



China, People's Republic of: Study on Local Financial Market Development and Supervisory Framework

Project Name	Study on Local Financial Market Development and Supervisory Framework	
Project Number	48010-001	
Country	China, People's Republic of	
Project Status	Closed	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA 8743-PRC: Study on Local Financial Market Development and Supervisory Framework	
	Technical Assistance Special Fund	US\$ 400,000.00
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development	
Sector / Subsector	Finance - Finance sector development - Money and capital markets	
Gender Equity and Mainstreaming	No gender elements	
Description	<p>The current financial regulatory structure in PRC is sector based; as the central bank, Peoples' Bank of China (PBOC) is responsible for monetary policy and the stability of the financial system in general, while the China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC), and China Insurance Regulatory Commission are central authorities responsible for regulating banking, securities, and insurance sectors. Since 2008, the decentralization of financial supervision gradually started. This was reinforced by PRC's 12th Five-Year Plan, which sets out the goal of improving local financial management system and strengthening the responsibility of provincial government for managing the local medium and small financial institutions. In 2012, Premier Wen Jiabao also requested to strengthen the provincial government financial supervision responsibility and awareness. As a result, the provincial government was empowered with supervising authority for microcredit companies, new rural financial institutions, and financing guarantee companies based on CBRC's regulations. In 2012, the State Council and CSRC vested supervising authority to provincial government for overseeing regional OTC market. However, absence of systematic research on decentralization of financial regulatory and supervisory authorities in PRC with in-depth analysis and clear roadmap has contributed to uncertainty and ambiguity in division of clear responsibilities among central and provincial authorities and its future strategic directions.</p>	
Project Rationale and Linkage to Country/Regional Strategy	<p>Over the past decades, the People's Republic of China's (PRC) successful transition to market-based economy has resulted to a remarkable economic growth. The country's financial system has also developed rapidly to support the growth, which was attributed to various financial sector reform initiatives successfully undertaken by the central government. However, national financial system of PRC is still bank dominant with total credit provided by banking system reaching 160% of gross domestic product (GDP) while stock market's overall capitalization is 45% of GDP and insurance sector assets less than 10% of GDP in 2012. PRC government's recent policy shift to quality, balanced and sustainable economic growth called for the development of regional and local economies across different provinces, and the role of the provincial and local government has become more important. There has been development of regional or local financial institutions to serve the needed, especially micro, small and medium-sized enterprises and the rural households. The local financial market has become more diversified with emergence of more locally-focused financial institutions, such as city commercial banks, rural credit cooperatives, village and township banks, microcredit companies, guarantee companies, and regional over-the-counter (OTC) equity markets. However, there have not been any concrete studies to ascertain the local and regional financial market nor its development's role in local and regional economic development, and to identify preconditions to achieve it. An effective and more decentralized regulatory and supervisory framework to cope with more locally diversified financial markets needs to be also established.</p>	
Impact	Development of a more effective and sustainable local financial system	

Project Outcome

Description of Outcome	Successful implementation of local and regional financial sector and regulatory reforms based on the study outputs of the TA
Progress Toward Outcome	The TA is at implementation stage. Consultants are all mobilized and two field missions have been conducted. The draft final report will be circulated in October 2015.

Implementation Progress

Description of Project Outputs	<p>A main report on local financial market development and supervisory framework</p> <p>Sub-report 1: An analysis on the history and conditions of local financial market development with case of Liaoning province</p> <p>Sub-report 2: Lessons from investigation on the international case studies and good practices for successful local and regional financial market development through desk studies and international study tour</p> <p>Sub-report 3: Recommendations and roadmap on necessary reforms to promote local and regional financial market development with more efficient and decentralized regulatory system</p> <p>A report with policy recommendations to develop a roadmap and business strategy of Liaoning province Regional OTC market</p> <p>Enhanced capacity of provincial regulatory authorities</p>
Status of Implementation Progress (Outputs, Activities, and Issues)	<p>Since the recruitment of consultants, consultations and fact-gathering missions were conducted twice and the consultant team prepared draft final reports for comments. The study tour was conducted from 1-4 December in Taiwan and 13-19 December 2015 in the United States. The report was finalized based on the comments and two policy notes have been translated in English. The final workshop was held in July 2016.</p>
Geographical Location	

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design	Recon mission conducted in June 2014. MOU has been signed by EA on 29 September 2014.
During Project Implementation	The EA, IA and other stakeholders including market participants have been consulted and communicated closely by ADB and consultant team.

Business Opportunities

Consulting Services	Two international (7 person-months in total, Financial Sector Specialist and Financial Sector Regulatory Specialist) and three national consultants (13 person-months in total, Financial Market Specialist, Financial Market Regulatory Specialist, and OTC Market Specialist) will be individually selected and engaged by ADB in accordance with the Guidelines on the Use of Consultants (2013, as amended from time to time).
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Responsible Staff

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Timetable

Concept Clearance	13 Sep 2014
Fact Finding	17 Jun 2014 to 18 Jun 2014
MRM	-
Approval	30 Oct 2014
Last Review Mission	-
Last PDS Update	21 Sep 2016

TA 8743-PRC

Milestones

Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
30 Oct 2014	24 Nov 2014	24 Nov 2014	31 Jul 2016	-	-

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
400,000.00	0.00	40,000.00	0.00	0.00	0.00	440,000.00	30 Oct 2014	271,026.38

Project Page <https://www.adb.org/projects/48010-001/main>

Request for Information <http://www.adb.org/forms/request-information-form?subject=48010-001>

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