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Toward Building Performance-Oriented Management in China: The Critical Role of Monitoring and Evaluation and the Long Road Ahead

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Christine Wong





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**Toward Building
Performance-Oriented Management in
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and Evaluation and the Long Road Ahead**

Christine Wong

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Abbreviations

CPDIC	Central Party Discipline Inspection Commission
CSY	Chinese Statistical Yearbook
GDP	Gross domestic product
M&E	Monitoring and evaluation
MOF	Ministry of Finance
MOS	Ministry of Supervision
NAO	National Audit Office
NBS	National Bureau of Statistics
NDRC	National Development and Reform Commission
NPC	National People's Congress
PM	Performance management

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SUMMARY

China is a global economic power. It is admired and envied for its \$3 trillion foreign reserves and apparent ability to quickly stimulate its economy back to robust growth. Over the past decade, it has invested abundantly in growth-supporting infrastructure while implementing a massive program to increase social spending.

China is also a developing country whose transition to a market economy is not yet complete. The process of building public sector institutions for economic management is still underway, and the government struggles to achieve efficiency in public spending and prevent leakage into private pockets. This is reflected in the juxtaposition of macroeconomic prowess (in allocating massive resources) and weakness at the microeconomic level (in managing those public resources). Strengthening public sector performance is seen by the top leaders as a critical component of the reforms needed to build an effective, credible, and confident government leading China into the 21st century. Since 2000, the government has implemented numerous programs of public sector reform, and building performance management is one component of these reforms.

This paper examines the status of performance management in China today to provide an overview of the evolution and progress of reforms implemented. Because performance management reforms are at an early stage, there is not yet much information on progress and achievements. Instead, this paper will examine the institutional and organizational structure of the Chinese economy and the principal actors in performance management to assess the prospects for change. The main emphasis is on the approaches followed by the Ministry of Finance and the National Audit Office—the key agencies in the early stages of reform.

In China, both the administrative and fiscal systems are highly decentralized. Policies and resources are transmitted from top to bottom, hierarchically through the administrative system, and the transmission often involves multiple layers between policy making and the delivery of outcomes. This emphasizes the need for a strong relationship between the central and local governments, as well as a robust system of monitoring and evaluation for strengthening public sector outcomes.

In assessing the reforms to date, two major obstacles stand out: systemic constraints to performance-oriented management, and resistance to changing the performance management “culture.” Both are legacies of the planned economy. At present there are three components of the economic system which, though much improved over the past decade, are still too weak to provide a solid foundation for building a performance management system: the fiscal system, the audit function, and the statistical system. Strengthening these components will require comprehensive, fundamental reforms of economic management in China that substantially rebalances authority structures, and will be protracted. To adopt a system of performance-oriented management, there is also a need to guard against backsliding toward planned economy style command and control.

1. INTRODUCTION

From the outside, China's public sector looks formidable in many respects. Most often mentioned is the government's treasure chest of more than \$3 trillion in foreign reserves. Even more enviably, China's budgetary revenues have been growing at average annual rates of nearly 23 percent for more than a decade, funding a long fiscal expansion at a time when so many countries are forced to undergo painful consolidations.¹ The country's aura of being rich and powerful was further burnished in the post-Lehman global financial crisis, when, after a brief—though sharp—downturn in 2008, China became the first major economy to return to robust growth, propelled by a massive stimulus program that was, in relative terms, by far the biggest stimulus package in the world.² The bold stimulus and the economy's quick recovery seemed to indicate that China has a strong, rich, and effective public sector able to implement national policies swiftly.

China's public sector is impressive in other ways too. Over much of the past decade, the government has engaged in a massive program to reorient public spending. Under the banner of “building a harmonious society,” Beijing has pumped resources into expanding social safety nets and improving public services. The reforms have been huge in scale. To reduce the burden on farmers, all rural fees were eliminated in 2003, and agricultural taxes were abolished in 2006. Free basic education is now offered to 140 million rural children, and 835 million rural residents are covered by the new health insurance schemes.³ Urban citizens, too, are beneficiaries of expanded health insurance coverage and free basic education, with some benefits being gradually extended to rural migrants arriving in urban areas. These policies have been supported by massive subsidies from the central government: fiscal transfers from the center to local governments increased from ¥435 billion in 2002 to ¥3.5 trillion in 2011. By any measure, this is a laudable and impressive effort to reshape the nation in a more humane image.

While obviously able to move mountains of cash, the Chinese government appears less able to achieve efficiency in public spending or prevent leakage into private pockets. Over the past few years, reports have appeared of empty highways and ghost cities (day 2012; Midler 2010), and the government has been dogged by big corruption scandals, from the Bo Xilai affair⁴ to

¹ During the period of 2000-2011, revenues grew from ¥1.34 trillion to ¥10.39 trillion, or an annual growth of 22.7% (NBS 2011, and MOF 2011 final accounts).

² The U.S. stimulus, including temporary tax cuts and increased government spending, was worth just over \$700 billion, or about 5 percent of GDP, spread over two years.

³ This was the figure reported by the National Development and Reform Commission at the 2011 National People's Congress in March 2011. It was equal to 96.3 percent of the rural population by registration. Even though a significant portion of the registered rural population works and resides in cities, they are for the most part ineligible for urban social services, and the rural health insurance is often their only access to health care coverage.

⁴ Bo was the flamboyant Party Secretary of Chongqing, a provincial-level city in the southwest, who was brought down by the criminal investigations into his wife's involvement in the death of a Briton Neil Heywood and suspicions of having transferred billions of dollars of illicit funds abroad.

exorbitantly priced fixtures on high-speed trains,⁵ and stories of local officials losing millions in public funds at gambling casinos in Macau.⁶ Persistent food safety problems also point to severe regulatory weaknesses.⁷

To the government's credit, it is responding. In 2008 Premier Wen Jiabao publicly admitted, "The government was partly responsible for the tainted milk scandal" and vowed to take corrective action (New York Times 2008). Strengthening public sector performance is clearly seen as a critical component of the reforms needed to ensure an effective and credible government leading China into the 21st century. In fact, earlier in the year, in his address to the National People's Congress (NPC), the premier called on the government to introduce a performance management system.

This paper examines how well China's public sector performs, focusing in particular on its monitoring and evaluation (M&E) capacity, and analyses the causes of problems. The juxtaposition of China's macroeconomic prowess (the ability to allocate massive resources) and public sector weaknesses at the microeconomic level (the capacity to manage those resources efficiently) may appear puzzling, but can be understood within the context of the country's transition to a market economy. In the course of its 34-year-long transition, China has had to revamp almost all aspects of its public sector and finances – tax policy, tax administration, revenue-sharing, expenditure assignments, budgeting, and the provision of public services, etc. These reforms have been piecemeal and uneven, and far from complete. While the government has built a robust and buoyant system for revenue-collection, reforms to build an effective system for expenditure management lag far behind (Wong and Brid 2008; Wong 2009).

The objective of this paper is to provide an overview of the evolution and progress of performance management reforms to date. Because implementation of these reforms has only just begun, it is too early to judge their achievements. Instead, this paper will examine the institutional and organizational structure of the Chinese economy and the principal actors in performance management to assess the prospects for change. The main emphasis will be on the approaches followed by the Ministry of Finance (MOF) and the National Audit Office (NAO)—the key agencies in the early stages of reform. The role of local governments is also noteworthy and probably unique in China, some of them as change agents motivated to reform, in some instances leading the change with new innovations and providing experimental laboratories for testing new approaches; and others as laggards in resisting and sabotaging reforms.

After this introduction, Section 2 provides an overview of China's top-down, multilevel set-up in both the administrative and fiscal systems. It highlights the hierarchical transmission of policies

⁵ Reporters on *Caixin* magazine, one of the top economics journals in China, found sink tops costing 26,000 yuan each, water valve for 11,280 yuan, and toilet paper holders costing 1,125 yuan a piece (Wang and colleagues 2012).

⁶ On the wave of big money Chinese gambling, Macau has become the world's biggest gambling city, with turnover six times that of Las Vegas (Osno 2012).

⁷ Widely reported scandals went from the fake infant formula causing the death of hundreds of babies in 2004, a long-running saga of tainted milk powder from Sanlu during 2007-2008, then the largest and most reputable milk producer in the country, to the mislabelling of exported chemicals that turned toothpastes, pet food and pharmaceuticals into deadly poisons around the world, and so forth. (Wong 2009).

and resources through the system that often involves multiple layers between policy making and the delivery of outcomes. This background points to the need for a strong relationship between the central and local governments, as well as a robust system of monitoring and evaluation (M&E) for strengthening public sector outcomes. Section 3 discusses the fiscal decline during the first two decades of China's transition to a market economy and the deleterious effect it had on accountability relationships, when government revenues shrank by two-thirds. Through this period, local governments and public service agencies gained substantial autonomy, reinforcing the need for M&E and accountability mechanisms even while rules were changed to weaken them.

Sections 4 and 5 discuss the efforts to build M&E systems from the beginning of this century. Section 4 describes the roles and measures taken by central government and Party agencies. It starts with the efforts by the MOF to implement budget and expenditure management reforms. The NAO has also played a key role in pushing forward reforms over the past decade, through its audit of government expenditures and by exposing their weaknesses and abuses. Section 5 discusses performance management reforms by local governments.

Section 6 concludes by taking stock of reforms to date and highlighting two issues: the systemic constraints to the implementation of performance-oriented management, and the slow change in PM "culture." It sounds a cautionary note that until changes are made to the three areas of notable weakness in the supporting structure for M&E—the fiscal system, the audit function, and the statistical system, an effective performance management system cannot be built in China. This will be a slow and protracted process, but the government could accelerate the pace of change by taking a coordinated approach that incorporates more of the innovative efforts at the local levels.

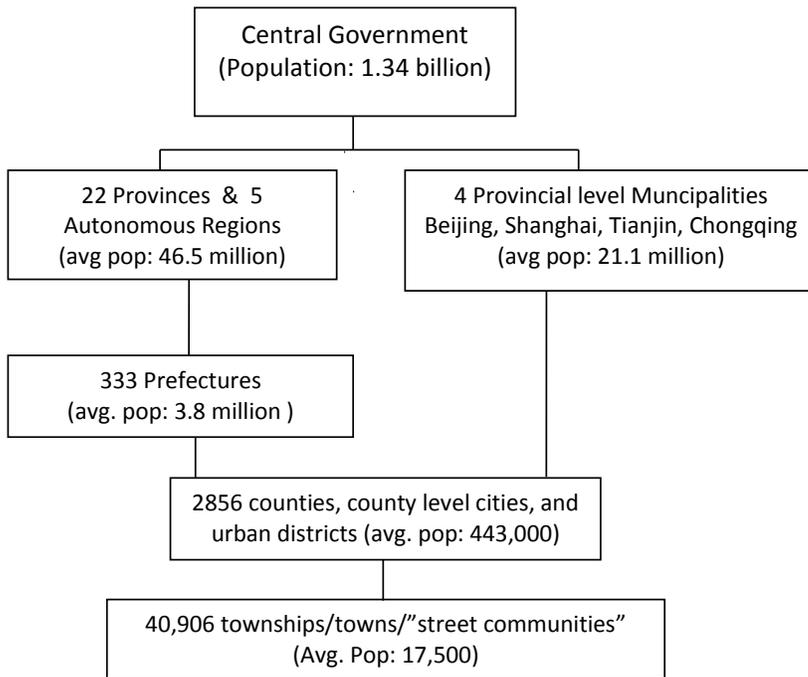
2. THE INSTITUTIONAL SET-UP

This section reviews the administrative and fiscal institutions to highlight the importance of the intergovernmental system in China and the need for M&E capacity to ensure implementation of policies.

2.1. The vertical organization of government

China has five levels of government. Under the central government there are about 44,000 subnational governments divided into four levels (see Figure 1). This number has changed somewhat in recent years under rapid urbanization and consolidation in the lower tiers. Figures for year-end 2009 showed that at the second level, there were 22 provinces and 5 autonomous regions, as well as 4 municipalities with provincial status: Beijing, Shanghai, Tianjin, and Chongqing. At the third level were 333 prefectural level units, of which 283 were municipalities and 50 were prefectures. The fourth tier had 2,858 units, including 1,581 counties, 367 county-level cities, and 855 urban districts. The bottom tier had 40,858 units that included 18,848 townships; 19,322 towns, and 6,686 urban "street communities" under the jurisdiction of cities.

Figure 1. Structure of Government in China (2010)



Source: Chinese Statistical Yearbook 2011.

2.2. The administrative structure

Administratively China is a unitary country, and its Constitution formalizes all power in the central government. However, the administrative set-up is highly decentralized. The central government is exceptionally small—there are only some 60,000 civil servants in core ministries/departments who sit atop a bureaucratic pyramid that has more than 41 million public employees (excluding the armed forces and state-owned enterprises). The MOF, for example, has only a little more than 1,000 employees⁸ whose responsibilities include not only making the budget for the central government, but also providing transfers and setting the expenditure framework for all subnational governments. The situation is similar for other central ministries. Even the “super ministries” such as the National Development and Reform Commission (NDRC) have fewer than 1,000 staff.

Because of the small size of the central government bureaucracy, China employs a system of extensive delegation of authorities and responsibilities to implement national policies. The central government manages only the 31 provincial-level administrative units (for simplicity, they will collectively be referred to as “provinces”). For policy implementation, it delegates

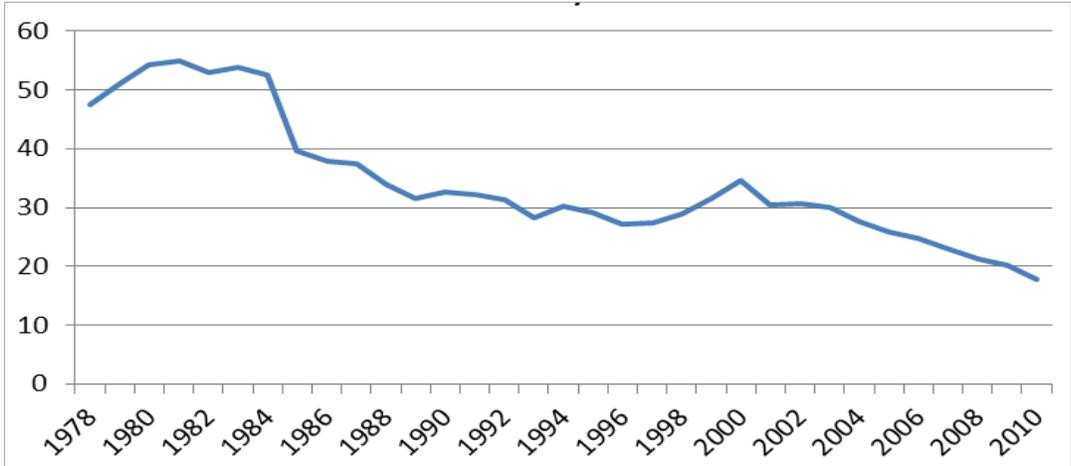
⁸ Interview at MOF, 2009. The *2009 Fiscal Yearbook* lists the number of formal administrative posts in headquarters as 680, and another 1000 posts for inspection teams stationed in the provinces (p. 739).

authority to the provinces and depends on the provinces to carry out their responsibilities. The provinces in turn delegate to their municipalities and depend on them to deliver on their assigned responsibilities, and so on downward through the hierarchy. At each step, the relationship is bilateral—each level “manages” only the next layer of subordinate units and tries to hold them accountable for performance. The result is a nested, hierarchical pyramid, where policies and resources are transmitted downward level by level. The bulk of public employees are located at the bottom. The Chinese Communist Party plays a vital role in bolstering the central government’s capacity to hold lower levels to account, mostly through its control of the personnel appointment system (McGregor 2010).

2.3. The asymmetric fiscal system

China’s fiscal system follows the bottom-heavy administrative structure, and it is among the most decentralized countries in the world in terms of budgetary expenditures. The central government itself spends less than one-quarter of the national budget, and this share has fallen from more than 50 percent at the outset of transition to 18 percent in 2010 (Figure 2). The rest of public expenditures are distributed among the four levels of subnational government, with the largest share at the county level. The subnational governments have high shares because in China nearly all public services, including some of the most vital—and costliest—services, are assigned to local governments at the lower levels, including basic education, health care, social security, and infrastructure. This is shown in Table 1, where counties and districts, the fourth tier of government, account for a majority of the total national expenditures on education and health.

Figure 2. Central Government Share of Total Expenditures (% total)



Source: Chinese Statistical Yearbooks.

Table 1. Distribution of Budgetary Expenditures by Level of Government (2007, % total)

	Total	Education	Health	Social Security and Employment	Capital Spending (2006)*
Central	23.0	5.5	1.7	6.3	27.9
Province	17.7	15.0	17.2	24.9	18.5
Municipalities	22.2	18.8	26.2	27.7	28.8
Counties	31.7	53.0	51.9	36.2	24.8
Townships	5.4	7.7	3.0	5.0	

Source: Calculated from China Fiscal Yearbook 2008 (p. 147), and MOF 2007.

*Counties' share includes townships.

However, this decentralization of expenditures is not matched in either expenditure authority or revenue assignments. Local governments' authority for budgetary spending is sharply circumscribed by central mandates. The major decisions on service provision—for example, schooling, health care, and social welfare—are made by the central government and sometimes mandated by law, with guidance norms for service standards. For example, the Education Law mandates the provision of nine years of basic education with free tuition, and national regulations call for local governments to raise the share of budgetary expenditures on education annually at a rate higher than overall growth of budget revenues. Even staffing levels and rules for hiring and firing are set at higher levels, as are retirement pension entitlements, even though they are funded locally (World Bank 2002, 2007).

On the revenue side, taxing powers are concentrated at the center, and local governments can neither levy taxes nor set tax bases or rates. Since 1994, when the Tax Sharing System reform recentralized revenues—taking more than half of the total, but left expenditure assignments unchanged—local governments have been dependent on transfers to fund a majority of their expenditures.⁹

2.4. The level-by-level hierarchical governance and the long chain of accountability

This institutional set-up in China produces a system where policies and resources flow from top to bottom, transmitted downward from one level to the next, through an iterative process, until they reach the level where the service is delivered. In Figure 3, this is presented as a “long chain of accountability” for the provision of public services in China.

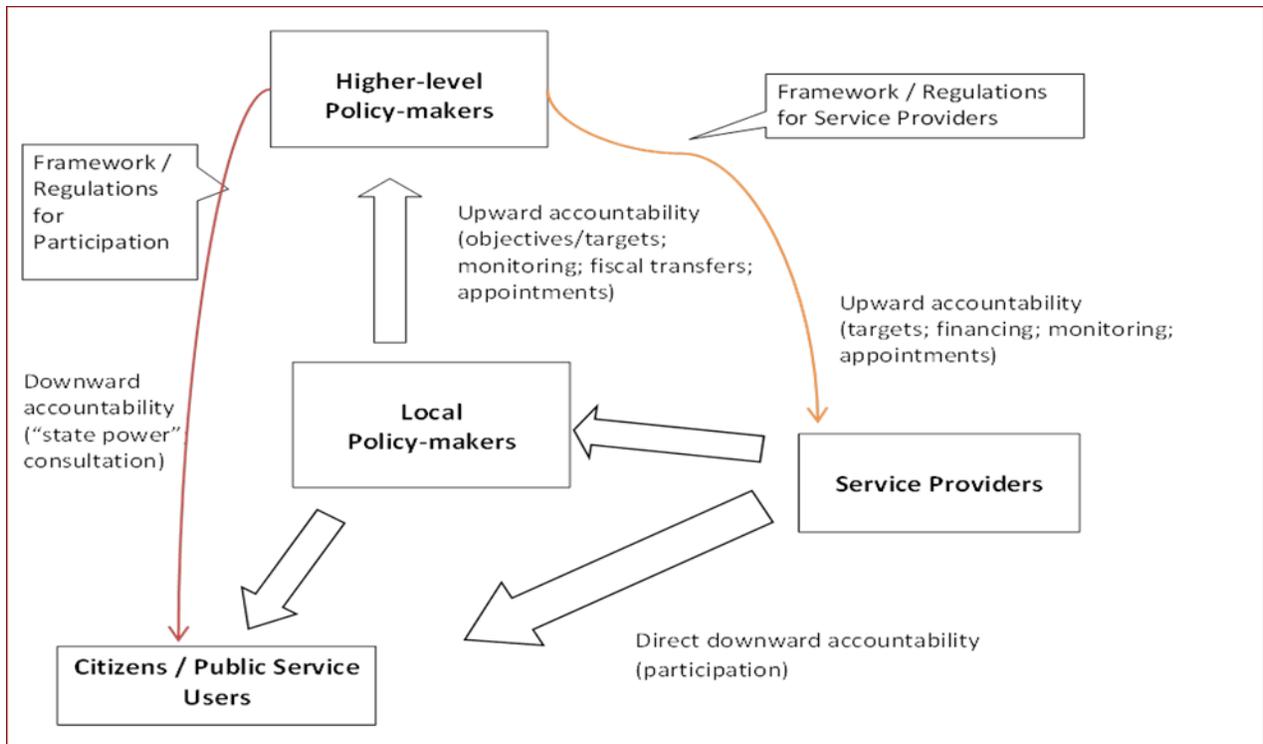
The Chinese framework can be described as an elongated accountability “triangle” that links policy makers, service providers, and citizens/service users, with the addition of one or more local governments as stakeholders.¹⁰ For basic education, for example, which is assigned to the county and urban district-level governments, the policies emanate from the top and travel

⁹ Today subnational governments have to fund more than 80 percent of national expenditures with less than 50 percent of national revenues.

¹⁰ This borrows from and expands on the accountability framework that was presented in the 2004 *World Development Report: Making Services Work for Poor People* (World Bank 2004).

through two intermediate layers—the province and the municipality—before reaching the fourth level government—the county and district. Indeed, given that the vast majority of public services that touch people’s lives—education, health, and social security—are assigned to fourth-level governments, the “long chain of accountability” is unusually long in China. For national policies to succeed, the “chain” has to be able to hold provinces, municipalities, counties, and service providers accountable for effectively providing services to the final beneficiaries, the citizens.

Figure 3. Accountability Relationships for Public Service Provision



Adapted from World Bank (2007)

For this chain to work, China’s hierarchical system of management requires strong accountability relationships across all levels of government, buttressed by mechanisms for M&E that can provide timely and accurate information to policy makers on policy implementation, to alert them to the need to make adjustments, and to hold local governments accountable for results.

3. THE TRANSITION TO A MARKET ECONOMY AND IMPLICATIONS FOR MONITORING AND EVALUATION

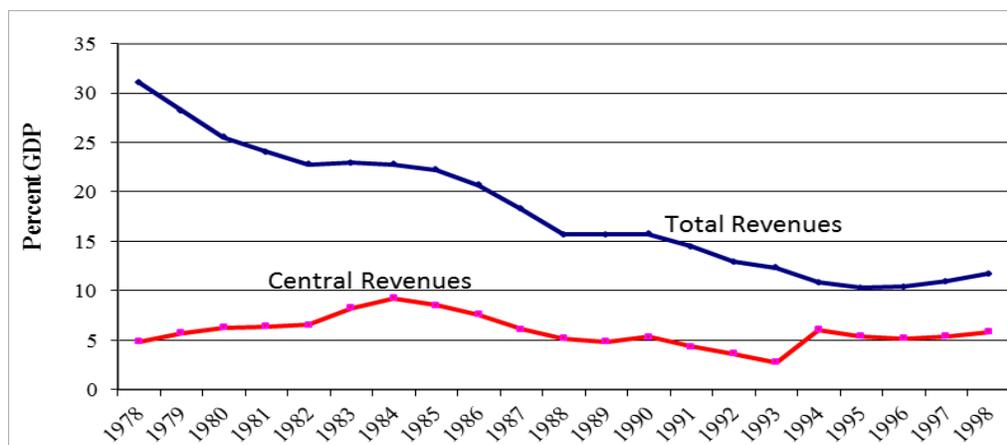
Under the planned economy, China had a coherent, if less than efficient, set of mechanisms for managing the numerous (and multilevel) agents in the economic system—through the plan, material allocations, revenue-sharing, personnel, and Party controls. With the transition to a market economy since 1979, the planning system was dismantled incrementally, and the

economic management mechanisms gradually lost coherence. The transition also set in motion large changes in the economy that upended existing arrangements, the single most important of which was the traumatic fiscal decline that began with market reforms in 1978 and lasted until 1996.

3.1. The long fiscal decline and changing public sector behavior

Market reforms brought in quick order a steep and unexpected decline in government revenues, which fell from over 30 percent of gross domestic product (GDP) in 1978 to 10.3 percent in 1995 and 1996, and the central government's revenues to just 3 percent at the trough in 1993 (Figure 4).

Figure 4. The "Two Ratios"



Source: Chinese Statistical Yearbook 2000.

The collapse in government revenues was not uncommon in transition countries (World Bank 1996). As the mechanisms of central planning were dismantled, profits in state-owned enterprises typically collapsed, because they had been an artefact of administrative prices that had transferred surpluses from other sectors into industry, over which the state had monopoly ownership. As state-owned enterprise profits were a key pillar of the government revenue mechanism—accounting for half of all government revenues in China prior to reform—the decline is arrested only when a new tax system is installed to revive revenue collections. The decline in revenues necessitated a sharp retrenchment in government spending. Under the framework of gradual, incremental reform, in China this retrenchment was undertaken without an overhaul of the public sector. Instead, spending cuts were applied more or less across the board to avoid abolishing government agencies, cutting services, or laying off staff.¹¹

Two legacies from this period have particular relevance for building an M&E system today. First, the long fiscal decline left public services woefully underfunded throughout the 1990s. Rather than cutting back on commitments to provide service, the central government devolved

¹¹ This was driven by the need—whether real or perceived, to avoid creating “losers” and arousing opposition to the nascent reform program. See Naughton (1995) and Wong (2009).

the financial responsibilities and simply urged local governments and service providers to find their own solutions to funding budgetary shortfalls, such as levying user charges and using state assets to generate “business income.” To provide incentives, spending units were given virtually free rein to manage their “self-raised” funds, including using them to finance new services, hire staff, or top up salaries—in effect devolving managerial authorities to the service providers; they took to it enthusiastically.

Over time, extra-budgetary revenues came to fund a growing share of public services. In education, for example, the portion of funding from budgetary allocations had fallen to 75 percent of the total in 1986 and continued downward to less than 55 percent during the years 1995–2002 (Wong 2009). The rest came from fees, levies, and other incomes raised by the schools themselves, all of them public institutions.¹² For health care providers, budgetary funds accounted for only 11 percent of total revenues; user charges and profits from selling drugs funded the rest (World Bank 2005). The growing reliance on extrabudgetary funds reduced the government’s control over spending units, and the latter’s accountability to government.

This was reinforced by the long fiscal decline—when resources assigned were inadequate for meeting the costs of assigned tasks, the government could not—and did not—hold agencies accountable for performance. Even today, despite increased government funding, extrabudgetary revenues remain important—often a significant, if not majority of resources for the spending unit, and the incentives for raising “own revenues” to pay bonuses and salary top-ups continue to influence service provision among public service providers.¹³

The second legacy was the damage wrought on central-local fiscal relations. Under China’s decentralized system, services were always delivered by local governments. Prior to 1988, though, the costs of service provision were financed through revenue-sharing arrangements. Through the long fiscal decline, as budget resources dwindled, revenue-sharing arrangements were revised and intergovernmental transfers reduced to leave local governments increasingly exposed (Wong 2009, 2010).¹⁴ Many were unable to meet their responsibilities for service provision, and the intergovernmental fiscal system lost effectiveness as a framework for implementing national policies (World Bank 2002; Wong 2007, 2008; Wong and Bird 2008). Today, even though the central government has substantially increased transfers, it is not keeping up with costs, and many local governments face fiscal gaps and remain distrustful of central government mandates (Wong 2010).

¹² Until recently, private institutions were not permitted to enrol Chinese students in basic education.

¹³ The adverse effect of the “commercialization” of the public sector is a core theme that was explored in Wong (2009).

¹⁴ During 1992–2000, central transfers were 2 percent or less of GDP and were 1 percent or less during 1994, 1995, 1996, and 1997 (Wong 2009).

4. BUILDING A PERFORMANCE MANAGEMENT SYSTEM IN THE NEW CENTURY

Burns and Zhou (2010) call “performance management” a new concept imported from the West, and trace the first usage of the term by top government officials to 2003.¹⁵ While the term and the concept of results-based, outcome-oriented management are indeed new in China, some forms of top-down, target-oriented performance management systems have always been utilized. Indeed, under the planned economy, the whole system was predicated on every agent being held accountable for fulfilling his/her assigned role in the plan. As the planning mechanisms have been dismantled and accountability relationships upended, the government faced the task of building a new system of M&E from the ground up. For the Ministry of Finance, and to a lesser extent other central ministries, this task comprises two aspects that are sometimes in conflict: to regain control over the basics, and to shift from a reliance on “command and control” mechanisms to a mix of “carrots and sticks” that are more appropriate to a more decentralized economy.

4.1 The Ministry of Finance and budget management reforms

Under the planned economy, the budget was of secondary importance. Resource allocation was controlled by the economic plan and material allocations. The budget was simply the financial counterpart to the plan—a largely bookkeeping function.

With the dismantling of planning mechanisms, the budget is now the government’s primary tool for allocating public resources, and major reform was needed to build a budget management system capable of supporting this new role. These reforms lagged far behind those in other sectors, however, because all earlier efforts at fiscal reform were focused on reviving revenue collections.

With the upturn in tax revenues finally assured, the MOF turned to strengthening other aspects of the fiscal system.¹⁶ Beginning around the turn of the century, a broad package of reforms in budget management has been introduced that includes reforms in budget preparation, budget classification, treasury management, government procurement, and the installation of new information systems. The centerpiece of the reform in budget preparation was the introduction of departmental budgets that would clearly identify all resources and expenditures for each government department.¹⁷ The reform was the first step toward building a system whereby spending units could be held accountable for performance.

¹⁵ In 2003, then-Secretary General Wang Zhongyu noted, “It is of some value to put in practice performance management in the government sector”, and asked the Ministry of Personnel to conduct some research on it (Burns and Zhou 2003, p. 3).

¹⁶ With the 1994 Tax Sharing System reform having rebuilt the revenue mechanism, budgetary revenues began to grow robustly, and expenditures have since risen from the trough of 11 percent of GDP in 1996 to more than 22 percent today.

¹⁷ Previously, expenditures for education, for example, were allocated through many components—for education, agriculture, science and technology, and so forth. It was difficult to know what the total public expenditures were for education.

Another key reform was the introduction of a treasury management system that created a treasury single account to manage the government's cash receipts and payments. Before this reform, expenditure monitoring was one of the weakest links in the budget process, and the MOF had no information on when and how money was spent. Although much effort was spent on ex ante allocation, actual expenditures could not be monitored, and diversion and other abuses could be exposed only by the occasional ex post audits. With treasury reform, China had finally put in place a system that enabled the government to manage its expenditures, reduce interest costs by managing all government cash requirements through a single account, prevent abuse by controlling receipts and the disbursement of funds, and provide immediate information on the government's financial position to alert the government to macroeconomic conditions.

Other reforms were rolled out incrementally over the years. To meet the needs of treasury reform and improved budgeting, the MOF began work on a new government financial management information system under the "Golden Finance Project," aimed at creating a platform that would unify data reporting standards throughout the fiscal system. Standardized procedures for government procurement were introduced to improve cost efficiencies and reduce the scope for corruption. With promulgation of the State Procurement Law in 2003, China has adopted many of the procedures of international organizations for tendering large-scale purchases of vehicles and equipment, as well as service contracts. With these reforms, China finally began to put in place the basic infrastructure necessary to build a modern system of budget management, as a precondition for a performance management system.

These reforms for strengthening performance management were motivated also by the increased budgetary spending and growing central transfers that began in the late 1990s, when the government began to substantially rebalance toward funding social services and redistribution. Under the new paradigm, the share of national budgetary expenditures at the county level has increased by 14 percent during 2000 to 2009, from 26 percent of the total to 40 percent, because education, health, and social safety net expenditures occur at grassroots local governments (World Bank 2007; Wong 2010). To fund this shift, the central government is providing subsidies that have to traverse several layers of the administrative hierarchy, and the MOF is keen to strengthen mechanisms of M&E to ensure the funds are well-spent.

Since 2005, strengthened supervision and performance evaluation have reportedly been built into the departmental budgets, with the introduction of measures for evaluating the performance of budgetary expenditure (Zhao, Li, and Li 2011). This began with each central government department selecting some expenditure programs to undergo performance evaluation. According to the Finance Minister's annual reports to the NPC, the number of participating departments has risen from 4 in 2007 to 74 in 2008, and 94 in 2010, and the number of programs evaluated has grown from 6 to 167 (MOF 2009, 2010, 2011).

Unfortunately, it is difficult to track progress in these reform efforts since no evaluation reports have been released to the public to date. Nor have the criteria for evaluation been explained. Indications are that work on defining performance and designing performance indicators is still at an early stage: in late 2010 the MOF created a new Division of Performance Management under the Budget Department, tasked to provide guidance on performance management

measures.¹⁸ In March 2012, MOF issued a new document on financial supervision, which may be an indicator of heightened emphasis on M&E. However, the document makes no mention of outputs or outcomes, and the focus remains narrowly on financial compliance.¹⁹

4.2 The National Audit Office and Reforms in External Audits

The audit function is a critical component of an M&E system. The 1982 Constitution of the People's Republic of China called for setting up the NAO. The configuration and content of a government auditing system were laid out in articles 91 and 109, which called for the NAO to be set up as a government department under the State Council to audit the fiscal revenues and expenditures of central government ministries, local governments, national financial and monetary organizations, and other state-owned corporations and institutions. They specified that the NAO should be in charge of government auditing and, under the leadership of the Premier, should also manage auditing affairs nationwide. Subnational governments at the provincial, prefectural, and county levels should set up audit offices under “dual leadership” of both the audit office one level higher and the government to which it was subordinate.²⁰

The NAO was set up in 1983, followed by audit offices under the provincial, municipal, and county governments, to form a four-level national network. In addition, the NAO operates a network of branch offices under its direct leadership. Located in central government ministries and in very large municipalities, these branch offices are responsible for auditing the central government departments, agencies, and state-owned enterprises under central government ownership.

By 1998, there was a national network of more than 3,000 audit offices with 80,000 auditors (Yang, Xiao, and Pendlebury 2008). In recent years, there have been efforts to extend the reach of the national office, with six “dispatch agencies” set up by 2009, each with jurisdiction over several provinces (Burns and Zhou 2008). However, there is little information on their progress.

The audit offices were set up as internal auditing departments; they audit government expenditures and government officials and reported primarily to the government at the same level. Until the late 1990s, the public had little knowledge of the audit findings. This began to change starting in 1996, when the NAO reported to the NPC for the first time, on the central government’s final accounts. Previously it had reported only to the MOF and the State Council (World Bank 2002). Reacting to the NAO’s findings of abuse, including the use of central government funds to speculate on the stock market, the NPC authorized the NAO to broaden its scope of work to audit the implementation of the central government budget for 1998. In 1999, the NAO provided an audit report to the Standing Committee of the National People's Congress.

¹⁸ Interview at MOF, August 2010.

¹⁹ Ministry of Finance of the People's Republic of China Order No. 69, Methodology for Financial Supervision. <http://www.hbcz.gov.cn/home/lm1/2012-03-30-1211938.shtml> (accessed June 3, 2012).

²⁰ As is typical of China’s administrative set-up, Yang, Xiao, and Pendlebury (2008) explain that “for a provincial government audit office, the NAO provides auditing and regulatory guidance and monitoring while the provincial government provides resources and exercises personnel control” p. 122.

Although the report was not made public, the Auditor-General Li Jinhua held a press conference to announce some stinging criticisms of the budget:

- Authorizations for spending ministries were not made until one to five months into the fiscal year; some ministries did not receive their budgets until the fourth quarter.
- Management of government funds was lax—in some instances funds were diverted to illegal uses, such as investing in companies and buildings; some were even sent to overseas accounts.
- Reporting requirements for extra-budgetary funds were routinely ignored—even the MOF failed to present final accounts for the extra-budgetary funds that are included in the budget.
- Losses, failure to collect, and diversion of extra-budgetary fees were rampant. Illegal uses included pension reserves that were invested in companies or used for speculation in the securities markets.²¹

These criticisms prompted the NPC to demand some immediate changes in budgeting procedures, which were instrumental in pushing the MOF to accelerate budget management reform. They also led the NPC to grant the NAO greater monitoring authority over budget implementation. In 2001, the NAO issued new regulations stipulating that government audit offices could disclose audit results to the public if requested either by the government at the same-level or by the upper-level audit office (NAO 2001). This was followed by further relaxation of the disclosure rules in 2002, and in June 2003, the NAO published the audit report as a public document for the first time. Since then it has been disclosed annually, and the yearly press conferences announcing the report's publication became major media events. Indeed, they were so popular that in 2004 Auditor-General Li Jinhua became the first government official to be elected as one of the 10 Notable Economic Persons of the Year by the China Central Television Station (Yang, Xiao, and Pendlebury 2008).

The gradual expansion of the audit function and publicizing the findings—first to the NPC and then the public—were instrumental in pushing forward reforms toward improving budget and public expenditure management, as well as feeding back to generating demands for expanding the scope of audit supervision. In addition to auditing the budget, the NAO has reportedly also audited the compliance and effectiveness of central government subsidies for the project Returning Cropland to Forests and Grassland and the national electric power grid project in 2001, the key airports in 2002, and the procurement of medical equipment for Shenzhen Municipality in 2003 (Zhao Min, Li, and Li 2011).

4.3 The National Development and Reform Commission (NDRC)

Under economic planning, the State Planning Commission was the most powerful agency in central government. It led in formulating the five-year plans that provided strategic guidance for economic development, formulated the investment plan, and allocated resources for its

²¹ Wong (1999). Li's report to the NPC has now been published on the web (<http://www.law-lib.com>, accessed July 17, 2012).

implementation. The State Planning Commission (and its successor, the NDRC) has retained substantial control of public investment through its control of project approvals for large-scale, strategic projects. By convention, the NDRC, together with line ministries, organizes and undertakes project appraisal and project selection. Typically, project appraisals consider (a) the necessity of the project, (b) the proposed location, (c) the estimated cost of investment, (d) sources of funds, (e) economic benefit, and (f) social benefit. Once the project is selected and implementation has begun, however, there is little systematic oversight in project implementation, facility operation, or post evaluation.²² As was true in other Soviet-type planned economies, performance evaluation was not considered a part of the NDRC's responsibilities. As China's planning agency, its efforts were focused on achieving internal consistency in material balances, and final outputs and outcomes were other agencies' business.

Recent reforms have required a more active role for the NDRC and other agencies in performance management. Chapter V (1) of the 2004 State Council Decision on Reform of the Investment System states that "the system of post-assessment of government-invested projects shall be established to fully supervise government-invested projects." To carry out this function, the NDRC set up the National Key Construction Projects Monitoring Office in 2005, with special agents deployed in each province. A pilot was promulgated with five large projects distributed in five provinces and three industries, which were to be monitored for policy and legal compliance, disbursement of funds, project progress, tendering, and construction quality (Zhao, Li, and Li 2011). In a study of China's public investment management, Wong (2012) found that the role of NDRC in project approval – along with M&E, is much diminished since a regulatory change in 2004 confined its oversight to those funded from public resources, which is a tiny portion of public investment today. In any case, performance evaluation remains conspicuously absent in the mission statement carried on the NDRC website today.²³

4.4 The Communist Party and the Ministry of Supervision

In addition to the various sectoral approaches, efforts to improve performance also came from the civil service system. As will be discussed in Section 5 below, efforts to strengthen "results management" in the civil service began from the mid-1980s at the local level, and these accelerated through the 1990s. In recent years reforms have sought to reorient the traditional cadre evaluation system to focus on work performance (Edin 2003), and the central government has attempted to guide and institutionalize these reforms (Burns and Zhou 2010).

In the past two to three years, the Ministry of Supervision (MOS) and the Central Party Discipline Inspection Commission (CPDIC), which jointly sit at the apex of managing top civil servants and fighting corruption, became active in monitoring performance in government. The MOS has set up performance monitoring offices in 21 provinces. These offices, along with those set up by the CPDIC in July 2010, are reportedly leading the performance management work in many localities.²⁴ Traditionally, the MOS is responsible for maintaining discipline and honesty

²² Interviews with central and local officials during 2009–2010.

²³ <http://en.ndrc.gov.cn/mfndrc/default.htm>.

²⁴ From consultations on the roadmap for performance reform of government, China Development Research Foundation, Beijing, July 19, 2010; and *People's Daily* (2011).

in government, and the CPDIC is charged with rooting out corruption and malfeasance among party cadres. The two are so closely linked that they are often referred to as the Central Discipline and Supervision Department.

At the national level they seem to have taken the leading role since March 2011, when a joint working group on performance management was created comprising nine ministries and agencies including the MOS, Central Party Organization Department, the Central Party Post Establishment Office, the NDRC, MOF, and others.²⁵ In June 2011, Madam Ma Wen, who is both Minister of Supervision and Deputy Secretary of the CPCDI, convened a “mobilization meeting for government performance management” in Beijing to announce that the joint group had recommended and obtained endorsement from the State Council to pilot performance management reforms in eight provinces/municipalities and six ministries/agencies.²⁶ Leadership of MOS over the interministerial group was cemented with the appointment in September of Wang Wei, Vice Minister of MOS and head of the General Administration of Quality Supervision, Inspection and Quarantine—another ministry-level agency in charge of technical quality inspections, as Director.²⁷

5. PERFORMANCE MANAGEMENT AT THE LOCAL LEVEL

In the hierarchical, bottom-heavy system of administration in China, local governments play a key role in performance management reforms. Following the call for reform at the top, since the mid-2000s, local governments have been actively experimenting with performance management practices, especially at the municipal level.

5.1 Experiments in local performance management

The most advanced experiments appear to have been undertaken in the southern province of Guangdong. Facing departmental requests for a total of ¥6.9 billion in budget appropriations and having resources of only ¥4.4 billion, officials in Nanhai (a county-level city in the prosperous Pearl River Delta near Hong Kong that recently was incorporated as a district in Foshan Municipality) felt overwhelmed and decided to seek external help in analyzing the merits of the competing claims for resources. In 2004 the government convened a team recruited from universities and administrative units to review a few selected proposals submitted by government departments for budget appropriations. By querying the proposed budgets, assessing the

²⁵ http://www.gov.cn/jrzg/2011-09/06/content_1940916.htm.

²⁶ Mobilization meeting held in Beijing on government performance management pilot projects (http://www.gov.cn/gzdt/2011-06/29/content_1896241.htm). The regions for trial implementation of PM reforms are Beijing, Jilin, Fujian, Guangxi, Sichuan, Xinjiang, Hangzhou, and Shenzhen. The ministries are NDRC; MOF; Ministry of Land Resources; Ministry of Environmental Protection; Ministry of Agriculture; and the General Administration of Quality Supervision, Inspection and Quarantine, under MOS.

²⁷ According to the *People's Daily*, the General Administration of Quality Supervision, Inspection and Quarantine is in charge of inspection at import and export of commodities, foodstuffs, and animal and plant matter, health quarantine, certification and accreditation, standardization, as well as administrative law-enforcement. <http://ip.people.com.cn/GB/152255/10960449.html>.

feasibility of proposed activities, and ranking them in accordance with policy priorities, the expert team helped whittle down appropriations.

Building on this experience, Nanhai now applies the procedure to vetting all discretionary spending proposals. In 2007 the expert team approved 126 of 286 proposals, agreeing to fund ¥1.2 billion from requests totalling ¥3.5 billion. In 2008, it approved 313 of 512 proposals, but recommended funding only ¥1.1 billion of the proposed ¥4.9 billion (Guangdong Provincial Fiscal Studies Institute 2008, p.4). Nanhai officials report that as a result of this process, spending units have learned to prepare better (and more realistic) budget proposals. At the same time, the units have also learned to be more vigilant regarding the use of funds because performance in this round affects the likelihood of obtaining funding in the future.²⁸

In the provincial capital, Guangzhou Municipality, a different and quite radical approach was adopted to implement performance management through ex post evaluation of spending programs. Starting in 2005 the municipal government experimented with evaluating two spending programs of more than ¥5 million. By 2006 it already required evaluation of programs from 48 of the municipality's 57 eligible departments. By 2007 the municipality evaluated 448 spending programs—virtually all programs aside from top secret ones. However, this created an excessive workload on government, and in 2008 the approach was adjusted to evaluate only 172 programs; these were selected for their scale, impact, and representativeness. Results are reported to the people's congress, which provides feedback to budget appropriations. Especially significant are savings from cutting back on spending programs that are slow in implementation, with large amounts of unspent appropriations (Ma and Wu 2011).

Aside from Guangdong, Shanghai has also experimented with post evaluation processes on spending programs, including in Minhang District and Pudong New District, under what they call a results-oriented performance budget that covers the whole budget process. In Pudong, 21 spending programs worth ¥4.13 billion were evaluated in 2006; this was expanded to 38 programs involving ¥7.67 billion in 2007 and 43 programs and ¥10.47 billion in 2008.

In these localities, when the evaluations were finished, the Finance Bureau met with the affected departments to adjust and optimize the structure of budgets based on the evaluation results. In the Bureau of Labor and Social Security, for example, the evaluation results led to changing the structure of inputs by increasing employment subsidies for the relocated residents and rural labor (Zhao, Li, and Li 2011).

Altogether, seven provinces and municipalities have set up performance appraisal institutions, including Zhejiang and Heilongjiang provinces. Among these, Minhang (Shanghai) and the Zhejiang municipalities are reported to be using performance management methodologies modelled on the U.S. government's Program Assessment Rating Tool.²⁹

²⁸ Guangdong Provincial Research Institute of Fiscal Science (2008), and interview with Nanhai Municipal Finance Department officials in Beijing, October 26, 2011.

²⁹ From consultations at China Development and Research Foundation July 2010.

5.2 Performance management via the cadre evaluation system

In fact, many more—if not all—local governments report that they are undertaking performance management through the longstanding system of personnel control. In China, as in all Soviet-type economies, the party controls personnel management through the *nomenklatura* system,³⁰ under which it makes appointments to key positions throughout the government as well as the party’s own hierarchy, and through which it exercises control over their career paths and promotion prospects. Cadre evaluation systems were first introduced on a voluntary basis in the early 1980s; they were refined over time and became mandatory by the 1990s (Burns and Zhou 2008). Since then, civil servants have been evaluated on various forms of “post responsibility system” and more recently “objective (target) responsibility systems.”

For many local governments, performance management is based entirely on personal responsibility through this cadre evaluation system. In this system, governments at higher levels set targets for lower-level governments and hold them to account by using target-fulfilment as a key factor in determining promotion rates of local officials. Local governments pass on the targets to the relevant departments, and in turn to the responsible officials. The objective responsibility system is elaborate, often involving a large number of objectives, with numerical weights for scoring. In a typical example, in 2004 Sichuan Province handed down 68 performance indicators for lower-level governments, roughly divided into three types—economic development, social development, and system innovation (Fiscal Research Institute Study Team 2005). These are subdivided by the municipal government (at the next lower level) and given to municipal departments and counties.

The cadre evaluation systems have worked well for achieving key national objectives. Indeed, this system continued to function throughout China’s early transition period even as other accountability mechanisms were being eroded by fiscal decline and other changes in the public sector; the systems were effective in ensuring the achievement of national goals in family planning and economic growth.³¹

More recently, as the government has begun to emphasize social outcomes, many local governments have introduced performance compacts with service providers: schools have been asked to sign “education objective responsibility agreements” specifying the provision of services (Liu 2007). Similarly, most counties rely on “Letters of Responsibility” to set out priorities and performance targets for health institutions. These are generally signed between the Health Bureau and institutions such as the centers for disease control, maternal and child health centers, county hospitals, and township health centers. These targets cascade down from the top, and at the end of the chain of subdivisions is the person responsible for performing the task. For example, the targets in the education objective responsibility agreements are divided within each school into targets for the school principal and for teachers.

³⁰ The *nomenklatura* originated in the Soviet Union and was adopted in all Soviet-type economies, through which the party exercised power through patron-client relationships that bound the ruling elite to the party.

³¹ Many scholars have written about the strong influence of local economic growth and tax remittances on promotion rates of local officials. See, for example, Lin (2008).

However, adapting the system of personal responsibility to an environment of multiple objectives, including many public service delivery outcomes that are relatively difficult to measure, is challenging. As was true under the planned economies, when such targets were used extensively, they tend to work best for programs with relatively simple and measurable objectives and outcomes, but less well for programs with complex, multiple objectives, where outcomes are not easily measured and compared across localities.

Moreover, there is a marked tendency for performance indicators to proliferate as they cascade downward through the hierarchy and for their degree of difficulty to increase. In the process, unrealistic targets are often created—specific targets for economic growth and tax collections are common for lower-level governments. For example, in 2004 the list of economic development indicators faced by Guangyuan County included the following:³²

1. 12 percent GDP growth
2. ¥4.6 billion total investment in fixed assets
3. \$70 million dollars in exports
4. ¥875 million in foreign direct investment
5. More than 180 square km of farmland protected from water and soil erosion
6. Eight centers for cancer prevention
7. 360 km of rural roads with asphalt and concrete surfaces
8. 180 km of highways linking rural townships
9. Provision of per capita minimum living stipends of not less than ¥50.

At present the system is rife with unrealistic targets. Under the education agreements, school principals are often personally accountable for meeting schools' needs and teachers for student performance, including average test scores and retention rates. But many of these targets are beyond the power of individuals to achieve: principals have little control over the resources needed for schools to fulfil all their functions, and teachers have limited influence on how students perform (World Bank 2002, 2005, 2007).

The widespread use of accountability measures that ignore systemic constraints renders them ineffective, because they would be widely considered unfair and unreasonable and would tend to elicit either resistance or, more commonly, collusion among those affected to falsify reporting as necessary to ensure that everyone meets his assigned targets. The rigid personnel system with life-long tenure further limits the usefulness of personal accountability measures for M&E.

³² Fiscal Research Institute Study Team (2005). The use of specific targets was also noted in a report on China's provincial expenditures (World Bank 2002).

6. CONCLUSIONS: CURRENT STATUS AND PROSPECTS FOR PERFORMANCE-ORIENTED MANAGEMENT IN CHINA

The process of building a performance-oriented management system takes time, and China is only in the early stages. Since its beginning a decade ago, an impressive array of reforms has been introduced. The approach can be characterized as highly decentralized, with initiatives coming from different quarters, both at the top – from central ministries and agencies, as well as at the bottom, with notable pockets of activism at the local level—mostly in the developed coastal cities. A partial list of the main activities of central government ministries and agencies are summarized and presented in Table 2. These are primarily top-down reforms that are to be implemented by subnational branches of the agencies downward through the hierarchy. These reforms are piecemeal and incremental. At the central level, they are initiated by ministries in response both to the call from top leadership and from the internal needs of the agencies themselves. In this process, some parts of the economy may have been spared from reform efforts, notably many of the extra-budgetary revenues such as land sales receipts, which comprised fully one-third of fiscal resources nationwide in 2009–2010, and even larger shares at subnational levels (Wong 2011, 2012). These accrue to local governments and are managed outside the budget, and out of the purview of the MOF, NDRC, or the Ministry of Construction.

Table 2. Performance Management Initiatives of the Central Government Level

Agency and year of initiation	Main Activities	Focus
Ministry of Finance (MOF) —1998	Budget reform, treasury reform, pilot performance evaluation in central government ministries	Budgetary expenditures and transfers
National Development and Reform Commission (NDRC) —2005	Post-appraisals for the selected big investment projects	Technical quality on national investment projects
National Audit Office (NAO) —1998	Aim to conduct performance audit to all projects by 2012	Mainly financial compliance on public spending
Ministry of Supervision and Central Party Discipline Inspection Commission—2010	Leading the national joint working group on performance management	Personnel management
Ministry of Construction	Monitor and evaluate large scale investment projects	Quality of construction
Ministry of Transportation—1996	Post evaluation of highway construction projects after two years of use	Mainly engineering quality of highways
Ministry of Science and Technology—1997	Evaluation of technical policies, programs, institutions and projects	Not available
China Development Bank—2001	Post evaluation of lending program	Not available

With the Premier's call to build a performance management system, the level of activity appears to have accelerated since 2008. And, with the creation of an interministerial working group in 2011, a more coordinated approach may soon emerge under the leadership of the MOS and CPDIC. These agencies, and their growing prominence, may stem from their reach into all public institutions. As their names suggest, though, they will focus heavily on supervision and discipline, and fighting corruption will likely be a strong theme of PM reforms under their leadership. This may be necessary given that corruption and food safety problems are at the forefront of current concerns. The worry, though, is that they may turn the performance management reforms into just an anticorruption drive.

Going forward, reforms in performance management are hampered by two major obstacles: systemic constraints to performance-oriented management, and resistance to changing the performance management "culture." Both are legacies of the planned economy and symptomatic of the incompleteness of the country's on-going process of transition.

6.1 Systemic Constraints to Performance-Oriented Management

At present there are some components of China's economic system which, though much improved over the past decade, are still too weak to provide a solid foundation for building a performance management system. Key areas of weakness include the fiscal system, the audit function, and the statistical reporting system.

The fiscal system

A sound system of public finance is a prerequisite for a well-functioning public sector. As noted in Section 3, the transition to a market economy had disrupted the functioning of the existing fiscal system, and China has had to revamp all aspects of its public finances, from tax policy, tax administration, to budgeting, expenditure management, and intergovernmental fiscal arrangements (Wong and Bird 2008). In some areas China has achieved significant progress. Since the mid-1990s, the government revenue mechanism has recovered. With high buoyancy in the revamped tax system, revenue growth has outstripped GDP growth and funded a robust fiscal expansion over the past decade. The budget and treasury reforms have also helped China move toward building a modern budgeting system, providing a foundation for public expenditure management. However, these reforms are still unfolding, and the fiscal system still faces many challenges.

The biggest challenge lies in strengthening the intergovernmental fiscal system. Because of the decentralized administrative set-up, the system is of extraordinary importance in China. A good intergovernmental fiscal system aims to assign responsibilities to the level of government best-suited to perform the functions efficiently and responsively, along with revenues to enable each level of government—on average, to finance their assigned functions; and provide transfers to keep regional disparities in service provision to within socially acceptable limits (Oates 1972). As noted in Section 3, the intergovernmental fiscal system and the accountability relationships were severely damaged by the long fiscal decline and the ad hoc decentralization of financial responsibilities.

The weak intergovernmental fiscal system remains a fundamental obstacle to the central-local accountability relationship today. Despite significantly increased transfers and improved equalization over the past decade, the intergovernmental fiscal system still does not ensure

sufficient funding to grassroots local governments in the poorer provinces (World Bank 2007; Wong 2010). When responsibilities exceed resources, it is hard to hold local governments accountable for delivering the services or to judge their performance as failures. The accountability of lower level governments is also hampered by the murky assignment of responsibilities, which leaves them without clearly articulated roles and functions, against which their performance can be measured. Moreover, the government has struggled to rein in extra-budgetary revenues and regain control over aggregate fiscal discipline.

The audit function

One significant hurdle is the lack of audit independence, with frequent political interference in audit selection and the disclosure of findings (Yang, Xiao, and Pendlebury 2008). The release of audit results remains highly restricted. At the national level, then-Auditor General Li Jinhua explained that during the “audit storm” of 1999, he was able to disclose only about 30 percent of the findings, and it was only pressure from the NPC that ultimately led to changes in the law to allow later audit reports to be published.

At the local levels progress has been much more limited, and only a minor portion of findings are released to the public. The law itself is ambiguous enough to allow plenty of scope for the government (at any level) to suppress audit findings, as it sets three conditions: (a) the disclosure must not harm national security, (b) it must not harm the auditee's commercial secrecy, and (c) it must take into account social consequences (Yang, Xiao, and Pendlebury 2008).

Lack of capacity is also a serious constraint. In general staffing levels are too low, and staff lack the skills required to undertake performance evaluation. For example, few have training in economics and other social science research and evaluation methods. Perhaps related to this lack of capacity, to date audits are fairly narrowly focused on financial compliance and have not branched into economic assessments, performance or value-for-money audits.

Lack of incentives is another constraint. As long as auditing is conducted by a government department and is reported only to government, it remains an “internal” function whose usefulness in improving performance management is constrained by the waxing and waning of government’s own desire for change. In the Chinese system, where lifelong tenure is the norm, criticizing colleagues at the same level and reporting to the same government tends to stifle criticism. Not surprisingly, in many localities auditing lapses into pro forma exercises. This lack of incentive renders the audit department a weak agency unable to attract ambitious and able staff. Instead, it is a frequent dumping ground for unqualified staff that local governments are obliged to employ.³³

The statistical reporting system

A good information system is critical to supporting effective M&E. Under the planned economy, China had built extensive data reporting systems in all sectors.³⁴ These systems continue to

³³ Until five to six years ago, local governments were obligated to find jobs for graduates of local technical and normal schools, as well as of universities. This often led to most agencies being stuffed with many unqualified, unwanted staff, especially in poor regions, where job opportunities were scarce (see, for example, World Bank 2002).

³⁴ This section draws extensively from Schreyer and Holz (2005).

operate to a large degree and have retained their organizational structure. At the national level, statistical data are compiled by the National Bureau of Statistics (NBS), the Ministry of Finance, the People's Bank of China, the State Administration of Taxation, the State Administration of Foreign Exchange, the Customs Administration, the Ministry of Human Resources and Social Security, and many other agencies.

The system produces a huge volume of statistical information that compares well with other countries in terms of coverage, periodicity, and timeliness, but much less well in terms of quality. Two aspects of the organizational structure for data compilation in China affect data quality and hamper the capacity of the NBS to act as an effective force to strengthen M&E: the fragmentation of the reporting system and NBS's weak control over data reporting by subnational statistical bureaus.

Fragmentation of the reporting system. On its website, the NBS describes itself as the organization "responsible for leading and coordinating national statistical work and ensuring that the statistical data are true, accurate, and timely." It is also responsible for the "development of statistical policy, planning, setting the national statistics system and basic standards, draft laws and regulations and provide guidance for national statistical work." This significantly overstates its role, as NBS's influence extends only to within the part of the statistical system under its management; a substantial portion of statistical reporting is outside of NBS purview. For example, all fiscal data are collected by the Ministry of Finance and the State Administration of Taxation, which are responsible for compiling data reported by their subordinate agencies at lower levels of government. The People's Bank of China is similarly responsible for collecting all information related to the financial sector. Even data on tourism are collected and reported by the State Tourism Administration, and so on.

In the areas where data are collected by other ministries and agencies, the NBS is simply a recipient and has no authority to determine what data are collected and how. Indeed, in the administrative power hierarchy, the NBS is one step below ministerial level and thus inferior to many of the ministries from which it receives data. Because the data reporting tends to reflect the needs and interests of the agencies, the data differ in quality and coverage, and sometimes even in definition. Ministries do not routinely share or reconcile their own information with that of other ministries. For example, the MOF and the Ministry of Education both report data on education finance, but their reported fiscal expenditures often differ by 10 percent or more (World Bank 2007, Annex 3). Both sets of data are available to the public, but neither ministry makes an attempt to explain the differences.

Central-local coordination. The organization of the national statistical reporting system follows the level-by-level administrative framework described in Section 2. There are statistical bureaus at each level of government, and the reporting is aggregated at each level and reported upward. Subnational reporting is organized territorially by province, with provincial statistical bureaus responsible for the compilation of data from reporting units within each province.

The NBS has limited control over subnational data reporting because, even though the subnational bureaus are under the guidance of the NBS and work to the rules and standards set by the NBS, they are funded mostly by subnational governments at the same level, which also make the personnel appointments. Subnational bureaus are required to report to local governments before submitting their data upward through the statistical system, and the quality

of data reporting may be affected when local officials have to strive to meet personal performance targets.

Reform of the statistical system. The content of data has also changed only slowly to meet new needs. Under the planned economy, the reporting system in China was designed to track compliance and focused on inputs and outputs. Reporting on other aspects of service delivery, though improving, is much weaker. For example, the data on birth and mortality rates, life expectancy, immunization rates, attended deliveries, nutritional status, and so forth are often marred by weak quality control and strong incentives at facility or local government levels to report specific levels or trends in some indicators. In education, the data on school enrolments are considered so unreliable that Ministry of Education officials make great efforts to collect additional information when they inspect counties for the certification process for “achieving” universal compulsory education.

6.2 Paving the Way to a New Performance Management “Culture”

One of the most important but under-appreciated aspects of the transition from a centrally planned economy to a decentralized market economy is the need to change the management “culture,” or mind-set, from “command and control” to the increasing use of incentives accompanied by enforcement mechanisms (“carrots and sticks”). This is a particular problem in China since performance management was a key tool of central planning, when, having suppressed market signals, planners had to devise a whole system of performance indicators, and relied on them to ensure plan fulfilment—for example, input-output tables. Backsliding toward command and control may be too easily hidden behind the banner of performance management reform.

Most of China’s PM reforms have to date focused largely on rules and targets. This is understandable given the disruptive effects of the early transition period, and there was a need – both perceived and real – to regain control over the “basics” of accountability. In the Ministry of Finance, for example, regaining control over the budgeting, procurement and treasury functions, and aggregate fiscal discipline, were seen as of paramount importance, and in many respects this work is not yet done.

In the reports available on performance management reforms, to date there is little discussion of the standards used to measure performance, and the bulk of the evidence indicates that reforms are not yet grappling with performance evaluation in the conventional sense. *Impact*, *effectiveness*, and *relevance* are not yet adopted into the vocabulary in performance evaluation.

Staff capacity constraints may be a factor behind the slowness in the change of PM culture—this is a chicken-and-egg problem, and skill shortages go beyond the NAO to other parts of government. Fieldwork visits to local governments over the past two to three years show that officials are frustrated with PM reforms that have adopted inappropriate performance indicators.³⁵ To move beyond this first phase and to tap the real benefits of using performance management to gain information that feeds back to improving the use of funds, there is an acute need to move away from the input-output mentality to focus on results, and to identify (and agree on) results that matter.

³⁵ Author’s fieldwork interviews.

To accelerate this shift, the government must invest in building capacity in all parts of government, either by hiring new staff with the appropriate skills, or providing training to existing staff to strengthen their skills in economic or financial analysis. The capacity constraint could also be partially alleviated by making more use of external evaluation teams, as was done by many of the local governments undertaking PM reforms.

6.3 Prospects for Building a Performance-oriented Management System in China

China's growing prosperity, a freer press, and the Internet have combined to make Chinese citizens more knowledgeable and more demanding, creating pressure on government to improve performance. When Premier Wen Jiabao called in 2008 for government to introduce a performance management system, he was likely responding to these pressures. Municipal governments in coastal regions were setting up citizens' complaint hotlines, experimenting with participatory budgeting, and so forth several years earlier, in response to the same pressures. As China continues to grow, these pressures will continue to push the government toward performance management reform.

To date, performance management reforms have proceeded in a piecemeal, incremental fashion, and there appears to be little attempt at coordination. For example, officials in Nanhai Municipality (Guangdong) report that their pilot reforms (described in Section 5) have attracted no notice from central authorities, nor, until recently, have they attempted to disseminate their experience.³⁶ This may change now with the central government taking a more proactive approach and setting up the joint working group on performance management at the national level to oversee coordination across ministries and authorizing pilot reforms in the provinces and municipalities. In taking the lead, the central government would do well to promote the dissemination of experiences in local pilots, while taking care to avoid lapsing into "control" mode in order to make real progress in PM.

To build performance management, China can draw lessons from the experience of other countries that have gone through the same process, in identifying entry points and building momentum. However, the systemic constraints to PM reform discussed in this section may be unique to China and more intractable. They are deeply embedded in the organization of the administrative and fiscal systems and will not be eradicated by incremental reforms of the sort that have been undertaken over the past decade. Far more than other countries, China needs an effective M&E system to support its multi-level administrative system. To build one, however, would require far more fundamental reforms, starting with realigning the intergovernmental fiscal system and repairing the central-local accountability relationship. These are difficult and protracted reforms, but are long overdue.

³⁶ Interview in Beijing, June 21, 2012.

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