Fiscal Management
For Better Governance:
Learning From Each Other

A Joint Program of the Ministry of Finance,
Government of China, Canadian International
Development Agency and the World Bank Institute
2004 - 2006
The Program

The World Institute (WBI) in partnership with the Canadian Agency for International Development (CIDA), and The Ministry of Finance, Government of China (MOF), have initiated a dialogue of central, provincial and local government officials and other Chinese leaders and scholars especially those from the Western provinces in China with international experts and practitioners on better practices in fiscal management. A three-year learning program has been designed to facilitate this dialogue by enlarging the information base available to government officials in evaluating various reform options for better practices in fiscal management. Under this program, a series of events at various locations in China and overseas have been delivered successfully in 2004 and more workshops are going to be offered in 2005 and 2006.

This cross-country and inter-governmental dialogue aims to contribute to China’s efforts to modernize its public sector and to upgrade its public services to facilitate private sector development and growth with equity and social justice. In this context, the program will support Chinese efforts to strengthen institutional arrangements to improve the quality and access of public services to disadvantaged groups and regions especially those targeted to the rural poor, minorities, women and children in the western provinces of China.

In 2004, four workshops were delivered to support learning events and policy advice to address the key issues of regional inequality and services for the rural poor, with the flexibility of meeting emerging knowledge and capacity needs of clients to help address major policy issues in the country.

**Workshop 1: Globalization, Localization, and Fiscal Management, Washington, DC on Nov. 10 – 14, 2003**

At the request of the Ministry of Finance, this workshop was held for 30 senior officials from China’s Ministry of Finance. This event discussed and debated issues of the global economy, including institutional reforms and international practices; the role of government and division of powers; expenditure and tax policies and administration; fiscal policy coordination; expenditure management and intergovernmental fiscal and equalization transfers, issues pertaining to social security systems, pension funds, and bond markets. Frameworks and international experiences were presented on the above issues, and challenges to implementation and options were discussed in the context of China’s economic development, fiscal management and fiscal reforms.

**Workshop 2: Performance Budgeting, Qingdao, China, June 22-24, 2004**

The participation of government officials from the Ministry of Finance in the workshop on Globalization, Localization and Fiscal Management spurred government interest in further analyzing performance-based budgeting, with the view to adopting such a system in China. As a result, the Ministry of Finance requested that a separate workshop be held on this topic. This workshop - held in the western province of Shandong - targeted 82 participants from the Ministry of Finance, other central government agencies, and western provincial finance bureaus. Concepts of performance based budgeting, managing for performance and measuring results and costs were introduced and
discussed in the context of current budget reforms in China. Country experiences and lessons in design and implementation of performance budgeting systems were analyzed (including those of Canada, Sweden, Australia and New Zealand) and application to China’s system discussed.

**Workshop 3: Intergovernmental Finance System for Strengthening Economic Union, Chongqing, China, July 4-11, 2004**

This workshop facilitated a dialogue on issues of intergovernmental fiscal relations and appropriate options for fiscal decentralization reform in China. There were 114 participants, the majority from provincial finance bureaus, sectoral ministries (such as Education and Health), officials from county and district levels of government and Ministry of Finance. Discussions were held on the role of governments; expenditure and tax assignments; vertical fiscal imbalances through tax base and revenue sharing mechanisms; grants to set national minimum standards; fiscal equalization grants to deal with regional fiscal inequities; framework for fiscal discipline and fiscal responsibility, institutions of intergovernmental relations and policy coordination; fiscal policies for regional development.

**Workshop 4: Strengthening Local Public Finance and Governance, Dali, Yunnan Province, China, August 9-12, 2004.**

This workshop initiated a dialogue on fiscal planning, budgeting and monitoring of local service delivery, and analysis of these issues as they pertain to strengthening local governance in western provinces generally and rural jurisdictions specifically. There were 119 participants from Ministry of Finance, provincial financial bureaus, and sectoral ministries. Civil society representatives from academic/research institutions and the media also participated. This workshop focused on issues of local government organization and responsibilities, local and metropolitan finance, financing rural services, central-local fiscal transfers, local budgeting, financing local government capital investment, delivering local/municipal services, delivering rural services, local economic development policies, monitoring local government performance.

The program for the calendar years 2005 and 2006 will be developed on the basis of consultations with government officials and feedback from participants of programs for the year 2004.

**Background to the Program**

Over the past decades, the Chinese economy has undergone a major transformation from a closed centrally planned economy to an open market driven economy. This transformation has enabled China to leap frog to the 21st century as one of the most dynamic force on the world economic scene. China has now had several decades of double digit real output growth. To sustain this growth and to enable all citizens especially those from the Western provinces to participate equally in the fruits of China’s prosperity, the Government of China is taking a closer look at fiscal arrangements and
other institutional reform options to facilitate equitable access to public services. The learning program described here aims to facilitate this review by enlarging the information base available to the government in evaluating various reform options for efficiency and equity in public service provision and regional development. In addition, it will help develop an internal consensus to undertake difficult reforms.

The program will help upgrade local capacity to analyze and enhance their revenue systems, including the impact on women of various arrangements. It will further stimulate a dialogue by public and private sectors and civil society institutions on better design of intergovernmental transfers to encourage fiscally responsive behavior and promote competitive service delivery.

**Intended Audience:**

Various events to be organized under this project will be aimed at officials concerned with public finance reforms at local, provincial and central levels, academics and as appropriate, members of the private sector and of civil society. Officials from the Western provinces will be given a preferential access to these events. Course participants coming from central government ministries, which are central to the process of planning and implementing the reform of fiscal arrangements, will include key officials of: the Ministry of Finance, National Development and Planning Commission, Western Development Office, Poor Areas Development Office, and the Ministries of Agriculture, Education and Health.

It should be noted that non-state actors such as private sector operators have expressed a keen interest in this program because they would like to contribute to a better enabling environment for the private sector as well as establishment of incentive mechanisms for competitive service delivery. Thus, depending on the availability of space, businessmen will be allowed, for a fee, to participate in the learning events as well.

**Topics to be covered:**

The program will strive to cover selected topics of major current policy relevance to government officials in China from a menu of subjects/modules as reported below:

1. **The Role of Governments.** This introductory module will discuss principles and practices in determining what is in public interest and what is role of the government in addressing issues of public interest. The module will examine usual justification for government involvement due to market failures, externalities, maintaining the internal common market, and addressing inequity in a decentralized fiscal system. It will further provide guidance in determining whether public managers are creating public value.

2. **The Decentralization of Government Authority**—This module presents the principles for assigning economic functions to various governmental agents, including a discussions of the subsidiarity principle and the pros and cons of decentralizing particular functions.
3. **Expenditure Assignment**—This module provides an overview of principles and practices in the assignment of spending responsibilities to various levels of government. It further evaluates commonly cited arguments for the decentralization of expenditures namely regional preferences, information asymmetry, innovation/inter-jurisdictional competition, and political economy (taming the Leviathan).

4. **Revenue Assignment**—Decentralizing revenue collection enhances accountability while presenting some tradeoffs in terms of fiscal efficiency and equity. This module gives an overview of the principles and practices in assigning taxing responsibilities to various levels of government taking into account administrative costs, equity, efficiency (common market), and accountability considerations. Tax coordination and tax harmonization issues are also discussed.

5. **Intergovernmental Transfers**—This module presents a synthesis of principles and practices of intergovernmental fiscal transfers. The design of such transfers is critical to creating the right incentives for better fiscal management and competitive and equitable service provision. It discusses taxonomy of grants: Conditional vs. Unconditional, Matching vs. Non-matching, Open-ended vs. Closed-ended, input vs output based conditional transfers etc. Uses of transfers for addressing vertical fiscal imbalances, fiscal inequity, fiscal inefficiency, interstate spillovers, incentives for better performance in service delivery and achieving national standards. Special emphasis will be given to the design of fiscal transfers to establish national minimum standards across the nation and fiscal equalization transfers to enable poor provinces to offer reasonably comparable levels of public services at reasonably comparable levels of taxation to those in the richer provinces.

6. **Local and Metropolitan Government Organization**—Jurisdictional design is critical to efficiency and equity of local public services provision. This challenge is even greater for metropolitan governance where various metropolitan areas in the world have followed diverse approaches. The module aims to provide guidance to practitioners in local and metropolitan jurisdictional design.

7. **Fiscal Administration at Sub-national Levels**. Tax and expenditure administration are critical to the effectiveness of public policies. This module reflects upon alternate approaches to improve fiscal administration at the local level.

8. **Local Economic Development Policies**. Enlarging the economic bases of a community opens up opportunities for improving the quality and quantity of local public services. But how does one determine what are the right policies for a specific jurisdiction? This module will collate lessons from approaches pursued by various jurisdictions that have achieved a measure of success in expanding their economic bases.

9. **Finance and Provision of Infrastructure**—Dealing with large infrastructure deficiencies require secure access to capital finance. In this context, issues of debt financing, pre-requisites for viable local borrowing, user charges/pricing, and capital grants are explored.

10. **Finance and Provision of Health and Education**—Finance and provision of social services especially education and health poses special challenges due to their redistributive impacts. The module will provide a view on respective roles of various
governments and the civil society in the finance and provision of education and health. The roles of fees and charges and various grants and performance monitoring mechanisms will be highlighted.

11. **Finance and Provision of Rural Services** – This is a challenging issue for any government due to dispersal of population over a wide area and inadequate tax bases to support local financing and limited opportunities for cost recovery due to low incomes. Possible options to meet this challenge will be explored.

12. **Pensions and Social safety nets**. An important role of the public sector is to ensure protection of the elderly and disadvantaged groups of the society. This module will present options for management of public pensions and affordable measure to provide social safety. The governance framework for public pension funds will also be discussed.

13. **Poverty Alleviation** – Access to public services and ensuring sustenance to the poor is a public policy objective shared by all governments but approaches vary across countries. This module distills lessons from international practices in designing policies with greater potential for success.

14. **Budgeting, financial management and accountability** – This module presents approaches to performance based, citizen friendly, and gender responsive budgeting and a framework for prudent financial management and accountability.

15. **Framework for Fiscal Discipline and Fiscal Responsibility**. This module will examine legal frameworks for ensuring fiscal discipline and prudent fiscal management at sub-national levels as practiced in various countries. The incentive compatibility of various approaches in inducing fiscally responsible behavior will be examined.

16. **Combating corruption and malfeasance**. This module will examine the causes of corruption and policies that have a potential to mitigate these factors. The record of commonly advocated policies to combat corruption will also be discussed.

17. **Institutions of Intergovernmental Relations and Policy Making** – Various models of institutional arrangements for intergovernmental relations will be examined and lessons from the experiences of Australia, Canada, Germany, Switzerland, South Africa and India will be drawn.

18. **Fiscal Policies for Regional Development**. This module will examine public policy options to reduce regional fiscal disparities. In this context, experiences with the use of such policies in various countries will be reviewed to distill general lessons as to what type of policies work and what do not work. This module will examine policies to curtail regional disparities and improve quality and access of public services in the Western provinces.

19. **Fiscal Incentives for Investment and Innovation**. The use of tax policy instruments to advance regional and industrial policy objectives, is a common practice in most countries. This module will review international experiences with the use of such
policies to see what type of instruments are more cost effective in achieving the stated policy objectives.

20. **Governing for results** – This module would highlight the so-called New Public Management reforms undertaken in Canada, New Zealand, Malaysia, UK and Australia to reform public administration at sub-national levels.

21. **Designing Local Governments for performance.** This module will elaborate on lessons from international practices in jurisdictional design, incentive framework and management approaches to improving service delivery performance of local governments.

**Workshop Themes**

To facilitate in-depth coverage and discussion of issues, each workshop will be organized around a main theme. This will also facilitate targeting the workshop to relevant officials. The following are proposed as the themes for workshop in CY2004 and CY2005.

**Theme 1: Intergovernmental Finance System for Strengthening Economic Union (CY2004-2006)**

The Role of Governments  
Expenditure and Tax Assignments  
Legal Framework for Fiscal Arrangements  
Grants to Set National Minimum Standards  
Fiscal Equalization Grants to deal with Regional Fiscal Inequities  
Framework for Fiscal Discipline and Fiscal Responsibility  
Institutions of Intergovernmental Relations and Policy Coordination  
Fiscal Policies for Regional Development

**Theme 2: Strengthening Responsive and Accountable Local Governance (CY 2004-2006)**

Designing Local Governments for Performance  
Local and Metropolitan Government Organization  
Local and Metropolitan Finance  
Intergovernmental Finance  
Fiscal Administration at sub-national levels  
Budgeting, financial management and accountability  
Local Economic Development Policies  
Combating Corruption and Malfeasance  
Governing for Results
Theme 3: Making Public Services Work Especially for the Poor (CY 2005-2006)

Governing for Results
Finance and Provision of Infrastructure
Finance and Provision of Health
Finance and Provision of Education
Finance and Provision of Rural Services
Pension and Social Safety Nets
Poverty Alleviation
Investment climate or enabling environment for private sector development

Faculty

The program will draw upon leading practitioners, policy makers and academics to serve as speakers and facilitators at various sessions.

Partnership Arrangements

World Bank Institute:

The World Bank Institute:

- Liaise with the MOF, CIDA and World Bank Country Director for advice on program events and activities
- Identify external consultants with the appropriate expertise to develop individual modules on intergovernmental fiscal relations that are customized to the Chinese context
- Oversee the development of modules’ content
- Build partnerships with government and local institutions to deliver course modules.
- Organize follow-up activities with participants and participating institutions

WBI partners:

1. Ministry of Finance, Government of China and Provincial Finance Bureaus:

The Ministry of Finance (MOF) in consultation with the World Bank Institute will assume the lead role in selecting dates and venues of joint MOF-WBI workshops and identifying participants. The Ministry of Finance will also help ensure the relevance of the course materials by conducting a review of the modules and encouraging participation by central, provincial and local government officials especially by key officials of: the Ministry of Finance responsible for fiscal arrangements and local government oversight, State Planning Commission, Western Development Office, Poor Areas Development Office, and the Ministries of Agriculture, Education and Health.

The local partners of WBI are provincial and local Finance Bureaus. The training centers affiliated with those bureaus would take care of all administrative arrangements for the workshops including travel and accommodation of local participants. The Ministry of Finance
together with provincial and local finance bureaus would invite applications from potential participants and select those who qualify for such training as well as nominate participants to take part in each workshop.

2. Canadian International Development Agency (CIDA):

CIDA will provide comments on the course contents and delivery mechanisms and assist in identifying Canadian government officials (federal, provincial and local), scholars, consultants and institutions who could potentially contribute to achieving the results of this project. CIDA may also suggest names of Chinese partners to attend various workshops. CIDA, at its own discretion, may also propose themes to be discussed, trainers to conduct training and criteria in selecting course participants for use by the Chinese organizers so as to ensure approaches to training that reflect gender awareness.

CIDA will monitor project progress through financial and narrative reports, observation of the learning activities, discussion with the WBI and by receipt of an annual status report and a completion note at the end of the project.

Expected Benefits of the Program:

This project will strengthen development of systems, procedures and capacities, enabling stronger national leadership with regards to fiscal management. Of critical importance is the fact that this project will help develop a model of fiscal management in the provinces which creates greater flexibility in the planning and use of resources, particularly those needed for enhanced skills training of rural, poor women and men. International practices especially Canada’s rich experience with institutions of federalism could be of benefit to China in building a modern, responsive and accountable public governance system. The program will raise awareness and build consensus among Chinese officials about how to improve skills training and service delivery and new management approaches at the local level and options to provide greater access to public services by the rural poor. The program will also help the WBI and external partners in gaining a better knowledge of the Chinese policies and institutions and help improve their dialogue with the Government of China.

Program Contact

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