



## **Toward a Results Based and Responsive Planning System**

### **-----China's recent experience and approach**

Thank you, Mr. Greenwood. Thank you very much for your kind introduction.

Ladies and gentlemen, good morning.

I would like to first of all thank our gracious hosts of this conference – the Government of Vietnam along with the many organizations which have brought us here today – especially the Asian Development Bank, I would like to also thank Mr. Jim Adams, the Vice President of the East Asia and Pacific Region of the World Bank for inviting me to be the keynote speaker of the Third Roundtable on Managing for Development Results. This is a very important topic, and it is a great honor for me to address the issue of leadership and politics at this session based on China's recent experience.

I would like to start my speech by briefly describing the Chinese context. I will then share with you the recent progress made by China in its results-based strategic planning process and the crucial role of leadership and political commitment in that progress. Finally, I will try to summarize some lessons learned from China's experience and hope that these lessons will be beneficial to the MFDR effort that are being or will be made by each and everyone of you in this room.

#### **I. China's Development Results Since Reforming and Opening Policy Initiated in Late 1970s.**

China initiated its market oriented reform policy in 1979. Since then the whole economic institution and political system have started to shift from the traditional central command system to a more decentralized and liberal system, and the market mechanism has played a fundamental role in guiding the allocation of resources. As a result, China's social and economic development has achieved remarkable results. The per capita GDP has increased from 378 RMB in 1978 to 15900 RMB in 2006, with GDP growing on average at 9.67% each year -- among one of the highest in the world within this period. The rapid economic growth has no doubt benefited the Chinese people, particularly those people living in poverty. The total population living



in poverty has decreased from 250 million in 1978 to 12.6 million in 2006 according to China's own standard. According to the WB's one dollar per day standard, poverty headcount dropped from over 60% to less than 10% now. What we never dreamed of in years past has been realized by development.

## **II. The evolution of the social and economic development plan under the reform process.**

The Chinese government has so far formulated 11 five-year development plans since the early 1950s and implemented 10 of them. The current 11<sup>th</sup> five-year plan was approved by the national people's congress early last year and is now under implementation. Before the market oriented reform, China's planning system was centralized. Under this command planning system, almost all social and economic resources were allocated to priority sectors and state companies designated by the government plan. For example, prices of all products were set by the government planning agencies and were seriously distorted. This has resulted in problems such as inefficient allocation of resources and short supply of agricultural and consumption goods.

Since the reforms of the late 1970s, the entire planning system has started to shift toward decentralization with more authority granted to local governments and enterprises. Throughout the process, we have had fierce debate among ourselves on whether the planning system should still play a role in economic management. In the end, we've finally reached a consensus that the planning system could still be an important and useful economic management tool if the government respects the basic market laws when using it.

Based on that consensus, it was felt that the five-year plan should be strategic with development guidance and policy orientations. The strategic plan should allow the market mechanism to play a key role in guiding resource allocations and providing incentives to economic entities.

## **III. Why did the government introduce public participation into the five-year planning, monitoring and evaluation process?**

Since the entire planning system shifted away from the central command mechanism, the degree of public acceptance of the five-year plan has emerged as a critical factor to its effectiveness. After more than 20 years of reform and opening up, Chinese people are better off, more informed and have greater mobility. Ordinary citizens have gained more and more awareness of their right to protect their own interests and are demanding greater participation in public policy discussions and influence in public policy making. The representatives of the People's Congress



from all levels have also become increasingly independent and active. Some of them began to vote no to unsatisfactory government reports and performance. In other words, the political awareness of ordinary citizens and Congress representatives began to seek better performance from government in both policy formulation and evaluation of policy results.

In response to all those changes, the political leadership and planning officials started to try to be more responsive when formulating important policies. National leaders realized that it is imperative to introduce participation, transparency and accountability into government work to ensure the successful implementation of public policies. In March 2004, for example, Premier Wen Jiabao highlighted that the country must “speed up the formation and improvement of the systems for making collective decisions on major issues, for soliciting opinions from experts, for keeping the public informed and for holding public hearings, and for accountability in policy-making.”

Although the government invited public participation in various ways in formulating the five-year plan, the width and depth of the public participation was still limited to a small number of professionals and academics before the 10<sup>th</sup> five-year plan. Another issue was that public participation was not yet institutionalized.

Under the 10<sup>th</sup> five-year plan, the State Council issued a regulation requiring that all development plans should be formulated with public consultation. This was China’s first regulation issued by the State Council with specific requirement for public participation. Accordingly, when we formulated China’s 10<sup>th</sup> five-year plan, we publicly invited all Chinese people to provide suggestions to my department and designated newspapers. Within two months after the announcement, we received more than 10,000 letters from ordinary Chinese citizens including farmers, workers, students, soldiers, retired people, and minority people living in very remote areas. We read all these letters and responded to all of them and awarded some selected proposals when we finished our five-year plan formulation.

But public participation in policy formulation is not sufficient for improving the effectiveness of implementation. Through learning from other countries’ experiences, we believed that introducing monitoring and evaluation systems for the five-year plan implementation was necessary to improve its effectiveness. We initiated a mid-term review of the 10<sup>th</sup> five-year plan implementation and tried to check out how well that the 10<sup>th</sup> five-year plan was implemented. In our view, there were two purposes of doing that. One is through the mid-term evaluation, we can find out how the five-year plan fits the changed environment, the other is to find out if the implementation performance was satisfactory according to the time frame of the development targets.



The mid-term evaluation of the 10<sup>th</sup> five-year plan revealed that, among all development indicators set in the 10 five-year plan, those economic indicators such as GDP growth rate and trade growth rate were well realized but the indicators in the social and environment protection field, such as basic education and COD and SO<sub>2</sub> emission reduction were not realized on time. The indicators reflecting structural issues such as the balance between rural and urban development, the balance between coastal and interior regions was even getting worse.

After several months' hesitation, NDRC submitted this report to the State Council and political leadership. The State Council took the report seriously and transferred the report officially from the State Council to provincial government and other agencies at the central level. That is a signal that the mid-term evaluation initiated from NDRC was fully supported by the political leadership in China.

#### **IV. Why and how have our leaders been engaging in results-based performance monitoring and evaluation?**

Different factors encouraged our leadership to promote results-based monitoring and evaluation management. First of all, through the mid-term evaluation of the 10<sup>th</sup> five-year plan, the leadership recognized that the unbalanced development pattern caused serious social and environment problems which may result in even more serious social conflicts. Secondly, the resources endowment and ecological endowment was going to be a bottleneck to further development, and without significantly improving sustainable development, the Chinese people and especially our next generations would suffer as a result of current development activities. Thirdly, the public became more aware of the life quality with more diversified demands -- not only financial income or big houses. Fourth, the representatives in the party congress and national people's congress began to challenge the leadership of the government more, either on unsatisfactory performance of the policy or five-year plan enforcement. All these pushed the government and the leadership to make the decision that China should pursue a scientific development approach and build social harmony based on accountability and effectiveness of right public policies. The essence of the scientific development pattern is a more balanced and sustainable development approach that is people centered.

But in what way can the leadership encourage all market entities and all levels of government to pursue this balanced approach? In 2005, Premier Wen pledged to "increase the transparency of government work and boost popular confidence in government..." and "...establish a scientific system for evaluating government performance and a system for comprehensively evaluating economic and social development." To follow up what the leadership required and design an effective



M&E system, a comprehensive development M&E indicator system reflecting the requirement of the five balances and social harmony is necessary to ensure implementation.

Additionally, given the important role that the market plays in China, these indicators should be distinguished into two categories: one is the category which guides market activities, the other category is compulsory, for which the government should take full responsibility to realize by taking any possible policy and legal measures or allocating public resources.

In this process, international practices and experiences were introduced to Chinese policy makers. When formulating China's 11<sup>th</sup> five-year plan, we collaborated with the World Bank, not only for consultations for the comprehensive framework for the five-year planning, but the methodology and international experiences of monitoring and evaluation systems as well. We collaborated with UNDP for their policy suggestions on social development issues. We collaborated with ADB for institutional issues regarding improving the planning system.

For promoting the participation in five-year planning, we allocated more than 200 research topics to research institutions and individuals with financial fund by bidding process. We invited public participation both from well organized professionals and from citizens nation-wide. We consulted on our draft plan with other democratic parties and social organizations. The premier Wen Jiabao himself organized several discussions on the draft 11<sup>th</sup> five-year plan with a wide range of people from different fields including a farmer from a remote province.

We designed a system of development indicators based on our consideration for monitoring and evaluation, in line with the requirement of five balances and social harmony. Such a monitoring and evaluation system has resulted in very positive impact on guiding economic activity into a more balanced way. In the 11<sup>th</sup> five-year plan, the COD and SO<sub>2</sub> emission reduction indicators are defined as compulsory indicators and which have been distributed into annual targets within the five-year duration. For big state heavy industrial companies, they are required to sign contracts with the government in reducing pollution and energy consumption for each product they produce. The quotas of COD and SO<sub>2</sub> emission have been allocated to all provincial governments. By taking all these measures, the five-year implementation system is moving to a results-based mechanism. Local government officials are more serious than ever in dealing with the issue of balances among economic growth, environment protection, public service provision and social development. Positive results have already emerged in the first year of the 11<sup>th</sup> five-year plan.



The introduction of the output/outcome indicators with targets and implementation measures adopted by the central government has helped to strengthen the accountability and improve the transparency of the government's work. Already, the monitoring information on the energy consumption per unit GDP and the total COD and SO<sub>2</sub> emission volume during the first six months of the 11th FYP have been made public: none of the levels have decreased as outlined in the Plan, instead amounts have increased due to economic growth. Such a level of transparency on Plan implementation is historically unprecedented in China. Publicity has stimulated open discussions among policy makers, experts and the media on causes of the initial failures and measures required to move forward. The provincial governments, guided by signals and incentives from the central government, have also started to take concrete, comprehensive measures to ensure implementation. In the second half year of 2006, some positive changes emerged due to pressure from the public and media. But in the whole year, all these targets were still not met, although the energy consumption per unit of GDP started to decrease.

## **V. Lessons learned from China's experience**

First of all, political leadership and the government should be united to work hand in hand on the same target, that is, to promote development for the people they are leading.

Secondly, the government should have a strategic development plan with clear directions for the country, development priorities for different periods, institutional construction for the development, and consistent budget allocations in line with the strategic development plan.

Thirdly, public participation is necessary to reach a common understanding about any issues within the five-year plan and maintain the political support for the five-year plan, therefore building up a political base for public acceptance for any policy measures and reform measures which may be taken when carrying out the plan.

Fourthly, an appropriate M&E system is necessary for improving the effectiveness of the five-year plan implementation, with indicators which could be measured and clearly defined for the responsibility of the government and the market.

Fifthly, international experience is necessary for a country which never had a results based M&E system, therefore technical assistance from international experts is helpful in providing support. But the international experience should be transplanted into the country in association with the local conditions and local convention.

China is facing a lot of challenges today, some of them are common for all countries



in the world, some are specific to China. We have a long way to go in dealing with all these challenges and in moving the country to modernization. I still remember what our President Mr. Hu Jintao said in his speech in Yale: “the democracy is a precondition for China to realize modernization”. In this process, the political engagement is always of critical support for building a results-based M&E system, which can play an active role in improving the democracy in public policy-making, the effectiveness of government administration and promoting social harmony.

As a member of the global society, we are very happy to share with you our experiences and do whatever we can to work with others in promoting development for the people.

I sincerely hope that what I’ve introduced to you today is of some use to the results-focused work in your country. I would like to thank the Conference organizer again for giving me this opportunity to speak to all of you and I look forward to having more exchanges with you later down the road.

Thank you.