I. Introduction and Context

Country Context

China’s economic performance has been remarkable. GDP growth has averaged about 10 percent a year and per capita GNI reached $5,740 in 2012. China’s social development has been equally impressive. All Millennium Development Goals have been reached or are within reach. Social productivity, comprehensive national strength and people’s living standards have improved significantly. However, while serving China well in many respects, rapid growth and accompanying structural changes have contributed to economic, environmental, and social imbalances. Spurred by high savings, cheap finance, and export-oriented policies, China’s growth has been capital intensive, industry led, energy and resource intensive, and environmentally damaging. The gap in income distribution continues to widen. There is growing recognition of the need to change the country’s
growth pattern by deepening reforms.

The Government of China (GOC) is aware of these challenges and is committed to carrying forward economic reform. Recent statements of policy orientation show that the process of economic restructuring and rebalancing will be accelerated over the 10 year tenure of the new administration. Some deepening of reform programs, e.g. financial sector, has been initiated. In the middle of the 12th Five-Year Plan period (2011-2015), some of the major objectives for economic and social development have been reached or are within reach, but several deep-rooted structural problems remain. The GOC has made explicit commitments to maintain stable and relatively rapid economic growth, while making structural adjustments and transforming the pattern of economic development. Economic and social development in China will emphasize quality and efficiency to a greater degree than in the recent past, and it will be more focused on the civil development, which ensures increases in production, improvements in living standards, and a sound ecological environment.

**Sectoral and Institutional Context**

Despite China’s impressive performance, there is a wide gap in departmental capacities to design and implement policies and projects and, often, the empirical base to support decisions in either incomplete or very weak. The proposed project supports design and implementation efforts in selected areas. The World Bank is well-positioned to respond positively to this project request of the GOC. The Bank’s rich pool of global knowledge on reform and development has been sought after and used effectively during the implementation of previous technical assistance projects in this series. It is expected that the proposed new project will continue to add significant value to the extent that such knowledge is required to develop needed technical solutions and institutional capacities. Moreover, the continuous and active involvement of the Bank in China’s economic reforms since the early 1980s enables it—uniquely among China’s external partners—to understand and respond to China’s needs in an effective and timely manner and help tailor global knowledge to local situations. As this project is the sixth in a series of “technical cooperation credit” projects, the first of which was approved in 1983, the continued Government interest in this type of assistance demonstrates that it has been valued by the client, particularly for its broad coverage and strong capacity to respond rapidly and flexibility to the client's needs. Client satisfaction has been matched by internal audits by the Bank. IEG evaluations of the previous projects show that the relevance of objectives was high, while the relevance of design was substantial, and key project objectives were substantially achieved. The fourth (P042299) of the series was closed at the end of 2009 and rated as satisfactory by IEG. The fifth (p085124) is approaching its close data and currently rated as satisfactory. Two important characteristics of this series have been the flexibility that has been built into them to address rapidly changing needs and program contingencies, and the fact that they have often created opportunities for additional involvement of the Bank in the design and implementation of China’s reform process (e.g. fiscal reforms, urban development, NPL issues, economic forecasting, and disaster management).

**Relationship to CAS**

As indicated in the current CPS, the Bank Group’s most valuable contribution in China remains its role in bringing and applying ideas, innovation, and knowledge. It emphasizes knowledge sharing and cooperation through advice and analytical products. This project, as the sixth in a series of “technical cooperation credit” projects, will continue to be an effective instrument of World Bank-China knowledge cooperation. By assisting GOC implement economic reform programs to promote more inclusive development, this project would supports a range of CPS objectives most notably
objective (i) Promoting the transformation of the pattern of economic development through deepened economic and institutional reform; (ii) Improving public sector management and the delivery of services; (iii) Developing human resources; and (iv) Promoting China’s integration into the global economy.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The objective of the project is to inform the government through its reform and the development agenda over the medium term and incrementally, as with the earlier projects in this series. It would be achieved through: (1) Diagnostic and advisory studies in key areas of policy formulation related to institutional and structural reforms tailored to address specific challenges; (2) Improving civil servants’ technical and managerial abilities and skills to fortify institutional capacity; (3) Promote knowledge sharing and dissemination of knowledge products between officials operating at the central and sub-national government levels.

Key Results (From PCN)

Key indicators of the overall project performance are evidence of (a) Adoption of key strategies and policies developed under the project; (b) New regulations issued to bring about institutional changes; (c) Improvement in public services and institutional capacity measured by the Government’s well-regarded and robust internal indicators; (d) Greater involvement of supported units and officials in international dialogue, exchanges and cooperation. To measure and assess progress and outcomes, the project will adopt some quantifiable and measurable indicators as reference. They may include: (1) Number of adopted development strategies based on policy recommendations from the different project activities and their effective implementation; (2) Number of dissemination workshops and publications; (3) Number of trainees and satisfaction rates of the training programs; (4) Completion of information systems and their access rates.

III. Preliminary Description

Concept Description

To achieve its development objectives, the proposed project is designed to consist of two main components: (a) reform facilitation and policy research, and (b) institutional capacity building and knowledge sharing support.

(a) Reform facilitation and policy research

This component will support studies/research in the prioritized reform areas and put forward policy suggestions/recommendations. Seven major areas were identified at the project preparation stage based on the government reform agenda: (1) Fiscal system and financial sector reform; (2) Economic restructuring and proposed changes to the pattern of development; (3) Rural and agricultural sector reform and development, rural-urban integration, the building of basic social protection systems and poverty reduction for an increasingly mobile population; (4) Environmental protection and the construction of ecologically-sensitive and ecologically-sustainable communities; (5) Reform of the scientific and technological innovation system; (6) Government administrative system reform; and (7) Strengthening the formulation of medium and long term development programs.

Adjustments may be made on the focus areas during project implementation based on government
reform priorities. The project may also support some emerging policy requests, when necessary. The Bank task team will meet the Central PMO on a yearly basis to review the government reform and development agenda, and discuss and identify the key areas to be focused upon and subprojects to be financed in the following year. The relevant government officials and researchers will be invited to join the discussions.

This component will consist of a number of sub-projects which will be selected and approved on a rolling basis during the implementation. The first batch of sub-projects will be identified and selected during project preparation. Each selected sub-project should have specific and clear development objectives in the context of the specific reform programs it supports, and measurable outcome indicators. Activities to be financed under this component include: (i) consulting services, (ii) workshops and training, and (iii) minor equipment related to these activities.

(b) Institutional capacity building and knowledge sharing support

This component will support: (i) A series of training programs for young and middle-aged civil servants selected from the central and sub-national government agencies. The training courses can be conducted both abroad and domestically, through various well designed short-term and long-term programs. An assessment framework will be agreed to track and evaluate the results of training; (ii) The construction of information systems to improve public services and the institutional capacity of government agencies; (iii) knowledge sharing platform construction to disseminate knowledge products, including study results and experiences produced under the project.

The project is to be financed with an IBRD loan (USD35 million) and counterpart funding of GOC (USD1.7 million) with a 7 year implementation period. GOC’s counterpart funding will be mostly in-kind (e.g. staff time of counterpart team, use of premises for training, etc.). Of the funds from the IBRD loan, USD25 million will be used to finance policy studies and capacity building activities at the central government level and USD10 million for supporting those at local government level. All central government departments and governments at provincial or municipal (prefecture) levels can apply for subprojects under this project. In principle, a sub-project total cost under policy research component shall not exceed $500,000, while a subproject’s cost under capacity building component shall not exceed $1 million. The aggregate cost of goods and equipment shall be restricted.

Institutional and implementation arrangements

Project Management Office. As in previous TA projects, the MOF, through a Project Management Office (PMO) already set up in its International Department, will implement the project. Responsibility of overall coordination and management of project implementation is vested in the Technical Assistance Division, International Department of MOF.

Subproject Implementation Agency. Under the overall supervision of the MOF PMO, subprojects will be managed by SIAs. The MOF PMO will require each SIA to set up, as condition for participating under the project, and thereafter maintain until the completion of the subproject. A SIA should be headed by a qualified officer and assigned with staff in adequate numbers to be responsible for subproject proposal design and its implementation.

A WB internal expert committee composed of sector specialists may also be needed to help the task team review the proposals and key outputs from a technical perspective. For each subproject, one or
more sector specialists will join the Bank core team in the following activities:

- Reviewing subproject proposals and providing general guidance and coaching on those that may need further refinement and work to meet the agreed selection criteria. In doing so, the bank acts only in the role of peer reviewer by providing necessary advice to the PMO and SIAs.
- Reviewing TORs and outputs of subprojects.
- Participating in subproject supervision missions

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

| Total Project Cost: | 36.70 | Total Bank Financing: | 35.00 |
| Financing Gap: | 0.00 |

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