

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

## The Challenge

China has made enormous progress in economic and social development in recent decades. It is increasingly acknowledged that transparent and efficient public expenditure management, effective tax administration, as well as tax policy reforms are key measures, not only to meet the needs of a market economy, but also to mobilize and better allocate resources for reducing poverty and equalization of public service delivery.

However, the depth and coverage of China's 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 in the management and implementation of reforms especially at the sub-national government levels.

## The Response

UNDP and the Government of China, with support from DFID, jointly launched the programme to support China's pro-poor fiscal reform on both the expenditure and the revenue fronts.

An overarching component of the programme supports researches, with a focus on reviewing sub-provincial fiscal system, to propose new options for pro-poor fiscal policies design in order to equalize provision of basic social services.

On the expenditure side, the programme introduces international experiences to China to assist it revising budget legislation, tackling challenges met in rolling out new budget classification system, introducing performance-based and outcome-oriented budget system, furthering Treasury reform and initiating accounting system reforms. These efforts aim at higher transparency and accountability of public expenditure planning and management.

On the revenue side, to meet emerging needs of taxation reform during the economic transition of China, a focus area of the programme is to support China develop strategic frameworks for the re-assignment of taxation powers, local taxation reform and basic tax law. The programme also aims at enhancing tax and incentive framework for environmental protection, strengthening institutional and human capacities for efficient tax administration, and exploring new options for broadening the tax base.

## The Achievements

The programme has made solid achievements in providing policy recommendations and enhancing

government capacities of designing as well as managing fiscal reforms for the benefit of poverty reduction and promoting equity.

The programme reviewed China's fiscal reform challenges particularly at sub-provincial level, made recommendations to the revision of budget legislation and basic tax law to support China further rationalizing budgeting and taxation power distribution between central and local governments. Frameworks for reforming environmental tax and property tax have been recommended to support China meet emerging taxation reform challenges.

With support of the programme, international experiences in pro-poor fiscal reform, budget legislation and management, treasury and account system reform, tax legislation, taxation services and management have been introduced to China.

The programme also serves as a platform to strengthen dialogues between key stakeholders, partners and to facilitate resource mobilization in support of China achieving its goals of the pro-poor fiscal reform.

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## At A Glance

Start Date: December 2004

End Date: December 2011

Executing Agency: China International Centre for Economic and Technical Exchange (CICETE)  
Cooperating Partner: Ministry of Finance, State Administration of Taxation

Project ID: 00039815

UNDAF: Outcome 1 – Social and economic policies are developed & improved

MDG: Goal 1 – Eradicate extreme poverty and hunger

UNDP:	US\$	1,000,000
Government	US\$	4,000,000
3 <sup>rd</sup> Party:	US\$	5,000,000
Total Budget:	US\$	10,000,000

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