



Technical Assistance Report

Project Number: 47080
Policy and Advisory Technical Assistance (PATA)
October 2013

People's Republic of China: Public Expenditure Performance Monitoring in Henan

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 2 September 2013)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1621
\$1.00	=	CNY6.1702

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
PRC	–	People's Republic of China
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Policy and advisory technical assistance (PATA)
Targeting classification	–	General intervention
Sector (subsectors)	–	Public sector management (public expenditure and fiscal management)
Theme(subtheme)	–	Governance (economic and financial governance)
Location (impact)	–	Rural (medium), urban (medium), national (high)

NOTE

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

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I. INTRODUCTION

1. During the 2012 country programming mission, the Government of the People's Republic of China (PRC) requested the Asian Development Bank (ADB) to provide policy and advisory technical assistance (TA) for public expenditure performance monitoring in Henan. The TA is consistent with ADB's PRC country partnership strategy, 2011–2015, which is aligned with the priorities of the government's Twelfth Five-Year Plan for National Social and Economic Development, 2011–2015.¹² The TA will address issues related to public financial management and good governance in Henan. These issues are also relevant for other parts of the PRC.

2. An ADB fact-finding mission visited Henan in August 2013. The mission met with government agencies and think tanks at various levels. An agreement was reached with the Henan provincial government on the TA's main features including impact, outcome, outputs, activities, financing plan, terms of reference for consulting services, and implementation arrangements. The design and monitoring framework is in Appendix 1.³

II. ISSUES

3. Henan Province is located in the central region of the PRC. It is one of the country's most populous provinces, with over 94 million inhabitants, about 7% of the PRC's population. Henan's gross domestic product (GDP) in 2012 was CNY3 trillion, accounting for 5.7% of the PRC's GDP, and its per capita GDP was 82.5% of the national average.

4. As a populous and traditional agricultural province, most of Henan's fiscal outlays have been allocated for agriculture, forestry, water resources, education, social security, health care, and transfer payments from the Henan provincial government to prefectural and county governments. The fiscal expenditure in Henan has increased at a significantly faster pace than fiscal revenue in the past 10 years. In addition to balancing fiscal revenue and expenditure, public financial management has started to focus on enhancing the effectiveness of public expenditure performance. However, due to the lack of adequate performance monitoring and evaluation mechanisms, it is difficult to assess the efficiency and effectiveness of fiscal expenditure, including that for special purpose projects.

5. Improving public financial management (including standardizing intergovernmental fiscal transfers and monitoring public expenditure) and ensuring good governance at all levels of government and across all sectors are critical to support the PRC's long-term goal of building a harmonious and prosperous society by improving people's livelihood, and promoting balanced and environmentally sustainable growth. The central government stresses the need to improve the public finance system and the financial management of public finance.⁴

6. Sound public financial management improves accountability and efficiency in the management of public resources and delivery of public services in line with public needs. Since

¹ ADB. 2012. *Country Partnership Strategy: People's Republic of China, 2011–2015*. Manila.

² Government of the People's Republic of China. 2011. *The Outline of the Twelfth Five-Year Plan for National Social and Economic Development*. Beijing.

³ The TA first appeared in the business opportunities section of ADB's website on 30 August 2013.

⁴ For example, in the 2008 Government Work Report, Premier Wen Jiabao proposed an administrative system of accountability and a budget performance management system. In 2010, President Hu Jintao, at the 18th collective study of the Political Bureau of the Communist Party of China (CPC) Central Committee, stressed that the country needed to improve the public finance system and the performance of financial management. In 2012, the new leadership also emphasized the importance of undertaking fiscal and taxation reform, and strengthening the public finance system at the 18th National Congress of CPC.

2008, the PRC has actively explored various forms of public financial management including performance-based budgeting and performance monitoring. However, the efforts are still at an initial and exploratory stage. For example, regulations and systems of performance management and monitoring are inadequate; budget units lack the understanding and knowledge of performance management and monitoring; and the results of performance monitoring deviate markedly from the original targets. These issues have seriously hampered the efficient and effective use of fiscal funds. As such, it is important to further strengthen research, deepen the understanding of and awareness about performance monitoring, and propose appropriate policy recommendations to improve the overall public financial management system.

7. Henan is one of the provinces exploring measures to strengthen public financial management. Revenue reform is an important aspect of sound public financial management. However, as most tax bases and rates are set by the central government, revenue reform would be best pursued as part of a wider national agenda of fiscal reform. In provinces, more attention should be attached to public expenditure management. Moreover, as 80% of the transfer payments are for special purpose projects, clarifying the scope of transfer payments for special purposes at the sub-provincial level deserves high priority.

8. The Henan provincial government seeks ADB's TA to help strengthen its public expenditure performance monitoring system to improve the efficiency and effectiveness of public spending, and thereby enhance the governance of public expenditure. A strengthened public expenditure performance monitoring system could maximize value for public outlays; increase the efficiency and effectiveness of public expenditure; enhance the awareness of due diligence and the responsibility of government departments in provinces and sub-provinces. Such a public expenditure performance monitoring framework could also be applied in other provinces in the PRC, thus contributing to achieving national objectives. Moreover, this TA project would help enhance the governance of public expenditure.

9. Although ADB's earlier TAs have covered a wide range of fiscal issues in the PRC, they are yet to address public expenditure performance monitoring at provincial level.⁵ Close attention will be paid, as relevant, to building on other ADB TAs and the public finance assistance supported by other development partners.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

10. The impact will be strengthened public financial management in Henan. The achievement will be demonstrated by an integrated evaluation and monitoring framework on public expenditure performance. The key outcome will be improved efficiency and effectiveness of public expenditure in Henan.

⁵ Relevant TAs include: ADB. 2008. *Technical Assistance to the People's Republic of China for Supporting Fiscal Reforms in High Priority Sectors*. Manila; ADB. 2008. *Technical Assistance to the People's Republic of China for Fiscal Policy Support for Economic Development in Henan*. Manila; ADB. 2010. *Technical Assistance to the People's Republic of China for Supporting Reform in Taxation and Budget Management*. Manila; ADB. 2011. *Technical Assistance to the People's Republic of China for Strengthening Fiscal Policy and Public Finance Reform Over the Midium-Term*. Manila; ADB. 2011. *Technical Assistance to the People's Republic of China for Public Finance and Financial Management Reform*. Manila; ADB. 2012. *Technical Assistance to the People's Republic of China for Improvement of Fiscal Management and Accounting Services Supervision*. Manila; ADB. 2013. *Technical Assistance to the People's Republic of China for Public Finance Development Strategy 2020*. Manila; ADB. 2013. *Technical Assistance to the People's Republic of China for Fiscal Policy Reform and Management*. Manila.

B. Methodology and Key Activities

11. The TA will assist the Henan provincial government to improve public expenditure performance monitoring. It will review the concept of public expenditure performance monitoring and summarize relevant domestic and international experience. The TA will also analyze how public expenditure has been monitored, identify the major issues in evaluating and monitoring public expenditure performance, and clarify the major constraints on implementing public expenditure performance monitoring in Henan. It will identify major areas of public expenditure to be monitored, propose appropriate indicators, and recommend an integrated framework for public expenditure performance monitoring in Henan.

12. The TA outputs will be (i) a final report and a bilingual synopsis report on improving public expenditure performance monitoring in Henan and (ii) two policy briefing notes. The final report will present a set of guidelines and methods to help implement a public expenditure performance monitoring system in Henan. It will comprise three parts: (i) overview, concepts, and experience; (ii) major issues and challenges in public expenditure performance monitoring; and (iii) policy recommendations.

13. Part 1 will review and clarify (i) the concept of public expenditure performance monitoring including principles, methods, indicators, and standards; (ii) how public expenditure is currently being monitored in Henan; and (iii) international and domestic experiences in public expenditure performance monitoring. In the areas of budget control, risk prevention, monitoring organizations, performance evaluation, and information technology, the TA will focus on the experience of Australia, Germany, and the United States. For the possible application of accrual-basis accounting in budget management, the focus will be on the experience of New Zealand and the United Kingdom. Further, special attention will also be paid to the experience of Guangdong, Jiangsu, and Zhejiang provinces of the PRC.

14. Part 2 will identify the major issues relating to public expenditure performance monitoring in Henan, including transfer payments for special projects. It will identify the key obstacles to implementing a public expenditure performance monitoring system, identify priority areas for public expenditure, and propose appropriate indicators for monitoring. On this basis, the TA will recommend an integrated public expenditure performance monitoring framework for Henan including targets, standards for evaluation, and indicators.

15. Part 3 will contain a comprehensive set of policy recommendations for establishing an appropriate public expenditure performance monitoring system for Henan, including policy suggestions on basic reforms in the fiscal system and the performance monitoring mechanism.

16. Based on the final report, a bilingual synopsis report (around 15 pages in Chinese and 15 pages in English) will be prepared for senior decision makers in Henan. During TA implementation, two policy briefing notes will be prepared and submitted to the Henan provincial government and the Ministry of Finance.

17. Major activities of the TA include (i) hosting workshops and conferences (inception, midterm review, final review, and dissemination), in particular, inviting government officials from other provinces to participate in the dissemination workshop; (ii) conducting domestic surveys and international study visits as appropriate; and (iii) preparing reports (inception report, midterm report, final report, progress reports, and policy briefing notes).

C. Cost and Financing

18. The TA is estimated to cost \$562,500, of which \$450,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The government will provide counterpart support in the form of counterpart staff, office facilities, domestic transportation, and other in-kind contributions. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

19. The Department of Finance of Henan Province will be the executing agency, and its Financial Supervision Bureau will be the implementing agency. The Financial Supervision Bureau will be responsible for establishing a TA steering committee to arrange meetings between the consultants and relevant government agencies, review midterm and final reports, and disseminate TA findings. The executing agency will administer domestic surveys, international study visits, and workshops and conferences. An advance payment facility might be established if requested.

20. The TA will be implemented over 20 months, from 1 November 2013 to 30 June 2015. A total of 29 person-months of individual consulting services (four national consultants for a total of 26 person-months and one international consultant for 3 person-months) will be provided. The terms of reference for consultants are presented in Appendix 3. The consultants will be engaged in line with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Proceeds of the TA will be disbursed in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). All procurement under the TA will be carried out in accordance with ADB's Procurement Guidelines (2013, as amended from time to time).

21. The consultants will submit the following reports to both the implementing agency and ADB: (i) the inception report 2 weeks after the commencement of services, (ii) the progress report at an appropriate stage during TA implementation, (iii) the draft final report before the conclusion of the contract, and (iv) the final report 2 weeks after receiving comments from the executing agency and ADB.

22. Major project activities will be regularly reported by the implementing agency and monitored by the executing agency as well as by ADB review missions. Consultants' reports will be presented at workshops and seminars organized to validate findings. Reports will be posted on the ADB website in English and Chinese and published in accordance with ADB's Public Communications Policy, 2011.

IV. THE PRESIDENT'S DECISION

23. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$450,000 on a grant basis to the Government of the People's Republic of China for Public Expenditure Performance Monitoring in Henan, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Strengthened public financial management in Henan	Framework for public expenditure performance monitoring in Henan by 2016 Twenty budget units would be monitored by 2016 (baseline: six budget units were monitored in 2013)	Government announcements and publications Media reporting Government-sponsored websites	Assumption Henan provincial government is committed to sound public financial management
Outcome Improved efficiency and effectiveness of public expenditure in Henan	Incorporation of key TA recommendations into Henan's new regulations and policy documents issued by the end of 2015	Government announcements and publications Media reporting Government-sponsored websites	Assumption Henan provincial government adopts the recommendations proposed by the Department of Finance Risk Delays in implementing overall fiscal reforms prevent the government from implementing key recommendations
Outputs 1. A final report and a bilingual synopsis report on improving public expenditure performance monitoring in Henan 2. Two policy briefing notes	Midterm report submitted to ADB by August 2014 Final report and bilingual synopsis report submitted to ADB by May 2015 One policy briefing note submitted to ADB by August 2014 and the other by May 2015	TA progress reports TA review missions Consultations with executive agency	Assumptions Highly qualified consultants available for recruitment Henan government provides relevant provincial information and data on public financial management Risk Highly qualified consultants might not be available, which would impact on the quality of the outputs
Activities with Milestones Output 1: A final report and a bilingual synopsis report on improving public expenditure performance monitoring in Henan 1.1 Inception workshop by February 2014 1.2 Domestic surveys and visits by April 2014 1.3 International study visit by June 2014 1.4 Midterm review workshop by October 2014 1.5 Final review workshop by March 2015 1.6 Final report by May 2015 1.7 Dissemination workshop in Henan by June 2015			Inputs ADB (TASF-other sources): \$450,000 The government will provide counterpart support in the form of counterpart staff, office facilities, domestic transportation, and other in-kind contributions.

Output 2: Two policy briefing notes	
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2.1 The first policy briefing note based on the midterm report by October 2014	
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2.2 The second policy briefing note based on the final report by March 2015	
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ADB = Asian Development Bank, TA = technical assistance, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (3 person-months)	60.0
ii. National consultants (26 person-months)	200.0
b. International and local travel	25.0
c. Reports and communications	10.0
2. Surveys and study visits	40.0
3. Workshops and conferences ^b	55.0
4. Miscellaneous administration and support costs ^c	10.0
5. Contingencies	50.0
Total	450.0

Note: The technical assistance (TA) is estimated to cost \$562,500, of which contributions from the Asian Development Bank (ADB) are presented in the table above. The government will provide support in the form of counterpart staff, office facilities, domestic transportation, and other in-kind contributions. The value of government contribution is estimated to account for 20% of the total TA cost.

^a Financed by ADB's Technical Assistance Special Fund (TASF-other sources).

^b Includes honoraria for resource persons in the workshops, costs for translation and interpretation, and costs of disseminating the final report. Specific budget and arrangements are subject to prior ADB approval.

^c Includes report editing, printing, and dissemination.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. National Consultants

1. **Senior public financial management specialist and team leader** (5 person-months, intermittent). The specialist will be an experienced researcher from a reputable university or research institute with at least 15 years of experience in public financial management in the People's Republic of China (PRC). The specialist should have strong expertise in the areas of public financial management, intergovernmental fiscal relations, and associated topics. The specialist should have been a team leader at least five times in relevant research projects. The specialist will perform the following tasks:

- (i) Provide overall strategic direction for the technical assistance (TA) project, and lead and guide the work of the two national specialists to ensure that the outputs are consistent with the objectives of the project.
- (ii) Assume overall responsibility for the quality and timely delivery of the TA outputs, including all reports; and the completion of relevant TA activities under the guidance of the executing agency, implementing agency, and Asian Development Bank project officer.
- (iii) Coordinate and organize domestic surveys and visits.
- (iv) Review theory and literature in public expenditure performance monitoring (including principles, methods, standards, and indicators).
- (v) Provide guidance to other consultants on summarizing international and domestic experiences related to public expenditure performance monitoring (including laws and regulations).
- (vi) Recommend an appropriate public expenditure framework for Henan, incorporating international and domestic experience.
- (vii) Draft relevant policy recommendations for the implementation of an appropriate public expenditure performance monitoring system in Henan.
- (viii) Prepare, revise, and finalize an inception report, midterm report, final report, and synopsis report.
- (ix) Prepare two policy briefing notes and submit in a timely manner.
- (x) Draft agendas for workshops and conferences, propose participants, prepare keynote speeches, and act as a resource person as needed.

2. **Public financial management specialist** (7 person-months, intermittent). The specialist will be an experienced researcher from a reputable university or research institute with at least 10 years of experience in public financial management in the PRC. The specialist should have good communication skills in English and strong expertise in the areas of public financial management, intergovernmental fiscal relations, and associated topics. The specialist will perform the following tasks:

- (i) Summarize domestic experiences related to public expenditure performance monitoring (including laws and regulations) and analyze major challenges encountered during the implementation of the public expenditure performance monitoring.
- (ii) Participate in domestic surveys in selected provinces (e.g., Guangdong, Jiangsu, Zhejiang).
- (iii) Recommend an appropriate public expenditure framework for Henan, incorporating international and domestic experience.

- (iv) Draft relevant policy recommendations for the implementation of an appropriate public expenditure performance monitoring system in Henan.
- (v) Work with other consultants to prepare the midterm, final, and synopsis reports.
- (vi) Draft and submit quarterly progress reports on TA implementation 15 days after the end of every quarter.
- (vii) Assist the team leader to prepare for workshops and meetings, and participate as a resource person as needed.

3. **Local public financial specialist 1** (7 person-months, intermittent). The specialist will be an experienced researcher from a reputable university or research institute with at least 10 years of experience in public financial management in Henan. The specialist should have good communication skills in English and strong expertise in the areas of public financial management, intergovernmental fiscal relations, and associated topics. The specialist will perform the following tasks:

- (i) Analyze and evaluate the Henan public finance system and identify major constraints on the efficiency of public financial management.
- (ii) Summarize experiences and major issues in implementing public expenditure performance monitoring in Henan.
- (iii) Review the current intergovernmental transfer system, in particular, between the Henan provincial government and city or county governments (including transfer payments for special projects); assess the effectiveness of current practices; and identify the scope for improved equalization, rationalization, and simplification of transfers.
- (iv) Recommend an appropriate framework for public expenditure performance monitoring for Henan, taking into consideration local conditions, and domestic and international experiences.
- (v) Draft relevant policy recommendations for the implementation of an appropriate public expenditure performance monitoring system in Henan.
- (vi) Provide logistical support and interpretation as needed during meetings with government officials.
- (vii) Assist the team leader to prepare for inception, midterm, and final reports; participate in domestic surveys, workshops, and conferences; and make arrangements for workshops and conferences as needed.

4. **Local public financial specialist 2** (7 person-months, intermittent). The specialist will be an experienced researcher from a reputable university or research institute with at least 10 years of experience in public financial management in Henan. The specialist should have good communication skills in English and strong expertise in the areas of public financial management, intergovernmental fiscal relations, and associated topics. The specialist will perform the following tasks:

- (i) Analyze and compare methods and indicators used in public expenditure performance evaluation and monitoring in the PRC and other countries.
- (ii) Identify the major areas of public expenditure (e.g., agriculture, social security, health care, and education) where monitoring could be applied and propose appropriate targets, standards, and indicators.
- (iii) Work with other consultants to recommend an appropriate framework for public expenditure performance monitoring for Henan.
- (iv) Draft relevant policy recommendations for the implementation of an appropriate public expenditure performance monitoring system in Henan.

- (v) Provide logistical support and interpretation as needed during meetings with government officials.
- (vi) Assist the team leader to prepare for the inception, midterm, and final reports; participate in domestic surveys, workshops, and conferences; and act as a resource person as needed.

B. International Consultant

5. **International public financial management specialist** (3 person-months, intermittent). The specialist should have strong expertise and extensive experience in diverse aspects of public expenditure management in different countries. The specialist should have a master's degree or higher qualification in public finance or a related field. The specialist should have at least 10 years of experience in public finance and public expenditure management supported by international publications and be affiliated with a prestigious university or research institute. The specialist should have professional experience and knowledge on the fiscal system and public sector management in the PRC. The specialist will perform the following tasks:

- (i) Review and summarize international experiences related to public expenditure performance monitoring (including regulations and laws), including how they are applied in other countries such as Australia, Germany, New Zealand, the United Kingdom, and the United States.
- (ii) Review the major benefits and outcomes relating to public expenditure performance monitoring in those countries.
- (iii) Identify and discuss the major challenges encountered during the implementation of the public expenditure performance monitoring system in those countries, and identify and assess the major lessons learned from international experiences.
- (iv) Recommend an appropriate public expenditure performance monitoring framework for Henan.
- (v) Participate in the preparation of the inception, midterm, and final reports; attend relevant workshops and conferences; prepare keynote speeches; and act as a resource person as needed.