



Completion Report

Project Number: 48009-001
Technical Assistance Number: 8722
May 2019

People's Republic of China: Study of Financial Reform in Rural Areas of the Central Plains Economic Zone

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TA Number, Country, and Name:			Amount Approved: \$400,000.00	
TA 8722-PRC: Study of Financial Reform in Rural Areas of the Central Plains Economic Zone			Revised Amount: not applicable	
Executing Agency: Finance Department of Henan Province		Source of Funding: Technical Assistance Special Fund-Others	Amount Undisbursed: \$193,180.72	Amount Utilized: \$206,819.28
TA Approval Date: 18 September 2014	TA Signing Date: 17 October 2014	Fielding of First Consultant: 31 January 2015	TA Completion Date Original: 30 June 2016	Actual: 30 September 2016
			Account Closing Date Original: 28 September 2016	Actual: 31 December 2016
Description <p>The Government of the People's Republic of China (PRC) requested the Asian Development Bank (ADB) to provide a policy and advisory technical assistance (TA) to support Henan province in formulating its financial reform policy and strategy for rural areas of the Central Plains Economic Zone (CPEZ). Located at the central part of the PRC, CPEZ is one of the national key development zones, endowed with advantages in geography and transportation as well as huge market potentials; CPEZ is a strategic pivot to the national reform and development of the PRC. The development of CPEZ is part of the national development strategy of the government. CPEZ is PRC's traditional agricultural production base and the largest wheat producing area. Since CPEZ is very significant to Chinese agriculture, central and local governments attach great importance to its agricultural development and production.</p> <p>The TA was aligned with the PRC country partnership strategy (CPS) 2011–2015, which was to promote inclusive growth as one of the three strategic pillars.</p>				
Expected Impact, Outcome, and Outputs <p>The expected impact of the TA was more effective and sustainable rural financial services provided in the CPEZ. The TA outcome was improved policy with an actionable roadmap for the establishment of rural financial systems in the CPEZ. The outcome was to be achieved by delivery of two outputs: (i) completion of a comprehensive report on rural financial system in the CPEZ, and (ii) formulation and presentation of policy recommendations and the roadmap on financial reform of the CPEZ.</p>				
Delivery of Inputs and Conduct of Activities <p>The Finance Bureau of the Henan provincial government was the executing agency and the Financial Services Office of the Henan provincial government was the implementing agency.</p> <p>The TA required 22 person-months of consulting services (4 person-months of international consultant and 18 person-months of national consultant). Actual consulting services provided was 19.13 person-months including 3.0 from one international consultant and 16.13 from four national consultants. All consultants are recruited as individual consultants in a timely manner. The terms of reference were adequate to cover the work needed to achieve the TA outputs. The performance of the consultants was satisfactory. The consultants worked closely with the implementing agency as well as other line agencies and stakeholders, and nongovernment organizations across Henan. The team produced and delivered quality reports as planned.</p> <p>The performance of ADB was satisfactory. Staff offered guidance and supported consultants and the executing and implementing agencies on a regular basis as well as during the TA inception, interim, and review mission. Around 38% of the TA funds were unutilized (\$193,180.72) owing savings from consultant contracts and a higher than expected contributions of the executing agency for workshop and other costs.</p> <p>An extension of the TA closing date from 30 June 2016 to 30 September 2016 was approved by ADB in response to a request from the implementing agency to conduct a dissemination workshop to discuss the final report and summary report on policy recommendations.</p>				
Evaluation of Outputs and Achievement of Outcome <p>The TA met the targets specified for the outcome and outputs defined in the Design and Monitoring Framework. The inception mission was fielded in May 2015. Desk study and field survey over rural financial system and services was completed in 2015. During the survey the consultants found out those village banks operated in metropolises are no longer serving the rural clients due to rapid urbanization. Those samples dilute the representation of village bank characteristics. Midterm workshop was organized in November 2015 to discuss the pressing issues and work plans. Final workshop was conducted in June 2016 to present to the executing agency and implementing agency the draft policy recommendations on selected rural finance topics. The consultants identified that the rural borrowers in CPEZ</p>				

had to undertake unreasonably high cost to obtain loans with short durations. The total credit allocation in the rural areas was far below the market demand. Policy recommendations were raised concerning rural financial infrastructure development and application of innovative fintech, including establishment of a sustainable rural financial ecological environment assessment system, development of rural individual credit system, improvement of rural financial supervision system, design of rural property right transaction system, enhancement of rural financial cooperative system and promotion of “Internet + Rural Finance”.

Officials from the Henan provincial government participated in a study tour to India and Bangladesh in November 2015 to learn from other Asian countries’ rural finance development experience. Final report covering (i) analysis of the prevailing conditions of rural financial system, (ii) assessment of national and international rural financial reform policies, (iii) identification of rural financial products, and (iv) observation of regulatory practices; and knowledge product enumerating key recommendations and road map of financial reform in rural areas of the CPEZ were well received by the executing and implementing agencies.

Overall Assessment and Rating

The TA was *relevant* as it supported promotion of inclusive growth as one of three strategic pillars of PRC CPS 2011–2015. Better developed rural financial system promotes agriculture sector investment, rural areas development and income increase of rural households, all these are in line with the State Council’s approved CPEZ development guideline.

The outputs were delivered *effectively* toward achievement of outcomes. The TA delivered qualified outputs to executing agency and implementing agency. The overall plan for the construction of the rural financial reform pilot zone in the CPEZ in Henan province was issued in April 2015. The recommendations raised under the TA helped Henan provincial government to design detailed implementation policies.

The TA implementation is considered *efficient*; all resources have been allocated efficiently toward achieving its outputs and outcomes. The inputs were provided according to planned activities. The implementation period was extended for only three months to accommodate one dissemination workshop requested by the implementing agency. The main reason behind the large amount of undisbursed fund is that the executing and implementing agencies has collected rural financial sector data and conducted similar topic research by themselves before the TA commencement. Some of their study results were integrated into the TA deliveries preparation sparing part of the budget allocations.

The TA was rated *likely sustainable*. The Henan government is likely to sustain its efforts on rural financial sector reform through infrastructure improvement and promotion of fintech in rural finance sector. As one import national wheat production province, Henan paid continuous attention on the rural areas’ financial sector reform. PRC media reported that Henan government in the past few years, enhanced rural financial services through nurturing village banks, pro-rural market services and financial product innovations; improved supervision and monitoring, and introduced automated teller machines (ATMs), point of sale machines and mobile banking to rural areas. Those measures were in line with TA policy recommendations concerning rural financial system improvement, development of the “Internet + Rural Finance”, and establishment of a sustainable rural financial ecology. The performance of village banks in Henan is leading ahead the nation in terms of many performance metrics. Based on the statistics of Henan Branch of the China Banking Regulatory Commission, by the end of September 2018 the total assets of Henan village banks reached CNY 109.5 billion, ranked No. 1 in PRC, and total profit achieved for first 3 quarters amounting to CNY 722 million. Based on the assessment above, the TA is rated as *successful*.

Major Lessons

There were two major lessons learned from the TA. First, TA implementation schedule should try to run in parallel with government policy formulation schedule so that impact of the research can be enhanced. Under this TA, the best scenario was the policy note can be presented before the issuance of the overall plan for the construction of the rural financial reform pilot zone in the CPEZ in April 2015. Second, survey on village banks should be conducted in the rural areas far from the metropolises instead of being carried out in every prefecture. Those village banks need ADB’s assistance urgently on capacity development, product design and operation improvement, and policy advice, to better serve the rural areas.

Recommendations and Follow-Up Actions

Enhancement of rural financial services to better serve the rural communities’ farmers and agriculture sector is one of the priorities of the PRC government and ADB. ADB should continue to support the rural financial sector reform and development in PRC. Based on this TA’s lesson learned, it is suggested that future rural financial reform TA should focus on rural areas away from metropolises, and village banks serving the rural residents.

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