



The World Bank

Building a Modern Fiscal System Technical Assistance (P154694)

REPORT NO.: RES46186

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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
BUILDING A MODERN FISCAL SYSTEM TECHNICAL ASSISTANCE
APPROVED ON APRIL 29, 2016
TO
PEOPLE'S REPUBLIC OF CHINA

MACROECONOMICS, TRADE AND INVESTMENT

EAST ASIA AND PACIFIC

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I. BASIC DATA

Product Information

Project ID P154694	Financing Instrument Investment Project Financing
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 29-Apr-2016	Current Closing Date 31-Jul-2022

Organizations

Borrower People's Republic of China	Responsible Agency Ministry of Finance, International Economic and Financial Cooperation Department, Policy Research Office, Ministry of Finance
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Project Development Objective (PDO)

Original PDO

The development objectives of the proposed project are to inform the design and implementation of the Central Government's fiscal reform program and to improve the Government's capacity in public financial management

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IBRD-86160	29-Apr-2016	31-May-2016	25-Aug-2016	31-Jul-2022	16.50	11.88	4.62

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

Background

An IBRD loan of US\$22 million for the Building a Modern Fiscal System Technical Assistance Project (the Project) was approved by the World Bank Board of Executive Directors on April 29, 2016 and became effective on August 25, 2016. The project supports MOF's reform program for building a modern fiscal system. The Project Development Objectives (PDO) are to inform the design and implementation of the central government's fiscal reform program and to improve the government's capacity in public financial management.

The Project consists of two thematic components.

- Component 1: Key elements of China's public finance system. This component supports the government's efforts to strengthen core budget and tax systems comprising activities of policy research, secondment program and workshops to strengthen capacity to facilitate reform implementation.
- Component 2: Fiscal Policy and sustainable development. This component supports the government's efforts to strengthen the role of fiscal policy to support a balanced, equitable, and sustainable growth trajectory.

The Project was first restructured in April 2021. The restructuring included the cancellation of US\$5.5 million and an extension of the project closing date by 12 months. The revised loan amount is US\$16.5 million and the current project closing date is July 31, 2022.

The Ministry of Finance, through its letter dated July 14, 2022, requested an extension of the project closing date by 36 months to July 31, 2025. This is the second extension of the closing date. Project extension would support the implementation of the overseas secondment program and other capacity development activities which form a core component of the program. Implementation of the secondment program virtually stalled over the past 2.5 years (since January 2020) - as international travel was severely disrupted due to COVID-19 related restrictions.

Implementation status

Results. Following the project restructuring in April 2021, project implementation accelerated and notable achievements towards the project development objectives have been made but the pandemic and related restrictions continued to disrupt implementation of the secondment program despite efforts to advance implementation progress.

The project has two PDO indicators. (1) Dissemination of fiscal policy reform proposals to decision makers (end target at 13); (2) Enhance capacity and skills in core budget management (end target at 75 percent). On PDO indicator 1, the project is well on track to meet the end -target, as by now 13 fiscal policy reform proposals have been disseminated to decision makers. On PDO indicator 2, a survey on participants of training activities concluded that more than 75 percent of the respondents benefited from the trainings and applied the acquired concepts and skills in their day-to-day jobs.

Disbursement. By end June 2022, the overall disbursement of the project stood at US\$11.88 million, accounting for 72 percent of the total financing, with US\$4.62 million undisbursed. The following summarizes the implementation status by sub-component level under the two thematic components.



- Policy research activities. By now, all the research activities except one subproject have been completed. The subproject on research on budget transparency will need another 6 months to complete research activities.
- Capacity building activities. These activities include the secondment program, training on the WTO General Procurement Agreement and other workshops. Due to the global pandemic, these capacity building activities had to be largely suspended during the last 2.5 years, resulting in slow implementation and low disbursement. Due to COVID related restrictions on international travel the secondment program in particular has faced significant delays, with only 25 percent of the funds disbursed so far. Capacity building activities related to the WTO GPA which include workshops and international field visits also had to be delayed due to COVID-related restrictions. The overall disbursement of capacity building activities to date only accounted for 23 percent of allocated funds.
- Project Implementation support and M&E. Progress in the project implementation support and M&E has been on track, with 88 percent of allocated funds disbursed. The remainder will be used to conduct self-assessment of the project results and completion to be managed and processed by the PMO.

The project is in full compliance with fiduciary requirements and legal covenants. There have been no outstanding audit or interim financial reports and no outstanding procurement-related issues.

The environmental and social safeguards of the Project was C with no assessment required.

Risks and mitigation. The overall risk for Project has not changed and is rated as Moderate. The principal risk relates to the challenge of placing all 32 candidates and completing all secondments in time given the uncertainties around COVID controls in China and elsewhere. The Bank team will work closely with MOF and lead early on discussions on placements and monitor the scheduling of secondments.

Rationale for restructuring

- 1) Relevance to the Project design. The design of the project and the PDO remain relevant. Access to international experience combined with upgraded skills contribute to the government's ongoing fiscal reform efforts and enhance capacity in public financial management. Among the capacity building activities, financed by the Project, staff secondment to international organizations is the main activity with estimated costs of US\$5 million, representing 58 percent of the total funding of capacity building activities. While COVID related travel restrictions and disruptions thwarted the execution of the secondment program during the last 2.5 years, MOF continues to emphasize the critical importance of these capacity development activities for the achievement of the intended Project impacts.
- 2) Client commitment. Despite implementation challenges and delays, MOF remains strongly committed to utilizing the project as a vehicle to develop its institutional capacity. The secondment program under the Project offers an important opportunity for staff of MOF and local finance institutions to obtain real world exposure to global experience in fiscal policy and public financial management by working with development practitioners in these organizations. MOF attaches great importance to the secondment program as it helps deepen their understanding of IFI operations and facilitate the adoption of international norms and standards. In addition, the authorities also plan to complete the sub-projects on research on budget transparency and WTO GPA training. The former is aimed at deepening budget management reforms to improve China's poor ranking in the global open budget index. The latter



is aimed at building important capacity for China’s accession to the WTO GPA. These two sub-projects will not generate any new activities and focus on executing existing and approved activities.

- Time-bound action plan: The MOF is planning to second 32 staff to international organizations in the extended three years. To achieve the target within the timeframe, MOF developed a detailed implementation plan for the secondment program. This implementation plan underpins MOF’s request for a 3-year extension to provide a realistic timeframe to complete the secondment program. In calendar year 2022 a total of 16 staff will be seconded to international organizations. Upon the approval of the proposed extension of the closing date, a total of 14 staff who have already been identified and interviewed will be placed in six international organizations (IFAD, World Bank, IFC Beijing Office, IASB, ADB and Central Asia Institute). The remaining 2 staff started their development assignment in IFAD in May 2022. Another 10 staff are planned to start their secondment in 2023 and 6 staff would be seconded in 2024. Secondments are supposed to have an average duration of 12 months. MOF will report to the Bank team on regular basis about implementation progress of the secondment program following the approval of the project closing date.

III. DETAILED CHANGES

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-86160	Effective	31-Jul-2021	31-Jul-2022	31-Jul-2025	30-Nov-2025