

ASIAN DEVELOPMENT BANK

TAR: PRC 35427

TECHNICAL ASSISTANCE

TO

THE PEOPLE'S REPUBLIC OF CHINA

FOR

THE HEBEI PROVINCIAL DEVELOPMENT STRATEGY

November 2002

CURRENCY EQUIVALENTS

(as of 21 October 2002)

Currency Unit	–	CNY
CNY1.00	=	\$0.1208
\$1.00	=	CNY8.2766

- (i) The exchange rate of the yuan is determined under a managed floating exchange rate system.
- (ii) In this report, a rate of \$1=CNY8.30 has been used.

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	Gross Domestic Products
HPFD	–	Hebei Provincial Financial Department
PRC	–	The People's Republic Of China
SOE	–	State Owned Enterprise
TA	–	technical assistance
TFYP	–	The Tenth Five-Year Plan
WTO	–	World Trade Organization

NOTE

In this report, "\$" refers to US dollars.

This report was prepared by Min Tang and Longyun Peng of the People's Republic of China Resident Mission.

I. INTRODUCTION

1. During the 2001 Country Programming Mission of the Asian Development Bank (ADB), the Government of the People's Republic of China (PRC) requested ADB to provide a technical assistance (TA) to support Hebei Province in formulating a development strategy for taking geographic advantage by strengthening market integration with Beijing and Tianjing and the Bohai sea coastal area. As part of TA preparation, prior to TA fact-finding, a meeting was convened with governmental officials and academic stakeholders to discuss the development problems facing Hebei Province and how ADB might assist. An ADB fact-finding mission visited Hebei Province on 22–25 July 2002. The Mission confirmed the need for the TA and reached an understanding on the TA's scope, cost estimates, financing plan, terms of reference, and implementation arrangements.¹ The logical framework of the TA is presented in Appendix 1.

II. ISSUES

2. Hebei Province is in the northern the PRC, encircling two large centers of economic activity, Beijing and Tianjin. Hebei's territory covers 188,000 square kilometers (km²) and its population is 66.14 million. From 1980 to 2001, Hebei's provincial economic growth rate averaged 10.6%² annually. In 2001, Hebei's gross domestic product (GDP) amounted to CNY557.8 billion, 8.7% more than in 2000. Agricultural output grew by 5.3%, industrial output by 8.4%, and service sector by 10.7%.

3. Hebei's geographic advantages include (i) close proximity to Beijing (population 13.8 million) and Tianjin (population 10 million), two of the PRC's largest cities; and (ii) access to the Bohai Sea, which implies a potential for closer integration to the global economy. However, to turn these geographic advantages into actual development, Hebei must make greater efforts to integrate its economy with those of Beijing and Tianjin. In the past, coordination of economic activities among the three regions was inadequate. This partly explains why development in the Greater Beijing-Tianjin area has lagged behind the dynamic economies that have developed in the Pearl and Yangtze river deltas. During the 1990s, the Hebei economy grew at 11.6% per year compared to an average of 15.3% per year for Jiangsu and Zhejiang provinces. (Yangtze River Delta areas) and 13.3% for Guangdong Province (the Pearl River Delta area). This slower development is also reflected in the different structures of the economies and standards of living. State-owned enterprises (SOEs) accounted for 34.7% of the gross industrial output in 2001 in Hebei, compared to 21.7% in Guangdong and an average of 8.7% in Jiangsu and Zhejiang. As a result, per capita income in Hebei (CNY8,337) is much lower than that in Guangdong (CNY13,612) and Jiangsu and Zhejiang (averaging CNY13,737).

4. Although poverty has been reduced substantially in the past two decades, Hebei's fight against poverty is far from over. Of Hebei's 115 counties, 52 are poverty key counties. Poverty problems are particularly severe in those areas. The fiscal revenue of the poverty counties cannot cover the salary of the Government officials and public entities such as school teachers and medical staff. Investments in basic education and public health are inadequate and the provision of health and education services falls below that of other counties in the province. After the 1994 national fiscal reforms, the fiscal position of the poor areas deteriorated.

¹ The TA first appeared in *ADB Business Opportunities* on 28 August 2002.

² During the same period, the PRC's economic growth rate averaged 9.5% per year.

5. A “poverty belt” surrounds Beijing. About 3.3 million people in Hebei Province, or 6.6% of the rural population, lived below the official poverty line³ in 2000, slightly more than double the national average of 3%. Following the international practice, an expenditure-based poverty line is equivalent to average per capita expenditure of CNY860 for rural areas. Using this measure, the number of rural poor in Hebei is estimated to be 9.6 million, 18% of the rural population. The number of urban poor is estimated at 2 million or 16% of urban population using the methodology developed under the ADB-financed Urban Poverty Study.⁴

6. Environment problems are also a major concern in Hebei. The quality of the environment of Beijing and Tianjin depends, in part, on environmental conditions in Hebei. A large proportion of the drinking water of Beijing and Tianjin comes from Hebei. However, 61.3% of the water in 42 rivers of seven water systems in Hebei is suitable only for industrial use. Land degradation is a serious environment problem and contributes to dust storms that affect Beijing, Tianjin, and neighboring countries. About 54,000 km² suffers from soil erosion; sand encroachment is affecting 1.7 million hectares. The grasslands in northern Hebei are being destroyed, which is one of the sources of sand storms. To protect the environments of Beijing and Tianjin, environmental management measures need to be taken in the areas of Hebei surrounding those cities. Industries and sources of pollution should not be established in these parts of Hebei Province.

7. The private sector is relatively underdeveloped in Hebei and is not playing its full role in creating the necessary jobs to reduce poverty. Hebei needs to create jobs for new market entrants, redundant SOE and Government workers, rural migrants, and people living in poverty. The private sector, particularly small- and medium-sized enterprises and the service sector, will be the engine for job creation. However, excessive regulation, lack of transparency and predictability, excessive bureaucracy, corruption, and lack of access to financing are obstacles to the development of the private sector. These problems need to be addressed to enable private sector development.

8. To take advantage of its proximity to Beijing, Tianjin, and the Bohai Sea, Hebei Province decided to implement a “Two Surrounding Development Strategy” in the mid 1990s. The objective is to accelerate Hebei’s social and economic development by improving market integration with Beijing and Tianjin and the global economy. The main elements of the strategy include (i) upgrading the industrial structure, (ii) improving the ecology and environment, (iii) developing industries that complement the economies of Beijing and Tianjin, (iv) accelerating the development of small towns, (v) promoting tourism and the tertiary sector, and (vi) reducing poverty. The provincial government is aware of the need for structural reforms to promote social and economic development but requires assistance to develop workable strategies.

9. The provincial government is concerned about the impacts of the PRC’s entry into the World Trade Organization (WTO), because Hebei’s economy is dominated by SOEs. There will be increasing competition with the five traditional pillar industries of Hebei (i.e. steel, construction materials, pharmaceuticals, machinery, and food industries). It is unclear how those industries should be restructured to meet the new challenges. Due to the increasing imports of agricultural products resulting from trade liberalization, the agriculture sector will also face competitive challenges and will need to be restructured.

³ The PRC’s official poverty line, CNY625 per capita income, is a rural subsistence line that is low compared to international definitions of poverty.

⁴ ADB, ADTA PRC 3377, *Final Report on Urban Poverty Study in the PRC*, 2001, Manila.

10. Hebei's Tenth Five Year Development Plan 2001-2005 (TFYP) sets out the Province's vision for the development and targets an annual average 8–9% GDP growth rate and a 40% increase of productivity. By 2005, per capita GDP is forecast to reach \$1,200. Significant progress is also expected in reducing poverty and sharing the benefits of economic growth widely in society.

11. Hebei's TFYP emphasizes on the quality of growth and the sustainable development. The "Two Surrounding Development Strategy" was retained as a key component of the TFYP. This reflects a growing role of market forces in the economy and the potential for Hebei to capitalize on its close proximity to the economic power houses of Beijing and Tianjin. Key strategic themes in Hebei's TFYP include (i) relying on market-oriented reforms and innovations; (ii) promoting private sector development; (iii) protecting the environment; and (iv) improving the quality of life for all, including programs to reduce poverty, develop human resources, and strengthen social safety nets.

12. After the PRC's accession to WTO and Beijing's successful bid to host the 2008 Summer Olympic Games, Hebei's Strategy needs to be modified to fit the changed external and internal environment. The provincial government has sought ADB's assistance to review and revise the strategy.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

13. The TA will help the Government of Hebei Province formulate a socioeconomic development strategy to adjust to joining the WTO by better using its relatively easy access to Beijing, Tianjin, and global markets. The new strategy will address (i) the ecological and environmental sustainability of development in the Greater Beijing-Tianjin- Hebei region; (ii) greater cooperation between Beijing, Tianjin, and Hebei; (iii) pro-poor economic development; and (iv) an improved financing and investment environment for the private sector.

B. Methodology and Key Activities

14. The scope of the study includes (i) formulating a development strategy for Hebei Province based on a review and evaluation of the experience of implementing the "Two Surrounding Development Strategy", the findings of the nine sector studies under this TA and the changes of external development environment; (ii) identifying ways to eliminate the "poverty belt" surrounding Beijing and reduce the development gaps between Beijing and Tianjin and Hebei Province; (iii) designing integrated policies and action plans for environmental protection, paying particular attention to strategies that will also help to protect the environment of Beijing and Tianjin and identify a mechanism for Beijing and Tianjin to compensate Hebei for environmental protection and resource sharing; (iv) designing a fiscal transfer system to strengthen the development capacity of the poor counties and villages; (v) based on international experience, identifying the structural reforms and future directions for developing of the traditional industries and reforming SOEs; (vi) formulating policies and action plans for promoting private sector development; (vii) identifying the policy and action plans for urbanization and structural changes for agriculture; (viii) designing financing and investment systems with suitable roles for government and the nonstate sector; (ix) identifying policies and

action plans to accelerate the development of high tech industries; (x) designing policies to capitalize on the potential of coastal areas and promote the integration of ports with the surrounding urban and rural areas; and (xi) identifying ways to promote tourism development.

C. Cost and Financing

15. The total cost of the TA is estimated at \$800,000 equivalent, comprising \$372,000 in foreign exchange and \$428,000 equivalent in local currency. ADB will provide a grant of \$600,000 equivalent to cover the entire foreign exchange cost and \$228,000 equivalent of local currency cost. The Hebei government will contribute the balance of the local currency cost of \$200,000 equivalent, which will include supporting studies on issues relevant to this TA such as commodity transportation, real estate development, and urbanization. The TA will be financed on a grant basis by ADB's TA funding program. Details of the cost estimates and financing plan are given in Appendix 2.

D. Implementation Arrangements

16. The Hebei Provincial Financial Department (HPFD) will be the Executing Agency for the TA. HPFD will be responsible for coordinating with various departments, including the Development Planning Commission, in the Hebei provincial government and formulating, implementing, monitoring, and reviewing the findings of the study. HPFD will provide office space and facilities, transportation, relevant information, and data collection for the study.

17. The TA will be implemented over a period of 10 months beginning in December 2002, by a team of international and domestic consultants. The consultants, to be engaged through firms or institutes, will be selected in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB on the engagement of domestic consultants. The Simplified Technical Proposals and the Quality and Cost-Based selection method will be used. The international consultants (11 person-months) will have expertise in macroeconomic planning and policy formulation, regional development, fiscal transfer systems, environmental management, finance, industrial restructuring, and tourism. For the international consultants, some working experience in the PRC is preferable. The international consultants will be responsible for the overall report and introduction of international experience into the study. The international consultants will provide assistance to domestic consultants on designing study outlines, reviewing the sector reports and polishing the English version of the sector reports. The domestic consultants (48 person-months) will prepare nine sector reports under the guidance of the international consultants to identify the constraints and policy recommendations as identified in the outline terms of reference (Appendix 3). The sector reports will be inputs to the main report prepared by the team leader of the international consultants. All the reports, including initiating papers, interim reports, and final reports will be reviewed by the Hebei provincial government and ADB staff in the inception, midterm, and finalization workshops. The international and domestic team leaders will provide quarterly reports to ADB for the progress of the TA study.

IV. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$600,000 on a grant basis to the Government of the People's Republic of China for the Hebei Provincial Development Strategy, and hereby reports this action to the Board.

Technical Assistance Framework

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Goal <ul style="list-style-type: none"> Accelerate the socioeconomic development of Hebei Province 	<ul style="list-style-type: none"> Review and evaluate the problems facing the government Provide operational policy recommendations Design practical action plans 	<ul style="list-style-type: none"> Quarterly progress reports Review missions Technical assistance (TA) completion report 	<ul style="list-style-type: none"> Full ownership of the study by the provincial agencies A good report review mechanism A good study dissemination system
Purpose <ul style="list-style-type: none"> Help the Government formulate a socio-economic development strategy by focusing on better using its geographic advantages of easy access to Beijing, Tianjin, and global markets 	<ul style="list-style-type: none"> Effectively turn its geographic advantages to socioeconomic development Explore ways to help the poor in the areas surrounding Beijing and Tianjin Promote integrated development and environment protection 	<ul style="list-style-type: none"> Inception, midterm review and final conference Progress reports Review missions and TA completion report 	<ul style="list-style-type: none"> Involving Beijing and Tianjin governments and concerned departments of the central Government in the study
Outputs <ul style="list-style-type: none"> Overall report Poverty reduction 	<ul style="list-style-type: none"> 9 sector studies (see below) Developing a strategy to reduce the number of the poor in the 	<ul style="list-style-type: none"> Inception workshop Progress reports Review missions 	<ul style="list-style-type: none"> Recommendations should address the needs of the government Strong government involvements in every stage of studies

<ul style="list-style-type: none"> • Environmental protection • Provincial fiscal reforms • State-Owned Enterprises restructuring and private sector promotion • Reform of the financing and investment system • Urbanization • Development of high tech industries 	<p>“poverty belt” surrounding Beijing</p> <ul style="list-style-type: none"> • Developing a strategy to improve the quality of air and water and reduce frequency of sand storms originating in Hebei • Identify the role of sub provincial governments and ways to align their expenditures with revenue to ensure necessary minimal service delivery • Identify the areas for SOE reforms and formulate policies and action plans to promote private sector development • Develop a strategy to improve environment for non-state sector development • Outline strategies to cope with the increasing number of urban residents • Develops strategies and policies to increase the contribution of high-tech industries to gross domestic product • Assess the need to 	<ul style="list-style-type: none"> • TA interim report and final reports • Short policy notes on findings of the study for high ranking government officials 	<ul style="list-style-type: none"> • Ensure the recommendations are practical and implementable • Coordination with Beijing, Tianjin, and concerned central Government agencies
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<ul style="list-style-type: none"> • Development of the ports and their hinterlands • Tourism promotion 	<p>increase the capacity of Hebei's ports based on an analysis of the potential to increase the economic activity in the port hinterlands, particularly through the development of port-related industries</p> <ul style="list-style-type: none"> • Formulate a strategy to promote tourism development 		
<p>Activities</p> <ul style="list-style-type: none"> • Inception workshop • Field studies for the nine sectors • Interim report and workshop 	<ul style="list-style-type: none"> • Exchange views among the consultant team, the Executing Agency, and the Asian Development Bank (ADB) on the design of analytical framework of the study • Examine the situations in the sectors covered by the study, analyze trends, and identify options for development • Present primary findings of the study in an interim report to be discussed in a workshop 	<ul style="list-style-type: none"> • Working plans finalized at the workshop • Task force of Hebei Province, TA review missions, and consultants quarterly reports • The reports are distributed for review include policy recommendations 	<ul style="list-style-type: none"> • Ensure the work plans are aligned with the TA objectives • Review the past studies and development strategy and plans of Beijing and Tianjin • Develop a quality control mechanism to ensure the reports are in high quality and the policy recommendations are practical and

<ul style="list-style-type: none"> Final report and workshop 	<ul style="list-style-type: none"> Present the final report, findings, and recommendations of the consultant team 	<ul style="list-style-type: none"> The concerned government agencies and ADB review the draft final report and provide comments for finalization of the report 	<p>implementable</p> <ul style="list-style-type: none"> Insufficient cooperation between international and domestic consultants
<p>Inputs</p> <ul style="list-style-type: none"> Consultant services ADB TA Government counterpart funds 	<ul style="list-style-type: none"> International consultants (11 person-months) Domestic consultants (48 person-months) \$600,000 equivalent \$200,000 equivalent 	<ul style="list-style-type: none"> Consultant recruitment process 	<ul style="list-style-type: none"> Timely selection of well qualified consultants Sufficient government counterpart funds are provided on a timely manner

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	270	0	270
ii. Domestic Consultants	0	188	188
b. International and Local Travel	50	20	70
c. Reports and Communications	20	0	20
2. Equipment	20	20	20
3. Representative for Contract Negotiations	5	0	5
4. Contingencies	57	0	57
5. Workshops	0	40	40
Subtotal (A)	372	228	600
B. Government Financing			
1. Office Accommodation and Transport	0	20	0
2. Remuneration and Per Diem of Counterpart Staff	0	20	0
3. Study Support	0	80	0
4. Workshops	0	20	0
5. Communication and Local Travel	0	20	0
6. Documents, reference Materials	0	10	0
7. Contingency	0	30	0
Subtotal (B)	0	200	200
Total	372	428	800

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE

A. **Overall Study** (1 international consultant - 4 person-months; 1 domestic consultant - 6 person-months)

1. The international team leader's duties will include (i) jointly with domestic team leader, design an overall analytical framework for the study, identify main issues, and monitor the progress of international and domestic consultants in undertaking the work and quality control; (ii) based on the domestic team leader's report and the findings of sector reports, prepare a final report to identify the overall development strategy and action plan; and (iii) review the reports prepared by international and domestic consultants, and help to polish the English of the reports of the domestic consultants.

2. The domestic team leader's duties will include (i) jointly with the international team leader, design the analytic framework for the study, identify main issues to be studied, monitor the progress of domestic consultants, contribute to quality control and help to prepare the final report; (ii) design the frameworks for the sector studies, identifying main issues; monitor the progress of each sector study; and control the quality of the Chinese version; (iii) prepare a draft report to identify the overall strategy and action plans and write a short version of the report to be submitted to senior officials in the provincial government; and (iv) review the reports prepared by domestic consultants, help to polish the Chinese version of the sector reports, and control the quality of the sector reports.

B. **Sector Studies**

1. **Elimination of the "Poverty Belt" Surrounding Beijing and** (1 domestic consultant - 4 person-months)

3. The consultants' duties will include (i) analyze the lessons learned from the "eighth-seven" poverty reduction plan and summarize the international experience introduced by Asian Development Bank technical assistance on poverty-reduction and identify applications in Hebei; (ii) conduct field trips in the poverty belt surrounding Beijing and Tianjin and other poor areas to identify the status, causes, impacts, and trends of poverty; and (iii) Formulate strategies to reduce the development gaps among Hebei, Beijing, and Tianjin and propose policy recommendations.

2. **Environmental Protection** (1 international consultant - 1 person-month; 1 domestic consultant - 5 person-months)

4. The international consultant's duties will include (i) introduce the best international practices in compensation arrangements from large metropolitan areas to the surrounding areas for environmental protection and give two successful cases, one related to sand storms and one to clean water; and (ii) design an analytical framework, identify main issues, and provide quality control of the environmental sector report by the domestic consultant.

5. The domestic consultant's duties will include (i) review policies on environmental protection and natural resource sharing adopted by the three governments and analyze the goals of the region; (ii) design regional environmental plans to protect Beijing, Tianjin, and Hebei and identify objectives and action plans for environmental protection; and (iii) identify compensation mechanisms for environment protection and remove barriers in resource sharing and management in Hebei, Beijing, and Tianjin.

3. **Restructuring Traditional Industries and Promoting Non-State Sector** (1 international consultant - 1 person-month; 1 domestic consultant - 6 person-months)

6. The international consultant's duties will include (i) introduce the experience from Urea (Germany) and Bussan (Republic of Korea) in upgrading the steel, building materials, pharmaceuticals, machinery, and food processing industries; (ii) review the lessons learned from privatizing state-owned enterprises in one Eastern European country, identifying ways to address losses of state assets, unemployment, private sector participation, and administrative measurements; and (iii) design an analytic framework and identify the main issues in promoting development of the non-state sector. Review and provide quality control of the domestic consultant's report and polish the English of the report.

7. The domestic consultant's duties will include (i) analyze the impacts of the external and internal environment of the five pillar industries in Hebei (steel, building materials, pharmaceuticals, machinery, and food processing) after accession to the WTO and identify the opportunities and risks; (ii) analyze the constraints of state-owned enterprise reforms and the use of high tech to restructure the five pillar industries and identify the key technologies that may influence the five pillar industries in the next 10 years; (iii) Analyze the influences of the geography of Beijing and Tianjin on Hebei's industrial upgrading and innovation. Identify the role of government in phasing out from some industries; and (iv) identify the causes, including policy and financial barriers, of the private sector development; analyze the potential for private sector development and how to take advantage of markets in Beijing and Tianjin.

4. **Promote Urbanization** (1 international consultant - 1 person-month; 1 domestic consultant - 4 person-months)

8. The international consultant's duties will include (i) describe urbanization models and approaches used in other countries, and specify their rationales, applicability or preconditions, and problems; (ii) describe lessons learned from a newly industrialized country on migration from rural to urban areas, and the policies used to facilitate the migration; (iii) describe the experience and lessons learned from an Asian country on how to best coordinate the development of municipalities and satellite towns; and (iv) design an analytical framework and identify main issues in urbanization. Review and provide quality control of the domestic consultant's report.

9. The domestic consultant's duties will include (i) Identify the factors impeding Hebei's urbanization. Provide recommendations for overcoming these obstacles and accelerating Hebei's urbanization; (ii) study the relationship between Hebei's urbanization and Beijing and Tianjin and recommend how to promote urbanization and its integration with Beijing and Tianjin; (iii) formulate policy recommendations to develop Shijiazhuang, the provincial capital, and its satellite towns as a center of economic development; and (iv) study the correlation of administrative jurisdictions and prepare recommendations for the adjustment of city and county to accelerate urbanization.

5. **Development of the Bohai Coastal Areas** (1 international consultant - 1 person-month; 1 domestic consultant - 5 person-months)

10. The international consultant's duties will include (i) carry out in-depth studies on the relationship and Government policies between ports and areas surrounding ports in the Republic

of Korea and Japan; (ii) describe the development trends of the port-related economic zones and free trade zones in other countries; and (iii) carry out in-depth studies on the relationship and Government policies between ports and areas surrounding ports in the Republic of Korea and Japan.\

11. The domestic consultant's duties will include (i) conduct a feasibility study of an export-oriented transportation and logistical system by building three ports in Qinhuangdao, Tangshan and Cangzhou; (ii) suggest how to further open the Qinhuangdao, Jintang, and Huanghua ports and the feasibility of establishing special economic zones and free trade areas; (iii) provide suggestions on how to reduce administrative barriers and divide labor between Hebei ports and Tianjin to optimize the use of the ports; and (iv) identify the reasons for the slow growth of the port hinterlands and port-related industries and provide policy recommendations on how to address the problems.

6. Development of High Tech Industries (1 international consultant - 1 person-month; 1 domestic consultant - 4 person-months)

12. The international consultant's duties will include (i) review the experience with developing high technology industries in the Republic of Korea and India. Summarize the experience learned and its applicability to developing "high-tech" industrial parks in the Beijing-Tianjin-Hebei area; (ii) identify the "high-tech" industries and products that have the largest market potential in the next 5–10 years; and (iii) design an analytic framework for the "high-tech" sector study, identifying the main issues. Provide quality control for the domestic consultants' report and polish the English version of that report.

13. The domestic consultants' duties will include (i) identify the key technology and products that could be developed in Hebei in the next 10 years; (ii) provide suggestions regarding cooperation between Hebei, Beijing, and Tianjin in "high-tech" research and manufacturing; (iii) review the functions, capabilities, and performance of key laboratories, experimental bases and centers of technology and engineering and provide suggestions for improvements.

7. Tourism Development (1 domestic consultant - 4 person-months)

14. The domestic consultant's duties will include (i) identify institutional, technical, and policy barriers to the development of the tourism industry. Suggest a strategy to further the development of tourism; and (ii) study the relationship of the tourism developments in Hebei, Beijing, and Tianjin recommend how to strengthen cooperation within this region.

8. Reforms of the Investment and Financing System (1 international consultant - 1 person-month; 1 domestic consultant - 5 person-months)

15. The international consultant's duties will include (i) review the public and private investment systems in the Republic of Korea and one Eastern European country in transition; (ii) review the international best practice for government support for private investment and financial system development and role of government policies to support private sector investment and financial activities; and (iii) design a sector study framework, identify the main issues, provide quality control for domestic consultants' report, and polish the English version of the report.

16. The domestic consultant's duties will include (i) compare the public investment system of Hebei with that of other provinces and identify the advantages and disadvantages of the system

used in Hebei; (ii) propose a strategy to address problems of state enterprises. Propose a strategy and mechanism to address problems related to private sector financing; and (iii) review the trends and policies affecting foreign investment; develop a strategy and mechanism to promote foreign investment.

9. **Fiscal Reform** (1 international consultant - 1 person-month; 1 domestic – 5 person-months)

17. The international consultant's duties will include (i) introduce the best international practices for inter-government fiscal transfer systems, focusing on sub-provincial fiscal transfer systems; (ii) evaluate the capacity of revenue and expenditure control in local governments and provide information on the mechanism used for fiscal transfers in basic public services; and (iii) design the sector study framework, identify the main issues, provide quality control of the domestic consultants' report, and polish the English version of the report.

18. The domestic consultant's duties will include (i) summarize models used in other provinces. Develop a methodology to estimate the expenditure demands; (ii) identify a mechanism and formula to address the funding shortage for basic public services in the poor counties and villages; and (iii) design an effective internal control and responsibility system to monitor progress and adjust the transfer system and provide related policy recommendation.