



Modernizing Public Governance: International Experience and China's Experiments

Summary and Presentations
Workshop on Public Governance and Trust in Government
Cosponsored by the Chinese Academy of Governance and the World Bank
December 12, 2017
Beijing, China

These workshop proceedings have been prepared by Min Zhao and Jurgen Rene Blum from the World Bank. The findings, interpretations, and conclusions expressed in this summary are entirely those of the author(s) and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent.

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The World Bank would like to express its gratitude to Mr. Chen Li, Vice President of the Chinese Academy of Governance, and Prof. Xu for the great partnership in organizing the workshop and for the CAG's generous hospitality. The organizers would like to thank the numerous policy makers, practitioners and researchers from China for their rich contributions to the workshop, as well as the international guests and speakers, Prof. Tom Christensen, Professor of Political Science at the University of Oslo and Prof. Don Moynihan, Professor of Public Affairs at the University of Wisconsin-Madison for making the long journey to Beijing.

OVERVIEW

On December 12, the Chinese Academy of Governance and the World Bank jointly organized a high-level workshop on how public governance reforms can improve government performance and strengthen citizens' trust in government. Improving government performance is a key concern for China's leadership, as it seeks to facilitate China's transition to a high-income economy. This includes encouraging the efficient, fair, and transparent use of public resources for service delivery; reducing rigidities and strengthening integrity in the civil service; and formulating and enforcing regulations consistently. Meanwhile, citizens' subjective views of government matter. While trust in government is exceptionally high in China, President Xi Jinping has expressed concern about the risks associated with a potential decline in trust. Describing a "Tacitus Trap," the president has noted, "if an authority loses its credibility, people will give negative comments on whatever it says or does."

The workshop aimed to provide Chinese leadership with insight into recent public governance reform trends in member countries of the Organisation for Economic Co-operation and Development (OECD) and in emerging economies, and their impacts on government performance and trust in government. It was hoped that this would support Chinese decision makers in formulating strategic reform directions toward stated ends. It brought together senior policy makers from China, the OECD countries, and middle-income countries, as well as academic experts. The workshop addressed four major themes:

1. International trends in governance reform, and their impact;
2. Performance management and budgeting for effective service delivery;
3. Regulatory management for fair competition and citizen confidence;
4. Public service structure and governance in an intelligent-digital era.

These proceedings summarize major messages from the workshop, under each of these themes, for wider dissemination.

SESSION DESCRIPTIONS

SESSION 1. International Trends in Governance Reform and Their Impact

Session 1 highlighted major governance reform trends in OECD and emerging economies. It identified what is known about the impact of these reforms on government performance and trust in government, and explored implications for China's vision for governance reform.

SESSION 2. Performance Management and Budgeting for Effective Service Delivery

Government performance in delivering public services such as health care and education to citizens is critical both for citizens' trust in government and for the human capital China will need for sustained productivity growth. Session 2 focused on how China can reform its performance management, budgeting, and intergovernmental transfer systems to set incentives for effective service delivery.

SESSION 3. Regulatory Management for Fair Competition and Citizen Confidence

The consistent and reliable enforcement of regulations, ranging from innovation policies to environmental and food safety policies, is a critical dimension of government performance in China, both to ensure that firms can compete on a level playing field and that citizens have confidence in, for example, the food they eat and the air they breathe. Session 3 explored international experiences with regulatory management reform that offer useful lessons for China, in particular in managing enforcement across levels of government and in engaging citizens and firms in the regulatory process.

SESSION 4. Public Service Structure and Governance in an Intelligent, Digital Era

Meeting evolving demands for public services in an era of exponentially growing digital data calls for public governance reforms. However, structural rigidities in the public service and misaligned incentives can hinder performance. Citizens' trust can easily be undermined if their demands are not met in a timely manner. Session 4 considered lessons from both China and other countries in capitalizing on the growing ease of access to performance data and aligning the incentives of public officials to strengthen performance by, among other things, strengthening mechanisms for user feedback.

AGENDA

TIME	SESSION	TOPIC
8.30 – 9.00	Opening	<p><i>Chair</i> Prof. Dong Qing, Director-General, Chinese Academy of Governance</p> <p>OPENING REMARKS</p> <p>Mr. Chen Li, Minister and Vice President, Chinese Academy of Governance</p> <p>Mr. Bert Hofman, Country Director, China, Mongolia, and Republic of Korea, World Bank</p>
09:00 – 10.30	Session 1	<p>International Trends in Governance Reform and Their Impact</p> <p><i>Chair</i> Prof. Ding Wenfeng, Former Director of Academic Affairs Department, Chinese Academy of Governance</p> <p><i>Panelists</i> Prof. Tom Christensen, Professor of Political Science, University of Oslo: “Post–New Public Management Reform Trends and Their Impact: What Could They Imply for China?”</p> <p>Ms. Zhao Min, Senior Economist, Governance Global Practice, World Bank: “From Middle Income to High Income: China’s Public Governance Challenges in the New Era”</p> <p>Prof. Liu Feng, Professor & Director, China Leadership Science Research Center, Chinese Academy of Governance: “Path toward the Modernization of China’s Public Governance”</p> <p>Mr. Wei Jianing, Advisor and Researcher, Macroeconomics Department, Development Research Center of the State Council: “How to Realize the Modernization of the State Governance”</p>

10.20 – 10.40		COFFEE BREAK
10.40 – 12.10	Session 2	<p>Performance Management and Budgeting for Effective Service Delivery</p> <p><i>Chair</i> Prof. Li Jiangtao, Professor, Economics Department, Chinese Academy of Governance</p> <p><i>Panelists</i> Prof. Donald Moynihan, Professor of Public Affairs, University of Wisconsin-Madison: “Experiences with Performance Management and Budgeting Systems in the United States and the OECD Countries”</p> <p>Mr. Robert Taliercio, Practice Manager, Public Sector and Institutions Unit, Governance Global Practice, World Bank, “Stimulating Subnational Government Performance”</p> <p>Mr. Fu Shulin, Deputy Director-General, China State Tax Administration: “Performance Management Reform in China’s State Tax Administration”</p> <p>Prof. Li Junsheng, Vice President, Central University of Finance and Economics: “Achievements and Problems in Reforms of the Medical and Health Systems”</p> <p>Mr. Cui Li, Mayor of Funan County, Anhui Province: “Experiments in Health Sector Reform: Lessons and Experiences in Funan”</p>
12.10 – 13.30		LUNCH BREAK
13:30 – 15.00	Session 3	<p>Regulatory Management for Fair Competition and Citizen Confidence</p> <p><i>Chair</i> Ms. Chu Songyan, Vice Director of the Graduate School, Chinese Academy of Governance</p> <p><i>Panelists</i> Mr. Peter Farup Ladegaard, Lead Private Sector Development Specialist, World Bank: “Regulatory Management for Open and</p>

		<p>Competitive Markets: Lessons for China from International Experience”</p> <p>Mr. Cao Shouye, President, China’s Applied Law Institute of the Supreme People’s Court of the People’s Republic of China: “Bottom-line of the State: Justice and Rule of Law”</p> <p>Mr. Gao Shiji, Director-General, Development Research Center of the State Council</p> <p>Mr. Liu Baocheng, Director of Center for International Business Ethics</p> <p>Mr. Sun Shifang, Researcher and Director, China Economic Trends Research Institute, the Economic Daily Press, “Strengthening County-level Social Governance through the Smart City Initiative”</p> <p>Mr. Jiang Zhen, Associate Research Fellow, National Academy of Economic Strategy: “Innovate Government Regulatory Oversight for a Dynamic Market”</p>
15.00– 15.10		COFFEE BREAK
15.10– 16.50	Session 4	<p>Public Service Structure and Governance in an Intelligent, Digital Era</p> <p><i>Chair</i></p> <p>Prof. Zhang Qing, Vice Director, Economics Department, Chinese Academy of Governance</p> <p><i>Panelists</i></p> <p>Mr. Jurgen Blum, Senior Public Sector Specialist, Governance Global Practice, World Bank: “The Role of State and Career Incentives for Innovation-Driven Development”</p> <p>Prof. Xu Zhengzhong, Program Leader, Chinese Academy of Governance: “Government Trust Architecture in the Intelligent-Credit Society”</p> <p>Mr. Fu Shulin, Deputy Director-General, General Office, State Tax Administration, “Performance Management Reform in China’s State Tax Administration”</p> <p>Prof. Niu Junyu, Director, Government Performance and Information Technology Research Center, Fudan University: “Big</p>

		<p>Data and Government Performance Management”</p> <p>Mr. Zheng Xiaoguang, Head, Vice-Mayor, Changsheng District; and Director-General, Data Statistics Bureau, Foshan City, Guangdong Province: “Changsheng District: Using Big Data to Build a Modern Social Governance System”</p>
16.50 – 17.50	Closing	<p><i>Chair</i></p> <p>Ms. Zhao Min, Senior Economist, Global Governance Practice, World Bank</p> <p><i>Closing Remarks</i></p> <p>Mr. Robert Talierno, Practice Manager, Public Sector and Institution Unit, World Bank, “Key Takeaways from the Workshop for China’s Governance Reform Agenda”</p> <p>Prof. Zhang Zhanbin, Director-General, Economics Department, Chinese Academy of Governance</p>

OPENING REMARKS

Mr. Chen Li, Minister & Vice President, Chinese Academy of Governance

Mr. Chen Li, Minister & Vice President, Chinese Academy of Governance, extended a warm welcome to the participants on behalf of the CAG. In his remarks, he shared his views on why the subject of the workshop is so relevant for China.

He first noted that continuously strengthening government credibility is a cornerstone of ensuring economic and social development. General Secretary Xi Jinping himself highlighted this in a speech in Lankao, Henan province, in 2014: If the government loses public credibility, it will be viewed negatively by society, regardless of its words or actions. Hence, ensuring public trust must be the basis of all government actions. Enhancing government credibility can help accelerate the pace of government reform and improve government capacity.

Second, trust is the foundation of social development. Trust is the premise of all economic transactions. Without trust, it is difficult to form a market and a division of labor and professional development cannot be realized. Trust also is the glue of society, reflecting the degree of social cohesion and providing the basis for honest cooperation. Not least, trust is the basis for shaping political consensus between individuals, groups, organizations, and for resolving social conflicts.

Third, Mr. Chen Li argued that credibility is also a foundation for government to perform its regulatory and coercive functions. Where trust prevails, social influences and norms are the major force that encourages compliance with regulations, reducing the need for coercive enforcement. Improving trust can hence reduce the costs of governing society. In this sense, improving trust in government can be considered the ultimate goal of governance reform. It captures both society's trust in government and government's ability to influence society.

Fourth, Mr. Chen Li noted that improving trust in government requires a systemic effort. China's current critical reform period necessitates a deepening of reform and an acceleration of a systemic governance transformation. This includes strengthening the party's leadership; giving full play to the leading role of the government; encouraging all parts of society to participate; and protecting the rule of law. The new governance model ought to be more pluralistic, broadly engaging and societal actors and encouraging them to assume responsibility.

Mr. Chen Li in particular highlighted the importance of the session discussing the changes brought by big data to governance. On December 8, 2017, during the second study group of the Politburo of the CPC Central Committee, General Secretary Xi Jinping emphasized the importance of big data for modernizing social governance, for assisting scientific decision-making and for improving the efficiency of public services. He emphasized that the question

how to effectively generate and use big data to these ends is a problem that merits jointly study.

In conclusion, Mr. Chen concluded noted the global relevance of governance at a time when peace and global stability are under threat. He noted that CAG wishes to strengthen its cooperation with the World Bank and various sectors of society in view of contributing to global knowledge on governance as a public good. He wished the workshop great success.

Mr. Bert Hofman, Country Director for China, Mongolia and Korea, the World Bank

Mr. Hofman welcomed all participants and, on behalf of the World Bank, expressed his gratitude to Vice President Mr. Chen Li and Prof. Xu for the great partnership in organizing this event and for the CAG's generous hospitality. He thanked the numerous policy makers and researchers from China as well as the international guest speakers for joining the discussion.

Mr. Hofman noted the timeliness of the workshop's topic, after the 19th Congress of the Communist Party of China. Governance is key to addressing China's central challenges in a new era, as President Xi Jinping appropriately re-defined them at the Congress: "the principal contradiction facing Chinese society has evolved. What we now face is the contradiction between unbalanced and inadequate development and the people's ever-growing needs for a better life." Mr. Hofman quoted President Xi Jinping as having emphasized that "the overall goal of deepening reform in every field is to improve and develop the system of socialism with Chinese characteristics and modernize China's system and capacity for governance."

Mr. Hofman underlined the World Bank's long-standing friendly and cooperative relationship with China, since 1980. The early engagement emphasized cultivating human capital through higher education and the development of universities, rather than traditional infrastructure projects – a topic still important to China's future and reflective of China's policies of emancipating the minds and seeking truth from facts. Since, China has kept a very close partnership with the World Bank.

Mr. Hofman welcomed the workshop's focus on governance. The workshop builds on the Bank's engagement with China on governance issues, in particular on budgeting and debt management. He emphasized that the World has learned much from China's governance during the periods of opening-up and reform and development. The World Bank continues to pay close attention to learning from China in particular with regards to how governance can help it achieve some of visions set out in the report of 19th China People's National Congress (NPC).

Mr. Hofman noted that China has the longest history of a merit-based bureaucratic system in the world. It innovated an exam-based civil servant recruitment system in the Sui Dynasty (587AC). It developed a performance evaluation system for local governments under the Song dynasty, 1400 years ago. This meritocratic system has been one of the key factors that underpinned China's sustained economic growth over the past 4 decades, at an annual average rate of over 9 percent. As many scholars have highlighted, China's successful transition from a planned economy to a market economy has only been possible thanks to the adaptive coevolution of both economic and governance institutions.

Mr. Hofman highlighted that at this point in its development, China faces a new set of emerging governance challenges: (i) delivering better and more equitable services such as health and education to its citizens will call for changes in underlying performance management and budgeting systems; (ii) transitioning towards productivity-led growth will, among others, require that regulations are more consistently and reliably enforced, so that firms can compete on a level playing field; (iii) sustaining citizens' trust in government, fighting corruption and enforcing policies for example on food safety or pollution is becoming more critical. Not least, (iv) none of this is feasible without ensuring that China's public service has the talent and motivation needed for getting the job done.

In conclusion, Mr. Hofman expressed the hope that that the workshop would provide the beginning for a sustained deeper dialogue on these important subjects. He emphasized that the World Bank stands ready to work with participants and provide focused insight into international experience. He wishes all participants a fruitful and enjoyable day.

SESSION 1. INTERNATIONAL TRENDS IN GOVERNANCE REFORM AND THEIR IMPACT

Session 1 focused on major governance reform trends in the Organisation for Economic Co-operation and Development and emerging economies. Participants outlined what is known about the impacts of these reforms on government performance and public trust in government, and explored implications for China's vision for governance reform.

Post–New Public Management Reform Trends and Their Impact: What Could They Imply for China?

Prof. Tom Christensen, Professor of Political Science, University of Oslo

Prof. Christensen discussed what post–new public management (NPM) reform trends could imply for China. Post-NPM reforms emerged in Anglo-Saxon countries in the late 1990s, as a direct reaction to NPM reforms.

Observers criticized NPM reforms for not delivering on their central promise of increasing government efficiency, for undermining the hierarchical control of the administration by political leaders, and for enhancing fragmentation, making it hard to deliver coordinated services. In response, post-NPM policies have emphasized strengthening the central political order through structural integration, less local autonomy, increased capacity at the top and center, and horizontal coordination between government agencies, reflected in phrases such as “joined-up government,” promoted by the Tony Blair administration in the United Kingdom.

Prof. Christensen noted that post-NPM reforms are not new to China. For example, the creation of “super-ministries” between 2008 and 2013 aimed at overcoming horizontal fragmentation between central ministries, and reasserting central control. The establishment of China's Ministry of Environmental Protection is a case in point. Its role has recently been further strengthened by subjecting subnational government (SNG) enforcement of environmental standards to tighter central and provincial oversight. China's leaders have also become increasingly concerned about the social inequality generated by NPM-type reforms and have sought to counteract it; for example, health-care reforms launched in 2009 aim at achieving universal health coverage. Not least, the recent anticorruption initiative can be seen as a way for national leaders to strengthen control over the administration.

What could post-NPM reforms imply for China in the future? Prof. Christensen expects post-NPM reforms to remain important in China, acting as “compensatory efforts” to counter the problematic effects of economic growth and NPM. China has often been described as a “rational shopper,” picking out reform elements from the West that it believes can benefit the country's development, regardless of whether they are NPM or post-NPM, or reflect the U.S. focus on individualism or the EU focus on collective solutions.

Hence, it is likely that post-NPM and NPM governance elements will continue to coexist in hybrid governance. Whereas NPM reforms focus on delegation, efficiency, incentives, and competition, post-NPM reforms seek to counterbalance these by increasing control and coordination.

In deciding its future reform path, China will need to focus on strengthening public trust in local governments, which is lower than trust in the central government. One way to achieve this would be to reach out to citizens more and invite them voice their concerns and play a greater role in making decisions; accomplishing this through virtual interactions would also serve to improve e-government.

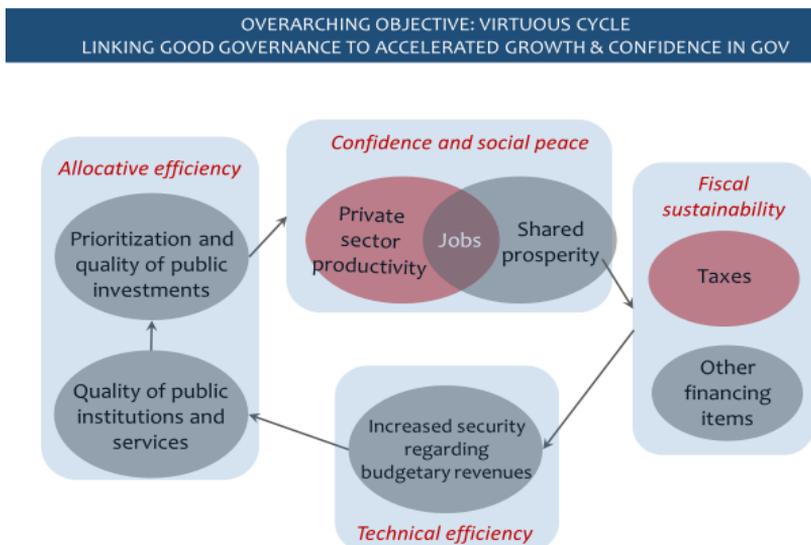
In conclusion, Prof. Christensen noted that the central question is how China can get the better of the NPM and post-NPM world. That is, how can China reap the advantages of delegation and decentralization, while ensuring sufficient central control and coordination? On the one hand, local levels should have the freedom to come up with innovative solutions and enhance trust among citizens, while on the other hand the central government needs to ensure convergence in regulatory solutions and local compliance with central policies.

From Middle Income to High Income: China’s Public Governance Challenges in the New Era¹

Ms. Min Zhao, Senior Economist, Governance Global Practice, World Bank

Ms. Zhao discussed the main challenges China faces today as it seeks to transform itself from a middle-income to a high-income country, and the governance solutions needed to address these challenges. She highlighted the overarching objective for government at all levels: to create and reinforce a virtuous cycle that links good governance to accelerated growth and confidence in government. If weaknesses, vulnerabilities, and inefficiencies in the country’s tax base are assessed and corresponding measures taken to strengthen domestic resource mobilization, corresponding (and sustainable) increases in the ratio of tax revenues to the gross domestic product (GDP) would provide the government with a more predictable revenue base. Adequate revenues would enable line ministries to focus on the quality of public institutions, public service delivery, and public investments as the key pillars of policies aimed at fostering increases in domestic productivity and, hence, businesses’ profitability, employment, and households’ socioeconomic well-being. These, in turn, would help to increase (voluntary) tax compliance and revenue collection, thereby reinforcing the symbiotic partnership between the economy’s public and private sectors.

Figure 1. A Virtuous Cycle Linking Good Governance with Accelerated Growth and Public Confidence in Government



¹ This presentation is mainly based on the background paper, “From Middle Income to High Income: Institutional Changes during Stormy Sea,” by James Brumby. Errors are the presenter’s.

In the post-2008 era, governments have had to adjust fiscal policies to the additional challenges of (i) a permanent (global) growth deceleration; (ii) rising social and infrastructure needs; and (iii) increased risks of (international) tax avoidance, tax evasion, and tax base erosion. It becomes even harder—but no less vital—to ensure the budget’s long-term debt sustainability and to avoid the severe socioeconomic costs inherent in a future fiscal, financial, economic, and/or social crisis.

Reform strategies and priorities as China shifts from being a middle-income to a high-income country were well elaborated in two joint flagship studies put together by the World Bank and China’s Development Research Center of the State Council. Most reform measures are endorsed by Chinese country leaders, and reflected in the 18th and 19th Communist Party of China (CPC) Congress reports. The primary strategy is to shift the development objective from exclusively pursuing GDP growth to multiple objectives, including equality and sustainability.

Shifting from one goal to several poses a challenge to the government’s capacity to

Figure 2. Balancing Public Pensions with Long-term Health Care

balance priorities—for example, public pensions and long-term health care. The growth potential and sustainability of public finances are affected by aging societies, creating “generational conflicts” between the young (given their focus on education and a successful transition into the labor market), the working-age population (paying into social systems), and the retired.

To meet the development challenges of the new era, an institutional reform program is required to increase the “value or money” for any yuan spent from the budget. Thus, there is the quest to collect “more” and spend “better” in a manner that is consistent with the overarching policy objectives of fostering the private sector and citizens’ socioeconomic development. In addition, the competing demands of different interest groups will also require the government to profoundly change its manner of policy making and implementation. Better-structured communication with citizens and business, supported by enhanced transparency, is warranted.

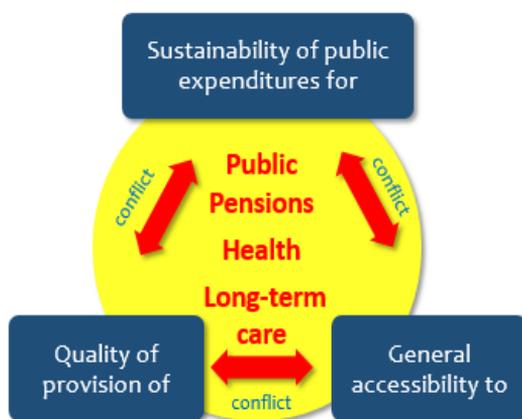
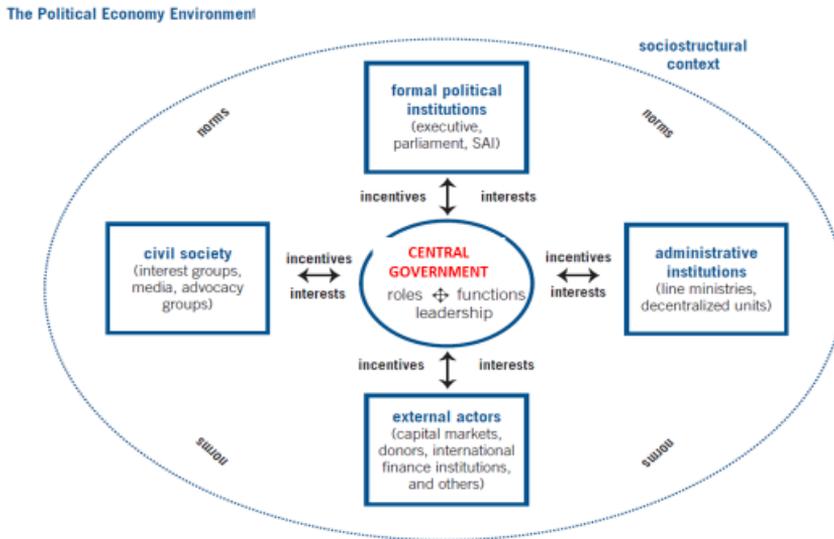


Figure 3. Different Interest Groups Influence Government Policy Making and Implementation

INFLUENCED BY THEIR ENVIRONMENT AS WELL AS POLICY AND DEVELOPMENT CHALLENGES



In conclusion, Ms. Zhao recommended that the Chinese government substantially change the role of the state and its approach to exercising power, from that of a direct service provider, planner, commander, and controller toward that of a facilitator, enabler, coordinator, and regulator. This shift could be made possible by technology and know-how, and would have a profound impact on the staffing, structure, and capabilities of civil servants.

Path toward the Modernization of China's Public Governance

Prof. Liu Feng, Director, China Leadership Science Research Center, Chinese Academy of Governance (CAG)

Prof. Liu shared his vision of modern public governance in China. He cited the Chinese legend of Dayu managing flood waters, and drew two characteristics of modern public governance from Chinese traditional wisdom: it should (i) conform with natural and social development; and (ii) be conducive to building consensus in thought processes and visions and channeling public emotions and sentiments.

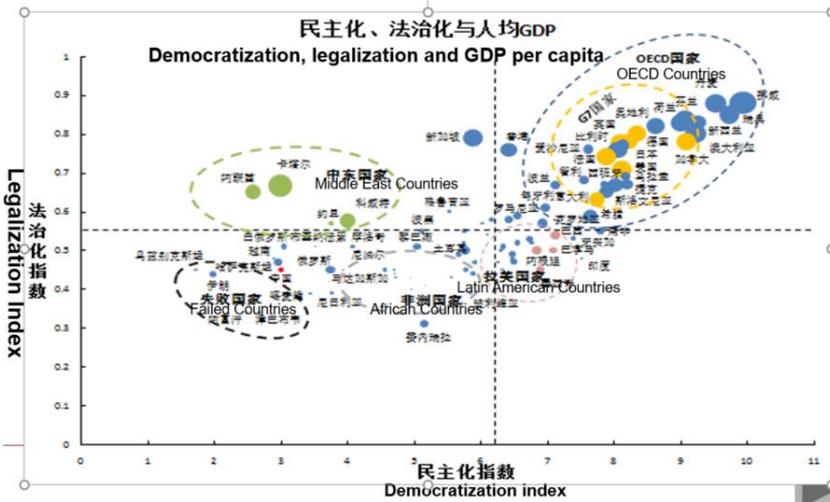
Prof. Liu believes that China's modern public governance should build on three pillars: (i) the leadership of the China Communist Party (CPC); (ii) people's consultation; and (iii) the rule of law. These three pillars should work together and reinforce one another. The CPC's leadership relies on its capacity to make policy decisions based on democratic consultation with the people; it also relies on its capacity to abide by and enforce the rules through which it wins its trust from the people. In the new era, China needs to innovate its public governance to meet the people's new demands. Communication is instrumental for trust building. The width, depth, and alignment of communication decides the extent to which the people trust the government. The rule of law ensures that there is no abuse of power by any entity, and all legitimate rights are well protected.

How to Realize the Modernization of State Governance

Dr. Wei Jianing, Advisor and Researcher, Macroeconomics Department, Development Research Center of the State Council

Dr. Wei used an analytical framework adapted from Francis Fukuyama to argue that an appropriate path to building a modern state would take into account the relationship between state capacity and the role of the state. Drawing on empirical evidence, he concluded that modern state governance should build on democracy, the rule of law, and a mechanism of checks and balances.

Figure 4. Democratization, Legalization, and GDP per Capita



Dr. Wei noted that China has embarked on many regulatory reforms, from mitigating financial risks, enhancing tax collection, and strengthening environment protection to developing city planning. While these policies seem appropriate, their implementation and enforcement by regulatory authorities often has economic and financial risks. He suggested a thorough reform of the regulatory system to establish a modern economic system: complementing upward accountability with downward accountability; ensuring consistency of law enforcement over time; and making space for policy adjustment to avoid sudden disruption to the economy.

SESSION 2. PERFORMANCE MANAGEMENT AND BUDGETING FOR EFFECTIVE SERVICE DELIVERY

Government performance in delivering public services such as health care and education to citizens is critical both for citizens' trust in government and for investing in the human capital needed for sustained productivity growth. Session 2 focused on how China can reform its performance management, budgeting, and intergovernmental transfer systems to set incentives for effective service delivery.

Experiences with Performance Management and Budgeting Systems in the United States and the Organisation for Economic Co-operation and Development (OECD) Countries

Prof. Donald Moynihan, Professor of Public Affairs, University of Wisconsin-Madison

Prof. Moynihan presented key lessons from his research on performance management and budgeting (PMB) in the United States and from a recent comparative World Bank study² that covers the experiences of Australia, Estonia, France, the Netherlands, Poland, Russia, and the United States with such reforms. He highlighted that PMB reforms have largely not lived up to policy makers' high expectations, citing definitions of both performance budgeting and performance management as benchmarks. Many countries have invested heavily in the *supply* of performance information to improve governance. At the same time, countries have often underestimated the costs of producing valid and useful information, and typically produce too many metrics, generating information overload.

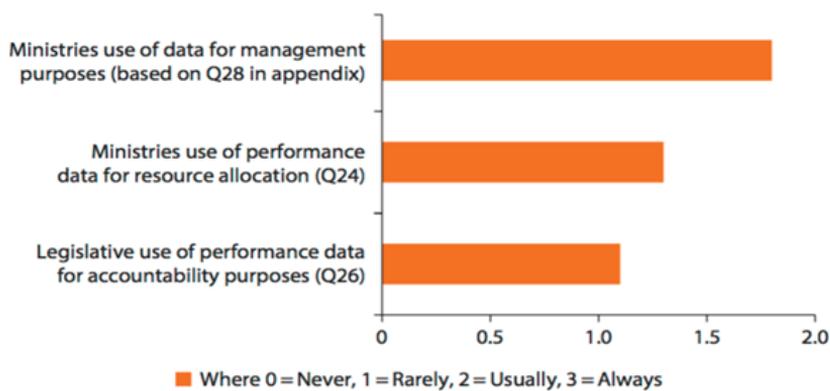
DEFINITIONS OF PERFORMANCE BUDGETING AND PERFORMANCE MANAGEMENT

- Performance budgeting is “the use of performance information to link funding with results with the purpose of increasing efficiency, effectiveness, transparency and accountability” (OECD).
- Performance management is “a system that generates performance information through strategic planning and performance measurement routines, and connects this information to decision venues, where, ideally, the information influences a range of possible decisions” (Moynihan 2008, 5).

² Donald Moynihan and Ivor Beasley, *Toward Next Generation Performance Budgeting. Lessons from the Experience of Seven Reforming Countries* (Washington, DC: World Bank, 2016).

The central challenge and question, meanwhile, is how to ensure the efficient *use* of performance information. Evidence suggests that line managers are most likely to use performance information for management purposes, but that it is rarely used by legislators for budgetary decision making. Prof. Moynihan pointed to four central lessons from past PMB reforms: countries should (i) focus measurement only on *key strategic goals*, as metrics for the most salient service delivery areas are more likely to be used for this purpose; (ii) *manage performance perversity*, as too much emphasis on performance can motivate cheating; (iii) *pace reforms* in view of the difficulty of changing behavior and building a performance culture; and (iv) *balance political and bureaucratic support* for reform, since, among other things, overreliance on political champions can put sustainability at risk.

Figure 5. Use of Performance Data for Management, Budgeting, and Accountability



A next-generation approach to PMB is realistic about the capacity required for performance management, and focuses on learning, cultural change, and adaptation over time. Evidence from studies on cognition suggests that (i) ensuring early commitment to a few, clear goals is more effective, as is (ii) using performance data as part of a broader, qualitative story; (iii) benchmarking against peers (for example, other subnational governments) motivates and encourages learning; and (iv) building “learning routines” is critical, among others. For example, in the United States, the Government Performance and Results (GPRA) Modernization Act mandated quarterly cross-agency reviews of performance. Where these were well run, performance information was used more intensively.

In conclusion, Prof. Moynihan highlighted that performance management is here to stay, fueled by the rapid growth of administrative data. To put it to use effectively, countries will need to learn from evidence of what has worked elsewhere and focus on getting implementation right.

Stimulating Subnational Government Performance

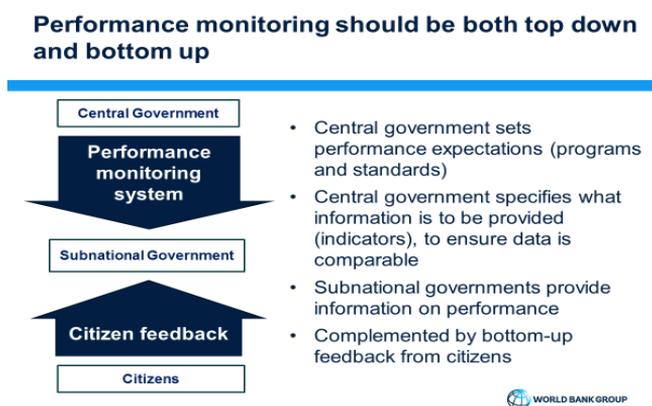
Mr. Robert Taliercio, Practice Manager, Public Sector and Institution, East Asia and the Pacific, World Bank

Mr. Taliercio spoke on international lessons in stimulating subnational government (SNG) performance, a topic that is key to China's development, given the multi-tiered, highly decentralized structure of its government. Mr. Taliercio highlighted that effectively stimulating performance requires (i) clear *signals* of performance expectations; (ii) aligned SNG *incentives*; and (iii) robust *systems* that support performance measurement and incentives. A comprehensive approach should comprise four pillars, as follows.

The first pillar is the design of the performance monitoring system. Central governments need to set performance expectations and associated indicators, while also relying on citizen feedback as a source of information. In line with Prof. Moynihan's talk, Mr. Taliercio emphasized that good performance metrics should:

- (i) Compare the rate of improvement, rather than focus on absolute performance, especially to encourage weak performers;
- (ii) Focus on a few relevant indicators;
- (iii) Have indicators that are clearly measurable and attributable; and
- (iv) Utilize checks and balances, as SNGs have gaming incentives (for example, to alter or misrepresent data on pollution levels).

Figure 6. Design of the Performance Monitoring System



Further, for incentives to be effective, the time lag between program implementation and performance rewards must not be too long. Overall, it is critical to realize that “the devil is in

the details,” implying that decisions on how performance is defined, measured, rewarded, and how learning from performance will be encouraged need to be taken with great care.

Figure 7. Time Lag between Program Implementation and Performance Rewards

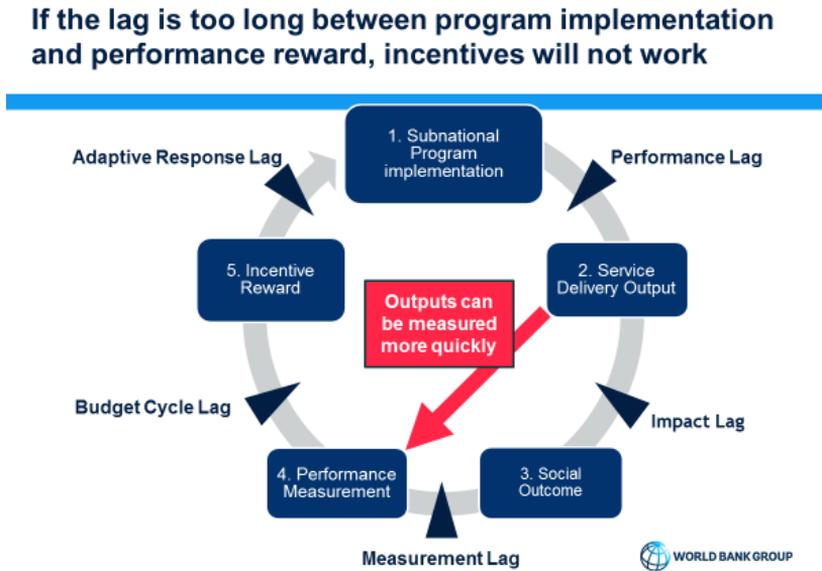
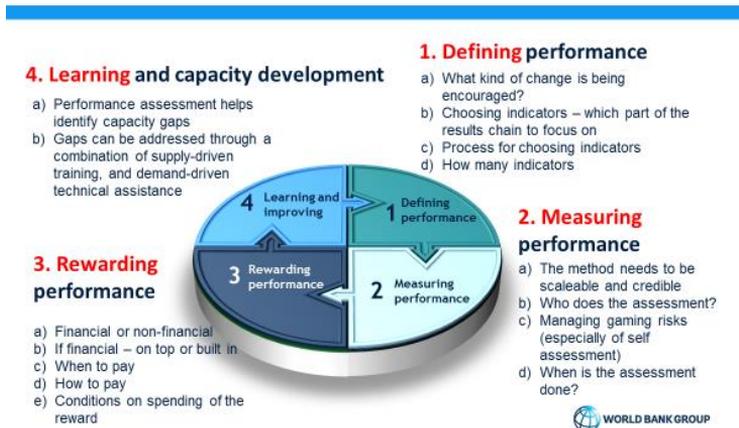


Figure 8. Issues in Design of Performance Incentives

Issues in design of performance incentives
The “devil is in the detail”



PERFORMANCE-BASED PAYMENTS TO LOCAL GOVERNMENTS IN EAST AFRICA

- Uganda, Tanzania, Ethiopia, and Kenya all have performance-based grant schemes that reward improved functioning of core systems.
 - Core systems include public financial management, procurement, asset management, human resource management (HRM), and citizen transparency and engagement.
- Local government performance is measured against a set of indicators that capture the most essential components of each system.
- Credibility is an important element of the performance assessment and to ensure this, all countries use independent assessors.
 - In some cases, assessors are hired from the private sector, in other cases universities.

The second pillar is the design of fiscal transfers. Any transfer design needs to decide how to balance equity and performance effects, conditions for the use of funds, reporting arrangements—to whom to report and what to report—and the risk of fragmentation, as it is tempting to keep adding transfer schemes. A key consideration is how transfers can help bridge information asymmetries between the center and SNGs, by conditioning financial flows on the provision of performance information. Central line ministries play an important role in monitoring the performance of sectoral grants. Hence, it is essential that they communicate well with the Ministry of Finance (MoF), which is typically in charge of releasing funds to SNGs. For example, in Australia, performance payments are part of sector-based intergovernmental arrangements between the Commonwealth government and the states. Commonwealth line departments then monitor performance and report to the Treasury, which makes payments.

Figure 9. Design of Fiscal Transfers

Transfers help drive flows of information back to the central or provincial government
(if information is not provided, the money tap is turned off)

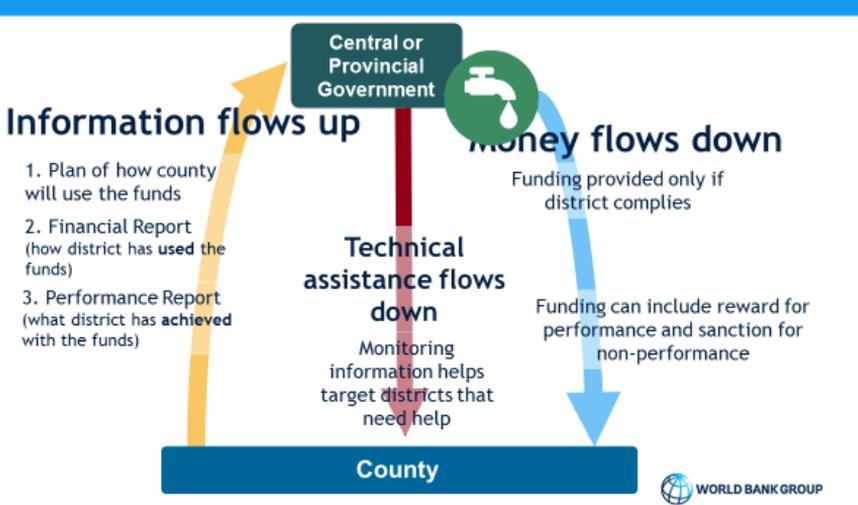
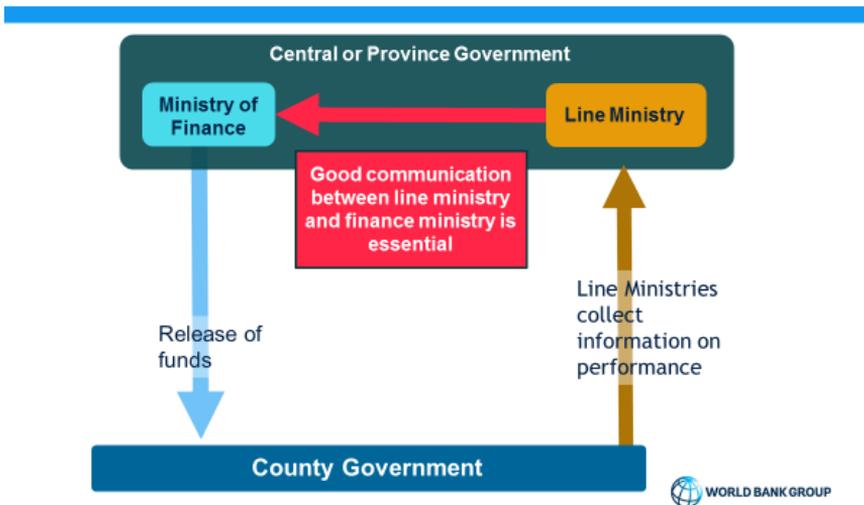


Figure 10. Role of Line Ministries

Line ministries play a very important role in monitoring sector grants



AUSTRALIA—PERFORMANCE-BASED GRANTS

- Performance-based payments are paid according to sector-based intergovernmental agreements which all states enter into with the Commonwealth government.
- There are three types of payments:
 - Project—payments in advance or in arrears for delivery of services and projects.
 - Facilitation—in advance to recognize (not reimburse) the cost of implementing reform.
 - Reward—in arrears on delivery of reform (again, does not reimburse).
- Commonwealth line-departments (ministries) monitor achievement of agreed performance, and report to the Treasury, which then makes the payment to the state.

The third pillar is policy coordination. Policy coordination is important because on the one hand it facilitates the benefits of decentralization—it encourages SNG ownership of problems and locally tailored solutions. On the other hand, coordination provides opportunities for SNG peer learning and for policy leadership by the central government. Policy coordination mechanisms can provide structured processes that focus SNGs on defining problems well and on monitoring the results of their interventions, provide fora for intergovernmental dialogue, encourage and reward innovation, and provide mechanisms for diffusing ideas.

The fourth pillar is building capacity to deliver. Providing capacity support for SNGs that need it is a critical element of a comprehensive approach to subnational performance management. Such capacity support should target improvements in performance measures, creating a “virtuous circle” of better measurement and better performance. Measures of system performance, such as SNG effectiveness in planning and financial management, can help identify weaknesses and target capacity support. Some standard training can be provided to all SNGs, but more focused technical assistance should be targeted based on a capacity gap assessment.

Performance Management Reform in China’s State Tax Administration

Mr. Fu Shulin, Deputy Director-General, China State Tax Administration

Mr. Fu shared a success story of performance management reform in China’s State Administration of Taxes (SAT). Before 2013, the SAT leadership found it difficult to motivate performance across all five levels of the institution. “Job responsibilities and reward and penalty mechanisms were unclear,” said Fu Shulin, Deputy Director-General of the SAT’s General Affairs Department. “Everyone was treated the same, without any differentiation, no matter how they performed. As a result,” Fu said, “some employees underperformed, and upper management could not rely on the staff to execute tax policies in a timely manner, if at all.” Poor performance affected taxpayers, who struggled to navigate the system. “From the perspective of the taxpayers, our performance of tax procedures was inconvenient and complicated, which resulted in low taxpayer satisfaction,” Fu said.

Figure 11. Modernizing Taxation by 2020



Since 2014, the SAT has implemented an organization-wide performance management reform to improve the efficiency of the tax administration. Mr. Wang Jun, Commissioner of the SAT, believed that introducing performance management within the agency could drive reforms within the whole organization. Implementing performance management was especially difficult in an organization as large and sprawling as the SAT. To accomplish it, the SAT had to clarify roles, introduce strong performance indicators, and motivate the more than 800,000 tax officials around the country who were working at 5 different levels. China has 23 national tax departments, 70 provincial tax bureaus, 685 municipal tax bureaus,

5,962 county tax bureaus, and 26,673 local tax bureaus. Together, those agencies are responsible for more than 43 million tax-paying corporations and more than 1.4 billion individual taxpayers.

After conducting studies across the country throughout 2013, the SAT decided on a three-year plan to roll out a new system across the agency. First, it would roll out a pilot initiative in 2014, and then take the pilot nationwide to every local- and national-level bureau by 2015. In 2016, it would look at what improvements it could make to the system to improve effectiveness.

A. Building Expertise

The first step was to set up a new office to oversee the performance management system. Officials with knowledge or experience in performance management were transferred to the new Performance Management Office in the SAT's general office. After setting up the new office, the SAT brought in a team of consultants to provide advice on setting up the new system. The SAT recruited people from around China, seeking to bring in the top performance management experts working across the country.

With the management team in place, the SAT began preparing its staff for the task ahead. The consultants trained the new team in performance management, and several went on educational trips abroad to learn from other countries and government offices about their respective performance management systems. The goal was to create a cadre of experts on performance management within the SAT.

The SAT already had a strong information technology (IT) platform and a strict hierarchical structure in place—factors that were conducive to implementing performance management quickly. Those factors helped the SAT's management deploy performance management from the top down, and allowed for automatic collection of performance data through the existing IT infrastructure. Through that system, top management could oversee performance management of the whole administration in real time.

The SAT built support for the initiative from the top down. Managers at each level were responsible for passing on information about the upcoming reforms to the level below them. For example, officials at the provincial level explained to municipal officials about the system and the new responsibilities it implied. In addition, the SAT held several performance management conferences to build awareness about the new initiative. The SAT also publicized the effectiveness of performance management throughout the administration, and introduced a new performance management operation manual.

Initially, some officials did not understand the idea of performance management, while others were not supportive. "Some with vested interests were even opposed to it," Fu said. When faced with opposition, however, the SAT "unswervingly pushed forward," he said.

B. Piloting

The SAT decided to roll out a pilot with about a quarter of its workforce before taking the performance management system nationwide. The SAT selected tax bureaus at every level—from the local levels to the national headquarters—to participate. All 22 national bureaus and 9 of the 71 provincial bureaus were selected to participate in the pilot. Those selected included a mix of the more developed eastern provinces and the less developed central and western provinces.

New staff were brought on board at every pilot bureau to manage the introduction of the new system. The SAT hired three performance management staffers for every pilot bureau at the national, provincial, municipal, county, and local levels.

During the pilot period, the SAT also created a new group of individuals that had fully embraced the idea of performance management. The “Leading Group for Performance Management,” as the SAT named the new group, included representatives from every level, and held regular meetings to study major issues concerning performance management. Each pilot bureau also set up “appraisal committees,” which were responsible for reviewing and adjudicating any performance management issues that came up within their bureaus.

In late 2014, all remaining bureaus were incorporated into the system, and by 2015 the performance management system included every tax bureau and all of the more than 800,000 tax officials working around the country.

C. Establishing Indicators

The SAT created a national performance plan based on its own strategic objectives, and direction from the central government. From the national plan, individual bureaus formed their own plans, and individual performance indicators were based on those. “When formulating the performance indicators, we always adhered to the strategic orientation and integrated the long-term planning and the annual targets one by one into performance indicators,” said Fu. “We clearly defined roadmaps, timetables, task books and responsibility statements, and clearly displayed them at all levels of the tax authorities.”

Performance indicators could be quantitative or qualitative and were based on time, quantity, quality, effectiveness, or other dimensions. Data sources to evaluate performance included original records of completed work and automatically generated computer data.

The leader of each bureau or department had performance indicators closely linked to his or her organization’s performance. Doing so, Mr. Fu said, encouraged “leaders to be the role model of the whole organization and dedicated to performance management.”

D. Monitoring

The SAT headquarters established a system that could monitor progress on indicators in real time, and identify and correct any problems that came up in the implementation process. The system showed a schedule of key tasks, and allowed managers to follow up on any

office or individual lagging behind targets. The system clearly identified high performers, as well as flagged any individuals or offices that did not meet targets on time.

The appraisal units carried out assessments of the completion of performance indicators, and submitted performance reports to the SAT headquarters. There, the performance management office conducted a macro analysis of performance indicators, progress reports, and key tasks accomplished. Based on this, the performance management office issued recommendations to optimize the functioning of the SAT's performance management system as a whole. For example, analysis of the first full year of the system found that bureaus were creating too many performance indicators, and not enough of them were quantifiable. After input from the performance management office, "we drastically reduced non-critical indicators and focused more on key tasks," Mr. Fu said. "We [also] significantly increased the quantitative indicators."

E. Replacing Sales Tax with Value Added Tax (VAT)

Having a strong performance management system helped the SAT in implementing major tax reforms. For example, on March 5, 2016, the central government announced that China would be switching from a sales tax to a VAT from May 1 of that year. Fu said that being given the challenge of implementing such a large reform in just 55 days was "a daunting task," and that monitoring performance was critical to ensuring a smooth rollout in the short time frame.

To implement the VAT reform, the SAT quickly divided up the work required and added it to the performance management system. "We clearly defined the roadmap, timetable, task statement, and responsibilities for all departments at all levels in the performance indicators," Fu said.

The SAT increased monitoring of the system, and the performance management team held three meetings every day during the reform implementation period. "The morning meeting looked back on the previous day," Fu said. "In the middle of the day, we had a video meeting which included every level of tax authorities—including grassroots ones—to check on the progress of everything. In the evening, we had a summary of what had happened that day." The evening meeting also served as a problem-solving meeting. The team identified any roadblock to achieving key performance indicators across the country and took action immediately.

As an additional incentive for workers to follow through on the VAT reform, the SAT introduced monetary bonuses during the two-month reform period. The highest-performing workers, according to work completed within the performance management system, as well as the highest-performing units within the SAT, all received bonuses from the national headquarters. In addition, other high-performing workers were prioritized for promotions.

F. Results

Along with the successful implementation of the VAT, the SAT pointed to reforms in state and local tax collection, implementation of preferential tax policies, and increased participation in international tax cooperation as evidence of the performance management reform's impact. The SAT also said that the performance management reform had helped the government increase tax revenues. In 2015, the first full year of the reform, tax revenue collection increased by 6.6 percent. In 2016, it increased by an additional 4.8 percent, and in 2017, by 8.7 percent.

The SAT commissioned the National Bureau of Statistics of Social Affairs and Public Opinion Survey to carry out surveys of taxpayers' satisfaction, and the results showed that this had increased in both state and local tax bureaus. According to the World Bank's Doing Business Project, the average time to prepare and pay taxes decreased from 261 hours in 2015 to 207 hours in 2017.

Overall, tax bureaus and workers gained a much clearer understanding of their responsibilities, and all of their tasks were tied to clear goals. "Now, a chain of responsibility for implementing the strategy of 'strategy-goal-execution-appraisal-improvement' has been formed," Mr. Fu said.

According to Mr. Fu, almost all workers in the SAT were highly satisfied with the performance management reform. "We commissioned a third party to conduct a performance management satisfaction survey," Mr. Fu said. "From the survey results, 91.6 percent of the tax cadres interviewed endorsed the overall effectiveness of the current tax performance management work."

SESSION 3. REGULATORY MANAGEMENT FOR FAIR COMPETITION AND CITIZEN CONFIDENCE

The consistent and reliable enforcement of regulations, ranging from innovation policies to environmental and food safety policies, is a critical dimension of government performance in China, both to ensure that firms can compete on a level playing field and that citizens have confidence in the food they eat and the air they breathe, among other basic needs. Session 3 explored international experiences with regulatory management reform that can yield useful lessons for China, in particular for managing enforcement across levels of government and for engaging citizens and firms in the regulatory process.

Regulatory Management for Open and Competitive Markets: Lessons for China from International Experience

Mr. Peter Farup Ladegaard, Lead Private Sector Development Specialist, World Bank

Mr. Ladegaard presented lessons from international experience for regulatory management in China. He noted that a well-functioning regulatory management system comprises four mutually reinforcing building blocks:

- (i) Regulatory policy instruments, that is, the stock and flow of regulations;
- (ii) Regulatory quality tools and processes, or the political and administrative procedures through which regulations are developed, implemented, and monitored, such as regulatory impact assessments (RIAs);
- (iii) Regulatory institutions, or the bodies in charge of overseeing and managing the regulatory processes; and
- (iv) Regulatory policy, that is, an overarching statement of how government will use its regulatory power.

Several trends highlight the growing importance of regulatory management for open and competitive markets internationally. Regulations, for example, in the United States, have become increasingly complex. The number of regulatory agencies has multiplied across countries, especially between 1990 and the mid-2000s. Executives in multinational corporations consider a stable legal and regulatory environment critical for committing capital to a new venture.³ And, in response to regulatory challenges, all the Organisation for Economic Co-operation and Development (OECD) countries have adopted RIA systems since the mid-1970s. Powerful global drivers underpin this growing focus on regulatory management, including international agreements (for example, in the World Trade

³ World Bank, *Global Investment Competitiveness Report 2017/2018: Foreign Investor Perspectives and Policy Implications* (Washington, DC: World Bank, 2017); Survey of 750 multinational investors and corporate in developing countries.

Organization), pressures for fiscal stringency, and recognition that sound regulation, rather than deregulation, is key to open and competitive markets.

Mr. Ladegaard then highlighted emerging challenges and reform directions for regulatory management in China. China's regulatory model, which allows for experimentation and policy learning at the subnational level, has been a key success factor contributing to its past growth. However, as China's economy has matured, the downsides of this model are becoming more obvious, including that (i) vague and contradictory central regulatory signals create an uncertain business environment; (ii) excessive subnational government (SNG) discretion in enforcing regulations makes the playing field for firms uneven and hinders "creative destruction"; and (iii) new regulations could be better informed through feedback loops with citizens and firms.

Emerging challenges to China's experimental and decentralized development model

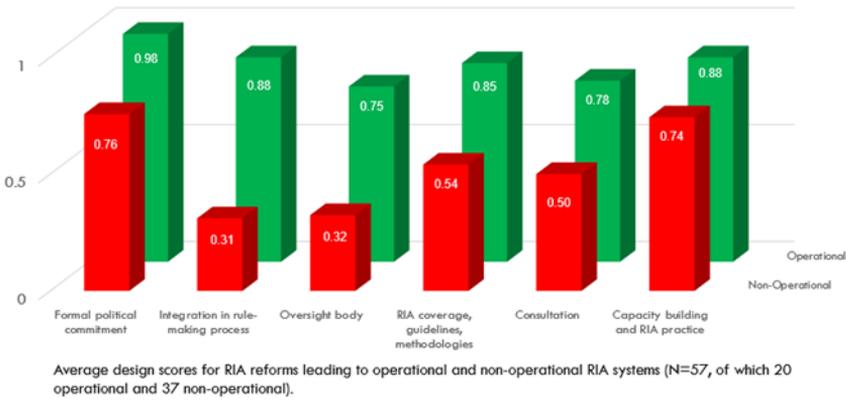
- ▶ China's development success not due to a traditional strong rule of law and institutions, but rather to a set of "substitute institutions" at the sub-national level allowing for policy learning from experimentation.
- ▶ As China's economy has matured, the downsides of its regulatory model are becoming exacerbated and more obvious:
 - ▶ Excessive regulatory discretion hinders "creative destruction" and future productivity growth
 - ▶ Vague and contradictory policy signals from central agencies create an uncertain investment climate
 - ▶ Scope for better "feed-back loops" and consultation to better inform regulatory design and delivery
- ▶ WB Report: Three complementary strategic directions to improve Regulatory Management practices in China
 - ▶ Reforming the rule-making process ("design")
 - ▶ Strengthen enforcement and compliance ("delivery")
 - ▶ Leverage demand-side pressures to improve regulatory quality ("transparency & access")

Mr. Laadegard outlined three potential reform directions for addressing these challenges.

First, China could reform the rule-making process to ensure more consistent, predictable, and evidence-based policy making. One key measure could be to adopt RIAs and integrate them with China's successful experimental learning system, at least for secondary legislation, and with a strong multi-level cooperation system. In doing so, China could in particular draw on the EU or Australian experience with RIAs in multi-level governance settings. International experience suggests that an influential central regulatory oversight body and integrated rule-making processes are the main success factors for RIA systems.

Figure 12. Success Factors for RIA Systems

For RIA systems to succeed, integration in rule-making and an oversight body are the most important good practices



Source: World Bank (forthcoming): "Giving Sisyphus a Helping Hand: Pathways for Sustainable RIA Systems in Developing Countries"

Further, China could make consultations more effective by adopting a structured and transparent process for incorporating timely input from stakeholders. It could seek to learn from innovative approaches to harvest "situated knowledge" and facilitate online consultations, including through live moderators, such as the "Regulation Room," an experiment conducted by Cornell University to gather notes and comments from citizens and firms on regulations. To take stock of existing regulations, China could in particular consider stock-flow-linkage rules, which countries use in different forms to remove old regulations before new ones are added.

Figure 13. Cornell University's Regulation Room

N&C by Cornell University – Regulation Room

The screenshot shows the Cornell University Regulation Room website. At the top, there is a navigation bar with the "Regulation Room" logo and links for "Home", "Closed Rules", "Learn", "About", and "Announcements". On the right, there are links for "Register" and "Log in". The main content area features a post titled "Consumer Debt Collection Practices (ANPRM) 1256" with a "Closed Rule" label. The post includes an illustration of a calculator, a smartphone, and a document with a dollar sign. Below the title, there is a brief description of the proposed rules. At the bottom of the post, there are three links: "Discussion - 1205", "Draft Discussion Summary - 51", and "Final Discussion Summary". Below the post, there is a "READ" button and a carousel of related articles with their respective N&C counts.

Article Title	Notes and Comments (N&C)
Telling consumers what's happening with their debts	124 6
The "validation notice" sent to consumers	104 7
When consumers dispute a debt	133 3
Making sure debt collectors & buyers have info about the debt	41 2

Note: N&C = notes and comments.

Second, to strengthen enforcement and compliance, China could focus on SNG coordination mechanisms and incentives for sound enforcement. For example, China could learn from the EU's experience with minimal harmonization approaches, setting firm common standards for all localities, but allowing high performers to exceed them. China could also consider strengthening the coordinating platforms of SNG enforcement agencies, similar to the Body of European Regulators for Electronic Communications (BEREC), in view of promoting joint learning and more consistent enforcement.

Strengthening Enforcement and Compliance International Experience and Lessons Learned

Significant push toward greater focus on “regulatory delivery”. From “control” to “facilitation”. Different responses to well-known trade-off between central control and local discretion of enforcement functions. Risks of “over-compensation” – excessive adjustment to one extreme.

- ▶ European Union: Differentiated use of regulatory instruments depending on the need for uniformity vs local adaptation (Regulations vs. Directives).
- ▶ United Kingdom: “Primary Authority” developed under the Local Better Regulation Office (LBRO) enables businesses to form a statutory partnership with a local enforcement authority. Partnership provides advice for other local regulators to follow when carrying out inspections.
- ▶ Italy: Central-provincial coordination platforms proved effective in their coordination roles following increases in regional functions in 2001.
- ▶ European Union: With the Bureau of European Regulatory of Electronic Communications (BEREC) EU puts together a coordination platform of enforcement agencies across “subnational” entities (Member States), contributes to better functioning of the internal market for electronic network communications network, and promotes joint learning and thinking across jurisdictions.
- ▶ Australia: Australian Regulatory Performance Framework uses key performance indicators (KPIs) to measure benchmark and report on the performance of subnational regulators across several “regulatory management” dimensions such as consultation practices, risk management and impact assessments.

Third, China could more effectively leverage demand-side pressures to reduce regulatory failures. This could be particularly effective in policy fields that are highly salient to citizens, such as pollution or food safety. In doing so, China could seek to learn from the United Kingdom’s “Focus on Enforcement” reviews, which ask firms to identify poor enforcement practices, and inform government decisions to eliminate or reform rules. It could also use citizen and firm surveys to benchmark the quality of the regulatory environment in different localities, as Vietnam has done through its “Provincial Competitiveness Index.”

In conclusion, Mr. Lardegard pointed out that continued improvement of China’s regulatory management practices is critically important for future productivity-led growth. Good regulatory practices will facilitate policy coherence and effectiveness, and help reduce risks associated with private sector investment decisions. Although China’s path differs significantly from that of most other leading economies, there are significant similarities in the current regulatory management challenges: improving government coordination and stakeholder involvement in order to improve regulatory predictability. A growing body of international experience (and better data and research) offer important lessons and well-tested approaches. Across jurisdictions, high-level and institutionalized leadership of regulatory reform efforts—including a medium- to long-term reform agenda—remains the most important determinant of success.

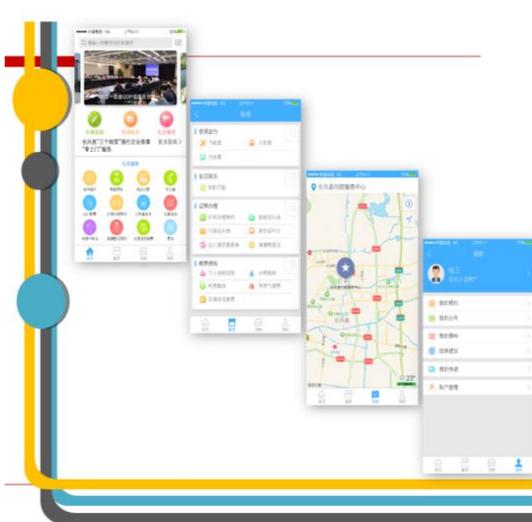
Strengthening County-level Social Governance through the Smart City Initiative

Mr. Sun Shifang, Researcher and Director, China Economic Trends Research Institute, The Economic Daily Press

Mr. Sun presented the governance innovation program of Changxin County, Zhejiang Province, which had adopted a smart city IT platform. The main governance issues most county-level (small) cities of China face are: (i) focus is put on management, and not enough effort is made to improve services; (ii) it is difficult to change the mindset of city managers; and (iii) there is little citizen participation in public affairs. The Smart City Initiative provides an opportunity to address these governance challenges, as it enables cities to adopt new modalities of integrated urban planning, construction, management, and service delivery through applying new technologies including big data, cloud computation, spatial information, and so on.

Changxin County's governance innovation program took a demand-driven approach and focused on opening government data for public use and integrating social resources to improve the government's capacity to deliver community services through the "smart services initiative." Changxin developed one integrated governance platform, which covered two-tier governments (the county government and 17 townships), 36 line agencies, and 1,180 grid areas and enabled collaboration across governance levels. Citizens and firms can now access a variety of public services and interact with one another and with the government remotely through mobile appliances.

Figure 14. Changxin County's Integrated Governance Platform



SESSION 4. PUBLIC SERVICE STRUCTURE AND GOVERNANCE IN AN INTELLIGENT, DIGITAL ERA

Meeting evolving demands for public services in an era of exponentially growing digital data calls for public governance reforms. However, structural rigidities in public services and misaligned incentives can hinder performance. Citizens' trust can easily be undermined if their demands are not met in a timely manner. Session 4 considered lessons from China and from around the world in ways to access performance data and align the incentives of public officials to strengthen performance by, among other things, strengthening mechanisms for service user feedback.

The Role of State and Career Incentives for Innovation-Driven Development

Mr. Jurgen Blum, Senior Public Sector Specialist, Governance Global Practice, World Bank

Mr. Blum spoke about the role the state and especially career incentives for local leaders in China play in encouraging innovation-driven development. He presented preliminary findings on this subject from research conducted for a flagship report on "New Drivers of Growth" in China, jointly authored by China's Development Research Council (DRC) and the World Bank.

Looking to the past, Mr. Blum highlighted that a broad consensus among researchers is that an adaptive state-market relationship has been key to China's unique economic transformation and growth over the past decades. A large body of evidence shows that rewarding local leaders for the growth and revenue performance of their jurisdictions has been critical to growth, by encouraging local experimentation with innovative economic policies.

Many studies highlight the importance of the governance-growth nexus...

Ang, Yuen Yuen (2016)

“Development is a coevolutionary process. States and markets interact and adapt to each other, changing mutually over time. Neither economic growth nor good governance comes first in development. China’s experience provides an especially rich illustration of the co-evolutionary process of development.”

Xu, Chenggang (2011)

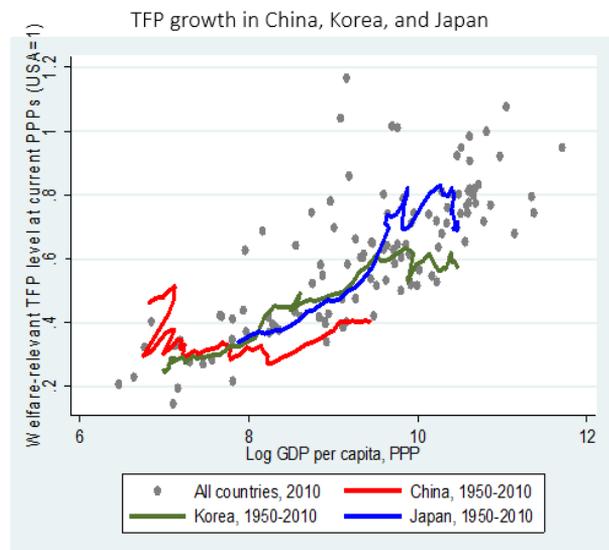
“The central government has control over personnel, whereas subnational governments run the bulk of the economy; and they initiate, negotiate, implement, divert, and resist reforms, policies, rules, and laws. ... Spectacular performance on the one hand and grave problems on the other hand are all determined by this governance structure.”

Heilmann, Sebastian (2008)

“At the heart of this process, we find a pattern of central–local interaction in generating policy—“experimentation under hierarchy”— which constitutes a notable addition to the repertoires of governance that have been tried for achieving economic transformation.”

However, since the global financial crisis, productivity (total factor productivity, TFP) has experienced negative growth in China, at a phase of growth when other economies, such as the Republic of Korea and Japan, experienced high TFP growth rates and escaped the middle-income trap. The lack of productivity growth can partially be explained by a lack of Schumpeterian “creative destruction,” that is, the exit of unproductive and the entry of more productive firms into the market. Another reason is overinvestment in physical capital, despite declining marginal returns, and underinvestment in human capital. Such productivity-undermining misallocations signal that China could benefit from further adapting its state-market relationship. Specifically, they suggest that adjustments in career incentives may be useful. As of now, local leaders are being encouraged to intervene in markets and to overinvest in

Figure 15. TFP Growth in China, Korea, and Japan



Source: Authors, based on Penn World Tables.

Source: Authors, based on Penn World Tables.

physical capital in order to protect local firms, their growth, and their jurisdiction’s revenues in the short run.

Recognizing these challenges, the Government of China has already undertaken significant reforms of career incentives, holding local leaders to account for a more balanced set of targets, comprising environmental, social protection, and debt sustainability criteria. While this step is important, both theory and emerging evidence suggests that more is needed, as it is inherently difficult to hold agents to account for many tasks.⁴

Mr. Blum pointed to evidence that encouraging a longer-term perspective among local leaders and capitalizing on their intrinsic motivation can be a promising avenue of reform. For example, studies suggest that short terms in office lead to inefficient capital investment spikes prior to promotion periods at the prefecture level,⁵ and that longer terms in office may actually reduce, not increase, the risk of corruption.⁶ Further, locally socialized leaders appear to be more willing to invest in public goods and human capital in their localities than outsiders.⁷

Table 1. Changing Priorities in Penultimate Years of Prefecture Leader Terms, 2000–07 and 2008–15

Changing priorities in penultimate years of prefecture leader terms,
2000-2007 and 2008-2015

VARIABLES	(1) GDP growth		(3) Education expenditure growth		(5) Science and technology expenditure growth	
	(2)	(4)	(6)	(6)	(6)	(6)
	2000-2007	2008-2015	2000-2007	2008-2015	2000-2007	2008-2015
Penultimate year dummy	1.118* (1.81)	 -0.589* (-1.87)	0.737 (0.24)	 -1.336  (-0.55)	-79.28** (-2.57)	 -9.259***  (-3.07)
Constant	-636.0** (-2.37)	-222.2*** (-4.85)	-159.6 (-1.16)	-8.351 (-0.06)	-343.6 (-0.23)	-144.8 (-0.99)
Observations	1249	1822	874	1822	867	1822

Note: t statistics in parentheses. All regressions include a set of controls for individual characteristics (insider/outsider, age, ethnicity, education level, and gender) and prefecture characteristics (lagged GDP growth, log GDP per capita, and population), as well as year and prefecture fixed effects. *** p<0.01, ** p<0.05, * p<0.1

Source: Authors (2017)

⁴ Bengt Holmstrom and Paul Milgrom, “Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design,” *Journal of Law, Economics, & Organization* 7 (January 1991): 24–52.

⁵ Gang Guo, “China’s Local Political Budget Cycles,” *American Journal of Political Science* 53, no. 3 (2009): 621–32.

⁶ Jiangnan Zhu and Dong Zhang, “Does Corruption Hinder Private Businesses? Leadership Stability and Predictable Corruption in China,” *Governance* 30, no. 3 (2017): 343–63.

⁷ Petra Persson and Ekaterina Zhuravskaya, “The Limits of Career Concerns in Federalism: Evidence from China,” *Journal of the European Economic Association* 14, no. 2 (2016): 338–74.

The major challenge of reforming incentives will be to balance the benefits of longer time horizons and more local officials (that is, better alignment) with the goal of long-term productivity growth (namely, the higher risk of “localism”). Mr. Blum concluded by noting that the Government of China could consider three complementary reforms to achieve this balance: it could (i) encourage a long-run perspective, for example, by strengthening the lifelong accountability of local leaders; (ii) strengthen bottom-up accountability, including through citizen and firm surveys, to prevent localism and bridge information asymmetries; and (iii) strengthen top-down control of selected issues, such as through more vertical management of environmental protection.

Government Trust Architecture in the Intelligent-Credit Society

Prof. Xu Zhengzhong, Program Leader, Chinese Academy of Governance

Prof. Xu presented his idea of a new government trust architecture that could be built on new, intelligent technologies. The breakthrough of new technologies has created a new production factor, a new source of assets, and a new resource—that is, data. Blockchain, for example, will change how creditworthiness is defined and measured. The blockchain-based approach to some extent resonates with China’s traditional culture of placing trust in one’s circle of acquaintances and friends. Prof. Xu has defined this as an “intelligent-credit society.” The role of the government will have to evolve, as will the market regulatory system, which will need to integrate ex ante and ex post supervision, and require collaboration with all market participants to enforce discipline.

Big Data and Government Performance Management

Prof. Niu Junyu, Director, Government Performance and Information Technology Research Center, Fudan University

Prof. Niu spoke about the application of big data for government performance management. She and her team have provided advisory support and intelligent solutions to over 300 government performance management programs in China. Her presentation drew lessons from these programs. Today, the world generates a massive amount of data. And these data grow at an exceptional rate, doubling every 1.2 years.

The essence of big data is the transformation of decision making. The new modality focuses on data analysis, rather than experience and instinct. As Prof. Niu put it, “You cannot manage what you don’t measure.” Performance evaluation requires the support of big data, whole-chain management, and exploration of multidimensional data. Performance indicators should be measurable, controllable, and contributable. She suggests that performance evaluations integrate common features with entity-specific features, integrate supervision with verification, and integrate online and off-line processes.

Changsheng District: Using Big Data to Build a Modern Social Governance System

Mr. Zheng Xiaoguang, Head, Vice-Mayor, Changsheng District; and Director-General, Data Statistics Bureau, Foshan City, Guangdong Province

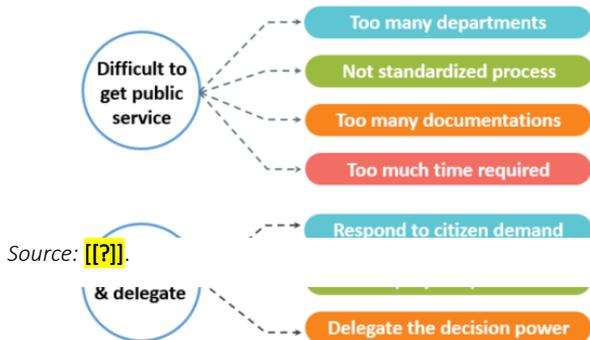
Mr. Zheng shared Changsheng District's experience in applying advanced technology to build a modern social governance system and improve public services. Changsheng District is located in Foshan City, Guangdong Province. Of its 1.26 million inhabitants, more than half are migrants. This creates a unique challenge for the city's governance. Changsheng embarked on an information technology (IT)-based process of governance innovation in 2014, starting with the construction of an integrated service portal. In 2015, a cloud-based management platform was developed to improve responsiveness to citizens' demands, and in 2017, a blockchain-based program, named "Smart & Credit ChangCheng" was launched to further streamline and simplify the regulatory process.

A. Integrated Service Portal

The motivation for developing an integrated service portal was to respond to citizens' complaints about difficulty accessing public services. Obstacles included (i) too many agencies and lack of coordination between them; (ii) lack of a standard and transparent process of acquiring approval from government departments; (iii) too much required documentation; and (iv) a highly time-consuming process. The objectives of this portal are to increase

responsiveness to citizens' demands, to simplify the approval process and to enable delegation to frontline staff. Today, district residents can access 136 interconnected services online. In addition, using the portal data, the government conducts common-condition, behavior, and life-cycle analyses to support decision making and provides 29 credit-based administrative approvals. For example, the district used the multidimensional data to project the migrant population and their location in the next five years, and based on this projection, redrew the boundaries of school districts, and decided the school sites and investment plan needed to meet the expected rise in demand for public education. This integrated service portal has already achieved tangible results. The government can now

Figure 16. Problem Driven Approach



provide real-time instant responses to 60 percent of requests, and the share of citizens satisfied with their access to public services has increased to 99.88 percent.

Figure 17. Use of Multidimensional Data

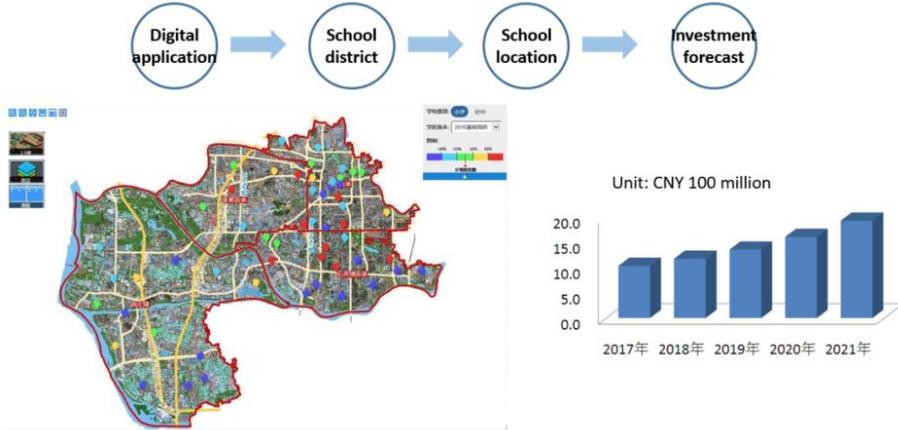
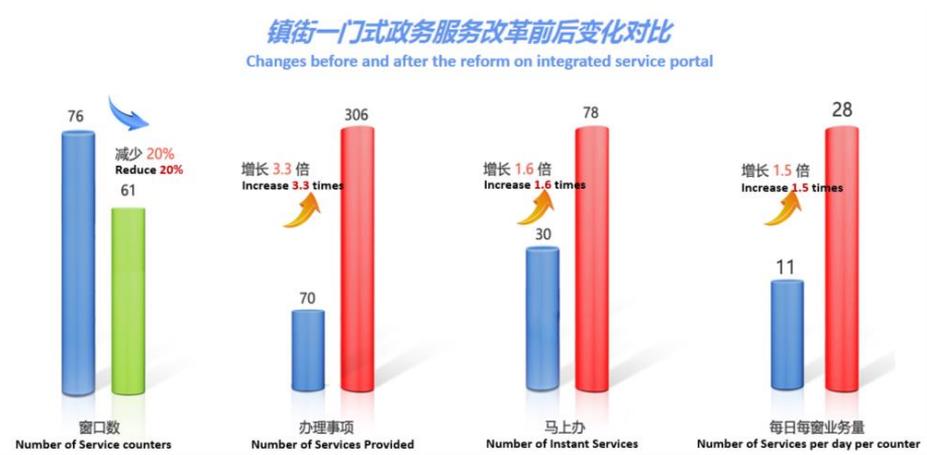


Figure 18. Changes before and after the Reform of the Integrated Service Portal

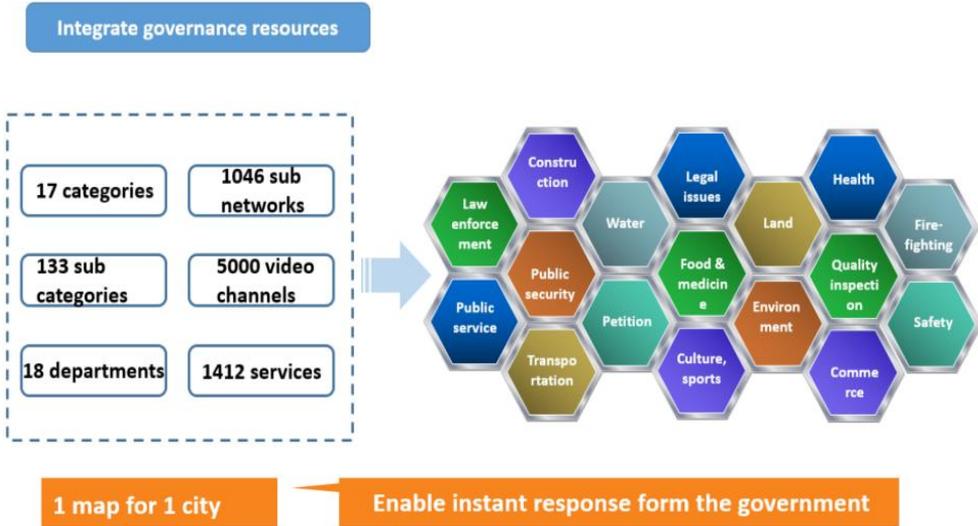


B. Cloud Management Platform

To further improve responsiveness, reduce administrative hierarchy, and deliver more services with the limited resources available, the district launched a second phase of innovation by applying cloud technology to enhance the integration of all resources (data, information, and human resources) of all departments, and the collaboration among them. Today, all departments in the district work using one map. Timely responses to early

warning signals helped the government reduce the number of police alerts by 26.6 percent, and the number of criminal alerts by 42.7 percent in 2017.

Figure 19. Cloud Management Platform



New Management — Achievements



Monitoring Transportation

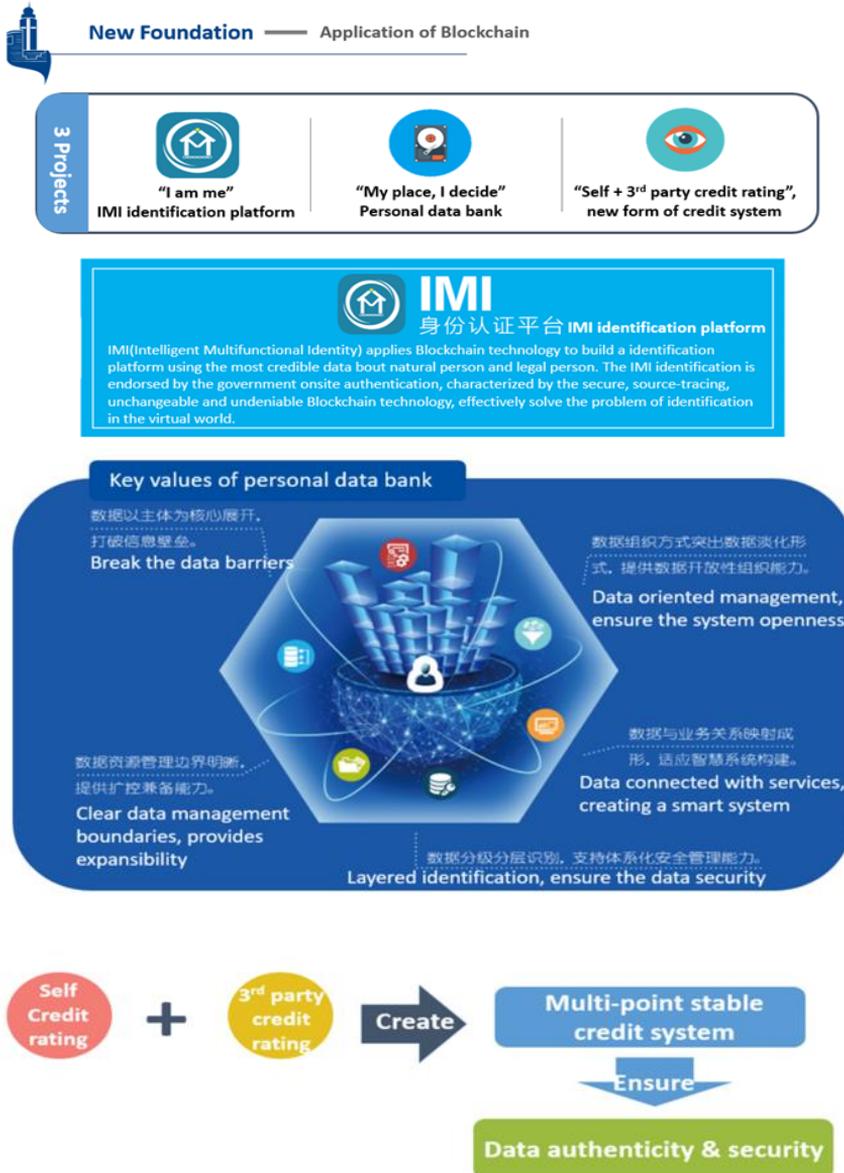
1 bridge, 1 night, 700,000 pedestrians



C. Application of Blockchain

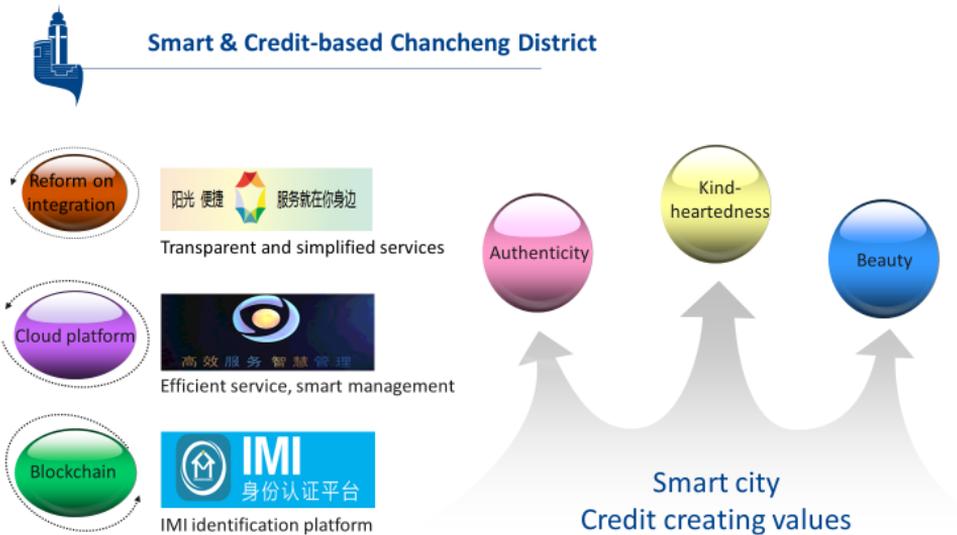
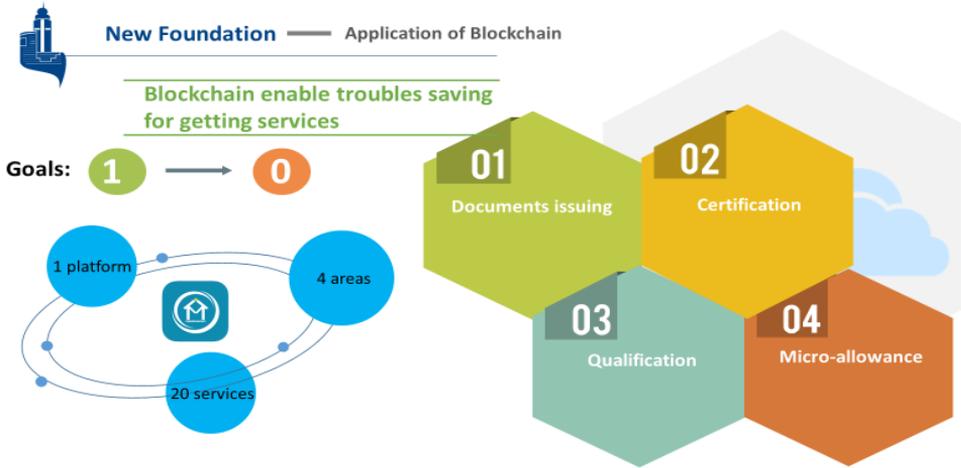
As of 2017, the district started to explore blockchain technology to address two barriers—data authenticity and data security—with an aim to streamline the regulatory process. The new program consists of three projects: intelligent multifunctional identification (IMI), a personal data bank, and a new credit system.

Figure 20. Blockchain Technology



Blockchain technology is being applied in the delivery of 20 services in 4 areas, including to issue official documents, certifications, qualifications, and to extend microallowances. The main benefit to citizens is a significant reduction in documentation requirements and also a streamlining of the regulatory process.

Figure 21. Application of Blockchain



CONCLUDING REMARKS

Mr. Robert Taliercio, Practice Manager, Governance Global Practice, the World Bank

In his concluding remarks, Mr. Taliercio thanked participant for a very rich and timely discussion, right after the 19th CPC Congress. He highlighted the timeliness of the discussion, in particular in view of the CPC's intent to pilot performance management and performance-based budgeting reforms, which will impact all levels of China's government and involve significant challenges.

He highlighted that trust and performance are interdependent. Trust, fairness and an apolitical administration do not only matter for outcomes, but are also influenced by procedural fairness as a dimension of government performance.

Mr. Taliercio noted that many countries have struggled with designing effective performance management systems and underlined the value of learning from each other's experiences. At the same time, he emphasized that specific performance systems are embedded in a particular country's context and culture and may not be transferable or require adaptation. For example, in some countries and for some tasks, economic incentives may work well, while they are less effective in others. He noted the importance of citizen participation in holding government to account, a theme that emerged throughout the discussions.

Mr. Taliercio in particular welcomed Professor Liu Fang's powerful concept that government and civil servants must have empathy with citizens. Professor Liu had identified the importance of citizens being the masters of their country as one of three major pillars of governance with Chinese characteristics, besides the CPC leadership and the rule of law. Mr. Taliercio noted the potential of technology for facilitating citizen participation and service delivery, especially in remote areas, for example in Mongolia. At the same time, he underlined that a professional civil service remains a critical foundation for providing public services.

In conclusion, Mr. Taliercio noting that the Bank is honored to have such a close cooperation with the CAG. He expressed his particular gratitude to Professor Xu for organizing a very fruitful event and thanked all participants for attending.

Mr. Zhang Zhanbin, Director-General, Economics Department, Chinese Academy of Governance

Mr. Zhang Zhanbin welcomed the workshop as an opportunity to discuss frontier governance issues both for China and the World, in a very rich program. He congratulated Prof. Xu Zhengzhong and Ms. Min Zhao for successfully managing this joint CAG-World Bank project. He welcomed the diverse experts represented at the meeting, including from the World Bank, governments, and international universities.

At the 19th Congress, the CPC envisaged that China will enter a new era of socialism with Chinese characteristics, which involves modernizing governance— with the aim that China will become a modern and powerful socialist nation by the middle of the 21st century. Mr. Zhang Zhanbin emphasized that this goal will contribute to the world's peaceful development and that the modernization process of China's complex government systems will yield valuable lessons for other countries.

At the 19th CPC Congress, the leadership proposed to implement all-round performance management. Mr. Zhang Zhanbin emphasized that, in this context, the CAG has been very supportive of the topic of governance reform. He noted the importance of collating the expertise contributed to the workshop, of reporting key findings to the CPC and government leadership as well as to society and of using it for the training of senior cadres in our academy. He noted to CAG's commitment to continue working on this subject.

In conclusion, Mr. Zhang Zhanbin, on behalf of CAG, expressed his hope that the workshop could become the seed for similar future joint events in the near future. He thanked all participants for their contributions.