



## 1. Project Data

**Operation ID**

P157404

**Operation Name**

Chongqing-Dadukou Fiscal Sustainability

**Country**

China

**Practice Area(Lead)**

Macroeconomics, Trade and Investment

**L/C/TF Number(s)**

IBRD-86620

**Closing Date (Original)**

31-Dec-2017

**Total Financing (USD)**

200,000,000.00

**Bank Approval Date**

10-Jan-2017

**Closing Date (Actual)**

31-Dec-2017

**IBRD/IDA (USD)**
**Co-financing (USD)**

Original Commitment

200,000,000.00

0.00

Revised Commitment

200,000,000.00

0.00

Actual

200,000,000.00

0.00

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## 2. Project Objectives and Policy Areas

### a. Objectives

The program development objective of the Chongqing-Dadukou Fiscal Sustainability Development Policy Financing (DPF) Program was "to support the Dadukou District Government of Chongqing Municipality to achieve fiscal sustainability through a forward-looking, comprehensive, and transparent public finance framework that integrates budget, public investment, and debt management" (Program Document, page 6).



## **b. Pillars/Policy Areas**

The DPF had three pillars:

Fiscal Sustainability supported the development and use of a medium-term fiscal and debt sustainability framework for managing risks and promoting fiscal sustainability of Dadukou's public finance.

Integrated Capital Investment Plan supported the development of an integrated approach to capital budgeting to improve efficiency.

Transparency aimed to enhance transparency and accountability in the use of budgetary resources.

## **c. Comments on Program Cost, Financing, and Dates**

Program Cost: The DPF was estimated at appraisal to cost US\$200 million.

Financing: The DPF was financed with an IBRD loan to the People's Republic of China of US\$200 million. The loan was fully disbursed in a single tranche.

Dates: The DPF was approved on January 10, 2017 and became effective and closed as scheduled on December 31, 2017.

## **3. Relevance of Objectives & Design**

### **a. Relevance of Objectives**

The objective of the DPF was aligned with Bank Group country strategy for China at the national level at the time of program appraisal and closing. The "Country Partnership Strategy for the People's Republic of China for the Period FY2013-FY2016" (CPS) conveyed support for "reforming subnational inter-governmental fiscal relations, building up a medium-term fiscal framework at both the national and subnational levels, improving fiscal transparency and debt management, and introducing accrual-based public accounting and performance budgeting" (CPS, page 14). A new CPS for China had not been finalized at the time of this ICR Review, but according to the ICR (page 22), the DPF objective was aligned with the second objective of the third Bank Group engagement area in the draft CPS, "demonstrating approaches to more effective and sustainable fiscal management and infrastructure financing".

The objective of the DPF was aligned, at the national level, with the fiscal reforms advanced by the central government in the Third Plenum Decisions of 2013-14 ("Overall Program for Deepening Reform of the Fiscal System"), the new China Budget Law of 2014, and the implementing regulations issued by the State Council in 2014 ("Decision Deepening Reform of the Budget Management System"). The national budget reform program, resulting from the new China Budget Law of 2014, mandated the central and local governments to: (a) prepare unified budgets; (b) conduct comprehensive debt sustainability analyses; (c) reorient



annual budgeting and capital investment planning to a multi-year framework; (d) ensure that local debts are repayable based on the revenue generating abilities of local governments; (e) prepare and publish detailed fiscal and financial reports; and (f) subject all revenues and expenditures to popular oversight. The reform program also: (a) allowed provincial governments to directly issue debt for provinces and municipalities, but under the strict control of the central government and local legislatures; and (b) created mechanisms to restructure accumulated local government debt with the phasing out of local government financing vehicles (LGFVs) and their conversion to state-owned enterprises (SOEs) whose strictly commercial (non-government) debt would not carry official repayment obligations on the part of the government.

The objective of the DPF was aligned, at the subnational level, with the development priorities of the Dadukou District Government at the time of program appraisal and program closing. Like all subnational governments which organized off-budget LGFVs and urban development investment corporations (UDICs) to borrow for public projects with implicit government guarantees (effectively collateralized by future expected land lease revenues), Dadukou District had accumulated by 2015 direct government debt of 66 percent of local GDP and public liabilities (direct government debt plus UDIC commercial liabilities) of 159 percent of local GDP. The fiscal adjustment program beginning in 2016, part of the Dadukou District Medium-Term Fiscal Strategy, called for the reduction of direct government debt to 22 percent of local GDP and public liabilities to 91 percent of local GDP by 2025. The DPF would aid with fiscal consolidation and would more broadly aim to help take district public finances and debt to more fiscally sustainable paths in the medium term.

## **Rating**

Substantial

### **b. Relevance of Design**

The results chain clearly and credibly links supported actions to intended outputs and outcomes. A medium-term framework for budgeting, debt management, and risk management would help enhance the district's fiscal and debt sustainability. An integrated approach to capital budgeting would improve investment efficiency. Enhanced budgetary and financial reporting including by SOEs, LGFVs, and UDICs would promote fiscal accountability and transparency.

The prior actions addressed constraints to the district government achieving fiscal and debt sustainability in the medium-term. Adopting a Medium-Term Fiscal Strategy (MTFS), that was well informed by a comprehensive debt sustainability analysis (DSA), and submitting a 2016 Annual Budget consistent with the MTFS, would help address deficiencies with the budgeting, financing, and debt management framework. Adopting a Three-Year Rolling Capital Investment Plan for 2016-18 and setting the time frame and institutional responsibilities for investment planning would begin to address shortcomings with the annual capital budgeting framework. Mandating a system of annual disclosures of public sector assets and liabilities and the division between government and commercial activities and finances of UDICs would start to address weaknesses in fiscal accountability and transparency.

The macroeconomic framework was adequate at the national level. The International Monetary Fund (IMF)



"Staff Report on the China 2016 Article IV Consultation" of August 2016 concluded that China continued to transition to a more balanced and sustainable growth path. Although moderating (from 6.9 percent in 2015 to 6.6 percent in 2016), economic growth was being driven increasingly by consumption and by services consistent with the country's economic rebalancing goals. Nonetheless, the government needed to take decisive action in several structural reform areas, including reducing the reliance on state-led and credit-financed investment; improving resource allocation and governance in SOEs; and, addressing the corporate debt problem. On the fiscal front, the IMF urged the government to continue with efforts to "fully implement the new budget law, improve fiscal transparency, and modernize the tax system".

The local economic framework was adequate at the subnational level. The Program Document (pages 13-19) reported that the Dadukou District's economic growth rate had exceeded the national average among districts in the five years ending in 2015, driven largely by fixed investment and the services sector. The economic base had been eroded with the closure of a large steel factory in 2011, for environmental reasons, but the district had since rebuilt the local economy, quickly developing the Jianqiao Industrial Park, focused on information technology and tourism. The district government targeted economic growth to average 9 percent in 2016-20. Achievement of the growth forecast assumed that the district government would be able to reduce the district's direct debt from 66 percent of district GDP in 2015 to 22 percent by 2025 and public liabilities from 159 percent of district GDP in 2015 to 91 percent by 2025, consistent with the objectives of fiscal adjustment program and the MTFS. The operation would support these objectives and targets through a program of time-bound actions requiring reductions in capital investment spending and the financing gap of the district government and reforms in the operations (adherence to commissioned contracts with the district government), accounting, and reporting of LGFVs and UDICs as part of their eventual conversion to commercial SOEs.

**Rating**  
Substantial

## 4. Achievement of Objectives (Efficacy)

### Objective 1

#### Objective

To achieve fiscal sustainability through a forward-looking, comprehensive, and transparent public finance framework that integrates budget, public investment, and debt management.

#### Rationale

Four of the five program outcome targets were met, including three of which were surpassed. One target was nearly met.

The Dadukou District Government of Chongqing Municipality posted a financing gap (measured to include



the district public investment program) of 3.4 percent of district GDP in 2016, meeting the target to reduce the financing gap from 8.1 percent of district GDP in 2015 (baseline) to under 3.5 percent of district GDP in 2016. The target had been set following the submission by the district government of the Annual Budget for 2016 to the District People's Congress in January 2016 (prior action 2) and the adoption by the district government of the MTFS in May 2016 (prior action 1). In 2017, the district government posted a financing surplus of 4.3 percent of district GDP.

The district government executed outlays for investment projects worth Renminbi (RMB) 1.27 billion in 2016, which came close to meeting the target for the district government to reduce executed outlays for investment projects from RMB1.79 billion in 2015 (baseline) to under RMB1.1 billion in 2016. The target had been part of the three-year rolling capital investment plan for 2016-18, which the district government adopted in May 2016 (prior actions 3 and 4).

The district government achieved a variance of the actual investment program with the capital investment plan of 0.3 in 2017, meeting the target to reduce the variance from 0.514 in 2015 (baseline) to under 0.4 in 2016. The lower target variance had been designed to be an indicator of the credibility of capital investment planning in the Dadukou District after the district government adopted an integrated capital investment plan consistent with the MTFS.

The district government prepared a report on public sector assets and liabilities covering the year 2016 and published the report on its official website in 2017, meeting the target to publish an annual report on public sector assets and liabilities starting in 2016. A report on public sector assets and liabilities covering the year 2017 was expected to be published in 2018, but accounting changes under preparation by the central government reportedly delayed publication of the report. The district government had earlier issued a decree mandating the regular annual disclosure of the assets and liabilities of the public sector, including those of SOEs, in April 2016 (prior action 5), part of the effort to promote transparency and accountability in public finance.

The district government reported that the share of projects executed by Jianqiao UDIC and Dasheng UDIC that are based on explicit commissioned contracts reached 99 percent in 2016 and 100 percent in 2017, surpassing the target that the share of projects executed by the two UDICs that are based on commissioned contracts be raised from 9 percent in 2015 (baseline) to over 30 percent by 2016. The target had been part of a major goal of budget reform --- the conversion of LGFVs into strictly commercial SOEs --- to provide a clear division between government and UDIC accounts. In April 2016, the district government issued a regulation setting a clear division between the government and commercial activities, incomes, expenses, assets and liabilities of the two UDICS (prior action 6), which would be reflected in the UDICs maintaining separate accounting records for their government and commercial operations.

**Rating**  
Substantial



## 5. Outcome

The outcome of the program is assessed as satisfactory. The program development objective was substantially relevant to the Bank Group country partnership strategy in China, to the national budget reform program of China's central and local governments, and to the fiscal reform priorities of the Dadukou District Government in Chongqing Municipality. The program design was substantially relevant, with the results framework credible, the prior actions directed at addressing constraints to the attainment of fiscal and debt sustainability in the district's public finances in the medium-term, and the macroeconomic framework adequate at both the national and subnational level. The efficacy of the achievement of the objective for the Chongqing District Government "to achieve fiscal sustainability through a forward-looking, comprehensive, and transparent public finance framework that integrates budget, public investment, and debt management" was substantial with four of the five program outcome targets met. The district government conducted debt sustainability analysis, introduced multi-year budgeting and three-year rolling capital investment planning, and started the publication of public assets and liabilities, with the results that, in 2016: the financing gap (deficit) was kept under the program ceiling; capital spending was reduced, although not to the target value; the variance between actual and planned capital spending was reduced; the first annual report on public assets and liabilities was published; and, practically all projects executed by two UDICs were based on commissioned contracts with the district government.

### a. Outcome Rating

Satisfactory

## 6. Rationale for Risk to Development Outcome Rating

The risks to the sustainability of the program development outcomes are rated as modest.

Policy risk: The ability of the Dadukou District Government to sustain its fiscal reform plan following the objectives of the DPF will likely be challenged by any change in economic policy priorities advanced by the central government. In 2015-16, fiscal adjustment plans across China were derailed by mandates from the central government for subnational governments to increase public investment to boost economic growth. Subnational governments, including the Dadukou District Government, would not likely be able to countermand national mandates for stimulus measures. However, fiscal reform would not likely be negated but only temporarily delayed.

Political risk: Changes in political leadership always carry the risk of altering the level of political commitment to fiscal reform. According to the ICR (page 28), the Bank team had expressed concern that the quality of the policy dialogue with the district government would change with the new mayor (mayors are elected by local People's Congresses). For Dadukou District and Chongqing Municipality, however, political commitment to the



reform objectives appear to be strong and should survive changes in political leadership as the reforms are broadened and deepened in the near- to medium-term.

Institutional capacity risk: Subnational governments in China commonly experience turnover of professional government staff. According to the ICR (page 29), Dadukou saw several personnel changes in the Finance Bureau since the DPF, raising the chance that the district government would lose the professional expertise gained from the training and experience with DSA, the MTFF, and the integrated capital investment planning. The district government, however, has taken measures to sustain its institutional and technical capacity for conducting debt sustainability analyses, aided in part by training provided under the DPF, including with the use of the DSA manual and tools developed under the DPF.

#### **a. Risk to Development Outcome Rating**

Modest

### **7. Assessment of Bank Performance**

#### **a. Quality-at-Entry**

The Bank drew on experience gained from a long engagement with China's government on budget reform and inter-governmental budgetary relations to prepare the DPF. According to the Program Document (page 9), the Bank had gained experience with budgetary reforms at the subnational level in China through a technical assistance project in Shanghai. Recently, the Bank and China's Development Research Center of the State Council (DRC) collaborated to draft a comprehensive proposal to reform urban finance in China, that was incorporated in the joint Bank-DRC flagship report "Urban China" in 2014, covering tax and tax administration, inter-governmental fiscal arrangements, land finance, urban infrastructure financing, and local debt management. The reform plan has since served to inform operations directed at subnational public finance in China.

The Bank drew on analytical work to support the design of prior actions for the DPF. Apart from the "Urban China" (2014) report and another joint Bank-DRC work, "China 2030" (2013), the other analytical work underpinning the prior actions included: (a) for the fiscal sustainability measures --- "Strengthening Subnational Debt Financing and Managing Risks" (2010), "Beyond the Annual Budget: Global Experience with Medium-Term Expenditure Frameworks" (2013), Policy Note on China Medium Term Expenditure Framework (2013), World Bank Cooperation with Dadukou District on Debt Sustainability Analysis (2015); World Bank Cooperation with Dadukou District on Medium-Term Fiscal Framework (2015); (b) for the integrated capital plan measures --- Technical Note on Municipal Infrastructure Planning and Budgeting (2013), and World Bank Cooperation with Dadukou District on Capital Investment Plan (2015); and (c) for the transparency measures --- Policy Note on Transparency (2013) and World Bank Cooperation with China Treasury Department on Subnational Debt Monitoring and Reporting (2015).

The Bank extended technical assistance (TA) to the Dadukou District Government for program preparation, focused on the prior actions for budgetary reform. According to the Program Document (page 9), the TA had been necessary in view of the "limited institutional capacity" in Dadukou District. Bank staff





and other international experts with knowledge of and experience with other subnational public finance reforms programs globally (India, Brazil, and Nigeria) delivered the TA to the district government.

### **Quality-at-Entry Rating**

Satisfactory

#### **b. Quality of supervision**

The Bank fielded missions to Chongqing Municipality and Dadukou District to provide training to the municipal and district government staff on debt sustainability analysis. The Dadukou District Government also sent staff to the Bank office in Beijing for the same purpose.

The Bank and the district government prepared a customized DSA manual for the Dadukou District.

With the project closing on the same date as it became effective (December 31, 2017), no Implementation Status and Results Report (ISR) was filed for the project.

Nonetheless, the "Summary of Borrower's ICR and Comments on the Draft ICR", appended as Annex 2 to the ICR (pages 38-45), recognized the strong performance of the Bank, citing the Bank staff and experts for guiding the completion of the prior actions, providing valuable opinions, and providing support to the district government during program preparation, implementation, and assessment.

### **Quality of Supervision Rating**

Satisfactory

### **Overall Bank Performance Rating**

Satisfactory

## **8. Assessment of Borrower Performance**

#### **a. Government Performance**

The DPF Loan Agreement was signed between the Bank and the People's Republic of China, which was the borrower for the DPF. The DPF Program Agreement was signed between the Bank and Chongqing Municipality, which was the program implementing entity for the DPF. The Program Agreement (page 4) listed actions taken by Chongqing Municipality under the program as being taken by the municipality "through Dadukou District".

The central government was strongly committed to the objectives of the DPF. The central government had engaged the Bank on subnational budget reform and fiscal sustainability through policy dialogue and technical assistance projects before the DPF. In 2014, the National People's Congress passed the new China Budget Law mandating a comprehensive, rule-based, and transparent budget regime and setting new standards for fiscal management by subnational governments including borrowing constrained





by local budget limits. In 2016, the China Communist Party and the State Council officially endorsed the practice of preparing rolling three-year capital investment financing plans anchored to medium-term fiscal strategies. In 2017, the central government indicated it was preparing a new national initiative for: the comprehensive inventory of public sector assets; the regular monitoring local government liabilities; and, the tight regulation of new financing instruments including PPPs and industrial funds.

The Chongqing Municipal Government and the Dadukou District Government were strongly committed to the objectives of the DPF and persevered to implement the reform plan under difficult conditions. The municipal and district governments engaged in a complex dialogue over revenue sharing. In integrating planning and budgeting, the district government had to persuade district agencies to participate and cooperate in the endeavor. The adoption of fiscal sustainability principles required reductions in capital investment spending that were larger than originally anticipated and hence encountered resistance to the ready implementation of the program. More challenging, the district government had to implement the district fiscal reform plan, which called for reductions in investment spending to sustainable levels, at a time (2016-17) when the national political priority was to boost economic growth through public investment stimulus.

### **Government Performance Rating**

Satisfactory

### **b. Implementing Agency Performance**

The Finance Bureau of the Dadukou District Government, which manages the district budget, acted as implementing agency of the DPF (ICR, page 20), and was responsible for coordinating all activities under the reform program as well as executing several of the operation's prior actions.

According to the ICR (page 32), the Finance Bureau posted a strong performance. The bureau organized a dedicated team to: supervise compliance with the DPF commitments, coordinate communication between the district government and the Bank, and facilitate Bank missions. For activities that were its principal responsibility, the bureau introduced the regulations required to implement the reform plans. The continuity in the leadership of the team over the life of the DPF enabled the bureau to deliver a consistent program performance.

### **Implementing Agency Performance Rating**

Satisfactory

### **Overall Borrower Performance Rating**

Satisfactory

## **9. M&E Design, Implementation, & Utilization**



### **a. M&E Design**

The M&E plan for the DPF called for the use of five indicators to measure the outcomes of the fiscal reform program: (a) the district financing gap, in percentage of GDP, to measure the achievement of fiscal sustainability; (b) the RMB value of investment projects executed and the difference between the value of actual investment spending with the value of planned investment spending to measure the credibility of the integrated capital budget; and, (c) the preparation and publication of the annual report on public sector assets and liabilities and the percentage of new projects executed by the Jingjiao and Dasheng UDICs that are based on explicit commissioned contracts to evidence the transparency of budgetary resource use, the latter reflecting the division between government and UDIC accounts. The indicators were relevant to the program objectives; measurable, with baseline values; and, time-bound, with target dates.

The plan also called for the Finance Bureau of the district government to implement the M&E for the program. The Finance Bureau would track progress with the prior actions and the outcome indicators. Reporting on the prior actions and the outcome indicators would require the collection and analysis of information and data pertaining the district government's capital investment plan, the capital investment projects, the capital investment financing plan, public sector assets and public sector liabilities.

### **b. M&E Implementation**

The Finance Bureau implemented the program M&E according to plan, working closely with the District Development and Reform Commission, which is responsible for investment planning in the district, the agencies of the district government, and the LGFVs. According to the ICR (page 20), the bureau organized "dedicated groups" that were responsible for monitoring each of the reform pillars, prior actions, and outcome indicators.

### **c. M&E Utilization**

According to the ICR (page 21): (a) data collected on public sector assets and public sector liabilities in Dadukou District were used for the DSA; (b) the DSA, in turn, helped inform the district government's three-year capital investment plan --- in particular, moderating more ambitious plans for capital spending; and, (c) the Finance Bureau continued to monitor progress with the fiscal reform plans which involve multi-year frameworks for budgeting, capital investment planning, and debt management.

### **M&E Quality Rating**

Substantial

## **10. Other Issues**

### **a. Environmental and Social Effects**



Environmental Effects: The program did not trigger any environmental safeguards. According to the Program Document (pages 31-32), the DPF, which supported improvements in the public finance framework of the district government, was not expected to have any adverse effects on the environment. The ICR has no discussion of any environmental effects of the program.

Social Effects: According to the Program Document (pages 30-31), the fiscal reform program was not expected to have any negative welfare effects, and any potential negative social impact from expenditure compression would be addressed by mitigation measures built into the program's design: (a) reductions in government expenditures that would be necessary to attain fiscal and debt sustainability would fall on capital rather than current spending; (b) social spending would be protected; (c) social sector infrastructure would be prioritized among capital spending; (d) lower capital spending in Dadukou District (a small district of 300,000) would not necessarily imply lower employment rates as district workers who would have been employed in cancelled investment projects could find possibly employment in the same sectors in other locations in Chongqing Municipality (the municipality of 30 million, with 25 other districts apart from Dadukou). The ICR has no discussion of any social effects of the program.

## **b. Fiduciary Compliance**

Financial Management: The DPF followed Bank standard disbursement procedures for development policy loans. According to the Program Document (page 32), the Dadukou District Government's public financial management (PFM) practices were sound, strengthened by recent PFM reforms driven by the passage of the new China Budget Law of 2014, the transition to accrual accounting led by the central government Ministry of Finance, and the use by the district of Chongqing Municipality's financial management information system.

Procurement: The Dadukou District Government follows national procurement laws and regulations stipulated by: (a) the Tendering and Bidding Law of 2000; (b) the Government Procurement Law of 2003; (c) the Implementation Regulation to the Tendering and Bidding Law of 2012; and, (d) the Implementation Regulation to the Government Procurement Law of 2015. In addition, the district government follows the Tendering and Bidding Regulations of Chongqing Municipality of 2009. Procurement is subject to supervision by the Finance Bureau, the DRC, and the audit offices. Invitation for bids and awards of contracts are announced in government websites.

## **c. Unintended impacts (Positive or Negative)**

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## **d. Other**

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## 11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Risk to Development Outcome	Modest	Modest	---
Bank Performance	Satisfactory	Satisfactory	---
Borrower Performance	Satisfactory	Satisfactory	---
Quality of ICR		Substantial	---

### Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

## 12. Lessons

Three lessons are drawn from the ICR (pages 32-34), with some adaptation. Because this DPF was intended by the central government as a "pilot" for a sub-provincial level fiscal reform program, the lessons drawn here are relevant to future district-level fiscal reform programs in China.

First, development policy lending --- which aims to support policy and institutional reforms through budget financing --- can be an effective instrument in advancing subnational fiscal reforms. This DPF provided general budget support to the Dadukou District Government (the DPF proceeds were on-lent by the central government to the Chongqing Municipal Government and, in turn, by the Chongqing Municipal Government to the Dadukou District Government). The reform program objectives were achieved through prior actions and time-bound outcome targets. Technical assistance, which was the mode for Bank engagement with China on budget reforms in the past, could deliver knowledge, expertise, and training, but it could not require policy or structural reform actions like a DPF could. Moreover, the Dadukou District Government has continued to engage the Bank in policy dialogue about fiscal reform in 2018, after program closing in December 2017.

Second, subnational fiscal reform in China's districts and municipalities will require concurrent fiscal reform at the central government and provincial government levels, given the complex nature of inter-governmental fiscal relations in China. The experience with this DPF showed that fostering the sustainability of district finances is not straightforward because: (a) the central government continues to issue expenditure mandates to subnational governments, and the mandates are commonly unfunded; (b) district governments have to secure the approval of the municipal government to allow LGFVs to retain revenues in the district; (c) inter-governmental transfers are often volatile, complicating medium-term budget planning; and, (d) district governments are unable to completely separate the commercial from the government assets of LGFVs absent a central government national policy and guidance on the issue.



Third, a simplified DSA framework would be better suited for future fiscal reform initiatives in other districts across China. The DPF prepared a customized DSA manual for the Dadukou District Government that was intended to be comprehensive in its accounting of local government debt. But even with the customization, the district government struggled to determine: the district government's off-budget liabilities; the LGFV's off-balance sheet liabilities; and, the district government's contingent liabilities. Hence, the lesson is to use a simplified DSA framework if subnational fiscal reforms are to be expanded to other districts across China following the experience in Dadukou District. Toward this end, the Bank is reportedly working with the Fiscal Academy of the central government's Ministry of Finance to develop a simplified DSA template that could be used by local governments to support subnational fiscal analysis and planning. The conduct of the DSA by provincial governments rather than by district governments, where technical capacity is less robust, is also being considered.

### **13. Assessment Recommended?**

No

### **14. Comments on Quality of ICR**

The ICR provides a comprehensive record of the project. The ICR adequately documents the context of the project (pages 8-11), the results framework (pages 11-12), and the project design (page 12-15).

The assessment of the program's results is evidence-based --- the ICR judges the efficacy of the achievement of the program objective using the indicators defined in the results framework for the program (pages 17-18). The ICR also offers detailed narratives supporting these efficacy ratings (pages 22-27). The narratives are valuable in providing information on the institutional changes associated with the prior actions (e.g., the constitution of an inter-agency committee consisting of the Finance Bureau, the LGFVs, and the UDICs to determine annual capital investment caps) and, therefore, on the institutional capacity to sustain the reforms (e.g., integrated capital investment planning) going forward. However, the narratives also lack details in some parts (e.g., how district government responded to resistance to reductions in capital investment spending) that would allow a better understanding of, among others, the political economy of subnational fiscal reform program.

The analysis of the project outputs and outcomes is candid. The ICR elaborates on both the positive and negative factors that affected program outcomes (pages 19-20), the Bank's performance (pages 30-31), and the government's performance (pages 31-32).

Comments by the borrower and the district government on the operation, especially on the complexity of the DSA and the difficulty of building the institutional and technical capacity for conducting a DSA at the district level (pages 34-35), will be useful for subnational fiscal reform plans going forward.



**a. Quality of ICR Rating**  
Substantial