

# Subnational PEFA Assessments in China

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# Introduction

- This is the first PEFA assessment in China, jointly sponsored by China Academy of Fiscal Sciences of Ministry of Finance, Hunan Province Government and the World Bank.
- PEFA Secretariate provided strong support in developing and preparing the assessments. The new 2020 Subnational PEFA Framework was adopted.
- The assessments of 8 selected counties of Hunan province were conducted in November 2019 – November 2020, spanning over the COVID-19 lockdown period.
  - November 2019 - March 2020 (the assessments of the first two counties)
  - January 2020 - November 2020 (the subsequent six assessments)
- Key innovative practices:
  - Synergy with a lending operation, Hunan Subnational Governance and Rural Public Service Delivery Program-for-Results (PforR)
  - Reliance on national assessors



**Table 1: Key Statistics of 8 Selected Counties**

	Population (thousand)	2019 per capita GDP (RMB)
<b>Hunan province</b>	69184	57459
<b>Selected 8 pilot counties</b>		
<b>Pingjiang</b>	954	33797
<b>Liuyang</b>	1374	102574
<b>Youxian</b>	665	59744
<b>Rucheng</b>	355	24616
<b>Yizhang</b>	598	36101
<b>Liling</b>	968	74041
<b>Guidong</b>	210	20424
<b>Chaling</b>	594	36279

Source: Hunan Provincial Department of Finance

# Why Subnational PEFA?

- Hunan Province is committed to deepening its PFM reforms by improving fiscal system and management capacity of county governments.
- The Province is engaging with the World Bank to design and implement a Program for Results (PforR) operation. The initial objective is to support the government to implement government's ambitious rural revitalization program, which accounts for half of the county governments' budget and the institutional capacity of county governments is critical to the success.

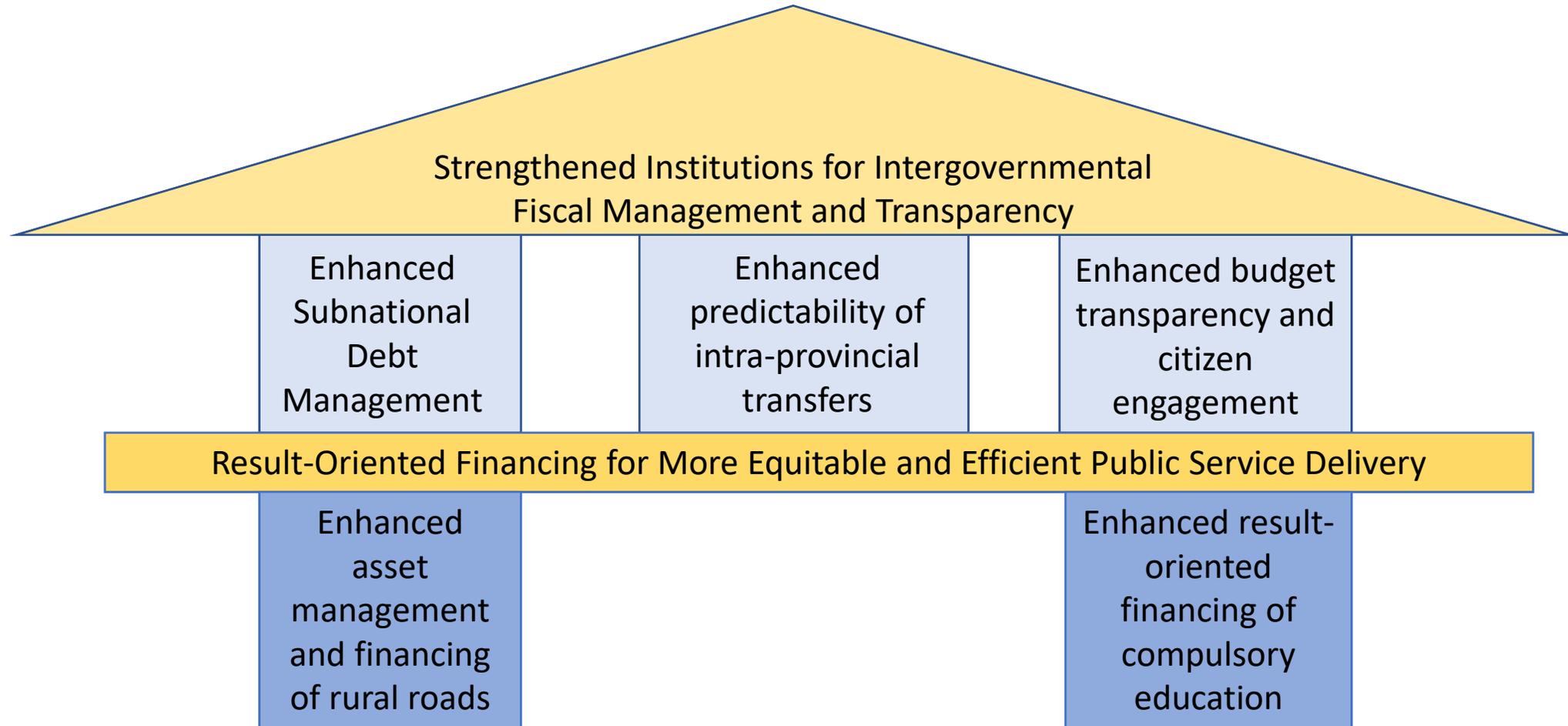
## Subnational PEFA

Assessment of strengths and weaknesses of subnational public financial management (PFM) in China against international practice standards

- To inform reform plans for Hunan Province and counties
- To inform design of Hunan Subnational Governance and Rural Public Service Delivery Program-for-Results (a lending operation)
- The assessment results provide a baseline against which future development of county governments' PFM systems can be measured.

## China: Hunan Subnational Governance and Rural Public Service Delivery PforR

**Program Development Objectives:** To enhance **financing mechanisms** for more equitable and efficient public service delivery of rural roads maintenance and compulsory education in pilot counties and scale up selected practices across Hunan Province.



# Following up the PEFA assessments, Hunan Province embedded its commitment to the PFM reform in the PforR.

## Program Action Plan:

1. Hunan Province shall provide guidance and ensure that the 8 pilot counties develop and implement a PFM reform plan based on the findings from PEFA assessments conducted in 2020.
2. Hunan Province shall carry out a PEFA Assessment for the 8 pilot counties in 2024.

## RA 1: Strengthened institutions for intergovernmental fiscal management and transparency

PDO Indicators	Intermediate Indicators
<ul style="list-style-type: none"> <li>• Sum of three PEFA indicator scores in pilot counties 1) Debt Management (PI-13); 2) predictability of HLG transfers (HLG-1); 3) Public Access to Fiscal Information (PI-9)</li> </ul>	<ul style="list-style-type: none"> <li>• Development of a more comprehensive provincial debt management system that captures leveraged liability related to project bonds and number of pilot counties with enhanced subnational debt management system and annual debt management strategy (DLI #1)</li> <li>• Improved score of PEFA indicator PI-13 on debt management</li> <li>• Number of pilot counties that have achieved more predictable high-level government (HLG) transfer (DLI #2)</li> <li>• Adoption of provincial regulations on budget transparency, Open Budget Protocols and citizens' feedback mechanism and number of pilot counties with increased budget transparency and citizen engagement (DLI #3)</li> <li>• Number of counties conducting annual citizen's consultation at the time of producing citizens' budget per year</li> <li>• Number of people visiting the eight pilot counties' open budget data portal</li> </ul>

# Despite of the disruption and travel restrictions of COVID-19 pandemic, these 8 assessments were completed within a year.

- Key milestones

Nov. 2019	Concept note review
Dec. 2019	Field work in the first two counties
March 31, 2020	Decision review of the first two assessment reports
Mar-May. 2020	Virtual field work in the rest 6 counties
Jun-Aug. 2020	Complete the draft of the rest 6 counties' assessment reports
Nov. 2020	Decision review of the rest 6 counties' assessment reports

- It is attributed to the innovative practice that these assessments were conducted almost exclusively by national assessors.
  - Trust from the governments being assessed
  - Efficiency gain
  - Cost saving
  - Opportunity to build local capacity (essential for future scaleup)

# Risks and Mitigation Measures

## Risks:

- Lack of experience and knowledge in PEFA
- Concern about assessment credibility and quality

## Mitigation:

- Capacity building
  - Strong advisory support from PEFA Secretariate
  - Intensive training for national assessors
  - Two phases: first assessment of two counties with on-site advisory support from PEFA Secretariate experts, Julia and Guillaume; and assessment of remaining 6 counties later.
- Quality Assurance
  - Upfront agreement with Hunan Province that all 8 assessments shall receive PEFA Accreditation.
  - Peer reviewing and consultation
  - Two assessment teams working in parallel, each covering 4 counties and comparing notes

# Team Composition

Institution	Assessors' Background	Roles
World Bank Beijing Office	1 Economist/PFM Specialist 1 FM Specialist & Certified Accountant	<ul style="list-style-type: none"> <li>. Manage the process of assessment</li> <li>. Organize the assessment team</li> <li>. Hold ultimate accountability for delivery of assessment reports</li> </ul>
	1 Procurement Specialist	<ul style="list-style-type: none"> <li>. Assess and provide inputs on indicators related to procurement</li> </ul>
Top University (Fudan University)	2 PFM Professors	<ul style="list-style-type: none"> <li>. Act as lead assessors of each team</li> <li>. Draft the assessment report with inputs from other team members</li> <li>. Incorporate feedbacks from peer reviewers and revise the report</li> </ul>
China Academy of Fiscal Sciences	1 PFM Specialist 1 FM Specialist	<ul style="list-style-type: none"> <li>. Pre-review all provided data and information prior to the mission</li> <li>. Liaison with Province DOF and county governments for the assessment preparation</li> <li>. Assess and provide inputs</li> </ul>
Hunan-based University	1 PFM Professor	<ul style="list-style-type: none"> <li>. Provide background study on project counties</li> <li>. Liaison and advise Province DOF and 8 county governments for the assessment preparation</li> </ul>
	1 FM Professor & Certified Accountant	<ul style="list-style-type: none"> <li>. Assess and provide inputs on indicators related to financial report and audit</li> </ul>

# Summary

- PEFA assessments could inform the government about the design of PFM reform. When they are linked to the Bank's PforR operation, it makes the government's reform commitment more credible and allows the government to access to the Bank's implementation support.
- It can be cost and time efficient when relying more on local assessors, while risks need to be carefully managed.