



1. Project Data:		Date Posted : 08/14/2003	
PROJ ID: P036041		Appraisal	Actual
Project Name: Fiscal Technical Assistance Project	Project Costs (US\$M)	105.5	76.5
Country: China	Loan/Credit (US\$M)	50.0	47.6
Sector(s): Board: PS - Central government administration (94%), Sub-national government administration (6%)	Cofinancing (US\$M)		
L/C Number: C2709; L3873			
	Board Approval (FY)		95
Partners involved :	Closing Date	12/31/1999	12/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
Elliott Hurwitz	Jorge Garcia-Garcia	Kyle Peters	OEDCR

2. Project Objectives and Components

a. Objectives

The project was designed to support the implementation of recent fiscal and tax reforms and the preparation of future reforms by: (a) developing and implementing a new national tax administration (system); (b) improving capacity for tax policy analysis; (c) developing and implementing a central-provincial grants scheme; and (d) improving budgetary processes and practices . As a result of a change in government priorities, objective (c) was narrowed to "improving the central-provincial grants scheme."

b. Components

Tax administration : (1) Consulting assistance to improve tax administration procedures and information system development; (2) training in IT systems development and administrative and managerial functions; (3) provision of equipment and software for the information system in 18 cities, at the national office, and in a training center .

Tax Policy Analysis : (1) Design appropriate databases and models to support tax policy analysis; (2) provide computer equipment to support the new databases, analytical tools and improved communication between national and provincial tax policy offices; (3) training for central and provincial government officials in tax policy analysis; and (4) studies to provide analytical background for future tax reforms .

Intergovernmental Fiscal Relations : (1) Consulting assistance to design the center -provincial tax scheme and develop an adequate information system to support it; (2) training for the implementation of an improved grants scheme; and (3) IT equipment for the needed information system .

Budget System : Provide assistance to strengthen institutional capacity for budget preparation and implementation : (1) provide training and studies to assess current budget systems and draw lessons from international practice; (2) provide consulting on improving budgetary procedures and practices; and (3) provide consulting, training, and computer equipment for establishing a modern treasury system .

c. Comments on Project Cost, Financing and Dates

Project cost was US\$76,520,000 as compared to appraisal estimate of US\$ 105,000,000. No explanation was provided for the shortfall. Bank/IDA contribution was a 50/50 blend. Counterpart funding was around 32% less than envisioned. The project closing date was extended twice --mainly due to procurement delays--and was closed in December, 2002, compared to an original date of December, 1999.

3. Achievement of Relevant Objectives:

(a) **Developing and implementing a new national tax administration (system):** The State Administration of Taxation (SAT) developed uniform procedures for tax administration and collection, which led to a national tax administration information system. The China Tax Administration Information System (CTAIS) was tested and piloted in 19 cities, and by project close covered 110 cities and 7 provinces. SAT built on the new system and linked it to data systems for customs administration, the banking system, and the State Administration for Foreign Exchange . The Fiscal TA project provided hardware, software, and training to support the new system .

(b) **Improving capacity for tax policy analysis :** The Fiscal TA Project assisted the Tax Policy Department of the MOF to build capacity at headquarters as well as in local offices . Assistance was provided in the areas of, e .g., equalizing

treatment of foreign and domestic corporations; reform of enterprise income taxes; broadening the base for the personal income tax; reforming the local tax system; and expanding the scope of the VAT . The project assisted the government to assess the impact of WTO accession on revenue, and in adjusting the tax system to be WTO-compliant. Tax reforms that have been implemented with the assistance of the project include rural tax reform, which was implemented in 20 provinces in 2000-2002, and is expected to be implemented nationwide in 2003. In supporting MOF tax policy reform, the Fiscal TA Project provided financing and advice on design of appropriate databases, and also provided modeling expertise; training in tax policy (seminars and analytical models); tax forecasting models; and IT equipment to support better communication between MOF and local offices . Studies and analyses were distributed to local tax offices nationwide .

(c) **Developing and implementing a central -provincial grants scheme** : As noted above, this objective was narrowed and de-emphasized in accordance with government priorities, and little assistance was provided . A workshop on intergovernmental fiscal relations was held in July, 1997, and officials attended several international workshops on this subject in 1999 and 2000.

(d) **Improving budgetary processes and practices** . Activity in this area encountered substantial delay, with little activity until 1999. In 1999, the MOF Budget Department began an effort to strengthen budget management, and in support of this effort, the Fiscal TA project funded workshops on budget management, fiscal decentralization and intergovernmental transfers. Additional training included international workshops on single treasury accounts and budget formulation, and classification of revenues and expenditures; training programs on budget management; and study tours on transfer payments, classification of revenue and expenditures and management of state treasury . Following a reorganization in 2000 of the MOF Budget Department (in charge of intergovernmental transfers and budget classification) and the Treasury Department (in charge of budget execution), assistance was provided to these agencies. With the assistance of the Fiscal TA project, these 2 offices combined to develop a comprehensive Government Financial Management Information System (GFMS), which connected central and local governments regarding the functions of budget preparation, implementation, accounting, and the management of cash, debt, and risk. The project also facilitated reforms that reoriented budget management from broad sectoral allocations toward departmental budgets, with greater emphasis on performance monitoring . Under this area, the Fiscal TA project provided a large number of international workshops, seminars, training programs, consultancies, and studies on public expenditure analysis, budget evaluation and preparation, the role of Parliament, analysis and management of risk, and budget statistics. Computers and other equipment were also provided .

4. Significant Outcomes/Impacts:

- Based on new procedures established during the project, SAT developed and piloted a national uniform CTAIS . By project close, CTAIS managed collection of one third of the country's budgetary revenue
- Under the Tax Policy Analysis component, 10 studies were completed that significantly influenced the development of tax policy. The MOF used these studies to design and submit several tax reform proposals (e.g., VAT, personal income tax, enterprise income tax, a single approach to taxation of domestic and foreign -funded enterprises).
- The Fiscal TA Project provided key assistance to the Government's high -priority program of budget management reform, contributing to a reorientation from a broad sectoral approach toward one utilizing departmental budgets, and also moving from emphasizing inputs toward monitoring of performance

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Realization of project benefits occurred much later than envisioned, mainly due to ineffective project management (see Section 6), procurement difficulties, and lack of a government consensus on tax reform issues from 1995-99.
- Because of weak project management, the training provided yielded fewer benefits than envisioned (see section 6)
- The Borrower's lack of a consensus on tax reform during the period 1995 to 1999 limited the benefits derived from TA provided during that period.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Moderately Satisfactory	Project benefits were less than envisioned because of substantial delay and weak project management.
Institutional Dev .:	High	Substantial	The substantial delay in achieving project IDI objectives and the lower level of benefits achieved indicate a rating of "substantial."
Sustainability :	Highly Likely	Likely	The ICR provides insufficient evidence to support a rating of Highly Likely .
Bank Performance :	Satisfactory	Satisfactory	Bank performance was satisfactory but with several deficiencies :

			<p>Readiness for implementation was deficient. For the first 3 years after effectiveness, project PSRs reflect weak project management arrangements and inadequate Borrower understanding of procurement requirements. In particular, the original management arrangement, involving the Ministry of Finance (International, Tax Policy, and Budget Departments), State Administration of Taxation, and the People's Bank of China, was unwieldy.</p> <p>During the first 4 years of supervision, the Bank did not effectively resolve Borrower project management and procurement problems, which greatly hindered project progress. The Bank also "provided misguided advice on a draft bidding document (PSR, June 1997)," which necessitated a special mission to resolve the problems caused by the advice.</p>
<p>Borrower Perf .:</p>	<p>Satisfactory</p>	<p>Unsatisfactory</p>	<ul style="list-style-type: none"> ● Borrower performance was unsatisfactory for the first 4 years of project implementation (1995-99), but was satisfactory during the last 3 years (2000-02) ● The Borrower's interest in tax reform at certain points in the project was low, which contributed to delays. While the Borrower was highly interested in tax reform in 1993-94, that interest waned from 1995 to 1999, which diminished the effectiveness of some of the TA provided under the project. After 1999, interest in tax reform increased, and the Borrower could make much better use of the TA provided. ● For around 4 years, project management was ineffective, which delayed project progress and diminished the benefits produced. Management problems included: <ul style="list-style-type: none"> --Lack of effective coordination among participating agencies --Inadequate financial management controls, especially between the TA Unit of the International Department (MOF) and other participating agencies --Minimal oversight by the project management office, which reduced the benefits of the TA (see section 9.c.) ● The Borrower insisted on use of a single-stage bidding procedure, and custom-made bidding documents, rather than the Bank's standard documents. This caused major delays in project progress (procurement mistakes by the Bank also contributed to the delay). Also, SAT at first insisted on developing the

			Tax Administration data system in-house, before accepting the Bank's recommendation to out-source the contract.
Quality of ICR :		Unsatisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- In a TA project, if the Borrower's policy priorities change substantially, the Bank should formally restructure the project or consider cancellation

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

9.a. Introduction The ICR is unsatisfactory. There are substantial discrepancies between the ICR's assessment of project performance and assessments provided by other sources (**sec 9.c**); in many cases, the ICR makes assertions of project achievement, but provides little or no evidence of this achievement (**sec 9.b**); the ICR states that there was no change of objective (developing and implementing a central-provincial grants scheme), when in fact this objective was modified. Also, the ICR does not explain why the project cost was 27% less than planned, why the envisioned participation of the IMF did not occur, or the reasons for or consequences of the 32% shortfall in counterpart funds.

9.b. Insufficient evidence : CTAIS and the Golden Tax Project were vital pillars in improving tax administration efficiency, and have been publicly credited for strong 2001-2002 revenue performance (p. 4); the project enabled MOF Tax Policy Department to provide better support to the budget process by improving revenue forecasting quality, enhancing effectiveness and timeliness of communication between the MOF and local tax policy offices on new tax policies and their interpretation, and promoting information dissemination across tax policy offices in China (p. 6); "Institutional capacity of MOF and local governments has been significantly strengthened in intergovernmental fiscal reform and tax policy, which was the objective of the Fiscal TA Project" (p. 8); "Thanks to the CTAIS, tax compliance is estimated to have increased significantly" (p. 4).

9.c. Discrepancies between ICR and other sources

ICR	other sources
"There were three different counterpart agencies, the MOF, SAT, and the People's Bank of China, with very clear responsibilities defined under the project." (p. 3)	"Management decisions are made by committee, leading to long delays and distrust of outside experience has exacerbated the problem.....Plans to merge some of the departments, e.g. local budget under the budget department, may help to end the peculiar situation where the TA project was housed in the wrong department after the task assignment had shifted. This should help to speed up project implementation ...the impact of the [Intergovernmental Fiscal] component hinges on participation of the local budget department, which MOF is not yet encouraging." (PSR, June, 1998)
"The project was ready for implementation at approval." (September, 1995) (p. 3)	"Most project activities now lag far behind the time-bound action plan in the minutes of the negotiations, and only the tax policy component has shown sufficient progress ...the Hardware bid is on hold, waiting for SAT to deliver a satisfactory systems development planIn the tax administration component, delays are most pronounced....Technical difficulties experienced in finalizing hardware bidding documents are due to inadequacy of consultant input, inadequate support from tendering company and project management problems" (PSR, June, 1998)
"Implementing agencies, including the Tax Policy, Budget and Treasury Departments of MOF, SAT and PBOC, quickly assumed leadership in formulating and executing project activities and played a vital role in the implementation of the project. They managed well the implementation of their respective components and coordinated with the International Department of MOF on an as-needed basis." (p. 11)	"Overall, minimal oversight by the project management office means that study tours, training and seminars are not adequately screened which reduces their effectiveness. Financial controls also need strengthening. Counterpart funds have not been recordedOverall, management will need significant strengthening. Project activities need to be more focused on achieving the projects goals, quality and financial controls and project and financial reporting need to be improved. Under the budget management component, the MOF budget

	department and the PBC treasury management department have set up a leading group to further develop plans. However, the budget department is reluctant to reallocate project funds to implement the new system ." (PSR, June, 1998)
"Although the project saw three different task team leaders during its life, its implementation was smooth ." (p. 10)	(see also discussion above on project management difficulties) <ul style="list-style-type: none"> • The project was extended twice from an envisioned 4.5 years to 7.5 years • The project was rated "U" on Implementation Progress for nearly 2 years
"Project accounts and audits were submitted on a regular basis. The project audits were timely and the audit opinions were generally positive ." (p. 9)	"Compliance with Legal Covenants is downgraded due to overdue Audits." PSR, September, 1996)