

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA62795

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|---|---|
| <b>Project Name</b>                                   | Building a Modern Fiscal System Technical Assistance (P154694)  |
| <b>Region</b>   | EAST ASIA AND PACIFIC   |
| <b>Country</b>  | China   |
| <b>Sector(s)</b>                                      | General public administration sector (100%)   |
| <b>Theme(s)</b>                                       | Debt management and fiscal sustainability (20%), Public expenditure, financial management and procurement (40%), Analysis of economic growth (20%), Tax policy and administration (20%) |
| <b>Lending Instrument</b>                             | Investment Project Financing  |
| <b>Project ID</b>                                     | P154694   |
| <b>Borrower(s)</b>                                    | People's Republic of China  |
| <b>Implementing Agency</b>                            | Policy Research Office, Ministry of Finance   |
| <b>Environmental Category</b>                         | C-Not Required  |
| <b>Date PID Prepared/Updated</b>                      | 28-Mar-2016   |
| <b>Date PID Approved/Disclosed</b>                    | 17-Mar-2016   |
| <b>Estimated Date of Appraisal Completion</b>         | 16-Mar-2016   |
| <b>Estimated Date of Board Approval</b>               | 29-Apr-2016   |
| <b>Appraisal Review Decision (from Decision Note)</b> | The QER meeting was held on December 11, 2015. The team was authorized to conduct the Appraisal Mission.  |

**I. Project Context**

**Country Context**

China is now a higher middle-income country, well positioned to become a high income country in the next decade. China's economic transformation over the past three decades has increased incomes, raised living standards and made China the world's largest manufacturer and exporter. Real per capita incomes increased 16 times over 1978-2014 and more than 750 million people were lifted out of poverty. But, China's leadership has recognized that to become a high income country requires a new growth model that is more balanced, based on productivity increases and innovations rather than on mobilization of resources, more equal in the distribution of the benefits of growth, and more sustainable in environmental outcomes. The new growth model is evolving in a context of rapid societal aging, ongoing urbanization, and structural change in the real economy.

Reforms are undertaken to reinvigorate the underlying drivers of growth. An ambitious and comprehensive reform agenda for the medium-term was announced during the Third Plenum meeting of the 18th Communist Party of China (CPC) Central Committee in November 2013. The

main idea of reforms is to reduce government interventions in the market economy and distortions in China's markets. The reform package covers sixteen areas and 60 individual items. An important step to deepen economic reforms will be redefining the relationship between the government and the market overall. If executed well, the reforms will have a profound impact on China and enhance the long-term sustainability of economic growth.

### **Sectoral and institutional Context**

Comprehensive reforms require significant changes in China's fiscal system. Fiscal revenue and expenditure growth in China over the past 20 years has been admirable and has contributed to important accomplishments—the urban infrastructure has developed quickly, and social services have improved significantly in terms of access and quality. But the rapidly growing economy and public revenues that have made all of this possible has also hidden some important deficiencies in the system of public financing.

Today China has outgrown its public finance system. The regime of taxes, public expenditures, cash-basis accounting and central-local fiscal relations is no longer compatible with the government's expanded responsibilities to its citizens and—more important—cannot efficiently support the new economic order that the government seeks to create.

China has set an ambitious timetable to build a modern fiscal system. In June 2014 China's top leaders endorsed a program of reform to the nation's tax system, budgeting practices, financial reporting and center-local fiscal relations. The Government has announced that fiscal reforms will be achieved by improving the budget management system; improving the tax system; and building a system that provides an appropriate allocation of governmental functions and spending responsibilities. The Government has said that a modern fiscal system will be fully developed by 2020. This will not be minor amendments to current policies; but rather will involve systemic restructuring and institutional innovation.

While the broad proposals are impressive and ambitious, many details of these reform plans are being developed or are not yet proposed. The Ministry of Finance (MOF) is the leading agency in implementing public finance reforms and approximately half of 400 reform measures initiated during the Third Plenum meeting of the 18th CPC in November 2013. The capacity of its departments to design and implement policies varies widely; in many cases, the empirical base to inform and support decisions is incomplete and needs capacity development.

In this context the Government of China (GOC) seeks technical assistance in implementing China's reforms in public finance. Based on a needs assessment of individual departments, MOF has identified two broad areas where access to global knowledge and international experience is instrumental to improve policy formulation, design and implementation. These two areas are: (i) core elements of public finance system (specifically, budget management and tax systems); and (ii) linkages between fiscal policy and economic growth. MOF has indicated that access to international experience combined with upgraded skills will play a key role in ensuring the successful implementation of reforms. The proposed project will supplement overall Government's fiscal reform plans by informing the design and implementation of reforms in these select areas, as requested by GOC.

## **II. Proposed Development Objectives**

The development objectives of the proposed project are to inform the design and implementation of the Central Government's fiscal reform program and to improve the Government's capacity in public financial management

### III. Project Description

#### Component Name

1. Key elements of China's public finance system

#### Comments (optional)

#### Component Name

2. Fiscal Policy and Sustainable Development

#### Comments (optional)

### IV. Financing (in USD Million)

|   |       |                       |               |
|---|-------|-----------------------|---------------|
| Total Project Cost:                                   | 28.15 | Total Bank Financing: | 22.00         |
| Financing Gap:  | 0.00  |                       |               |
| <b>For Loans/Credits/Others</b>                       |       |                       | <b>Amount</b> |
| Borrower  |       |                       | 6.15          |
| International Bank for Reconstruction and Development |       |                       | 22.00         |
| Total   |       |                       | 28.15         |

### V. Implementation

The Ministry of Finance (MOF), through a Project Management Office (PMO) will have overall responsibility for project implementation and responsibility for coordination with the Bank. The PMO would consist of the MOF's Policy Research Department (PRD) and the Department of International Economic and Financial Cooperation.

Under the overall guidance of the PMO, Subproject Implementation Agencies (SIA), various departments of MOF, will be responsible for implementing project tasks.

A project steering committee (PSC) will track overall project implementation progress and discuss selected issues that may need collective attention and coordination among different stakeholders.

### VI. Safeguard Policies (including public consultation)

| Safeguard Policies Triggered by the Project | Yes | No |
|---|-----|----|
| Environmental Assessment OP/BP 4.01         |     | x  |
| Natural Habitats OP/BP 4.04                 |     | x  |
| Forests OP/BP 4.36                          |     | x  |
| Pest Management OP 4.09                     |     | x  |
| Physical Cultural Resources OP/BP 4.11      |     | x  |
| Indigenous Peoples OP/BP 4.10               |     | x  |
| Involuntary Resettlement OP/BP 4.12         |     | x  |

|  |  |   |
|--|--|---|
| Safety of Dams OP/BP 4.37                      |  | x |
| Projects on International Waterways OP/BP 7.50 |  | x |
| Projects in Disputed Areas OP/BP 7.60          |  | x |

**Comments (optional)**

**VII. Contact point**

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