



# Program Information Document (PID)

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**BASIC INFORMATION****A. Basic Program Data**

Country China	Project ID P172325	Parent Project ID (if any)	Program Name Hunan Strengthening Institutions for Rural Revitalization Project
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 11-May-2020	Estimated Board Date 31-Aug-2020	Does this operation have an IPF component? No
Financing Instrument Program-for-Results Financing	Borrower(s) Ministry of Finance	Implementing Agency Hunan Provincial Finance Department	Practice Area (Lead) Governance

**Proposed Program Development Objective(s)**

The program development objective of the proposed PforR is to improve budget transparency, fiscal risk monitoring, public expenditure management, and delivery of key public services in rural Hunan.

**COST & FINANCING****SUMMARY (USD Millions)**

<b>Government program Cost</b>	150,000.00
<b>Total Operation Cost</b>	10,000.00
Total Program Cost	10,000.00
<b>Total Financing</b>	10,000.00
<b>Financing Gap</b>	0.00

**FINANCING (USD Millions)**

<b>Total World Bank Group Financing</b>	200.00
World Bank Lending	200.00
<b>Total Government Contribution</b>	9800.00



## B. Introduction and Context

### Country Context

**Following four decades of rapid growth and poverty reduction, China has entered a new stage of development.** Since the start of China's reform and opening up in the late 1970s, GDP growth has averaged almost 10 percent a year and more than 850 million people have lifted themselves out of poverty. Extreme poverty has been all but eliminated. As an upper middle-income country, China is now confronting new development challenges as it seeks to transition to slower but more balanced and sustainable growth. This entails shifting from an investment and export-led economy based on labor-intensive manufacturing towards one led by domestic consumption, services and productivity. In addition, China's rapid economic ascendance has led to higher inequality especially between rural and urban areas and rising environmental pressures. Rebalancing growth and making it more inclusive and greener, is crucial for China to sustain further convergence in living standards with high income economies.

**Governance and institutional reforms are at the core of addressing China's remaining development challenges.** China's rapid economic growth exceeded the pace of its institutional development and there are important institutional and reform gaps that China needs to bridge to ensure a high-quality and sustainable development path. Reforms of the intergovernmental fiscal system are a central element in this regard. Incentives embedded in the intergovernmental system played an important role in motivating subnational governments to mobilize resources for rapid investment contributing to China's rapid economic development of previous decades. However, recent years of slower growth have witnessed a rapid build-up in debt and a less efficient allocation of resources. As part of China's transition to more balanced development the orientation and capacity of subnational governments will have to shift from focusing on rapid investment-driven growth toward more efficient and sustainable fiscal management and public service delivery.

### Sectoral (or multi-sectoral) and Institutional Context of the Program

**China's subnational governments are responsible for most public expenditure functions but continue to face challenges in delivering public services in an equitable, accountable and fiscally sustainable manner.** China is a unitary state with three levels of government: 31 province-level governments (provinces, autonomous regions and municipalities), 330 prefectures and more than 2000 urban districts and rural counties. While the revenue side of the budget remains centralized with all major taxes being controlled at national level, expenditure responsibilities are highly decentralized. Subnational governments, including provinces, municipalities and counties account for 85 percent of public expenditures. Half of total consolidated public expenditures are carried out by local -sub-provincial- governments -counties and districts- which are responsible for the delivery of most public services including in areas such as health, education, transport and administrative services. Strengthening county-level fiscal and governance systems – and the institutions and incentive effects they embed- are key priority and crucial to enabling equitable and fiscally sustainable public service delivery.

**This operation will focus on institutional strengthening and reforming of financing mechanisms to improve rural service delivery in the context of the rural revitalization program in the central province of Hunan.** While comprehensive reforms to address structural imbalances in the overall intergovernmental fiscal framework will take time, there is considerable room to pilot and innovate institutional strengthening at the provincial and country level. This operation will be implemented in Hunan - a landlocked province in the interior of China, ranked 21st among 31 mainland provinces and municipalities. While Hunan's per capita GDP is close to the national average, large disparities persist between rural and



urban areas within Hunan -as in the rest of China. In 2018, about 44 percent of Hunan's 69 million population resided in rural areas. While the relative income gap between urban and rural residents has narrowed since 2012, rural incomes are on average only about 38 percent of urban residents. Having eliminated extreme poverty, Hunan's development focus is now shifting towards consolidating the achievements of the poverty reduction program and revitalizing rural areas. For this purpose, Hunan Province has adopted a comprehensive rural revitalization program to balance development of rural and urban areas, boost rural living standards and quality of rural public services. Hunan's program emphasizes the importance of rural development, including the need to develop rural businesses, create a pleasant living environment, promote effective governance, and improve the living standards of rural residents. While the province is setting the overall policy framework, Hunan's 122 county governments will take the main responsibility for implementing the rural revitalization program, including through the delivery of essential public services. A robust institutional and public financial management system and capacity of county governments is crucial for Hunan to improve public services in rural areas.

#### Relationship to CAS/CPF

**The proposed operation is firmly anchored in the WBG CPF 2020-25 and reflects the selectivity criteria guiding World Bank support to China.** The operation responds to the priorities and objectives set under the CPF engagement areas I and III. By piloting and demonstrating new fiscal management mechanisms at the subnational level, the operation will contribute achieving more efficient and sustainable subnational fiscal management. At the same time, the operation explicitly focuses on enhancing institutions for the delivery of critical public services, including maintenance of rural roads, education and administrative services in rural areas that are lagging in terms service access and quality. As such, the operation also contributes to sharing the benefits of growth. In line with the institutional focus of the CPF, the operation explicitly focuses on addressing key institutional gaps in the fiscal system and it meets two of the four CPF selectivity criteria:

- i. **The operation supports the piloting of new fiscal management mechanisms at the subnational level.** This includes introduction of the Public Expenditure and Financial Accountability (PEFA) framework, new approaches to manage fiscal risks, incentive-based fiscal transfers and administrative reforms. These changes are expected to improve expenditure allocation, raise pro-poor spending and enhance public service delivery for rural poor. While initially focused on selected counties in Hunan province some institutional innovations may be transferred to other counties and provinces and inform broader reforms of the intergovernmental system in China, thereby increasing impact.
- ii. **The operation supports institutional changes to enable more equitable and fiscally efficient delivery critical services in lagging regions.** The operation has an explicit focus on enhancing equitable service delivery in mostly poorer counties and in one of the poorer provinces of China. Hunan province is ranked 21st among China's 31 provinces in terms of per capita GDP. It's per capita GDP is roughly equal to 92 percent of China's average per capita GDP, but the average per capita GDP of the eight selected pilot counties within Hunan that will directly benefit from the operation is only 32 percent of the national average per capita GDP.

#### Rationale for Bank Engagement and Choice of Financing Instrument

**Building on a long-standing engagement with Hunan that started under the Fiscal Sustainability Development Policy Loan in 2015, this PforR would help sustain and deepen fiscal reforms to improve public service delivery in rural areas.** Hunan province has a proven track record of fiscal and public financial management reforms. With support of Fiscal Sustainability DPO, Hunan became the first province in China to develop a medium-term fiscal strategy anchored in a debt sustainability assessment; introduce a hard budget constraint on its capital budget and published a citizen budget. This previous engagement has put the Bank in a unique position to support Hunan as it consolidates the achievements already



made with the support of DPO, scales up good practices across counties, and further extends reforms beyond fiscal sustainability to the delivery of public services. Experiences and lessons from Hunan are expected to inform policies of the Central Government and -if successful- be scaled up to other provinces of China.

**The proposed operation would use a Program for Results (PforR) financing instrument to provide a framework for anchoring institutional changes for enhanced service delivery at the subnational level.** World Bank financing will account for a small share of the total program expenditure but will contribute to enhanced institutional arrangements for fiscal management, accountability and service delivery. Rather than financing, the focus is on leveraging Bank technical expertise on public sector reforms and provide an external anchor for a challenging institutional change process. Reasons for selecting the PforR financing instrument include the following: (i) to provide a medium-term framework to anchor system and process changes through the actions contained in the Program Action Plan (PAP) and Disbursement Linked Indicators (DLIs) and (ii) to directly support improved critical service delivery results in program counties. Compared to Development Policy Lending the main advantage of the PforR instrument is the focus on providing medium-term implementation support. This operation focuses on supporting institutional mechanisms to enhance implementation within the existing policy framework as opposed to implementing broad changes to the policy framework which would be better suited for a DPO instrument. Compared to a traditional Investment Operation, the main advantage of the PforR is a shift from individual investments in infrastructure towards a more comprehensive focus on local government performance, accountability and service delivery.

### **C. Program Development Objective(s) (PDO) and PDO Level Results Indicators**

Program Development Objective(s)

**The program development objective of the proposed PforR is to improve budget transparency, fiscal risk monitoring, public expenditure management, and delivery of key public services in rural Hunan.**

PDO Level Results Indicators

PDO Indicator 1: Improvement in PEFA indicators for fiscal risk, budget transparency, and public expenditure/investment management

PDO Indicator 2: Share of roads in the core rural transport network meeting maintenance standards

PDO Indicator 3: Number of users accessing priority administrative services through online and mobile service delivery channels and expanded access through one stop shops

PDO Indicator 4: Coverage of teaching support mechanisms to all small village schools (including IT facility and equipment, connections between center schools and village schools, multi-media classroom per one hundred students)

### **D. Program Description**

Hunan Government categorizes the rural revitalization program in six subprograms in alignment with the strategic plan areas: agriculture industrial development, livable environment, rural civilization, governance effectiveness, public services and poverty alleviation. Together these cover almost all public sectors, including agriculture and rural development, irrigation, environment protection, sanitation, transport, culture, health, education, job creation, aged care, and social services.

**Program Boundary** To ensure the sharper focus on achieving the Government rural revitalization vision, the proposed PforR will support a key subset of the Government program, where strengthening institutions is critical for achieving



intended government results. The geographic boundary of this PforR is circumscribed to 8 counties in 4 prefectures, out of 122 counties in 14 prefectures in Hunan. These counties represent different levels of development and fiscal and administrative capacities. The proposed timeline of the PforR is 2020 – 2024. The proposed PforR baseline year is 2018. The PforR excludes activities with potentially significant adverse impacts that are sensitive, diverse or unprecedented on the environment and/or affected people per the PforR Policy and Directive. The total financing of the PforR is estimated at US\$10 billion, accounting for 45% of the government’s rural revitalization program in 8 project counties. The IBRD loan, US\$200 million, takes a share of 2 percent in the Program financing.

**The proposed PforR would support two categories of activities: 1) institutional enhancement and capacity building; and 2) the delivery of critical services, including rural education, transportation and administrative services.** The result areas were selected based on the following criteria: (i) strong contribution to strengthening institutions that underpin the rural revitalization program; (ii) be linked to specific measurable results; (iii) provide “value added” in terms of interventions that are innovative (including through digital technology applications), scalable or expand upon on-going and planned piloted initiatives; and (iv) incentivize behavioral changes. To inform expenditure management reforms, the Bank will also conduct public expenditure and financial accountability (PEFA) assessment for all 8 project counties and use the assessment results to inform the fiscal reform action plan. The assessment will also provide a baseline for measuring the project counties’ improvement in public financial management.

### **Results Area 1 Fiscal Transparency, Accountability & Sustainability**

- **Strengthened fiscal risk monitoring and sustainability.** Hunan is looking to strengthen its monitoring of contingent liabilities and fiscal risks. The regulatory framework for managing subnational debt has been enhanced. The province has demonstrated a track record of maintaining fiscal discipline. Since 2016 the province has focused on containing explicit and implicit debt obligations. While this has contributed to stabilizing debt accumulation, it has raised pressures on infrastructure financing. The province and local government are utilizing special project bonds to mobilize funding for necessary infrastructure investment. It has also relied on PPPs to fund, deliver and operate infrastructure assets. However, the current framework does not recognize contingent liabilities. The authorities are keenly aware that these financing structures can expose the government to fiscal risks and therefore require systematic monitoring and management. This PforR will support Hunan provincial authorities to establish comprehensive monitoring of fiscal risks, including those related to special bonds, PPPs and public benefit SOEs (UDICs). The province will also develop a fiscal risk assessment methodology and guideline to evaluate the fiscal risks emanating from these projects, including those directly funded by the government budget, PPP or through public benefit SOEs. The institutionalization of the comprehensive fiscal risk management platform and processes would include quality control processes for concerned projects, and the provision of training to county government officials to adopt this monitoring system.

- **Results-oriented expenditure management for rural revitalization program.** While Hunan’s rural revitalization strategy provides an overall umbrella and platform to coordinate activities, planned activities and expected results are only weakly linked to the budget. This weakens accountability of county governments and impedes delivery of expected results. This PforR will support Hunan to develop a result-oriented expenditure management framework and pilot it in 8 project counties, with a focus on the rural revitalization program. The province of Hunan will institute program budgeting mechanism for rural revitalization expenditures. The preparation of a program structure for budgets and expenditures would more clearly link resource allocations to the objectives and expected results for rural areas. The structure would comprise an overarching rural revitalization program and several subprograms. This PforR will also support the authorities to enhance their capacity in monitoring outputs and outcomes of the subprograms, and their linkage with the fiscal inputs.

- **Integrated public investment planning, budgeting and implementation for rural revitalization.** Hunan needs to



meet across pressing infrastructure needs for both the economic and social sectors within a fiscally constrained environment. Given that capital investment projects in rural areas typically would not be self-financing (relative to urban areas), putting in place mechanisms to ensure that on-going revenue, intergovernmental transfers and debt financing could be allocated effectively is a major policy priority. The province and county authorities need to ensure that projects are completed in a timely fashion and that the resulting infrastructure assets provide service delivery functions. The capture of systematic data concerning the full life cycle status of all capital projects – from upstream planning, to selection, budgeting, execution, and asset transfer for operations & maintenance purposes – would serve as a foundation towards meeting this objective. The Hunan planning and finance authorities will collaborate to institute a full project life cycle tracking and management platform. The application of this mechanisms is especially important for rural revitalization projects given their budgetary reliance. In addition to establishing the platform, the authorities will look to define key metrics to assess the extent to which counties are capturing and applying this data in practice. The inception follow-up will seek to gain a better understanding of the scope of data, and envisioned county incentive mechanisms, which will be captured by the new processes.

- **Enhanced Budget Transparency.** Hunan Province has been playing a leading role among provinces in advancing budget transparency. However, as of today these efforts have not been broadly replicated by the county governments in Hunan. In addition, the information included in some of the official websites are difficult to access and understand for the general public. Hunan province will pioneer a one stop platform for enhanced budget/budget realization transparency and accountability. The institutional development of this platform will be achieved by (1) the Province issues a guideline on the budget transparency protocols; 2) Province develops a one-stop platform that provides citizen's easy access to budget data and information of the provincial governments and sub-provincial governments; 3) County governments prepare citizen budgets, and post budget data and information, on the official website in a timely fashion in accordance with the provincial guidelines/protocols; and 4) County governments set mechanism to interact with citizens and respond to the citizen's inquiry on budget and public expenditures.

- **Participatory Village Governance.** The rural revitalization program envisages village self-governance institutions to enable villagers to have a strong voice in decision making and holding governments accountable for the delivery of services and results. While villagers are informally consulted for economic and social affairs related to their communities, the participatory approach is yet to be institutionalized in a systematic and practical manner. Neither is the performance of local government in adopting a participatory approach being monitored or evaluated. As part of the PforR, the province will roll out a progressive framework for enhanced participatory village governance. This will pertain to the development and adoption of a guideline and/or implementation manual for participatory village governance including procedures, requirements, qualifying criteria for implementing village governance that is participatory, inclusive and suitable for local conditions. This manual would be prepared based on international and domestic best practice and informed by consultation with local communities including on aspects of gender equality and inclusion of vulnerable households

## Results Area 2 Improved Rural Service Delivery

- **Enhanced maintenance of rural roads.** Improved rural connectivity remains crucial to rural socio-economic development. Good road networks enable growth in local economic activities and provide ready access to public services. The previous focus of rural transport services was mostly around investment in new county, township and village roads. The rapid expansion of the existing infrastructure stock, especially for the extensive rural roads network, has meant a growing need to ensure adequate maintenance. To rebalance resources toward road maintenance, the Department of Transport (DoT) will institutionalize the piloting in 2019 a performance-based framework to measure quality of the rural roads. The bank team will work with Hunan Provincial Government and project counties to develop reform action plans to address issues related to the budget allocation for road investments and maintenance. Potential interventions could



include changes in the mechanism of transfer programs and introduction of an integrated rural roads asset management system. The design of the new financing rules would therefore need to work towards shifting the use of all available funds towards addressing maintenance gaps given existing baseline road infrastructure assets, but without penalizing either the more prosperous or poorer counties.

- **Enhanced Rural Education Quality through eLearning and Teaching.** The program supports upgrading facility and equipment of educational technology, enhancing teaching and learning by connecting center primary schools at townships and teaching points at villages. The education technology offices of education departments from provincial to county level is managing the program through its education technology platform. The Human authorities will leverage a series of learning delivery and oversight innovations to ensure rural education delivery quality does not fall behind urban areas. (i) investing in e-learning facility and equipment especially for small-scale teaching points and boarding schools; (ii) connecting center schools with teaching points for better teaching and learning; (iii) developing the Hunan Inspection Plan for Promoting Equalized High-quality Compulsory Education by the Inspection Office of Hunan Education Department, which will be a provincial activity together with capacity building and knowledge-sharing activities.

- **Improved access to administrative services.** The PforR will support a deepening and expansion of reforms to enhance access to and efficiency of administrative service delivery at the county and village level. While a number of counties and townships have already developed mobile platforms for selected eServices, the province could offer a mobile access platform to ensure that all villages could use mobile devices for key services.

#### **E. Initial Environmental and Social Screening**

An initial environment and social screening was conducted during identification mission based on the activities listed in the county-level rural revitalization program and meetings with the respective implementing agencies. Overall, the Program presented positive impacts on the environment and rural population, and the associated environmental and social risks was considered moderate with the exclusion of activities that are likely to have significant environmental and social risks. Overall, the Program presented positive impacts on the environment and rural population, and the associated environmental and social risks was considered moderate with the exclusion of activities that are likely to have significant environmental and social risks.

Once the Program is endorsed by Bank management for further preparation, the Bank task team will conduct an Environmental and Social Systems Assessment (ESSA) on existing policy framework, track records of risk management, experience and capacity of government staff. Based on ESSA findings, the Program Action Plan (PAP) will be developed in consultation with the stakeholders against identified gaps if any. The ESSA will also inform the Program design with regards to any possible DLI on environmental and social management, for example, in relation to the result area of participatory village governance. The draft ESSA will be disclosed to the public prior to appraisal.



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