development program for senior accountants (see footnote 1). The capacity development framework developed by the TA was adopted by MOF and the courses were completed in November 2014. Other subreports on internal controls and international mergers and acquisition have contributed to the policy development process in these areas.

Overall Assessment and Rating

The TA is rated as successful. The study/report produced by the TA on public finance and financial management reforms was of high standard, and contributed to the policy dialogue. The TA provided the PRC a readily accessible source of pragmatic and relevant advice that allowed it to respond quickly to the public finance and financial management reforms initiated by the central government. The results are likely to be sustainable given the alignment of the TA's work with the reform program.

Major Lessons

The effectiveness of a TA was improved through close alignment with government reform programs. The effectiveness of reform-oriented TA is also enhanced by providing flexibility during implementation to ensure that the use of TA resources can accommodate changing priorities and respond to evolving demands in the PRC.

Recommendations and Follow-Up Actions

The policy and advisory support provided for public finance and financial management reforms in the PRC would need to be followed-up. Assistance maybe needed for implementation to make it more effective and reforms to be sustainable as well as to deepen the insights and engagement generated by the ADB support in these areas. ADB to ensure continued support of social services in times of emergencies.

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¹ The public finance reforms are discussed in ADB. 2014. *Money Matters: Local Government Finances in the People's Republic of China*. Manila.