

Administration of Public Finance in China

As finance is the foundation and an important pillar for a country's governance, a clean and efficient financial administration is an indispensable link of China's overall strategic campaign against corruption. Over the recent years, the Chinese government has been committed to standardizing and improving the administration of public finance, and to building a modern financial administration system for the prevention of corruption from the source by improving norms and rules, standardizing operation, enhancing publicity, and strengthening supervision, etc.

I. Building a standardized budget management system

In 2014, China revised the *Budget Law of the People's Republic of China*, and with this law serving as a basis, China has made efforts to promote the reform of budget administration, and has initially established a comprehensive, standard, open and transparent modern budget management system that helps lock power in the cage of legal regime.

1. Improving the government's budget system

The Chinese government's budget is its annual financial revenue and expenditure plan that is reviewed and approved according to the statutory procedures and has legally binding force. The State Council prepares the draft of central budget that is executed upon approval by the National People's Congress; local governments at various levels prepare their own draft budgets that are implemented upon approval by the local people's congress at the corresponding level. To work out unified government budget and fully subject fiscal funds under legal regulation, China has clearly defined in the new budget law the respective scopes of general public budget, governmental fund budget, state-owned capital operation budget and social security fund budget. The country included all of the government's revenue and expenditure in the budget administration to fully reflect the total volume, structure and administration activities of the government's revenue and expenditure, thus achieving completeness and unification of the budget system.

2. Establishing a transparent budgeting and accounts settlement system

Openness and transparency are the essential characteristics of the modern financial system, and are necessary for building a sunshine government and a responsible government. In recent years, the Chinese government has continued to expand the scope of open budget and settlement. Except for confidential information, all the departments or agencies using fiscal monies are required to make public their budget and final accounts. In 2014, 99 agencies at the central government level released their budget and final accounts, and 31 provinces (autonomous regions and municipalities) disclosed all their general public budgets and the corresponding departmental budgets for the local regions. At the same time, the disclosed information was further broken down with greater details: for the budget and final accounts of the central government and various departments, information was made publicly available to the extent of

items and subjects in the functional classification of expenditure, and the budget and final accounts of special transfer payments were disclosed by region and subject. The process for making public the budget and final accounting was also standardized, and the performance evaluation of the openness in this field was strengthened.

3. Hard Budget Constraint

To ensure that fiscal funds are used in an increasingly effective and standardized manner, the Chinese government has adopted measures to harden the budget constraint. China's government budget, after being approved by the National People's Congress, cannot be changed at will, and all the expenditures must be executed in strict accordance with the budget. Expenditures of local governments, departments and agencies at all levels must be based on the approved budget, without any expenditure for issues beyond the budgeted arrangements. During the execution of each annual budget, except for such emergency expenses as disaster relief that should to be resolved with contingent funds, generally no policy will be rolled out for increasing the year's expenditure; in the event emergency policies must be announced, the funds should be approved on the basis of budgetary arrangements for later years. Expenditures of all departments have to be executed in accordance with the budget accounts and items. If it's necessary to make alternative use of funds between different budget accounts, budget levels or projects, the rules and regulations of the government's treasure department shall apply. Governments at all levels and all agencies with a budget should act in strict accordance with the financial discipline, strictly carry out supervision and hold everyone accountable for the use of fiscal funds, and severely crack down on illegal activities.

In addition, the Chinese government has adopted such measures as improving annual budget control, regulating local governments' debt administration, promoting budget performance administration in the whole process, and standardizing preferential tax policies, for the purposes of improving budget administration in an all-round, multi-layer manner and better playing the budget's financial functions.

II. Constantly improving the modern treasury administration system

To further regulate financial administration, the Chinese government has been working on establishing and improving a modern treasury administration system that is based on the treasury's single account system and takes centralized treasury payment as the main form of fund allocation.

1. Improving the treasury's single account system

In line with its concept of strictly controlling newly added special fiscal accounts, the Chinese government strictly handles the approval process for application of opening new local special fiscal accounts, and has been inspecting and making adjustments to existing local special fiscal accounts. Except those that have been reviewed by the Ministry of Finance and approved by the State Council for their retention, all other special accounts are being phased out. By doing so, administration of fiscal funds is

being further standardized.

2. Deepening the reform of centralized treasury disbursement system

It's stipulated in the *Budget Law* that centralized treasury collection and payment are adopted in China, and therefore all the government revenues and expenditures are subject to centralized treasury administration for collection and payment. At present, after centralized treasury payment was fundamentally realized among units at or above the county level of budget, the Chinese government is committed to an overall reform of centralized treasury payment for countries and townships, to promote the development of this system among the grass-roots governments. By the end of 2014, more than 170 central departments and 16,000 subordinate agencies under them, as well as over 620,000 agencies from 36 provinces, autonomous regions, municipalities and the country's social and economic development cities under separate state planning(Cities for short) implemented the reform of centralized treasury payment system.

3. Focusing on strengthening the dynamic mechanism for monitoring balance of revenue and expenditures

In terms of financial revenue, the horizontal networking coverage of electronic collection of tax revenues to the tax treasury was expanded. By the end of 2014, this horizontal networking was completed among all the provinces, autonomous regions, municipalities and Cities. The non-tax revenue collection system has been further improved, and electronic payment is being promoted in this field. By the end of 2014, the administrative reform of non-tax revenue collection was implemented in more than 100 central departments and over 380,000 local collection units. In addition, the range of the dynamic monitoring system for budget execution was further expanded. All the provincial and some municipal and county-level governments' financial departments have established a dynamic monitoring mechanism for budget execution, thus realizing real-time monitoring of payment information of each amount from the budgeted agency.

III. Making greater efforts to strengthen and control the information disclosure mechanism

A powerfully effective supervisory mechanism is indispensable for the standardized, efficient and clean operation of fiscal system. Over the recent years, the Chinese government has made sustained efforts to strengthen internal supervision, accounting supervision and public supervision, and formed a comprehensive and complete system of fiscal supervision.

1. Establishing and improving the risk administration and internal control system

For departments and positions with centralized authority for the allocation and use of fiscal funds, the Chinese government implements such measures as different authority

exercised for different issues, different authority allocated to different positions, different authorizations provided to different levels, regular rotation of duties and strengthened internal control procedures, so as to prevent the abuse of power. China's Ministry of Finance issued the *Basic Rules of the Ministry of Finance for Internal Control (Trial)*, which clearly defines the main objectives, basic elements, means and methods of internal control. Special internal control approaches, which cover the whole process of risk administration from risk identification, assessment, classification, response to report, were worked out respectively for eight types of risks, including legal risk, policy risk, budget preparation risk, budget execution risk, public relation risk, government bodies' operational risk, and risk of interest conflict among positions.

2. Reinforcing the foundation of the accounting supervisory system

The Chinese government has been, in accordance with the requirements for establishing a modern fiscal system, promoting the government's accounting reform and establishing its comprehensive financial reporting system on the basis of accrual system. The government has made a clear decision that before 2020, a system of the government's accounting standards with Chinese characteristics should be basically completed. This system will accurately and completely reflect the government's budget revenues, expenditures, balances and other budget execution information, as well as assets (including net assets), liabilities, revenues, expenses and other financial information. Meanwhile, the Chinese government is also actively exploring ways to establish a public-sector CPA audit system and the government purchase system for CPA service. The purposes are to make full use of social resources in the audit of public funds, play the role of independent third parties in social supervision, and continuously improve transparency in public financial administration.

3. Actively promoting voluntary disclosure of fiscal information

The Chinese government uses the portal of financial departments as the main platform for fiscal information disclosure. On that platform, it timely releases official financial information while vigorously developing and promoting the WeChat channel of the Ministry of Finance to facilitate public participation. All then on-classified fiscal laws, regulations and policy documents released since 2003 have been made accessible to the public on the website; all the newly issued non-classified fiscal laws, regulations and normative documents have been made public on the website within 20 working days after the date of their announcement. Such information is also made public online on a monthly basis as basic data of the country's monthly financial revenue and expenditures, nationwide lottery sales, and economic performance of nationwide state-owned and state holding enterprises; in addition, the structural analysis of the country's tax revenues increase is disclosed on a quarterly basis. The *Annual Report of the Ministry of Finance on the Disclosure Work of Governmental Information* is published on the portal every year.

China's Government Procurement

The Chinese government attaches great importance to implementing the United Nations Convention against Corruption, and promotes the procurement system in adherence to the principles of transparency, fair competition and impartiality in decision-making. The implementation of the government procurement system has effectively curbed irregularities in procurement activities and has prevented corruption at the source.

I. Build a System of Checks and Balances

The Chinese government puts a high value on the construction of the government procurement system. Since 1996, the government has been actively promoting the procurement system with fair competition as the cornerstone. In 1999, this system was listed as an important measure to prevent and control corruption at the source. In 2003, Government Procurement Law of the People's Republic of China (hereinafter referred to as Government Procurement Law) came into effect. In 2015, the Implementing Regulations of the Government Procurement Law of the People's Republic of China (hereinafter referred to as the Regulations) was officially promulgated.

Since the enforcement of the Government Procurement Law, China has formulated more than 50 rules and regulations on budget managements, procurement methods and procedures , review experts management, remedy system to suppliers, agency management, energy conservation and environmental protection policies, and initially built a legal system with the Government Procurement Law and the Regulations as the guidance, with the administrative rules as the support. The enactment and implementation of these laws and regulations has raised the awareness of supervision and procurement in accordance with the law, further standardized operations, formed a working mechanism where management and operating units are separated and inter-constraint, and improved the standardized operation system of checks and balances.

II. Build an Open and Transparent “Sunshine Project”

Government procurement is known as a “Sunshine Project”, being open, fair, equitable and transparent. The Regulations implemented in 2015 further provides that all the information on government procurement, including project descriptions, budgets, documents, awarding results, purchasing contracts, complaint handling, be open to the public to improve transparency.

Chinese finance authorities, as the government supervisory and administrative department in charge of government procurement, release information on government procurement timely to the public on the designated news media such as the network, newspapers and magazines. Laws, regulations, rules and other regulatory documents about government procurement as well lists of procurement bidding agencies are released to the public. Procurement Information ranging from the budget, announcement, related documents, awarding results and the corrections are released on the designated media. The remedy system, proceeding methods and the results of government procurement, as well as the records of illegal or dishonest behaviors of related parties are open to the public as well.

III. Establish a Fair and Impartial Operating Mechanism

Maintaining impartiality and fairness in government procurement is an important principle in China’s government procurement legal system, and is directly related to government procurement market order and the efficiency of procurement funds utilization. The Government Procurement Law and the Regulations require that all eligible suppliers have equal opportunities to participate in government procurement activities. They determine a uniformed set of competition rules, and require that government procurement activities should be carried out in accordance with legal methods and procedures; procurement methods must allow full competition, thus public bidding should be taken as the main form of government procurement; procurement should give equal treatment to each supplier, with no purposeful discrimination, no industry monopoly and no regional

blockades; no units and individuals are allowed to obstruct procurement activities; evaluation rules are open to the suppliers, and the suppliers are entitled to query and raising complaints.

IV. Build an Effective Remedy System for Suppliers

The Government Procurement Law gives suppliers the right to know and supervise government procurement activities, and formulates specific provisions on the ways and time limit for the suppliers to query, doubt and raise complaints about government procurement behaviors, as well as on the ways and time limit for the procuring entity or agency and the supervisory and administrative department to reply. Finance departments at all levels have all set up dedicated telephone lines and faxes to deal with the complaints and to protect the legitimate rights and interests of related parties in accordance with law, following the principles of fairness, impartiality, convenience and efficiency.

V. Promote Transparent and Efficient Electronic Procurement

Since the establishment of the website “China government procurement” in 2000, China has been speeding up the construction of a unified national government procurement management and trading system. At present, electronic operations in government procurement have preliminarily covered the whole process, ensuring strong links among budgets, procurement, asset management and centralized treasury payment, etc. The content includes purchasing steps like procurement budgeting, procurement planning, procurement procedures, contract signing, fund payment and credit records, and the databases such as suppliers, evaluation experts, commodity information and agencies, as well as electronic bidding, online information retrieval and real-time monitoring, etc. Information technology has helped to regulate government procurement, promote its standardization, and improve its efficiency and transparency. It also encourages all the parties concerned to establish a more scientific, effective and transparent internal

supervisory mechanism, and has become an important means of anti-corruption, combining institution and technology.

VI. Improve the Government Procurement Supervisory Mechanism

China has established a government procurement supervision system which combines comprehensive supervision, professional supervision and industry supervision. The finance authority of the governments, as the one in charge of supervision and administration of government procurement, performs its supervisory and administrative functions according to law. The audit authorities and the supervision authorities provide professional supervision and regulation according to the Government Procurement Law and the Regulations. Each competent authority in a certain industry supervises government procurement within this jurisdiction. The Government Procurement Law also stipulates that all the units and individuals have the right to complain and make accusations against any violation of the law in government procurement activity. Moreover, China has established a system to issue records of serious illegal or dishonest acts in government procurement and inflict corresponding punishment.

Major Practices in China for Preventing Money-laundering

A regime against money laundering and terrorism financing has been gradually established in China since 2003, which centers on the “one law and five decrees”, and now largely covers requirements of international standards for building a national anti-money laundering and anti-terrorism financing legal system in different countries. China’s anti-money laundering regulatory authorities, in line with the new international standards against money laundering, are engaged in in-depth practice of risk-based anti-money laundering approaches, for the purposes of improving the legal regulatory system and the risk control mechanism in this field.

I. Improvement of the Anti-money Laundering Legal System

Up till now, China’s anti-money laundering and anti-terrorism financing legal system mainly comprises the following: i) laws, such as the *Criminal Law*, *Anti-money Laundering Law*, *Decisions of the National People's Congress on Strengthening Anti-terrorism Work* and *Interpretations of the Supreme People’s Court on Applicable Laws for Cases of Money Laundering and Other Criminal Cases*; ii) regulations, such as *Anti-money Laundering Regulations for Financial Institutions*, *Administrative Measures for Financial Institutions on the Reporting of Large-value or Suspicious Transactions*, *Administrative Measures for Financial Institutions on the Reporting of Transactions Suspicious of Terrorist Financing*, *Administrative Measures for Financial Institutions on Customer Identification and Preservation of Records on Customer Identification Information and Transactions*, and *Administrative Measures for the Freezing of Assets Suspicious of Terrorist Activities*; iii) normative and policy documents, such as *Administrative Measures for Payment Institutions on Anti-money Laundering and Anti-terrorism Financing Issues*, *Measures for Financial Institutions on Anti-money Laundering Supervision and Administration (Trial)* and other supporting systems.

II. Comprehensive Work on Anti-money Laundering Supervision and Administration in the Financial Sector

In accordance with the *Anti-money Laundering Law*, the People's Bank of China is responsible for supervising and reviewing financial institutions’ performance in their fulfillment of the anti-money laundering obligations, and for coordinating and promoting the anti-money laundering supervision and administration over non-financial institutions. At present, its anti-money laundering regulation covers more than two thousand legal entities and over 300,000 branches of financial institutions and non-financial institutions in such various sectors as banking, securities, futures and insurance. Over recent years, the People's Bank of China has: actively carried out on-site inspections and requested various organizations to effectively fulfill their responsibilities; engaged in special survey and study of the business models of various institutions, as well as their money laundering and terrorism financing risks; searched and investigated financial institutions by using on-site inspection software and non-modular inspection methodologies to find the clues

through on-site inspections. Meanwhile, the Central Bank keeps abreast of anti-money laundering work of financial institutions flexibly by other means of supervision, so as to provide greater guidance and help to these institutions. Based on monitoring over suspicious transactions and analysis results of money laundering types, the Bank promptly releases risk alert to financial institutions to guide them to devote more resources to the anti-money laundering work in high-risk areas.

III. Establishment of National Anti-money Laundering Coordinating Mechanism

The People's Bank of China has actively advocated and made joint efforts with relevant departments to establish and improve the anti-money laundering coordination mechanism since 2004. At the level of national strategy, an inter-ministerial joint conference mechanism for the anti-money laundering work was set up in China in 2004, which was participated by 23 ministries and agencies; as a result, the *Rules for Anti-money Laundering Inter-ministerial Joint Conference Regime* was released, clearly defining the anti-money laundering responsibilities of relevant ministries and departments. This conference has been convened for seven times, with relevant discussion and consultations covering responsibilities of member agency, regulation and administration over anti-money laundering work, international cooperation, strategic planning, programs of national anti-money laundering risk assessment and other inter-departmental priorities. On the dimension of sectoral regulation, PBoC, following its establishment of the anti-money laundering briefing mechanism in 2012, makes regular briefings on the anti-money laundering and terrorism financing developments, communicate anti-money laundering policies from the regulatory authorities, releases warnings on money laundering and terrorism financing risks, exchanges information on anti-money laundering work with financial institutions, and proposes specific tasks on anti-money laundering. The People's Bank of China, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission and some other financial regulators also have set up an anti-money laundering coordination task force, for communication and coordination of anti-money laundering work.

IV. Deepening International Multilateral and Bilateral Anti-money Laundering Cooperation

Over the recent years, China has made sustained and steady progress in the work of international anti-money laundering cooperation. Since its entry into the FATF in 2007, China has been committed to active communication with the FATF and its member states while earnestly implementing and timely completing the *Action Plan of China to Improve the Anti-money Laundering and Anti-terrorist Financing System* as promised by the Chinese government. In 2012, the FATF formally ended the follow-up procedures for mutual assessment with China, indicating that China basically met requirements of the core and key provisions in the FATF recommendations. In July 2014, China, as the Co-chair country of the Asia/Pacific Group on Money Laundering (APG), successfully hosted the sixteenth annual

meeting of the APG in Shanghai. In strengthening bilateral cooperation, the People's Bank of China signed an anti-money laundering memorandum of understanding in 2013 with the Central Bank of Argentina, and it has also engaged in contacts and communications with other countries for the purpose of strengthening bilateral regulatory cooperation. Up to now, the China Anti-Money Laundering Monitoring and Analysis Center has signed bilateral documents on anti-money laundering information exchange and cooperation with a total of 24 overseas financial intelligence organizations, and has developed sound cooperation.