

THE PEOPLE'S REPUBLIC OF CHINA UNITED NATIONS DEVELOPMENT PROGRAMME

Programme Document

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Programme title: Capacity Building to Support Pro-Poor Fiscal Reform in China

Estimated start date: 01/01/2005

Estimated end date: 31/12/2008

Management arrangements: NEX

Executing Agency: China International Center for Economic and Technical Exchanges (CICETE)

Implementing Agencies: Ministry of Finance (MOF) and State Administration of Taxation (SAT)

Third Party Donor: DFID

<u>Summary of UNDP and cost-sharing inputs</u>	
UNDP:	\$1,000,000
Cost-sharing:	
Third Party	\$5,000,000
GMS:	\$300,000
Sub-total	\$6,300,000
<u>Government inputs (US\$):</u>	
MOF:	\$2,000,000
SAT:	\$2,000,000
Sub-total	\$4,000,000
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TOTAL: US\$10,300,000	

UNDAF outcome(s)/Indicators:

Support continued fiscal and financial reforms, deregulation initiatives and related interventions, with appropriate consideration to macroeconomic stability and equity.

Country Program Expected Outcome(s)/Indicator(s):

Poverty reduction strategy linked to macro-economic framework through pro-poor fiscal reforms, micro-finance and trade policies.

LPAC review date: 23 November 2004

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**GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA
AND
UNITED NATIONS DEVELOPMENT PROGRAMME**

**Capacity Building to Support Pro-poor Fiscal Reform
in China**

Programme Brief

The objective of the programme is to support the widened implementation of on-going fiscal reforms as well as to address emerging policy development and other capacity needs in this area, with a particular emphasis on poverty reduction issues. Building upon the work done under the previous program in public expenditure management and taxation, the programme will focus on addressing human capacity and institutional needs at sub-national levels, especially in less-developed regions. The programme will also support, as a separate TA component, the development of pro-poor fiscal policy initiatives.

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Part I: Situation Analysis

1.1 China has made enormous progress in economic and social development in recent decades, and now stands poised to meet most of its Millennium Development Goals. Rapid economic growth and major structural changes have accompanied the continuing transition from a centrally planned system to a socialist market economy. It is increasingly acknowledged that transparent and efficient public expenditure management, effective tax administration, as well as tax policy reforms are keys, not only to meet the needs of a market economy, but also to mobilize and better allocate resources for reducing poverty and inequality.

I.a Fiscal reforms: Achievements and Challenges

1.2 Over the past five years, the Government has considerably broadened the scope of reforms in the management of public finances in China, with important changes initiated in public expenditure management and the tax system and administration. Achievements have been noticeable in areas such as the introduction of Single Treasury Account, the reform of rural taxes and administrative charges, revised revenue-sharing arrangements between the center and the provinces; strengthening the financial capacity of primary level government authorities, the separation of the management of revenue from the management of expenditures; wider participation in the budget formulation process; the reform of procurement; tightening the auditing and supervision of budgetary funds and improvements in budget planning and preparation. Remarkably, China has developed solutions to public financial management, inter-governmental fiscal relations and domestic resource mobilization that are in many ways unique. It should be recognized within the existing framework of public financial management, there are examples of successful innovative approaches that need to be identified and assessed to see whether there are possibilities for replication in other regions or at other levels.

1.3 However, as highlighted in the recent workshop on “Capacity Needs Assessment of Fiscal Reform and Management in China” (Beijing, February 17-18, 2004), the depth and coverage of the fiscal reform process has been uneven, and there is scope for strengthening the links between fiscal reforms and poverty reduction goals. This requires enhanced institutional and capacity building efforts on various fronts:

1.4 First, there are still many critical issues in a number of legal, structural and policy areas that need to be more fully addressed in order to improve the efficiency of public expenditure management (PEM) and increase domestic resource mobilization, two major prerequisites for poverty reduction. These relate to the following: budget laws and government financial regulations; budget planning and formulation; budget implementation and the possible role of performance-based or output-oriented budget systems; strengthening accounting and MIS systems, tax policy and administration, the financing and implementation of poverty alleviation measures, tax policy and administration and the definition of expenditure and tax responsibilities between different government levels. In all these areas, capacity constraints in the management and implementation of reforms have emerged, especially at the sub-national government levels. Those capacity constraints need to be addressed by a coordinated training and institutional capacity building program.

1.5. Second, disparities in government income and financial resources across regions have led to the emergence of widening gaps in the provision of basic social services, with important consequences for future patterns of income distribution, growth and poverty reduction. Remarkably, recent reforms of revenue policy, notably in terms of the rationalization and reduction of farmers' fiscal obligations under the ongoing fees to taxes conversion program have reduced farmers' fiscal burdens and improved transparency in local budgets, but in many instances, this initiative appears to have increased strains on local government finances, leaving limited revenues for the provision of education health and other social services. In order to be "pro-poor" the reforms should not compromise local authorities' financial capacity and their ability to provide basic social services. This leads to stress the importance of assessing the impact of fiscal policy and reforms on poverty reduction in a comprehensive manner.

1.6 Third, the current phase of reforms, where the objectives are deepening of ongoing initiatives and greater coverage at the sub-national level, the issues of sequencing and integration acquire even greater importance for an effective national fiscal reform strategy. Envisaged changes in budget legislation, budget classification systems, accounting and IT systems need to be coordinated and sequenced carefully in order to derive maximum benefit from synergies in the fiscal reform process and to take into account the complex financial linkages between different levels of government.

1.7 Finally, the success of the entire reform program will hinge upon a substantial expansion of institutional capacity at every level of government, making it vital to develop the modalities for institutionalizing training programs at all levels and to make effective use of external technical assistance. China has an advantage over many countries in that the stability of its policy making processes allows the development of long-term strategies which may require considerable lead times in terms of preparatory work and prior actions.

I.b Implementation issues: building upon lessons learnt¹

1.8 Achievements in the fiscal reform area have benefited from significant technical assistance provided by bilateral and international organizations. Considerable groundwork was done under UNDP/DFID programme (Fiscal Policy and Management Reform) over the period 2000–2003 in areas such as budget and treasury, tax administration, and tax policy reforms². While implementation has been successful in most areas of assistance, important lessons can be drawn for the current programme, with a view to enhancing effectiveness of the support provided.

¹ See also Annex II for lessons learned from the earlier programme (Fiscal Policy and Management Reform: CPR/00/515) from the July 2004 evaluation report (section 4.3).

² Progress has been achieved in the following areas: Reforming budget formulation; Reviewing the legal framework; Consultations on the budget classification system, supporting development of the Single Treasury Account system; Completion of a provincial public expenditures review; Completion of action plans and technical studies on tax policy, tax preferences, social security tax, small business taxation; The development of a strategic plan for more effective tax administration; Training and capacity building in the MOF and SAT; and Preparation of a plan for computerization of the tax administration system.

1.9 A large number of technical reports were prepared and the visits of external experts and their participation in various workshops and seminars at the center and in selected provinces introduced the concepts underlying modern PEM, tax policy and tax administration. While some of the pilot programmes had been successful, there was a need for capacity building as the reforms were extended to the national level. These support activities comprised staff training, systems development and the procurement of equipment, including extending the use of ICT for improving efficiency. Generally, such activities appear to have enhanced the exposure of personnel to modern fiscal management concepts and methods. The extensive involvement of officials in provincial governments has had a positive impact on implementation, but participation and benefits have been uneven. Also, the effectiveness of the training and interaction program with officials in key agencies was affected by high staff turnover, suggesting that there is a need to develop a core group of technical personnel who would be assigned to each sub-component of fiscal reform. Limited coordination between government agencies was one of the factors underlying staff turnover, which in turn resulted in a loss of institutional capacity and memory.

1.10 Ensuring ownership - reforms must be demand driven - and building up domestic technical expertise in the fiscal reform area – to lead training activities and to assist in modifications to reform proposals in line with local capacities and local/regional requirements - are essential to ensuring the sustainability of the envisaged reforms, given that the process of fiscal reforms needs to be a continuous one, adapting to changing needs and circumstances of the nation.

1.11 Ownership may be ensured through extensive consultation at all levels and a more effective dissemination strategy. Indeed, the scale of fiscal reforms in China – particularly when taking into account the various levels of government – is such that the dissemination of ideas and facilitation/technical support can only be done through local experts. International experts inputs would need to be used primarily to support the development of overall strategies, assist pilot programmes and training activities (seminars, workshops and study tours) in collaboration with national experts. There is a need for greater continuity in both national and external experts fielded as well as designated counterparts. National experts must play the main role in the process of institutionalizing the training, monitoring and evaluation functions. In this context the need to develop suitable Chinese language training materials for the different reform areas should be emphasized.

1.12 Assistance in budget legislation, budget classification systems, accounting and IT systems would need to be better coordinated and sequenced carefully in order to derive maximum benefit from synergies in the fiscal reform process and to take into account the complex financial linkages between different levels of government. Some areas of support are indeed closely interlinked in that for consistency and compatibility requirements to be met (and unnecessary revisions and adjustments avoided); they need to be planned in tandem, as part of an overall fiscal reform strategy. For example, changes in the budget classification system and the accounting framework as well as the MIS would need to be closely integrated for these reasons.

Part II: Strategy

II.a National Strategy

1.13 The Country Strategy for the immediate and medium term future was outlined at the 16th Chinese Communist Party Congress. The latter called for a deepening of fiscal reforms aimed at improving budgetary planning and implementation processes and enhancing resource mobilization through changes in tax policies and strengthening tax administration. Reforms were essential to

- maintain high rates of economic growth through the expansion of social and physical infrastructure essential to support the growth of labor productivity and encourage increased domestic and foreign investment;
- integrate successfully into the global economy, maintain external competitiveness and to bring the tax and incentives structure into line with international practice;
- reduce inequalities of services in terms of both quality and coverage across income groups and across regions;
- strengthen the rule of law in fiscal management and make the budget more open and transparent; and
- ensure a sustainable pattern of economic and social development as well as poverty-reduction, equity and welfare through the expansion of poverty alleviation expenditure programs and the development of a more equitable tax system that reduces the relatively heavy fiscal burden on farm households.

1.14 The Government's fiscal reform priorities and ongoing activities were reviewed in the "Report on the Implementation of the Central and Local Budgets for 2003 and on the Draft Central and Local Budgets for 2004", presented to the 10th National People's Congress by H.E. Jin Renqing, Minister of Finance⁴. The fiscal reforms in various areas were reviewed, including the rationalization of rural taxes and administrative charges, reform of the export tax rebate mechanism, and reforms of the budget management system. The latter reforms included the separation of the management of revenue from the management of expenditure, improvements in budgeting procedures, the extension of centralized treasury revenue and payments, changes in the procurement system and tightened supervision of budgetary funds.

1.15 Key issues for the future identified in the Report included the deepening of ongoing fiscal and taxation reforms, improving the public financial management system and the promotion of institutional innovation. These fiscal reforms would be directed towards supporting all-round, balanced and sustainable development of the economy within a framework that would ensure improvements in the overall well-being and welfare of the people of the country. Five key aspects of development would need to be carefully coordinated and balanced: urban and rural development; development among different regions; economic and social development;

⁴ Delivered at the second session of the 10th National People's Congress on March 6, 2004.

development of man and nature; and domestic development in the context of opening up to the outside world (globalization).

II.b Rationale for UNDP Support

1.16 The current programme to support fiscal reforms in China is very much in line with the goals of the United Nations Development Assistance Framework (UNDAF) for China⁵. In particular, the current programme, would assist the authorities to widen the coverage of fiscal reforms to less-developed provinces and to strengthen pro-poor fiscal reforms – the expansion of public expenditures on poverty alleviation programs and the formulation and implementation of the tax policy changes that would ease the fiscal burden on poverty groups and help re-establish regional equity while reducing social and gender inequities.

1.17 The UNDP has played an important role in the coordination of technical assistance under the earlier fiscal reform (2000-2003) and is well placed to undertake a similar role for the current programme. As part of this role of coordinating and integrating the efforts of China's external development partners, the UNDP (in conjunction with DFID) organized an international workshop to assess capacity needs in the fiscal reform area that was attended by representatives of various Central and Sub-national government agencies, donors as well as national and international experts.

1.18 The 17 – 18 February 2004 International Workshop on Fiscal Reforms served as an excellent platform for dialogue and consultations among stakeholders particularly from the central and local government level. The workshop helped to get a better insight into the level and extent of fiscal reforms under way in China and provided an opportunity for exchange of international and national experiences. The meeting brought together stakeholders from the Chinese Government (particularly from the MOF and SAT) as well as participants from various provinces together with the key international partners. Considerable discussions took place on possible future directions for fiscal reform, in the light of the progress achieved so far and the changes in PEM in other countries. Key areas for future action were identified as well as institutional capacity needs in fiscal and tax administration for ensuring a sustainable pattern of economic and social development in line with the achievement of China's Millennium Development Goals and poverty-reduction, equity and welfare objectives.

II.c Programme Strategy

1.19 The current program is designed as a comprehensive capacity building initiative comprising of 6 strategic components:

- Component A: Enhanced capacity to formulate and implement pro-poor fiscal initiatives
- Component B: Improved mechanisms and processes for budget formulation and management

⁵ These goals are to: 1) Promote sustainable development to reduce disparities; 2) Support favorable conditions for the national reform and development process and 3) Assist China's efforts in meeting global challenges and promoting international cooperation.

Component C: Treasury reforms extended and Accounting System Reforms initiated
Component D: Tax legislation and policy developed and adjusted to the needs of China's transition towards a market economy
Component E: Strengthened capacities in tax administration and broadened tax base
Component F: Support Program Management and Coordination

1.20 While it covers broadly the same reform areas as the previous program, the program reflects progress made in each of the reform areas and address emerging needs and issues as identified through consultations with key stakeholders.

1.21 The program will support the widened implementation of on-going reforms in public expenditure management, tax administration and policy, through building upon the work done under the previous program as well as on the experience of pilot programs in specific sectors and/or regions.

1.22 The programme interventions are two folds.

First, is to support policy development. Transparent and efficient public expenditure management, effective tax administration and tax policy reforms are all keys to mobilize, free-up and better allocate resources for reducing poverty reduction and inequalities. In addition to supporting those important outcomes, the program has also been designed so as to further strengthen the links between the fiscal reform process and poverty reduction goals, following a three-pronged approach:

(i) A separate strategic component (Component A) of the TA program will be entirely devoted to strengthening national capacities in developing pro-poor fiscal initiatives on both the spending and expenditure sides. High priority will be given to measures for strengthening the finances of sub-provincial (county) government authorities which bear the primary responsibility for provision of basic social and economic services, reducing the fiscal burden of farmers as well as improving the system of intergovernmental fiscal relationships. The TA will also seek to enhance national capacities to assess the impacts of fiscal policies on poverty reduction, through specific pilot training programs.

(ii) While Component A covers issues that have been identified by stakeholders as immediate priorities, the program, will, on a case-by-case basis, ensure that review and policy oriented-research activities under other strategic components will also consider, as relevant, particular implications for poverty reduction (e.g. research on the feasibility of unifying rural and urban tax systems may address implications in terms of redistribution, as well as review and research work on environmental taxation)

(iii) In a cross-cutting manner, i.e. for all relevant activities under each substantive component (A to E), the program will put the emphasis on addressing needs and concerns of public finance stakeholders at sub-national levels, especially in less developed western provinces. In this regard, review and policy oriented research activities in the various reform areas will as much as possible cover provinces/counties from less developed areas.

Second, is to support capacity building. Strategy to support implementation of capacity strengthening consists of the following:

(i) Enlarging the target beneficiaries of capacity building support from central level officials to sub-national officials and staff, in particular from western regions;

(ii) Enhancing knowledge of national officials from central and local governments and national experts through their participation in tailored training courses/workshops in and outside China, in missions to review international experiences and lessons learned in thematic areas, or through professional attachments abroad in relevant departments.

(iii) With a view to maximizing synergies among activities, the program will seek to ensure that outcomes of thematic workshops/seminars, as well as of relevant learning/exposure activities in and outside China, are effectively integrated into the policy study work, as relevant. This shall be achieved through careful sequencing and timing of activities, integrating findings from follow-up mission reports by participants in in-country and overseas learning/exposure activities that capture lessons learned, best practices and new ideas.

1.24 In light of lessons learnt from last programme, the implementation strategy for the program will include the following key elements:

(i) In order to support ownership and maximize impacts of programme in building national capacities, an important role will be assigned to national fiscal policy experts, supported by international experts within the TA teams involved in programme thematic studies, seminars, workshops. In particular, national experts will work with international experts to advice on implementation matters. In this regard, national advisors are expected to commence preparatory work prior to the commencement of each input from international consultants, and complete each assignment after the departure of the external experts. This is to provide adequate time to prepare background materials (including translations), assist relevant agencies in preparing relevant documents, to arrange translations of programme reports, prepare training materials based on them, and hold discussions with relevant officials on the team's recommendations and implementation plans.

(ii) An active dissemination strategy will be developed to strengthen ownership and promote a clear understanding of fiscal reform proposals being put forward by the programme among different groups of stakeholders. All major reports, studies as well as training materials⁶ produced by the programme will be translated into Chinese. Further, the programme will encourage participation of a broad range of government and non-government stakeholders in all workshops and seminars held to discuss specific issues, needs, implementation experiences and new proposals, at both national and local levels.

⁶ Training materials, which would be developed in consultation with external experts (who would draw upon the latest theoretical and operational literature), would have a core 'overview' component that would provide an overview of the reform process and how each component fitted into the overall program, and specialized components for each specific reform area (e.g., budget planning, tax policy, single treasury account).

(iii) High priority will be given to sequencing and integration of the various components. Implementation of each component of the program will be planned to ensure internal consistency and to maximize the synergies obtained through the implementation of related clusters of activities. The review and integration function is to be enhanced through the introduction of a system of annual workshops that will provide for the exchange of ideas between experts and practitioners from different government levels. Those workshops would also provide an opportunity to:

- Share reform experiences,
- Identify emerging bottlenecks and develop ideas for future reform directions,
- Discuss possible adjustments to the current programme, in the light of implementation experiences to date and changing needs, and
- Assist in dissemination of the technical studies and training materials prepared under the programme.

(iv) Mechanisms will be developed for regular knowledge sharing and cross-fertilization between the current program and other on-going assistance in the fiscal area. In particular, each activity the initial work of the TA teams will involve assessing the progress achieved by earlier TAs in the same area, and to ensure that the work of the current programme is effectively integrated with the work of ongoing TAs provided by other agencies.

(v) The above improvements to program implementation will be supported through the establishment of a Program Management Office, as one of the Program key components (Component F).

1.25 The assessment of programme internal and external risks and possible mitigation measures at the outcome, output and activity level was undertaken, as part of the programme development and logframe workshop held in August. Important concerns such as national ownership, sequencing of program activities, coordination among stakeholders, program sensitiveness to particular needs of less developed areas, information and knowledge accessibility and dissemination have been addressed and internalized to a large extent in the program strategy and design, as detailed in previous paragraphs. Regarding ownership, the program development has remarkably built upon an extensive consultative process with key national stakeholders, involving two workshops and close collaboration with senior national fiscal experts to discuss program objectives, TA priorities, as well as specific activities. The involvement of relatively wider groups of trainees at both national and subnational government levels shall contribute to mitigate the risk of insufficient cascading of training. The risk that over the duration of the programme, capacity building and other needs for assistance may change or may be misaligned with the pace of the reform process inherently calls for flexibility. Annual conferences/workshops involving a broad range of stakeholders to discuss reform progress, emerging issues as well as appropriate adjustments to the current programme framework shall contribute to mitigate this risk. Finally, the upstream risk that some of the key policy directions that underpin the current program design may change is generally very low, given government's strong commitment to support pro-poor fiscal reforms and their rolling-out throughout the country (For more details on program risk assessment and mitigation measures, (See Annex IV).

II.d Intended Beneficiaries

Through the program, technical assistance will thus be provided at various levels of government, with the purpose of enhancing the efficiency of public financial management, thereby freeing resources for the provision of improved social and economic infrastructure and improving cost-effectiveness in the delivery of public services. The primary target beneficiaries are the Ministry of Finance and the State Administration of Taxation and related agencies at the local government level. TA will however be used to look into a series of legal and operational issues linked with the implementation of the reform process, that would cut across governmental agencies, including line ministries. Sub-national governments are also expected to benefit from the program, particularly those provinces that have not been able to participate fully in the fiscal reforms undertaken to-date. The ultimate beneficiaries of this programme would be Chinese citizens who would have better access to higher quality public services. One component of the programme will focus on supporting the planning and implementation of pro-poor fiscal reforms on both expenditure and taxation sides, thereby benefiting poverty groups across the country.

II.e Partnership Strategy

1.32 The successful implementation of the programme will depend on the development of an effective partnership between the different agencies supporting and implementing fiscal reforms in China. These include several agencies of the Government (such as Ministry of Finance, State Administration of Taxation, National Development and Reform Commission, CICETE under the Ministry of Commerce). Strong partnership arrangements will also need to be developed with the Financial and Economic Committee of the National People's Congress, the Office for the Central Leading Group on Financial and Economic Affairs, the State Council's Office on Rural Taxation Reform, line ministries, and local governments. Under the programme close collaboration will be maintained with various national research institutions such as the Fiscal Science Institute, the Taxation Science Research Institute, the Chinese Academy of Social Science, and the State Council's Development Research Center. Cooperation with all these agencies will take place through day-to-day program management, informational exchange and consultation meetings, and discussions in annual conferences.

1.33 There has been increasing interest and commitment from various international agencies in supporting fiscal reforms in China.

DFID will provide financial support to this programme through third-party cost-sharing contributions.

The Asian Development Bank (ADB) is planning to support the fiscal reform in areas of unification of rural and urban taxation, budget law revision and performance-based budgeting. ADB has expressed that its work concerning these areas could be formed as part of this programme and ADB will ensure building synergies of its programme outputs with the relevant components under this programme.

The AUSAID has signed a governance cooperation framework with the government, in which fiscal reform is a key part. Consultations have been undertaken between AUSAID and UNDP on cooperation in this field. There is potential for AUSAID to closely collaborate with this programme.

The European Commission has shown interests in joining this programme. The next cycle of EC's national programme will start in 2005. Depending on the outcome of its technical scoping mission in 2005, specific areas of support could be identified and confirmed by EC for joining in this programme under the modality of UNDP-EC Cooperation Agreement.

The World Bank (WB) was associated with the first phase programme focusing on provincial expenditure review and contributed useful policy advice. UNDP will continue the discussions with the World Bank regarding further collaborations in this new phase programme.

The IMF was actively involved in the first phase programme and has provided valuable contributions. During this second phase, it is expected that the IMF will be an important partner to provide technical support to the programme. Based on consultations between the Government, UNDP and IMF, it is planned that following programme formulation the IMF will field a mission to discuss with the government the specific services it would provide under the programme.

The OECD has experts in fiscal reform with China experience. The programme will keep contact with OECD to seek possible technical support and also ensure cross fertilization of work in fiscal reform field.

Part III: Results Framework.

The duration of the program is 48 months. The present section provides details on the baseline situation in reform areas addressed under each component of the program. Under each component, it also highlights outcomes, as well as intended outputs and related indicative activities. Appendix I provides a summary as well as details on budget inputs.

NB: (i) the sequencing of the activities may need to be adjusted during the course of the programme, as the timing of key policy decisions and implementation will guide TA priorities. (ii) Countries listed for study and site visits and hosting of other overseas capacity building activities are only suggestions.

Component A: Enhanced capacity to formulate and implement pro-poor fiscal initiatives

Baseline situation: With the transition towards a market economy, globalization and faster economic growth, income inequalities have widened and large regional differences have emerged. This calls for developing pro-poor fiscal initiatives, measures to reduce regional inequality and the design of pro-poor policies on both the expenditure and taxation sides. There

are several aspects to the development of pro-poor measures: reforms in provincial fiscal systems; strengthening the finances of county-level government; changes in the transfer system to support local authorities' budgets; fiscal consolidation efforts at the provincial and county level to reduce the excessive levels of administrative costs (and free resources for poverty alleviation programs), better targeting of public expenditure as well as reducing the fiscal burden of farmers.

Also, there are five administrative tiers in China (including the central government), and this layered structure is associated with overlapping of functions and excessive administrative costs. It is critical to reduce the cost of each layer and to transfer a greater share of resources from the upper layers (central, provincial and prefecture) to the county-level that bears the primary responsibility for the provision of basic social services.

Regional disparities in development and fiscal capacity have become a major factor in divergences in social and economic development patterns across regions. The poorer regions are barely able to meet recurrent costs from fiscal revenues and transfers, and are least able to ensure equitable access to basic social services and to expand poverty alleviation programs.

The division of taxation powers and the distribution of revenues between the center and the provinces remain as an issue of contention, with both economic and political dimensions. Despite significant adjustments in the division of legislative power and the revenue-sharing system, some issues relating to the division of governance and expenditure responsibilities remain unresolved. Expenditure assignments to sub-provincial governments have become excessive (including responsibility for the provision of basic health, education and social services) in relation to funding capacity.

Output 1. New Options for pro-poor fiscal policy design developed, with a focus on county level finance

Output target 1.1: A comprehensive policy paper on improving county-level fiscal systems, enhancing public service delivery capacity and county-level fiscal capacity, with a focus on less-developed regions.

Indicative Activities:

- 1.1.1 Organize 2 thematic workshops and seminars at the national and provincial levels to discuss PEM, revenue mobilization, expenditure/revenue assignments, inter-governmental transfer issues at county-level as well as on-going/pilot initiatives in those areas.
- 1.1.2 Conduct an in-depth public expenditure review on a sample of counties in central and western provinces, including a set of practical policy recommendations regarding fiscal consolidation and improvements to PEM, rationalization of expenditure assignments with respect to basic social services, and, improving the sub-provincial inter-governmental transfer system.
- 1.1.3 Organize 4 workshops and seminars in selected counties in the western (3) and northern (1) regions, with approximately 160 participants in total, to obtain government and non-

government stakeholder views on specific issues related to public expenditure programs and other fiscal measures for poverty reduction.

- 1.1.4 Based on workshop and seminar outcomes, conduct an in-depth review and impact assessment of basic social services expenditure programs in selected counties and provide recommendations for improved expenditure prioritization and effectiveness.

Organize a national seminar to discuss findings with participants from central, provincial and county governments, as well as non-government participants.

Output target 1.2: A comprehensive policy paper focusing on options to further reduce the fiscal burden of farmers

Indicative Activities:

- 1.2.1 Organize 2 workshops and seminars involving both government and non-government participants (focusing on the western provinces, with approximately 80 participants) to discuss the effects of on-going tax reforms, with a particular focus on fee-to-tax conversion reforms, as well as other measures for deepening rural taxation reforms and further reduce the fiscal burden of farmers.
- 1.2.2. Drawing upon workshop and seminar outcomes as well as on-going research work, conduct an in-depth assessment of the impact of current fiscal policies tax and fee structures on poor farmer households in selected provinces and counties including recommendations for strengthening the pro-poor orientation of fiscal policies at national/sub-national levels.

Output target 1.3: Central and local government officials trained in pro-poor fiscal policy analysis

Indicative Activities:

- 1.3.1 Organize an international seminar on pro-poor fiscal policies in China.
- 1.3.2 Organize pilot training courses for local government officials assessing the impact of public expenditure programs for poverty reduction, focusing on 4 counties (3 from the western region and 1 from the northern region)
- 1.3.3 Organize visits for senior central and local officials to 2 selected countries (possible hosting countries: UK, France, Australia, Thailand, and Bangladesh) for learning and exposure to best practices in the following areas: effective and cost-efficient service delivery, innovative approaches to rural income generation, fiscal policies supporting equity.
- 1.3.4 Sponsor intensive training courses for central and local government officials on methodologies for pro-poor fiscal policy design and implementation.

Output 2. Policy recommendations on strengthening sub-governments' finance management

Output target 2.1: A policy-oriented study on possible improvements to sub-provincial fiscal management systems, focusing on intergovernmental financial relations in the context of local administration reforms, drawing upon international experience.

Indicative activities:

- 2.1.1 Review pilot reforms of sub-provincial intergovernmental fiscal relationships, including expenditure and revenue assignments as well as transfers, in the context of local administration reforms
- 2.1.2 Organize 2 workshops and seminars at the national and provincial levels, with participants from government and non-government, to examine issues of inter-governmental relations
- 2.1.3 Arrange for translations of documents on fiscal federalism, intergovernmental fiscal relations and local government finances.
- 2.1.4 Organize missions for senior central and local officials in 2 selected countries (possible UK, Canada, the U.S. and Australia) to learn from their counterparts on the following issues: the responsibilities and financial relations between different tiers of government, the devolution of functions and measures taken to strengthen state/provincial and local governments' finances to meet these enlarged functions, and the evaluation and management of sub-national liabilities.
- 2.1.5 Organize training courses for central and local government budget officials on developments in PEM in selected countries (Possibly U.K., Australia, Canada, and New Zealand).
- 2.1.6 Based on outcomes of Activity 2.1.1 to 2.1.5, prepare final recommendations on the way to improve the intergovernmental fiscal system at sub-provincial level for discussion through a national seminar.

Output target 2.2: A review paper on the management of sub-provincial fiscal risks including monitoring and evaluation of local government liabilities, with a focus on less-developed western provinces.

Indicative activities:

- 2.2.1 Undertake 2 workshops to discuss fiscal risks and contingent liabilities at the county level.
- 2.2.2 Drawing upon the outcomes of the workshops, prepare the review paper

Component B: Improved mechanisms and processes for budget formulation and management

Baseline situation: The budget needs to become a more effective policy instrument in order to improve the efficiency and effectiveness of resource allocation. An appropriate legal framework needs to be developed, taking into account prospective changes in budget planning, execution and monitoring in order to ensure that public financial operations are closely governed by law. Budget planning procedures are being increasingly standardized, but the integration of budget planning processes needs to be underpinned by the incorporation of off-budget funds into the budget. Moreover the entire budgeting process needs to be coordinated effectively with overall macroeconomic management.

The new budget classification system is to be extended to all levels of government, supported by IT systems. In this context there is a need for the Business Process Reengineering (BPR) in conjunction with plans for IT systems development. Reform of budget implementation processes

should be consistent with modern budget management practices, notably in terms of developing a greater performance orientation and reducing the role of extra-budgetary funds. Greater transparency in budget management is expected to yield significant dividends in terms of savings and improved incentives to ensure cost-effectiveness.

There may be scope to gradually introduce a greater focus on outcomes in the budget planning and execution process. The possibility of eventually shifting from a line-item budget to program budgeting would need to be assessed in conjunction with the possibilities of introducing a greater performance orientation in the budget process. Monitoring and evaluation of programs therefore need to be strengthened, together with the use of user-feedback mechanisms and impact assessments. Raising awareness of the issues involved, introducing the experiences of other countries and research into these areas would be the focus of technical assistance at this stage, although it must be noted that a decision on the introduction of performance-oriented budgeting processes has yet to be taken.

Output 3. New budget classification system introduced at all government levels

Output target 3.1: Proposals for adapting the budget classifications framework for local level government developed, drawing upon international practices and taking into account functional and capacity requirements.

Indicative activities:

- 3.1.1 Prepare a policy paper and proposals for application of new budget classifications in local governments.
- 3.1.2 Translate some countries' budget classifications and forms.
- 3.1.3 Organize site visits for central and local government officials to discuss with their counterparts in other countries (Possibly U.K., Canada, Australia, U.S.A, New Zealand) practical issues regarding the implementation of modern budget classification, especially at sub-national levels.

Output target 3.2: Training package on revised budget classification systems to national, provincial and county government officials

Indicative activities:

- 3.2.1 Prepare user-friendly training materials and guidelines for classification of expenditures and receipts (Chinese-language version).
- 3.2.2 Organize a total of 2 workshops and seminars at the national and provincial levels to explain proposed changes in budget classification system and evaluate the appropriateness of the manuals (and assess possible modifications to the Chinese language version of these manuals).
- 3.2.3 Provide training and mentoring of officials at different levels of government to improve understanding of reform objectives, general classification principles, links to accounting and MIS changes.

Output 4. Revision process of budget legislation moved forward

Output target 4.1: A policy-oriented paper putting forward recommendations for revisions of current budget legislation, drawing upon international practice*.

**The paper would suggest possible modifications to define responsibilities and powers of financial authorities at different levels of government, and to support proposed changes in budget formulation and implementation processes. The proposed revisions should describe financial authorities of central and local governments (e.g., whether they have the right to issue bonds), budget procedures (including more participatory planning processes, the use of public hearings), fiscal transparency issues and the budget cycle.*

Indicative activities:

- 4.1.1 Review existing budget legislation with officials of different levels of government on legal issues and financial regulations, with visits to local governments.
- 4.1.2 Undertake 2 workshops and seminars at the national and provincial levels (approximately 80 participants) to review the current budget law and possible adjustments.
- 4.1.3 Prepare and publish a comparative study on budget laws and related materials in selected countries.
- 4.1.4 Organize study tours for senior officials to discuss the scope and operation of budget laws with their counterparts in two selected countries.(Possibly the U.K., Canada, France, Australia, Norway, U.S.A.)
- 4.1.5 Drawing upon the outcomes of activities 4.1.1 to 4.1.4, prepare a paper highlighting current gaps and providing recommendations for revisions of current budget legislation
- 4.1.6 Organize intensive overseas training courses in selected OECD countries on budget law for central or local budget officials dealing with these issues.

Output 5. Strategic framework for introducing performance-based and outcomes-oriented budgeting developed

Output target 5.1: A comparative review of experience with performance based budgeting in different countries and a strategic paper providing options and recommendations for the adoption of some aspects of performance measurement in budget implementation in China*.

** Those papers will be based on extensive national consultation and will incorporate research by national consultants on various areas where a performance-based budgeting approach may be initially introduced. The development of the roadmap will involve an initial assessment would examine the necessary changes to administrative processes, budget management systems and the legal framework that would be needed prior to the introduction of a performance-oriented budgeting system. A second phase of work would follow the completion of the study tour program by officials who would participate in the assessment of the prospects and challenges for the introduction of performance-based budgeting.*

Indicative activities:

- 5.1.1 Prepare an issues paper based on consultations with different government levels, issues could include how to set performance targets and indicators, management of related information

- 5.1.2 Undertake consultations with line agencies on the implications of developing a greater performance orientation in budgeting, on the basis of deepening reform of departmental budget.
- 5.1.3 Organize site visits for officials and technical staff for exposure to best-practices and lessons learned in the area of Performance/Outcome-oriented budgeting in selected countries (including New Zealand, Australia, Denmark, Sweden, U.K and Canada, etc.)
- 5.1.4 In cooperation with national institutes and universities, organize seminars and workshops to evaluate the possibility of adopting some features of Performance/Outcome oriented budgeting in China.
- 5.1.5 Identify and assess the necessary changes to administrative processes, budget management systems and the legal framework as well as capacity building needs and other key challenges for introducing performance-based budgeting and proposing recommendations for development of performance-based and outcomes-oriented budgeting reforms

Component C. Treasury reforms extended and Accounting System Reforms initiated

Baseline situation: The current government accounting system lacks standardized guidelines and is relatively limited in coverage (excluding some government assets and contingent liabilities, for example). The extension of coverage of the government accounts would help identify fiscal risks and provide policy makers with a more accurate view of the government's financial position. This is critical to ensuring greater transparency in public financial management and more effective utilization of public resources.

Further reforms in treasury and initiating accounting system reforms would be essential to enhance transparency, improve efficiency in financial operations, strengthen fiscal discipline and develop a more comprehensive budget. This would free resources for poverty-alleviation and social sector programmes and help ensure that competing claims for public resources can be evaluated in a systematic manner. In this context it is important to support ongoing efforts to extend the Treasury Single Account system to all agencies and levels of government and to improve cash management. The possibility of moving to a partial accrual system may also be explored, in line with envisaged reforms in PEM.

Output 6. Enhanced coverage and comprehensiveness of accounting system reforms

Output target 6.1: Recommendations for initiating changes to the current accounting system to make it more comprehensive, drawing upon international practice

Indicative activities:

- 6.1.1 Design a program to extend coverage of transactions recorded in the government accounting system; taking into account planned changes in budget classification and IT systems.
- 6.1.2 Organize study visits for central and local government officials to examine the operations of comprehensive accounting systems and arrange for overseas professional attachments

of relevant technical staff in accounting departments of selected countries(Possibly U.K., U.S.A., Australia,Canada and New Zealand)

Output target 6.2: Feasibility study on moving to a modified accrual accounting system, with a focus on changes in accounting standards and the Chart of Accounts

Indicative activities:

- 6.2.1 Organize workshops (2) on modified accrual accounting for officials of different government levels, with participation from international experts
- 6.2.2 Organize 2 seminars in China and identify one seminar abroad (to be attended by about 10 national participants) to review the current cash-basis system and examine the feasibility of moving to a modified cash-basis system or a modified accrual system.
- 6.2.3 Prepare a feasibility study on moving to a modified accrual system

Output 7. Recommendations for extending the Treasury Single Account (TSA) System and improving Cash Management systems

Output target 7.1: A review paper of current issues in extending the TSA system to sub-national levels, drawing upon lessons learnt from past pilot experiences as well as international practice

**The study would also examine different treasury models, focusing on the legal framework governing treasury operations in the context of issues such as MOF-Central Bank relations. The paper would include recommendations on making the regulatory framework for treasury operations more consistent across central and provincial government operations.*

Indicative activities:

- 7.1.1 Prepare a report reviewing issues in extending the TSA system nationwide, different treasury models and possible measures to strengthen the relevant legal and regulatory framework.
- 7.1.2 Review experiences with pilot programs through visits, and examine the special problems of provinces and counties that have fallen behind in terms of progress with TSA adoption and difficulties in implementation
- 7.1.3 Organize study tour for central and local officials to review and examine treasury and cash-management models in selected countries(Possibly Australia, New Zealand and Canada),

Output target 7.2: A set of recommendations for reforms to current cash management model, drawing upon international practice.

Indicative activities:

- 7.2.1 Undertake 2 workshops to discuss possible modifications in the cash management framework to maximize savings (and interest earnings) for the government through more effective integration of its financial operations, drawing upon other countries' experiences.

7.2.2 Prepare a comparative study on different cash management models and provide recommendations for reforms to the current framework

Component D. Tax legislation and policy developed and adjusted to the needs of China's transition towards a market economy

Baseline Situation: With the rapid development of the national economy and greater integration into the world economy (reflected in China's entry into WTO), the institutional framework and the structure of the tax system needs to be adapted to meet emerging challenges. These developments also highlight the need to develop an appropriate legal framework and a basic tax law in line with current tax-sharing arrangements between different government levels.

Taxation issues in the overall context of financial relations between the center and the provinces need to be carefully addressed. The division of taxation powers and the distribution of revenues between the center and the provinces remains an issue of contention. Despite significant adjustments in the division of legislative power and the revenue-sharing system, issues relating to the division of expenditure responsibilities remain unresolved. Expenditure assignments to sub-provincial governments have become excessive relative to funding capacity, indicating the need for a review of local government funding and revenue raising arrangements.

The current real estate tax system is highly fragmented, comprising house property tax, urban real estate tax, and city and township land use tax. Coupled with this are the problems of valuation criteria and methodologies, differential tax systems regime to urban and rural areas as well as to domestic and foreign enterprises. There is a need for developing and rationalizing the real estate tax system, as well as better information systems drawing upon a fully computerized system of data on real estate transactions.

The current agriculture tax system is viewed as inequitable and harmful to the development of the rural economy while the divide between urban and rural tax systems also contributes to put rural areas at a disadvantage. There is a need to gradually move towards a unified tax system, while paying a particular attention to redistributive effects of the unification process.

In recent years environment protection initiatives have been strengthened but in the fiscal area the system of levying charges needs to be reviewed to make it a more effective instrument for environmental protection. Relevant policies and regulations are scattered among environment-related taxes, some of which are based on economic performance rather than pollution. In this context the feasibility of introducing a comprehensive environmental tax system may be explored as this would rationalize the current charges and levies into a more coherent tax system applicable to all areas.

Output 8. Strategic frameworks for the re-assignment of taxation powers, local taxation reform and basic tax law formulation developed

Output target 8.1: A set of suggestions on the re-assignment of taxation powers between central and local governments, drawing upon lessons learnt from reform experience in different federal systems.

Indicative activities:

- 8.1.1 Organize 4 workshops with participation by foreign experts on tax power-sharing issues in China and arrangements in different countries
- 8.1.2 Organize missions for central and local officials to review and discuss issues relating to tax legislative power, tax imposition power and tax revenue sharing arrangements, with their counterparts in countries that have made important adjustments in local government finances over the past three decades (Possibly Australia, Canada, the U.S.A. and UK):
- 8.1.3 Prepare a paper on possible reforms of tax power division, drawing upon outcomes of activity 8.1.1 to 8.1.2

Output target 8.2: Policy oriented paper including recommendations on sub-national (provincial and county levels) tax reform over the medium term (the next five years), drawing upon international experience.

Indicative activities:

- 8.2.1 Prepare a policy paper on the basis of consultations with MOF and SAT.
- 8.2.2 Organize 2 workshops (5 days each) on other countries' experiences in sub-national tax system reform.
- 8.2.3 Organize a mission for central and local officials to selected countries to review and report on the experience with sub-national tax reforms (U.K. Australia, Argentina, Canada and New Zealand), as an input to activities 8.2.1 and 8.2.2

Output target 8.3: Comparative study of tax laws, focusing on basic tax laws.

Indicative activities:

- 8.3.1 Conduct extensive consultations to prepare recommendations on basic tax laws
- 8.3.2 Prepare a comparative study of tax laws.
- 8.3.3 Provide advisory support to technical group preparing proposals for a draft basic tax law.
- 8.3.4 Organize 4 workshops with participation of international tax law experts and senior officials responsible for drafting tax laws.
- 8.3.5 As part of the comparative study work, organize a study mission for officials involved in tax law drafting to comprehensively review the basic tax law system of a selected country (possibly France).

Output target 8.4: Senior officials trained on taxation power assignment, local taxation and tax legislative power

Indicative activities

- 8.4.1 Organize study tour for senior officials from MOF and SAT to review and discuss with their counterparts in other countries, approaches to taxation power assignment, reforms in taxation jurisdictions of local governments and monitoring of taxation arrangements at local level

- 8.4.2 Organize overseas training courses for officials on technical issues relating to sub-national taxation (possibly in Japan), as well as to monitoring of taxation arrangements at local level.
- 8.4.3 Organize overseas training course on tax legislative power for senior officials dealing with these issues.

Output 9. Options and action plans for establishing a unified tax system for urban and rural areas and for modernizing the real estate tax system developed

Output target 9.1: A review paper examining the current differences in the tax system for urban and rural areas and recommendations for implementing a medium-term plan for unification of the tax structure, drawing upon international experience.

Indicative activities:

- 9.1.1 Prepare a review paper on the structure of urban and rural taxation and recommendations for change, drawing upon international experience.
- 9.1.2 Organize thematic workshops (4) at which foreign taxation experts would make presentations on tax policy developments, with particular attention to rural tax policies and other incentives provided to less-developed rural areas.
- 9.1.3 As an input to 9.1.1, arrange missions for officials and tax experts to review the design and functioning of rural taxation systems in 2 selected countries(possibly Australia, New Zealand, Thailand and Malaysia)

Output target 9.2: A comparative study of the current real estate tax regime and the differences in the tax treatment of urban and rural land, and proposals for the unification of the tax system and rationalization of the system on the basis of modern real estate tax assessment methodologies.*

** This paper will include an action plan for the development of a fully computerized system of data on real estate transactions.*

Indicative activities:

- 9.2.1 Prepare a study based on consultations with MOF and SAT and discussions on the structure of real estate, rural and urban transactions and valuation trends
- 9.2.2 As part of the comparative study work, organize missions for officials and tax experts to review real estate tax legislation, policy, administration and compliance issues, the computerization of data on real estate transactions, and recent innovations in real estate taxation and valuation techniques in selected countries(Thailand, Singapore, Malaysia, Canada and the United States).
- 9.2.3 Undertake four workshops on various aspects of real estate taxation.

Output 10. Options for enhancing tax and incentive framework for environmental protection development

Output target 10.1: Study on the feasibility of integrating and rationalizing current various environmental protection taxes and introducing a comprehensive environmental tax, drawing upon international practice.

Indicative activities:

- 10.1.1 Arrange 2 international seminars (40 officials/experts each) to discuss experiences and prior work in the area of environmental taxation and possible modifications to the current system in China.
- 10.1.2 Arrange study visits for tax officials and experts to review and report on environmental taxation experiences and lessons learned in selected countries that have developed effective and innovative models for environmental taxation (these would include New Zealand, Canada, Sweden and Australia).
- 10.1.3 Drawing upon outcomes of 10.1.1 and 10.1.2, assess the feasibility of introducing a comprehensive environmental tax.

Component E. Strengthened capacities in tax administration and broadened tax base

Baseline situation: Reforms in capacity building include reorganization along functional lines, human resource management and staff development/training as well as support systems to implement an increasingly complex tax reform agenda.

Efforts must be linked with the need to develop an effective educational system for taxation administration – that would foster a change in mindsets to improve efficiency and transparency – and to address capacity building needs in a comprehensive and systematic manner.

Despite major changes over the past decade, the tax administration structure remains hierarchical and centralized; while the organization of staff needs to be moved away from tax-type basis to functional classifications (registration, payment, assessment, audit, sanctions/prosecution). The central tax administration remains severely understaffed (at about 350 officials) compared to the number of officials operating at the field level (approximately 1.1 million), while information flows and data-sharing between different levels and sections remains inadequate. There is a need to modernise MIS and data-sharing arrangements, to develop organisational structures along functional lines, and to develop a greater performance orientation among staff. The TA component would assist in supporting the authorities' ongoing efforts to reorganise the tax administration and strengthen institutional capacity at both the central and sub-national levels.

The capacity of tax agencies currently cannot meet the requirements of the more diversified new structure of the economy. There are a number of areas such as taxation of non-profit organizations (NPOs), corporate mergers and acquisitions, and tax administration of SME's where there is a need for clarity, establishing proper registration systems as well as adequate tax

management collection systems. International taxation administration capacity also needs to be strengthened, notably with regard to issues of non-resident taxation, transfer pricing and tax information sharing.

Output 11. Strengthened Institutional and Human Capacities for Efficient Tax Administration

Output target 11.1: Review paper on the current structure of the tax administration at the central and provincial levels, capacity building needs and possible institutional reforms to enhance the operational efficiency of tax administration.

** The study would assess possible measures to reduce administrative costs and improve compliance (particularly the tax-monitored cashier system), as well as to strengthen the in-house capacity to undertake analytical work.*

Indicative activities:

- 11.1.1 Review capacity building and training requirements
- 11.1.2 Organize missions for officials involved in senior management functions to discuss with their counterparts in selected countries (possibly Australia, New Zealand, Malaysia, Canada) the institutional and managerial changes required for improving tax administration efficiency at both central and local levels
- 11.1.3 Drawing upon outcomes of activity 11.1.1 to 11.1.2, prepare a review of the current organizational structure and a modification plan
- 11.1.4 Organize 8 seminars on tax administration reform issues to examine possible improvements to current system, as well as development of performance measurement and better personnel management at different levels of tax administration (national, provincial and county).

Output target 11.2: Evaluation of pilot programs to improve administrative procedures and business processes to enhance the efficiency of tax administration*

**. This would be undertaken with a view to supporting initiatives to expand business process reengineering pilot programs and would take into account the need for corresponding initiatives to modernize IT systems.*

Indicative activities:

- 11.2.1 Undertake a comprehensive review of the experience of pilot programs (tax collection and administrative reform – “one city in one province”) and process re-engineering pilot cities/areas, with a focus on Huai An (Jiangsu Province) and Wei Fang (Shandong Province).
- 11.2.2 Prepare recommendations on improvements in processes and review and discussion of these recommendations in workshops.
- 11.2.3 Organize workshops (2) to review implementation of BPR plans.

Output target 11.3: Training materials and programs developed and tailored to the needs of different levels of tax administration.

Indicative activities:

- 11.3.1 Prepare training manuals and other documents
- 11.3.2 Translate training materials and other documents.
- 11.3.3 Support the development of training and HRD plans.
- 11.3.4 Organize seminars to assist in “training the trainers”.
- 11.3.5 Support the establishment of an online training system.

Output target 11.4: A review of capacity building needs and possible improvements in human resource management and development*.

** This study will include an examination of recruitment policies/procedures, performance appraisal, functional distribution of staff, rightsizing staff levels at the center as well as all regions.*

Indicative activities:

- 11.4.1 Review current personnel management systems
- 11.4.2 Review capacity building and training requirements.
- 11.4.3 Organize intensive training courses for officials involved in senior management functions on strategic planning, human resources development and personnel management in two selected countries(possibly Japan, Australia, Germany, New Zealand, Malaysia, Canada)
- 11.4.4 Organize 4 seminars on a human resource development issues at different levels of tax administration (national, provincial and county).
- 11.4.5 Provide advisory support to a national working group on capacity-building and training issues in tax administration.

Output target 11.5: A feasibility study on measures to facilitate administration, enhance enforcement efficiency and raise compliance rates in a cost-effective manner in the tax system, drawing upon international practice.

Indicative activities:

- 11.5.1 Prepare a feasibility study on improving enforcement and compliance for major taxes.
- 11.5.2 As part of the feasibility study, arrange missions for national experts and officials to review and report on the experience of countries which have developed effective low-cost strategies and mechanisms to improve enforcement efficiency and compliance(possibly Malaysia, Singapore, Australia and New Zealand).

Output target 11.6: Tax administration officials trained on BRP implementation and tax enforcement issues

Indicative activities:

- 11.6.1 Support the participation of officials in intensive training courses on planning and implementation of BPR in government agencies in selected countries(possibly Australia, Canada, Singapore, France and U.K.)

11.6.2 Arrange for professional attachments for 8 officials dealing with tax enforcement issues in relevant tax departments of selected countries(possibly Malaysia, Singapore, Australia and New Zealand)

Output target 11.7: A set of recommendations for strengthening taxpayer services and developing a “taxpayer service” orientation, drawing upon international practices*.

**This paper would focus on measures to improve overall services, setting of service standards, taxpayer rights, developing grievance and appeal procedures and creating uniformity in tax forms and documentation requirements in different jurisdictions and at different levels. A strategic plan for implementation of recommendations would also be included as part of this paper.*

Indicative activities:

11.7.1 Organize seminars (4) on strengthening tax payer services and taxpayer rights.

11.7.2 Organize site visits for officials to review and report on the operation of taxpayer services divisions in selected countries(possibly the United States, New Zealand, U.K. and Malaysia)

11.7.3 Prepare a strategy paper on strengthening taxpayer services and developing a “taxpayer service” orientation, drawing upon outcomes of activities 11.7.1 to 11.7.2,

Output target 11.8: An analysis of risk management in tax administration and recommendations on how to reduce system risk, drawing upon international experience.

Indicative activities

11.8.1 Prepare a policy paper on risk management in tax administration.

11.8.2 Organize 4 seminars on reducing risks in tax administration.

11.8.3 Organize a comparative study mission for national experts to review approaches to risk management in tax administration in selected countries (Canada, the United States, New Zealand)

Output 12. New options for broadening the tax base developed

Output target 12.1 : A set of policy oriented studies and specific capacity building activities on 4 emerging domestic taxation issues: (i) tax management of non-profit organizations (ii) the taxation system of SMEs, (iii) legal and institutional framework for non-resident taxation; (iv) tax treatment of domestic and foreign enterprises as well as mergers and acquisitions*

** (i)would focus on the formulation of policies and the development of detailed guidelines on definitions, registration, exemption procedures, system of procedures and their accounting and recording. This activity will build upon earlier work done in this area. (ii) would review the current system for taxation of SME’s that would provide recommendations for changes to improve the registration system, basis for classification and inspection/audit functions; (iii) would review the current legislation dealing with non-resident taxation as well as is*

administration, inter-departmental cooperation, information exchange and international cooperation issues. (iv) would involve a detailed review of laws, policies and procedures for dealing with the tax treatment of domestic and foreign enterprises and the tax treatment of mergers and acquisitions

Indicative activities:

- 12.1.1 Prepare thematic studies and review papers in consultation with taxation authorities.
- 12.1.2 Organize overseas study tours for officials and experts to review the experience of selected countries in each focus areas.
- 12.1.3 Organize 3 national seminars to discuss current issues for China and review international experience and lessons learned
- 12.1.4 Arrange for officials and other technical staff to participate in intensive training courses or workshops on practical issues in each of the following areas: taxation of NGOs (possibly in United States or Japan), taxation of SMEs (possibly Japan or Singapore); taxation of mergers and acquisitions (possibly in Germany or the United States);

Output target 12.2: A set of 4 policy-oriented studies and capacity building activities on 3 international taxation administration issues: (i) non-residents' taxation; (ii) transfer pricing, tax avoidance; (iii) international tax information exchanges; and (iv) tax treaty arrangements.

Indicative activities:

- 12.2.1 Organize study tours for officials and national experts in two selected countries (possibly U.K., Singapore, Canada, Australia and New Zealand) to review and reported on experience and lessons learnt in the areas of non-residents' taxation; transfer pricing, cross-border tax issues; tax treaty arrangements, and International tax information exchanges.
- 12.2.2 Organize workshops/seminars (4) on the above topics.
- 12.2.3 Arrange training programs for officials in each of the following areas: non-residents' taxation; transfer pricing, tax avoidance; international tax information exchanges; and tax treaty arrangements
- 12.2.4 Prepare 4 studies on the above topics, drawing upon outcomes of activities 12.2.1 to 12.2.3,

Output 13. Capacity Assessment and recommendations to strengthen ICT systems for tax administration

Output target 13.1: A detailed analysis of capacity building needs in IT in different regions and at different levels, with a focus on the less-developed western region, as well as recommendations for the design of the second phase of a fully-integrated system.

Indicative activities:

- 13.1.1 Conduct a capacity building needs assessment.
- 13.1.2 Organize workshops (4) with participation from provincial and county-level officials to review IT policies and emerging issues.

13.1.3 Organize site visits of central and local officials and experts in selected countries (possibly Malaysia, Singapore, Australia and New Zealand) to examine the management and reform of computerized tax systems in these countries, focusing on system risk, change management and training issues.

Output target 13.2: A set of practical suggestions for strengthening the tax information system, drawing upon international experience and practice.

13.2.1 Organize workshops (2) on the computerization, management and utilization of tax information at different government levels.

13.2.2 Organize site visits for officials to examine and report on practical experience in computerization and utilization of tax information in selected countries (Malaysia, Singapore, Australia and the United States)

13.2.3 Organize practical training courses on computerized treatment of tax information and arrange for professional attachments of officials in selected countries (Australia and New Zealand).

13.2.4 Review gaps and make suggestions for strengthening the tax information system, drawing on outcomes of activities 13.2.1 and 13.2.2,

Component F. Successful Management and Coordination of Programme

In view of the scale and complexity of the current TA programme, it would be essential to have a small programme office that would support MOF and SAT office on day-to-day programme implementation, ensure appropriate sequencing of activities and provide a central depository for all documentation related to the programme. A Program Management Office (PMO), headed by the programme managers from MOF and SAT, would carry out these functions and provide essential logistical support for all TA components (arranging meetings, travel, and translators/interpreters). The PMO would also support monitoring activities and assist in liaising with the relevant agencies of different levels of Government and for reporting to the Programme Steering Committee. A Senior International Advisor (SIA) and two Senior National Advisors (SNA's) would provide advisory support to the PMO.

The PMO would be staffed by two full time staff members (Programme Support Assistants) responsible for assisting the international and national advisors, and for assisting the management of all programme documentation (including Chinese language version of final reports) and training materials for the different TA components. In addition, one staff member from three government agencies (MOF, SAT and CICETE) would be assigned to work with the PMO, although they would remain based in their respective agencies.

The PMO would also assist the relevant government agencies in arrangements for annual conferences on the overall activities of the programme. These conferences would provide an opportunity for stakeholders and officials (from different government levels) responsible for implementation of fiscal reforms to meet and share views with national and international experts, and for recalibration and adjustment of the scope and activities of the programme. The workshops would be enriched through the participation of eminent persons who have held or are

currently holding senior policymaking positions that have involved them in the process of fiscal reform in their countries.

Output 14 : Substantive Outputs of Programme Components Integrated

Output target 14.1: Management and coordination of programme implementation and reviews, annual and terminal reports

Indicative activities:

- 14.1.1 Organize programme inception workshop, including formulation of detailed annual work plans, programme outputs dissemination strategy, etc.
- 14.1.2 Assist the National Programme Directors in day-to-day programme implementation, providing management support and assisting implementing agencies in preparation of annual reports and terminal report.
- 14.1.3 Assist the National Programme Directors and implementing agencies in the preparation of all documentation for the programme, including translations, keeping track of other agencies' fiscal reform TA work, and consultations with experts and national agencies on all aspects of the programme. The PMO would support preparation of all overall programme reports, the compilation of all technical reports and coordinating the work of consultant teams in the different areas.

Output target 14.2: Annual Conferences

Indicative activities:

- 14.2.1 Assist in arranging annual conferences (participation of about 150 officials and experts) to discuss fiscal reform experiences and obtain stakeholder views on priorities in their regions, the impact of current policies and possible changes to strengthen the effectiveness of these policies.

Part IV: Management arrangements.

IV.a Management

3.1 A Coordination Committee consisting of relevant departments of MOF, SAT, CICETE, UNDP, DFID and other participating partners will be established. It will oversee the work of the Programme and provide guidance on overall programme implementation. Annual Coordination Committee meeting will be held to review programme progress, results and outcomes.

3.2 The Programme will be executed on behalf of the government by the China International Center for Economic and Technical Exchanges (CICETE), the coordinating authority for UNDP-supported activities. The responsibility for overseeing programme management, coordinating the different components of the programme and the government agencies involved in the programme will be assigned to two National Programme Directors (one each from MOF and SAT), assisted

by two National Program Managers (one each from the MOF and SAT) and the Programme Management Office (PMO) in Beijing. The PMO will support day-to-day programme implementation, synthesizing programme findings, preparing quarterly programme updates and annual progress reports, organizing annual programme review meeting and Coordination Committee meeting, and the organization of the annual workshops. This PMO will consist of staff from MOF and SAT, an international consultant (senior international advisor), two senior national advisors and two full-time staff. To ensure quality translation of key outputs of the programme, one professional translator will be recruited on a retainer basis.

IV.b Monitoring and Evaluation

Programme monitoring and evaluation (M & E) will be result-based. The M & E should aim at the following key objectives: (i) The M & E should focus on results at two levels: one is at **Outputs** level, which are the specific products and services produced by the programme. The other is at **Outcome** level, in which the programme has contributed to in the overall fiscal reform. (ii) The M&E should enhance management efficiency of the programme and also ensure consultations/participation of all stakeholders. (iii) The M & E should not only focus on assessment of progress of programme, but also on experiences and lessons learned. This will support more informed decision –making and dissemination of programme results.

The programme will hold annual Coordination Committee meeting to review programme progress, results, experiences and lessons learned during programme implementation and work plan for the following year. The meetings should also review the role of the programme in contribution to the fiscal reform and management in China. The annual review will be a tool to ensure period assessment review on whether or not the approach and interventions by the programme will produce the intended outcomes. The Programme Management Office will support convening of the review meetings and assist MOF and SAT to prepare annual programme reports.

Monitoring visits will be conducted by UNDP and CICETE to assess programme progress and results through consultations with relevant stakeholders and beneficiaries. The PMO will prepare quarterly programme updates to support day-day-day monitoring and implementation, as well as information sharing among concerned parties.

A programme terminal report will be prepared by the national programme directors, in consultation with the UNDP, for consideration of the concerned parties.

In addition to the above, the programme participants and beneficiaries concerned will prepare reports on experiences with capacity building activities.

Part V: Legal context

This programme document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement between the Government of the People's Republic of China and the United Nations Development Programme signed on June 29, 1979.

Part VI: Funding

This section is a cross-reference to the Project Budget in Annex I Programme Results and Resource Framework

Government

Ministry of Finance

The inputs will cover the following costs:

1. Identification and preparatory work of each sub-project, including domestic experts' costs;
2. Follow-up of actions recommended by the project, including holding dissemination workshops, printing workshop materials
3. All the necessary resources to facilitate project management and sub-project implementation,, such as office space, communication costs, in-city transportation provided for international consultants, relevant data and information, counterpart staff cost, etc.
4. Regarding Seminars and workshops, covering the transportation and accommodation of some domestic participants.
5. Regarding overseas training and study tour, covering overseas pre-training courses costs. The pre-training courses normally last between three days to one week to guide the oversea training. National experts will be invited to give the courses. Key areas of the pre-training are as follows: introduce the thematic areas, focusing on research results and theoretical experiences; introduce development status concerning domestic experience and practices in the thematic areas; introduce international experiences and practices in the thematic areas.

Inputs: US\$2,000,000

State Administration of Taxation

1. Costs of preparatory work of each sub-project, including workshops and training
2. Costs of short-term domestic experts, covering transportation and communication

3. Short term study tour and training: covering domestic participants' accommodation, meal allowance and travel costs in China
4. Workshops: Travel costs, accommodation and meal allowance of some domestic participants; venue renting costs
5. Oversea training: travel costs of some trainees; domestic costs related to application; language and other pre-training of trainees before going abroad.
6. Costs of follow-up actions recommended by projects, including holding dissemination workshops and printing workshop materials
7. Necessary resources to facilitate implementation, including staff costs, communication, etc.

Inputs: US\$2,000,000

UNDP

UNDP will cover costs of national and international experts, workshops, in country and overseas training, supporting project management, monitoring and evaluation.

Inputs: US\$1,000,000

DFID

Funding of DFID will be administered by UNDP as third-party cost-sharing to the programme. The funds will cover costs of national and international experts, workshops, in country and overseas training, supporting project management, monitoring and evaluation.

Inputs:

Programme budget	US\$ 5,000,000
General Management Support Costs	US\$ 300,000
<i>Sub-total</i>	<i>US\$ 5,300,000</i>

Programme Funding Total US\$10,300,000

.Annex I: Project Results And Resources Framework *

Intended Outcomes as stated in the Country Results Framework: Poverty reduction strategy linked to macro-economic framework through pro-poor fiscal reforms, micro-finance and trade policies.			
Outcome Indicators as stated in the Country Programme Results and Resources Framework, including baseline and target. Six Components (See more details in Baseline Situation in Part II)			
Applicable MYFF Service Line: Service Line 1.2: Pro-poor policy reform to achieve MDG targets			
Partnership Strategy: See sector II.e in Part II			
Project title and ID: CPR/04/518 - Capacity Building to Support Fiscal Reform in China			
Component A. Enhanced capacity to formulate and implement pro-poor fiscal initiatives			
<u>Output</u>	<u>Output target</u>	Indicative Activities	<i>Project Budget</i>¹
1. New options for pro-poor fiscal policies design developed, with a focus on county level finance	1.1 A policy paper on improving county-level fiscal systems, and county-level fiscal capacity.	1.1.1 Organize national, provincial level workshops to discuss inter-governmental transfer issues;	UNDP: \$ 80,000 Gov't: \$ 96,000
		1.1.2 Conduct an in-depth public expenditure review on a sample of counties;	UNDP: \$ 50,000 Gov't: \$ 8,000
		1.1.3 Organize workshops and seminars to obtain stakeholders views related to public expenditure programme for poverty reduction;	UNDP: \$ 60,000 Gov't: \$ 64,000
		1.1.4 Conduct an in-depth impact assessment of basic social services expenditure programs;	UNDP: \$ 50,000 Gov't: \$ 8,000
		1.1.5 Organize a national seminar to discuss findings;	UNDP: \$ 10,000 Gov't: \$ 8,000

	<p>1.2 A comprehensive policy paper focusing on options to further reduce the fiscal burden of farmers.</p> <p>1.3 Central and local government officials trained in pro-poor fiscal policy analysis.</p>	<p>1.2.1 Organize 2 workshops and seminars to discuss effects of ongoing tax reforms, with a focus on reducing fiscal burden of farmers;</p> <p>1.2.2 Conduct an in-depth assessment of the impact of current fiscal policies of tax and fee structures on poor farmer households, including recommendations for strengthening the pro-poor orientation of fiscal policies;</p> <p>1.3.1 Organize an international seminar on pro-poor fiscal policies;</p> <p>1.3.2 Organize pilot training courses for assessing the impact of public expenditure programs for poverty reduction;</p> <p>1.3.3 Organize visits for learning and exposure to best practices in supporting equity objectives;</p> <p>1.3.4 Sponsor intensive training courses on methodologies for pro-poor fiscal policy design and implementation.</p>	<p>UNDP: \$ 80,000 Gov't: \$ 96,000</p> <p>UNDP: \$ 70,000 Gov't: \$ 8,000</p> <p>UNDP: \$ 20,000 Gov't: \$ 16,000</p> <p>UNDP: \$ 30,000 Gov't: \$ 8,000</p> <p>UNDP: \$ 160,000 Gov't: \$ 160,000</p> <p>UNDP: \$ 30,000 Gov't: \$ 8,000</p>
<p>2. Policy recommendation on strengthening sub-governments' finance management</p>	<p>2.1 A policy-oriented study on possible improvements to sub-provincial fiscal management systems, focusing on intergovernmental financial relations in the context of local administration reforms.</p>	<p>2.1.1 Review of pilot reforms of sub-provincial intergovernmental fiscal relationships in the context of local administration reform;</p> <p>2.1.2 Undertaking 2 workshops to examine issues of inter-governmental relations;</p> <p>2.1.3 Arrange for translations of documents on fiscal federalism , inter-governmental fiscal relations and local government finances;</p> <p>2.1.4 Organize missions to examine the responsibilities and financial relations between different tiers of government;</p>	<p>UNDP: \$ 15,000 Gov't: \$ 20,000</p> <p>UNDP: \$ 20,000 Gov't: \$ 20,000</p> <p>UNDP: \$ 10,000</p> <p>UNDP: \$ 50,000 Gov't: \$ 50,000</p>

		2.1.5 Organize overseas training courses for central and local government budget officials on developments in PEM	UNDP: \$ 30,000
		2.1.6 Prepare final recommendations to improve the intergovernmental fiscal system at sub-provincial level.	UNDP: \$ 25,000 Gov't: \$ 20,000
	2.2 A review paper on the management of sub-provincial fiscal risks including monitoring and evaluation of local government liabilities, with a focus on less-developed Western provinces.	2.2.1 Undertaking 2 workshops on fiscal risks and contingent liabilities at the county level;	UNDP: \$ 10,000 Gov't: \$ 10,000
		2.2.2 Prepare the review paper;	UNDP: \$ 10,000 Gov't: \$ 20,000
Component B. Improved mechanisms and processes for budget formulation and management			
3. New budget classification system introduced at all government levels	3.1 Proposals for adaptations to the budget classifications framework for local level government (taking into account functional and capacity requirements).	3.1.1 Prepare a policy paper and proposals for application of new budget classifications in local governments.	UNDP: \$ 10,000 Gov't: \$ 40,000
		3.1.2 Translate some countries' budget classifications and forms;.	UNDP: \$ 20,000
		3.1.3 Organize site visits on modern budget classification;.	UNDP: \$ 35,000 Gov't: \$ 15,000
	3.2 Training package on revised budget classification systems to national, provincial and county government officials.	3.2.1 Prepare training materials and guidelines;	UNDP: \$ 40,000 Gov't: \$ 25,000
		3.2.2 Organize 2 workshop and seminars to explain proposed changes in budget classification and evaluate the appropriateness of training materials;	UNDP: \$ 20,000 Gov't: \$ 20,000

		3.2.3 Training and mentoring of officials at different levels to improve understanding of reform objectives, general classification principles, links to accounting and MIS changes;	UNDP: \$ 15,000 Gov't: \$ 20,000
4. Revision process of budget legislation moved forward	4.1 A policy-oriented paper putting forward recommendations for revisions of current budget legislation.	4.1.1. Review existing budget legislation with visits to local governments; 4.1.2. Undertaking 2 workshops and seminars to review budget law and possible adjustment; 4.1.3. Prepare and publish a comparative study; 4.1.4. Organize study tours to discuss budget law with counterparts; 4.1.5. Prepare a paper to provide recommendation for revisions of budget legislation; 4.1.6. Organize intensive training on budget law;	UNDP: \$ 5,000 Gov't: \$ 20,000 UNDP: \$ 15,000 Gov't: \$ 20,000 UNDP: \$ 35,000 UNDP: \$ 50,000 Gov't: \$ 20,000 UNDP: \$ 35,000 Gov't: \$ 40,000 UNDP: \$ 40,000
5. Strategic framework for introducing performance-based and outcomes-oriented budgeting developed.	5.1 A comparative review of experience with performance based budgeting in different countries and strategic paper providing options and recommendations for the adoption of some aspects of performance measurement in budget implementation in China.	5.1.1. Preparation of an issues paper; 5.1.2. Undertake consultations with line agencies on the implications; 5.1.3. Organize site visits to learn best practices and lessons on performance budgeting; 5.1.4. Organize seminars and workshops on PEM recent innovations and best practice;	UNDP: \$ 10,000 Gov't: \$ 20,000 UNDP: \$ 10,000 Gov't: \$ 10,000 UNDP: \$ 80,000 Gov't: \$ 40,000 UNDP: \$ 20,000 Gov't: \$ 20,000

		5.1.5. Assessment on challenges for introducing performance-based budgeting and development of recommendations for development of performance-based and outcomes-oriented budgeting reforms;	UNDP: \$ 20,000 Gov't: \$ 30,000
Component C. Treasury reforms extended and Accounting System Reforms Initiated			
6. Enhanced coverage and comprehensiveness of accounting system reforms.	6.1. Recommendations for initiating changes to the current accounting system.	6.1.1. Designing a program to extend coverage of transactions recorded in the government accounting system;	UNDP: \$ 60,000 Gov't: \$ 24,000
		6.1.2. Organize study tours to examine the operation of government accounting systems;	UNDP: \$ 120,000 Gov't: \$ 120,000
	6.2 Feasibility study on moving to a modified accrual accounting system, with a focus on changes in accounting standards and the Chart of Accounts.	6.2.1 Organize workshops (2) on modified accrual accounting;	UNDP: \$ 50,000 Gov't: \$ 40,000
		6.2.2 Organize 2 seminars and 1 seminar abroad to review cash-based system and feasibility of modified accrual system;	UNDP: \$ 100,000 Gov't: \$ 80,000
7. Recommendations for extending the Treasury Single Account (TSA) System and improve Cash Management systems.	7.1 A review paper of current issues in extending the TSA system to sub-national levels.	7.1.1 Prepare a report reviewing issues in extending the TSA system nationwide;	UNDP: \$ 20,000 Gov't: \$ 16,000
		7.1.2 Review experiences with pilot programs;	UNDP: \$ 40,000 Gov't: \$ 16,000
		7.1.3 Organize study tour to review Treasury and cash-management models in different countries;	UNDP: \$100,000 Gov't: \$ 96,000
	7.2 A set of recommendations for	7.2.1 Undertake 2 workshops to discuss possible modifications in the cash management framework;	UNDP: \$ 70,000 Gov't: \$ 56,000

	reforms to current cash management model, drawing upon international practice.	7.2.2 Prepare a comparative study on different cash management models and provide recommendations for reforms to the current framework;	UNDP: \$ 50,000 Gov't: \$ 16,000
Component D. Tax legislation and policy developed and adjusted to the needs of China's transition towards a market economy			
8. Strategic frameworks for the re-assignment of taxation powers, local taxation reform and basic tax law formulation developed.	8.1 Suggestions on the re-assignment of taxation powers between central and local governments.	8.1.1 Organize 4 workshops on tax power-sharing issues;	SAT UNDP: \$ 18,000 Gov't: \$ 20,400 MOF UNDP: \$ 100,000 Gov't: \$ 50,000
		8.1.2 Organize missions on tax legislative power, tax imposition power and tax revenue sharing arrangements;	SAT UNDP: \$ 52,000 Gov't: \$ 56,800 MOF UNDP: \$ 60,000 Gov't: \$ 50,000
		8.1.3 Prepare paper on possible reforms of tax power division;	SAT UNDP: \$ 40,000 Gov't: \$ 14,800 MOF UNDP: \$ 20,000 Gov't: \$ 20,000
	8.2 Policy oriented paper including recommendations on sub-national tax reform over the medium term.	8.2.1 Prepare policy paper on the basis of consultations with MOF and SAT.	SAT UNDP: \$ 40,000 Gov't: \$ 10,800 MOF UNDP: \$ 20,000 Gov't: \$ 20,000

		8.2.2 Organize 2 workshops on other countries' experiences in sub-national tax system reform.	SAT UNDP: \$ 15,000 Gov't: \$ 28,000 MOF UNDP: \$ 80,000 Gov't: \$ 50,000
		8.2.3 Organize a mission to review and report the experience with sub-national tax reforms;	SAT UNDP: \$ 11,500 Gov't: \$ 20,800 MOF UNDP: \$ 70,000 Gov't: \$ 50,000
	8.3 Comparative study of tax laws, focusing on basic tax laws.	8.3.1 Conduct extensive consultations to prepare recommendations on basic tax laws	UNDP: \$ 10,000 Gov't: \$ 5,000
		8.3.2 Prepare a comparative study of tax laws.	UNDP: \$ 2,000 Gov't: \$ 1,000
		8.3.3 Provide advisory support for draft basic tax law;	UNDP: \$ 35,000 Gov't: \$ 14,000
		8.3.4 Organize 4 workshops for drafting tax laws;	UNDP: \$ 10,000 Gov't: \$ 18,000
		8.3.5 Organize a study mission to review basic tax law;	UNDP: \$ 55,000 Gov't: \$ 22,000
	8.4 Senior officials trained on taxation power assignment, local	8.4.1 Organize study tour on taxation power assignment issues, reforms in the taxation jurisdictions of local governments;	SAT UNDP: \$ 100,000 Gov't: \$ 100,000 MOF

	taxation and tax legislative power.	8.4.2 Organize overseas training course on sub-national taxation;	UNDP: \$ 30,000 Gov't: \$ 40,000 SAT UNDP: \$ 100,000 Gov't: \$ 100,000 MOF UNDP: \$ 30,000 Gov't: \$ 40,000
		8.4.3 Organize overseas training course on tax legislative power;	UNDP: \$ 100,000 Gov't: \$ 70,000
9. Options and action plans for establishing a unified tax system for urban and rural areas and for modernizing the real estate tax system developed.	9.1 A review paper examining the current differences in the tax system for urban and rural areas and recommendations for implementing a medium-term plan for unification of the tax structure.	9.1.1 Preparation of the review paper on the structure of urban and rural taxation and recommendations for change.	SAT UNDP: \$ 32,000 Gov't: \$ 72,000 MOF UNDP: \$ 10,000 Gov't: \$ 20,000
		9.1.2 Workshops on tax policy developments, with particular attention to agricultural tax policies and tax and other incentives	SAT UNDP: \$ 25,000 Gov't: \$ 10,000 MOF UNDP: \$ 40,000 Gov't: \$ 20,000
		9.1.3 Study missions to review the design and functioning of rural sector taxes in selected countries	SAT UNDP: \$ 40,000 Gov't: \$ 30,000 MOF UNDP: \$ 40,000 Gov't: \$ 40,000
	9.2 A comparative study		

	of the current real estate tax regime and the differences in the tax treatment of urban and rural land, and proposals for the unification of the tax system.	<p>9.2.1 Preparation of study on the structure of real estate, rural and urban transactions and valuation trends.</p> <p>9.2.2 Organize missions to review real estate tax legislation, policy, administration and compliance issues, the computerization of data on real estate transactions;</p> <p>9.2.3 Undertake four workshops on various aspects of real estate taxation.</p>	<p>SAT UNDP: \$ 35,000 Gov't: \$ 8,800 MOF UNDP: \$ 20,000 Gov't: \$ 20,000</p> <p>SAT UNDP: \$ 55,000 Gov't: \$ 12,000 MOF UNDP: \$ 30,000 Gov't: \$ 20,000</p> <p>SAT UNDP: \$ 20,000 Gov't: \$ 11,200 MOF UNDP: \$ 50,000 Gov't: \$ 40,000</p>
10. Options for enhancing tax and incentive framework for environmental protection development	10.1 Study on feasibility of integrating and rationalizing the various environmental protection taxes currently in place and introducing a comprehensive Environmental Tax.	<p>10.1.1 Arrange study visits to review and report on environmental taxation experience.</p> <p>10.1.2 Arrange international seminars to have discussion on environmental taxation experiences</p> <p>10.1.3 Assess the feasibility of introducing a comprehensive environmental tax;</p>	<p>UNDP: \$ 30,000 Gov't: \$ 24,000</p> <p>UNDP: \$ 32,000 Gov't: \$ 9,600</p> <p>UNDP: \$ 30,000 Gov't: \$ 4,800</p>
Component E. Strengthened capacities in tax administration and broadened tax base			

11.Strengthened institutional and human capacities for efficient tax administration.	11.1 Review the current structure of the tax administration at the central and provincial levels, capacity building needs and possible institutional reforms to enhance the operational efficiency of tax administration.	11.1.1 Reviewing capacity building and training requirements;	UNDP: \$ 30,000 Gov't: \$ 4,000
		11.1.2 Organize missions involved in senior management functions on institutional & managerial changes for improving tax administration efficiency at both central and local level;	UNDP: \$ 48,000 Gov't: \$ 24,000
		11.1.3 A review of the current organizational structure and a modification plan;	UNDP: \$ 22,000 Gov't: \$ 8,000
		11.1.4 Seminars to examine possible improvements to current system, development of performance measurement and better personnel management;	UNDP: \$ 28,000 Gov't: \$ 21,600
	11.2 Evaluation of pilot programs to improve administrative procedures and business processes.	11.2.1 Undertake a comprehensive review of the experience of pilot programs and process re-engineering pilot cities/areas;	UNDP: \$ 15,000 Gov't: \$ 27,000
		11.2.2 Prepare recommendations on improvements in processes and discussion of these recommendations in workshops;	UNDP: \$ 57,000 Gov't: \$ 20,600
		11.2.3 Workshops (2) to review implementation of BPR plans.	UNDP: \$ 13,000 Gov't: \$ 27,200
	11.3 Training materials and programs developed and tailored to the needs of different levels of tax administration.	11.3.1 Prepare training manuals and other documents;	UNDP: \$ 23,000 Gov't: \$ 800
		11.3.2 Translate training materials and other documents;	UNDP: \$ 10,000 Gov't: \$ 10,000
		11.3.3 Support the development of training and HRD plans;	UNDP: \$ 14,000 Gov't: \$ 10,000

		11.3.4 Organize seminars to assist in “training the trainers”;	UNDP: \$ 14,000 Gov’t: \$ 10,000
		11.3.5 Support the establishment of an online training system;	UNDP: \$ 40,000 Gov’t: \$ 24,000
	11.4 A review of capacity building needs and possible improvements in human resource management and development.	11.4.1 Review current personnel management systems;	UNDP: \$ 22,000 Gov’t: \$ 200
		11.4.2 Review capacity building and training requirements;	UNDP: \$ 18,000 Gov’t: \$ 7,000
		11.4.3 Organize intensive training courses for officials involved in senior management functions on human resources development;	UNDP: \$ 60,000 Gov’t: \$ 48,000
		11.4.4 Organize 4 seminars on a human resource development issues at different levels of tax administration;	UNDP: \$ 15,000 Gov’t: \$ 11,000
		11.4.5 Advisory support for a national working group on capacity-building and training issues in tax administration;	UNDP: \$ 16,000 Gov’t: \$ 3,400
	11.5 A feasibility study on measures to facilitate administration, enhance enforcement efficiency and raise compliance rates in the tax system.	11.5.1 Preparation of a feasibility study on improving enforcement and compliance for major taxes;	UNDP: \$ 18,000 Gov’t: \$ 7,200
		11.5.2 Arrange missions to review and report on experience of low-cost strategies and mechanism to improve the enforcement efficiency and compliance;	UNDP: \$ 20,000 Gov’t: \$ 52,000
	11.6 Tax administration officials trained on BRP implementation a tax enforcement issues.	11.6.1 Support intensive training courses on planning and implementation of BRP in government agencies;	UNDP: \$ 100,000 Gov’t: \$ 30,000

	<p>11.7 A set of recommendations for strengthening taxpayer services and developing a “taxpayer service” orientation.</p> <p>11.8 An analysis of risk management in tax administration and recommendations on how to reduce system risk.</p>	<p>11.6.2 Arrange for professional attachments dealing with tax enforcement issues;</p> <p>11.7.1 Organize seminars on strengthening tax payer services and taxpayer rights;.</p> <p>11.7.2 Organize site visits to review and report on the operations of taxpayer services divisions;</p> <p>11.7.3 Prepare a strategy paper on strengthening taxpayer services and developing a “taxpayer service” orientation;</p> <p>11.8.1 Prepare a policy paper on risk management in tax administration;.</p> <p>11.8.2 Organize 4 seminars on reducing risks in tax administration;</p> <p>11.8.3 Organize a comparative study mission on different approaches to risk management in tax administration;</p>	<p>UNDP: \$ 160,000 Gov’t: \$ 100,000</p> <p>UNDP: \$ 10,000 Gov’t: \$ 8,000</p> <p>UNDP: \$ 18,000 Gov’t: \$ 27,200</p> <p>UNDP: \$ 10,000 Gov’t: \$ 4,800</p> <p>UNDP: \$ 18,000 Gov’t: \$ 3,200</p> <p>UNDP: \$ 16,000 Gov’t: \$ 10,400</p> <p>UNDP: \$ 10,000 Gov’t: \$ 12,000</p>
<p>12. New options for broadening the tax base developed.</p>	<p>12.1 A set of policy oriented studies and specific capacity building activities on emerging domestic taxation issues.</p> <p>12.2 A set of 4 policy oriented studies and</p>	<p>12.1.1 Prepare thematic studies;</p> <p>12.1.2 Overseas study tours on emerging domestic taxation issues;</p> <p>12.1.3 Seminars on emerging domestic taxation issues;</p> <p>12.1.4 Training programs on taxation of NGOs, SMEs, mergers and acquisitions;</p> <p>12.2.1 Organize study tours on non-residents’ taxation, transfer-pricing, cross-border tax issues, tax treaty arrangements and Int’l tax</p>	<p>UNDP: \$ 18,000 Gov’t: \$ 4,800</p> <p>UNDP: \$ 25,000 Gov’t: \$ 34,000</p> <p>UNDP: \$ 14,000 Gov’t: \$ 29,600</p> <p>UNDP: \$ 150,000 Gov’t: \$ 210,000</p> <p>UNDP: \$ 50,000 Gov’t: \$ 98,000</p>

	capacity building activities on 3 international taxation administration issues.	information exchanges; 12.2.2 Organize workshops/seminars on the above topics; 12.2.3 Training programs on non-residents' taxation, transfer-pricing, cross-border tax issues, tax treaty arrangements and Int'l tax information exchanges; 12.2.4 Preparation on the 4 studies on the above topics;	UNDP: \$ 20,000 Gov't: \$ 82,000 UNDP: \$ 250,000 Gov't: \$ 200,000 UNDP: \$ 10,000 Gov't: \$ 9,600
13. Capacity assessment and recommendations to s.Strengthening ICT systems for tax administration.	13.1 A detailed analysis of capacity building needs in IT in different regions and at different levels, with recommendations for the design of the second phase of a fully-integrated system. 13.2 Practical suggestions for strengthening the tax information system.	13.1.1 Conduct a capacity building needs assessment; 13.1.2 Organize workshops to review IT policies and emerging issues; 13.1.3 Organize site visits to examine the management and reform of computerized tax systems 13.2.1 Organize workshops (2) on the computerization, management and utilization of tax information at different government levels; 13.2.2 Organize site visits to examine other countries' experience in computerization and utilization of tax information; 13.2.3 Organize practical training courses on computerization of tax information; 13.2.4 Review gaps and make suggestions for strengthening the tax information system;	UNDP: \$ 19,000 Gov't: \$ 7,200 UNDP: \$ 18,500 Gov't: \$ 11,600 UNDP: \$ 20,000 Gov't: \$ 24,000 UNDP: \$ 15,000 Gov't: \$ 38,000 UNDP: \$ 10,000 Gov't: \$ 42,000 UNDP: \$ 150,000 Gov't: \$ 100,000 UNDP: \$ 18,000 Gov't: \$ 5,600

Component F. Successful Management and Coordination of Programme			
14. Substantive outputs of programme components integrated.	14.1 Management and coordination of programme implementation and reviews, Annual and Terminal Reports.	14.1.1 Organize programme inception workshop, including formulation of detailed annual work plans, programme outputs dissemination strategy, ect.	Int'l consultant: \$ 265,000
		14.1.2 Assisting day-to-day programme implementation;	National consultant: \$373,400
		14.1.3 Assisting in the preparation of all documentation for the project;	Annual conf. \$240,000
	14.2 Annual Conferences	14.2.1 Assist in arranging conferences to discuss fiscal reform experiences and obtain stakeholder views on priorities in their regions, the impact of current polices and possible changes to strengthen the effectiveness of these policies;	PMO operation \$152,000 Mission cost \$49,600

Note:

1. Project budget:

“UNDP” indicates UNDP TRAC resources and the DFID third party cost-sharing administered by UNDP.

“Govt” indicates government inputs from the Ministry of Finance and the State Administration of Taxation.

For type of inputs to be covered by UNDP, DFID and the government, please refer to more details in Part VI Funding.

Annex II: Logical Framework

Project: Capacity Building to Support Pro-Poor Fiscal Reform in China
Date of Preparation: 12 August 2004 (final revision 16 November 2004)
Prepared by: MOF, SAT, UNDP, IMF, DFID

Objectives	Objectively verifiable indicators	Means of verification	Assumptions
GOAL Fiscal system delivering better public service outcomes for all citizens	<ol style="list-style-type: none"> 1. Increased fiscal transfers to poor areas of China. 2. Increased allocation of expenditure on public services for the poor. 	<p>Annual Budget</p> <p>Xiao Kang indicators</p>	
PURPOSE Enhanced capacity in national, provincial and sub-provincial government to design and implement fiscal reform, with an emphasis on pro-poor policies and measures.	<ol style="list-style-type: none"> 1. Broadened tax base 2. Revenue as a percentage of GDP increases at a faster rate over the life of the project that in the four years preceding the project. 3. New budget system in operation in all provinces by the end of the project (eop). 	<p>Annual Budget Statement</p> <p>Government Audit Reports</p> <p>Project monitoring reports</p>	<p>No change at top decision-making level.</p> <p>Government implements reform. Government continues to prioritise poverty alleviation.</p> <p>Revenue buoyancy</p>
OUTPUTS <ol style="list-style-type: none"> 1. Development of pro-poor fiscal initiatives and implementation capacity. 2. Improved mechanisms and processes for budget formulation and management. 3. Extension of treasury and initiation of accounting system reforms. 4. Tax legislation and policy developed that supports China's transition to socialist market economy. 	<ol style="list-style-type: none"> 1.1 Reduced fiscal burden for the poor compared to 2004. 2.1 80% of recommendations significantly reflected in new budget law. 2.2 New classification system, to international standard, adopted for all levels of government by eop. 2.3 Roadmap for introducing performance-based budgeting in China developed by end of 2007. 3.1 Guidance and training delivered at provincial & sub-provincial level. 3.2 TSA fully rolled-out at central level by end of 2005. 3.3 TSA rolled out to provincial level by 2007. 3.4 New accounting system is more in line with new budgeting system & IT system. 4.1 Environmental protection tax law recommendation submitted by Year 2008. 4.2 Real estate law 	<p>Project monitoring reports</p> <p>Annual review missions</p>	<p>Information effectively disseminated in spite of different levels of computerisation across ministries.</p> <p>Coordination between SAT and Min. of Environment (and other agencies setting technical Environment standards)</p> <p>Willingness of stakeholders to consider policy recommendations.</p> <p>Capacity building aligned with sequencing of reforms.</p> <p>State Council rolls out reform throughout country.</p> <p>Recommendations take into account regional disparity in terms of need and capacity.</p>

<p>5. Enhanced tax administration capacity and broadened tax base.</p>	<p>recommendation submitted by Year 2007. 4.3 Base tax law recommendation submitted by Year 2007. 4.4 Unification of urban-rural taxation recommendation submitted by Year 2006. 4.5 Policy recommendation on local tax system submitted by Year 2006. 4.6 Recommendation on division of central-local taxation power submitted by Year 2008.</p> <p>5.1 Service hotline established by Year 2006. 5.2 Tax-monitored cashier system established in 5 sectors by Year 2006. 5.3 Multiple channels for tax payment covers over 80% of urban population by Year 2008. 5.4 70 trained staff able to cascade training to other members of staff by Year 2008. 5.5 Tax payment increased by over 8% from 2005 year to 2008 year with current level of staffing. 5.6 Study reports circulated in monthly newsletter by Year 2006. 5.7 Study reports published by 2008.</p>		<p>Legislative change supports implementation of policy.</p> <p>Policy recommendations take into account public administration reforms.</p> <p>Adequate, well-managed information flows.</p> <p>Continued good communication and coordination between all stakeholders.</p> <p>Staffing levels remain stable.</p>												
<p>ACTIVITIES</p> <ol style="list-style-type: none"> 1. PMO established. 2. two month inception phase undertaken. 3. Policy papers prepared. 4. Capacity building exercises. 5. Dissemination activities. 6. PMO provides day-to-day support in management and implementation of project, including assistance in preparation of documentation. <p><i>(See ANNEX I for detailed activities)</i></p>	<p>INPUTS (US \$)</p> <table border="0"> <tr> <td>UNDP -</td> <td>\$1.0 million</td> </tr> <tr> <td>DFID -</td> <td>\$5.0 million</td> </tr> <tr> <td colspan="2">Government in-kind</td> </tr> <tr> <td>MOF -</td> <td>\$2.0 million</td> </tr> <tr> <td>SAT -</td> <td>\$2.0 million</td> </tr> <tr> <td>Total -</td> <td>\$10.0 million</td> </tr> </table>	UNDP -	\$1.0 million	DFID -	\$5.0 million	Government in-kind		MOF -	\$2.0 million	SAT -	\$2.0 million	Total -	\$10.0 million	<p>Project monitoring reports</p>	<p>Role of PMO clearly defined.</p> <p>Activities do not overburden officials</p> <p>Access to data</p> <p>Internal cascading of training</p> <p>Genuine interest in and commitment of officials to participating in training and research.</p> <p>Staff remain in post after training</p>
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Annex III: Cost-Sharing Agreement

Annex IV: RISK APPRAISAL

1. This note sets out an assessment of the main risks associated with the project Capacity Building to Support Pro-Poor Fiscal Reform in China.

2. The risks are analysed according to the probability that they will emerge, the potential impact that they will have. Where risks have a high probability /impact, specific mitigatory measures are identified to minimise the effect on the project.

3. The risks are identified from the assumptions generated in the Logical Framework.

RISK	PROBABILITY	IMPACT	MITIGATORY MEASURE
Activity level			
Role of PMO not clearly defined.	LOW	HIGH	MOF and SAT have already paid attention to this issue. In the inception phase the detail on how the PMO will work will be developed and agreed with all project partners.
Activities overburden officials	LOW	HIGH	Project activities will be scheduled in advance in full consultation with MOF and SAT to ensure that they are properly synchronized with normal work commitments
Project unable to access data and information.	LOW	HIGH	MOF and SAT have a very strong interest in sharing information and data with the project otherwise analysis, training and recommendations generated would be of little value.
Training is not cascaded in ministries	LOW	MEDIUM	Every effort will be made to have a broad base of trainees who will then be able to cascade training to provincial level and other colleagues
Lack of interest in and commitment of officials to participating in training and research.	LOW	MEDIUM	Training will be designed to be as job-relevant and interesting so as to stimulate interest
Staff remain in post after training	LOW	MEDIUM	Staff turnover is not a serious issue in MOF and SAT
Output level			
Information not effectively disseminated because of different levels of computerisation across ministries.	LOW	MEDIUM	A specific strategy is included in the project to address this risk.
Poor coordination between ministries	LOW	MEDIUM	The establishment of the PMO will ensure that coordination is effective
Willingness of stakeholders to consider policy recommendations.	LOW	MEDIUM	Provided that recommendations have sound analysis and justification, MOF and SAT are considered to be very influential ministries.
Capacity building is not aligned	LOW	MEDIUM	The project is flexible enough to work at

RISK	PROBABILITY	IMPACT	MITIGATORY MEASURE
with sequencing of reforms.			the pace of the overall reform process in China.
State Council does not roll out reform throughout country.	LOW	HIGH	The State Council has clearly stated its priority for rolling out fiscal reform across provinces.
Recommendations take into account regional disparity in terms of need and capacity.	LOW	LOW	A key part of the project will be to understand capacity and contextual issues before recommendations are finalized.
Legislative change does not support implementation of policy.	LOW	MEDIUM	Legislation can sometimes take longer than planned in China. There is a very strong commitment to fiscal reform and it is unlikely that legislation would be introduced that would undermine this.
Policy recommendations do not take into account public administration reforms.	LOW	MEDIUM	Fiscal reform is a centrepiece of broader administrative reforms. However the link needs to be maintained so the PMO will keep a close watch on this and ensure consistency with wider reforms.
Purpose level			
No change at top decision-making level.	LOW	HIGH	A change in overall policy would impact on the project. This is unlikely, if anything the 11 th 5YP is likely to place even more emphasis upon the outputs being generated by the project.
Government does not give priority to poverty alleviation.	LOW	MEDIUM	Very unlikely. Poverty, balanced growth and redistribution will form the central part of the 11 th 5YP.
Revenue does not remain buoyant	LOW	HIGH	Buoyant revenues greatly help the prospects for fiscal reform. Trends and forecasts suggest that revenue growth will continue to be strong over the life of the project.

4. The risk table shows that there are no high probability/high impact risks. Indeed there are only 5 high impact risks, but all of these have a low probability of occurring.

5. In overall terms this project has a low-medium risk. In response to this, the project will require annual monitoring to assess progress.