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This article examines how a new policy is translated into changes in local behaviour, a question that is at the centre of institutional theory, which has yet to explain how institutions come into existence and change.[1] It is also a question for the implementation literature, which addresses change from an "administrative" perspective.[2] The concept "implementation deficit" suggests that the announcement of a new policy often marks the beginning of a complex process of effecting genuine change in behaviour (Meter and Horn, 1975; Hargrove, 1985). The key questions posed there are: why successful implementation is so difficult to come by? How are genuine changes in behavioural patterns achieved after a new policy has been made?

In China studies, the national government has generally been seen as the policy formulator and local governments the implementers (Lampton, 1987; Lieberthal and Oksenberg, 1988). In this vein, change fails to occur, it is argued, either because there is a lack of good ideas from within the national government (due to incompetent leaders, power struggles within the national leadership, and such like), or because the ideas are not implemented lower down the state hierarchy. In the latter case, implementation fails because local agents are self-interested and monitoring is ineffective.[3]

This linear view of change processes has been criticized. Implementation is far more "fuzzy" and ambiguous than previously conceived. Policy "evolves" in a continuous process whereby actors participate through different channels at different points of time. To the extent that the formulation and implementation of policies, as heuristic analytical concepts, intertwine in different modes of activities, "formulators" and "implementers" are also no clear-cut categories (Baier, March and Saetren, 1986; Goodman, 1989; Majone and Wildavsky, 1984). Explaining institutional change would require a model of action that incorporates the interaction of actors, each assuming complex roles,[4] that specifies the details of interaction and delineates the complex roles of the actors (Grafstein, 1988).

This article is guided by this theoretical orientation in its investigation of local fiscal behavioural changes in the county of Yichang in central China.[5] Instead of the

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classical monitoring and compliance problem between central policy and local implementation, as the principal-agent model would suggest, the article finds local officials as resisting against and implementing national policies at the same time. In this interesting co-existence of partial resistance and partial implementation, local officials displayed a high degree of innovation and activism. I thus ask a simple question: why? The following discussion will make it clear that it is not possible to attribute reform initiatives entirely to a loyal implementation of central policy. The co-existence of the autonomy-seeking actions contradicts this. Whilst central policy always has its influence on local actions, through the institution of incentive structures and parameters of action, the parallel occurrence of two groups of local actions suggests that the translation between central policy and local action involves more complex processes.

The following discussion first sketches the national and local context. The article then describes in detail two trends of action in fiscal management in Yichang County. In providing an explanation, the article points to a process of endogenous change triggered by the interaction of two trends of actions and between county and township officials. The interaction between the competing "projects," I shall argue, sows seeds for further change.[6]

National Backdrop: The budget was amongst the first venue of major change when the new policy of economic reform was adopted in the late 1970s.[7] In 1980, the multiple-year contractual fiscal system replaced the pre-existing annual adjustment of central and local government shares in government revenue. The new system gave provincial and sub-provincial governments more fiscal autonomy. The effect was an unprecedented release of local enthusiasm for economic development.

One major development from these changes was that the central government had had a lower share in total government revenue than local governments. The share of total fiscal revenue as a proportion of Gross Domestic Product (GDP) decreased from 28% in 1979 to 12.6% in 1993, on the eve of a major fiscal reform in 1994.[8] In practice, much of the "reduced" share of fiscal revenue in GDP ended up in local government coffers, as local governments sought to siphon state revenue from the budgetary channel (Li, 1998: chs. 5-6). The result was a much more lopsided revenue distribution between the national and sub-national governments than the formal statistics depicted, leading to a contentious debate over a weakening state capacity, and especially that of the central government (Wang, 1995).

The debate set the scene for a series of moves by the central government in the 1990s. Firstly, in 1994 an initiative was made to change altogether the rules of the game in inter-governmental revenue sharing, by replacing the contractual fiscal system with a tax-sharing system (Zhang, 1999). The new system was intended to raise the share of central revenue and, by curbing the widespread local practice of tax reduction and exemption, prevent the decline of total fiscal revenue's share of GDP. Secondly, the "extra-budget" was placed under closer purview. The "extra-budget" is historically a supplementary segment to the government budget, but had grown to account for 40% of total government expenditure in the reform years. The fiscal situation was further decentralized through "extra-system" finances, so that budgetary income was estimated

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to account for no more than 40% of total government income in late 1990s (Gao, 1999). A major focus of fiscal reform was these segments of revenue.[9] Thirdly, in 1998 the central government announced a new fiscal principle of "public finance."[10] Government money would thereafter, in principle, retreat from the "competitive" sector. Direct investments would be restricted to strategic sectors and areas, and government effort focused on promoting the development of the market.[11] These measures suggest the growing resolve and recognition within the Chinese leadership that fiscal management required a major revamp (World Bank, 2000). The question is how central *policy* is translated into local *practices*.

Local Context: Until the 1980s Yichang County was an "average" rural county in central China, but then economic growth picked up significantly. In the 1950s and early 1960s, the local economy was depressed, with growth rates lower than the provincial and national average. Things improved slightly thereafter and by 1978 county GDP doubled over that in 1965, a growth rate just slightly behind provincial and national figures. Then, in the 1980s, economic performance improved, with GDP growing almost ten-fold between 1990 and 1998.[12]

Similar trends were seen nationally during these periods, reflecting the impact of government interventions – the "visible hand" – on economic development. The county economy was depleted of most of its industrial base when the town centre of the original county, where most industries were located, was made the seat of the new Yichang Municipality in 1949 (Hubei Province Yichang County *Difangzhi* editorial committee, 1991: 3). The local economy became then predominantly agricultural, with industries accounting for only 6% of the total agricultural and industrial output value (Hubei Province Yichang County *Difangzhi* editorial committee, 1991: 245-7). The year 1970 appeared to be a turning point. With the commencement of construction of a major water dam project, the Gezhou Dam, nearby, the seat of the county government was physically moved from the municipality of Yichang, its pre-1949 site, to Xiaoshita town. More focused government effort was expended subsequently to the development of industries, with new factories set up or old ones upgraded (Hubei Province Yichang County *Difangzhi* editorial committee, 1991: 246). With this growth in industries, GDP also began to expand.

The management of public money has been complicated by the existence of a separate category of funds outside the budget (Wong, 1997). Designed initially as a supplementary measure to lubricate the highly centralized budget, the extra-budgetary funds nationwide had grown tremendously over the years. Its fragmentary mode of management gave rise to a variety of control problems. Extra-budgetary funds had existed in Yichang County since 1950, but the county finance bureau started to coordinate the management of these funds only in 1982, as part of the national initiative. Total extra-budgetary funds between 1950 and 1985 were 22.6 million yuan, or 9% of local budgetary revenue during the period (Yichang Xian Caizheng Zhi Editorial Committee, 1998: 227), a figure that was likely to be an underestimate (Yichang Xian Caizheng Zhi Editorial Committee, 1998: 228; Interviews, 2000).

Since the 1980s, as the local economy developed, extra-budgetary funds in Yichang

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saw a phenomenal increase to 312 million yuan in 1986-95, equivalent to 41% of cumulative local budgetary revenue of the period (Yichang Xian Caizheng Zhi Editorial Committee, 1998: 373, 349).[13] The actual figure was likely to be higher still as the above statistics cover only those funds that were reported to the finance bureau. For instance, the reported extra-budgetary funds had always included only those centralized in special "fiscal bank accounts" (Interviews, 2000). Since the scope of fund centralization had varied over the years, ranging from 63 participating units in 1986 to 426 in 1995 (Yichang Xian Caizheng Zhi Editorial Committee, 1998: 376), reported extra-budgetary funds in any single year must be only a fraction of the total picture.

The county Finance Bureau thus found itself in a difficult position, not dissimilar from that at the central and provincial levels: it did not know how much fiscal revenue there was within the county. In late 1995, the bureau set up a special office to tighten control over extra-budgetary funds (Interviews, 2000) and, as will be detailed below, succeeded in placing a lot more extra-budgetary funds under its purview. This apparent success ironically suggests the scale of the problem, and the possibility that there might well be more hidden resources.

Local Initiatives

Since the mid-1990s, the central government has stepped up moves to rationalize fiscal management. Chart 1 summarizes the mix of actions Yichang's officials took during the period, with some actions designed to defend local interests and others apparently to implement reform. This section describes how the two trends of local action unfolded, focusing on the role of county and township finance officials in the formulation and implementation of the initiatives.

Autonomy-seeking Initiatives: Existing literature has documented the autonomy-seeking initiatives of local governments (Breslin, 1996; Li, 1998; Yang, 1990; Zhong, 1993). Agencies were described as being inclined to hoard resources, in order to reduce dependence on external actors in an unpredictable institutional framework (Kornai, 1980; Donnithorne, 1972; Shue, 1988; Lyons, 1987). These initiatives had a problematic legitimacy at best, and seldom entered official records, except perhaps in criticisms of supervising authorities. Nevertheless, these initiatives were important from a local perspective. In Yichang, they fell into two clusters: one to enlarge the base of local revenue, the local economy; the other to manipulate the boundaries of the local budget.

Developing the Revenue Base by Developing Local Economy: County budget reports repeatedly ranked the development of new revenue sources the most important government work (Chen, 2000: 6-8), a phenomenon well captured by the concept "local state corporatism" (Oi, 1992, 1999). This approach to economic development, in which the local government acts as the primary engine of growth, has come under strain by the dwindling of resources available to local governments. The tax-sharing fiscal regime put in place in 1994 has drastically reduced fiscal resources available to Yichang. As Table 1 shows, the amount of *net* fiscal outflows (the balance between inflows and outflows) from the county increased dramatically as from 1995.[14] By 2001, net outflows

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amounted to 132.9 million yuan, or 37.2% of the county fiscal expenditure. As one local official put it, "the new fiscal system has robbed us of the resources to invest in new projects" (Interviews, 2000). Moreover, in late 1998, the central government announced a new policy of "withdrawal from the competitive sector" (*tuichu jingzheng lingyu*), where the government was to focus on the provision of public goods and would stop investing in "competitive" business. Apart from shrinking resources, the legitimacy of the traditional approach was now also questionable.

Chart 1: Two Co-existing Trends of Local Actions

Reform Initiatives		Autonomy-Seeking Initiatives	
Interest	**Action**	**Interest**	**Action**
1. Improve revenue collection; contain abuses in the process	1. Direct entry of tax revenue to state treasury	1. Develop the local revenue base	1. Use fiscal credits and other financial and administrative resources (e.g. networking) to develop viable profit-generating projects
	2. Centralized collection of non-tax revenue ("zero-bank-account" initiative in townships; "Three separations and Two integrations" initiative at county level)		2. Tax waiver, rebates, exemptions to local enterprises
2. Improve co-ordination and control over expenditure; reduce waste and abuses	3. "Zero-bank-account" initiative in township: (some degree of centralized co-ordination of agency off-budget expenditures in some townships)	2. Increase locally disposable resources	3. Voice complaints on "excessive" fiscal outflows and local fiscal difficulties
	4. centralized portions of agency off-budget funds (county, townships)		4. Active lobbying for resource and policy support from higher levels that would eventually bring in new resources
			5. Diversion of resources to the off-budget sector

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Table 1: Fiscal Revenues and Expenditures, Yichang County (Million Yuan)

Year	Local Revenue	Local Expenditures	Fiscal Inflows	Fiscal Outflows	Net Outflows
1986	32.20	34.58	7.58	5.90	(1.68)
1990	81.63	79.13	10.49	16.24	5.75
1991	91.52	78.58	11.34	21.35	10.01
1992	101.17	95.86	15.06	18.81	3.75
1993	121.25	113.66	13.85	18.74	4.89
1994	75.04	153.87	96.61	97.05	0.44
1995	91.38	170.52	95.42	103.83	8.41
1996	117.46	203.53	104.26	155.78	51.52
1997	139.88	222.55	106.89	166.55	59.66
1998	182.82	262.04	106.24	185.04	78.80
1999	208.87	296.25	114.26	207.86	93.60
2000	224.71	320.68	127.01	241.66	114.65
2001	n/a	356.80	146.76	279.65	132.89

Notes: *Local revenue* refers to the amount of budgetary revenue collected by the county government and assigned to the local fiscal coffers in accordance with the fiscal arrangement with the municipal government at the time. No consideration was given to transfers into or out of the county. *Local expenditure* refers to fiscal expenditure arranged by the county government in the budget, and does not include outflows of fiscal funds outside the county. *Fiscal inflows* include all kinds of in-bound fiscal resources, including earmarked grants, baseline revenue rebates under the 1994 fiscal system, and other inward transfer payments. *Fiscal outflows* include all kinds of out-bound fiscal remittances, and central taxes under the post-1994 tax-sharing system. The dramatic increases in both columns after 1994 indicate the impact of the new fiscal regime. The sustained increase in fiscal outflows in subsequent years, relative to stagnation of the inflow figures after the initial jump in 1994, suggests that the county coffer has been "losing" out under the new tax-sharing system.
Sources: Zhou Yongsong et al, 2001: 22; *Yichang Municipality Statistical Yearbook*, various years; author's interviews.

Interestingly, against all odds, state investment in profit-oriented projects in Yichang *increased* during the late 1990s. Between 1997 and 2000, the county Finance Bureau, through its investment company and the "Three Gorges Dam Project Matching Support Fund," invested 300 million yuan in various projects (Interviews, 1999). How was this possible? "We made full use of the construction of the Three Gorges Dam, which is right in our county," was the response (Interviews, 1999). In 1997, when the central government called on other regions to render support to the Three Gorges Dam project, the county launched a major investment promotion initiative to attract investment from the rest of the country. The "Three Gorges Dam Project Matching Support Fund" was established to provide a vehicle of investment beyond the traditional organization of the county government (Interviews, 1999, May 2000; Yuan and Peng, 2000: 1-2).

Old habits have thus persisted. Indeed, county officials exhibited mixed feelings to the new principle of "public finance" imposed from above. They were in support of the underlying market ethos, but sceptical about its practicability. The central government,

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in their view, had not fully considered the plight of local governments.

> The new policy does not tally with other central policies. It is out of touch with the local situation. On the one hand, we are told to withdraw from economic activities, but on the other hand, under the current fiscal system we in the counties are left to meet our ends. With ever more expenditure obligations, usually centrally mandated, how are we to find the money? The central government simply ignores this reality (Interviews, 1999).

In many localities the market was only at an early stage of development. Being the locomotive of local economic development in the past, local officials often felt obliged to take a more active, if also interventionist, role in the economy, even if the local governments had to invest, as before, in individual projects.

Manipulating the Budget Boundaries: A second, less visible, group of autonomy initiatives included: (1) complaining to higher levels of government of excessive extractions and local difficulties; (2) attempts to attract more fiscal inflows; and (3) practices to leave local monies outside the budget.[15] Permeating these varieties of actions was the objective of stretching, or manipulating, the boundary of the county budget in the interest of enhancing local fiscal autonomy.

Complaining about fiscal difficulties was standard behaviour in all localities not only because times had been difficult, but also because registering difficulties served to enhance the chance to win policy support and additional resources from superiors. One needed to strike a fine balance, however, as exaggeration of difficulties could reduce credibility. The best tactic was to stress one's achievements, and argue the potential for better results *if* a little more help was given (Li, 1998: ch. 5).[16] To achieve the desired effect complaints are combined with resilient lobbying for *specific* support. To do this, local officials had to be alert to funding opportunities and other openings from higher levels of government, and highly efficient in producing sound proposals (Interviews, 2000).

Local officials were expert players in this game. They were quick to stress their fiscal difficulties during interviews, attributing their problems *not* to the failing performance of local enterprises, but to the increase in fiscal outflows in the 1990s and increasing pressure on local expenditures due to central policies (Yuan and Wang, 1998: 29). Whilst the increase of net fiscal outflows since 1994 was evident, as Table 1 shows, the comment on transfer payments missed the fact, if deliberately, that being one of the well-off counties nationally in terms of fiscal revenue,[17] Yichang County would not have been the preferred candidate for receiving more transfer payments.[18]

Nevertheless, given the transitional nature of the transfer payment scheme, particularistic bargaining was still the major means through which a locality secured its interests.[19] In a report in 2000, county finance officials proudly announced the fruit of their lobbying efforts, namely the inclusion of the county in the 2000 national agricultural development plan, which was expected to bring in over 3.6 million yuan of new central monies in one single year (Dai, 2000: 20).

Largely due to its controversial nature, the diversion of local fiscal revenues often went unrecorded. An instance of such diversion was found in a reform measure. As will be detailed below, the county tightened control over off-budget funds in 1996.[20] As part of the change the county Finance Bureau also centralized part of the off-budget revenue

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of the agencies and placed the funds under its direct control, reminiscent of imposing a county "tax" on the agency funds. This partial centralization was intended to be a transitory step towards a comprehensive budget, when both budgetary and off-budget revenues and expenditures would be consolidated (Interviews, 1999, 2000). The spirit of the measure would thus suggest that the centralized portion should be placed within the county budget. In practice, these funds (hereinafter CO funds) were kept off the county budget to minimize scrutiny from outside the county (Interviews, 1999). The amount of the CO funds was small, totalling 27.5 million yuan in 1996-2001, or 3.3% of total off-budget revenue (Table 2). Given their linkage to the new policy of comprehensive budget, however, the fact that these monies were deliberately placed off-budget reminds us again of the resilience of old habits and the existence of an iceberg under the waters.

Discussion so far suggests that the drive for greater autonomy and security still permeated local fiscal management at the turn of the century. The new fiscal regime since 1994 had yet to instil a sense of fiscal security, and thus responsibility, at the county level. County officials complained that the central government took away the bulk of newly generated revenue, so that they were compelled to be "innovative" in finding means to meet the ever expanding commitments.[21] They were also worried that the central government might change the rules of revenue sharing further to their disadvantage. Revenues were thus left outside the budget to ward off possible central encroachments and reduce "damage." Old habits of particularistic lobbying, cheating and revenue diversion were fed with new ammunition and continued to thrive.

Reform Initiatives: Around the same time, in the late 1990s, a second trend emerged that exhibited quite different features. In this case, county finance officials actively formulated new management measures along the line of the national reform. The concern over the local economy, dominating the autonomy seeking initiatives discussed above, was replaced with a preoccupation with house-keeping matters of revenue management. The dominant values here were rationalization and monitoring, not autonomy and decentralization.

One should not, however, interpret these differences to mean that the two agendas, autonomy and reform, shared entirely different values. In fact, generating new revenue had been so pervasive a concern that Yichang's officials explicitly attributed the importance of the reform initiatives to their contribution to local revenue. "We don't see any contradiction between our institutional reform on fiscal management and our other plans to develop the economy. After all, the ultimate objective of pursuing the reforms is to enable the county to collect more revenue" (Interviews, 2000).

The differences over emphasis appeared superficial. Both groups of actions aimed at maximizing the fiscal resources under the control of the county government. Given this, a more relevant difference between the actions could be over targeted actors. The autonomy-seeking initiatives were directed at the levels of government above the county government, whilst the reforms targeted county and township agencies.

Unlike the more "rooted" autonomy initiatives, most reform initiatives were developed after 1996, when the central government renewed its campaign on the off-

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budget sector.[22] Set against a national agenda of fiscal rationalization reform, it was tempting to interpret the local reform initiatives as an implementation of central policy. However, their richness in substantive content, as this section will show, suggests that the local moves are unlikely to be the result of top-down implementation alone.

Table 2: Off-budget Funds of County-Level Agencies, Yichang County (Million Yuan)

Year	Off-budget revenue (O)	Centralized portion (CO)	Budgetary revenue (B)	(O) as percent of (B)	(CO) as percent of (O)
1950-85	22.6	n/a	252.2	9.0	n/a
1986	15.3	n/a	32.2	47.5	n/a
1987	18.9	n/a	40.1	47.1	n/a
1988	20.9	n/a	60.9	34.3	n/a
1989	24.0	n/a	72.5	33.1	n/a
1990	35.0	n/a	81.6	42.9	n/a
1991	44.9	n/a	91.5	49.1	n/a
1992	50.9	n/a	101.2	50.3	n/a
1993	18.1	n/a	121.3	14.9	n/a
1994	39.0	n/a	75.0	52.0	n/a
1995	45.2	n/a	91.4	49.5	n/a
1986-95	312.2		767.7	40.7	n/a
1996	110.0	n/a	117.5	93.6	n/a
1997	150.0	4.7	139.9	107.2	1.8
1998	200.0	7.3	182.8	109.4	3.7
1999	150.0	5.0	208.9	71.8	3.3
2000	110.0	5.5	224.7	48.9	5.0
2001	110.0	5.0			4.5
1996-2001	830.0	27.5	873.8 (1996-2000)	82.4 (1996-2000)	3.3

Sources: Yichang Xian Caizheng Zhi Editorial Committee, 1998: 349, 375; author's interviews.
n/a: not applicable

The reform initiatives shared a couple of features. First was their rapid emergence. In some cases it took only two to three months to see a new idea conceived and measures formulated. Two notable examples were the "Three Separations and Two Integrations Model" (*sanfen liangtong moshi*), aimed at rationalizing the collection of county-level off-budget funds, and the "Zero-Bank-Account Initiative" (*linghu tongguan*) targeting township funds. The speed with which these measures were put in place locally was a stark contrast to the usual image of government inertia and inefficiency. Another feature was the care given to the technical details of the reforms. Unlike many official measures, the fiscal reform initiatives were not generalized policy statements but detailed prescriptions of new technical procedures. In their effort to improve fiscal institutions, Yichang's officials had apparently chosen to focus on refining the technical infrastructure

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of the system. The "beauty" was in the details.

Direct Entry of Tax Revenue to State Treasury (shuikuan zhida): This initiative involved cutting the time and simplifying the steps whereby tax monies reached state coffers, in order to increase revenue collection efficiency. It started in a few towns in 1996, and by 2000 was fully implemented throughout the county.[23]

Under the old system, local tax departments would deposit the proceeds collected from taxpayers in departmental bank accounts, and only transferred the monies to the state treasury every now and then.[24] The amount of tax monies held in the "transitory" bank accounts of local tax bureaus often amounted to ten million yuan per month, aggravating the cash flow problems of an already tight county budget (Hubei Government Circular No. 4, 1999; Zhao, 1999). This problem was compounded by "sunken monies," where local tax bureaus habitually retained a proportion of the tax monies at the time of transfer. A 1998 nationwide survey, covering 15,000 local tax departments, discovered 25,000 "transitory" bank accounts. A lower-end estimate of 50,000 yuan of sunken monies retained per account gives a total of 1.3 billion yuan. In addition to the cash flow problems, tax monies temporarily deposited in the departmental accounts were often misappropriated to pay for "welfare" expenses of the departmental staff, nicknamed the "cost" of tax collection. Township officials estimated such "cost" in Yichang at between 3% to 10%, and sometimes as high as 20%, of the total tax revenue originally collected (Interviews, 1999, 2000).

These methods were possible because there was almost no control over bank accounts. Tax collectors could easily hoard monies in departmental accounts, and decide at their own discretion how much, and when, to transfer to the state treasury. To rectify this, Yichang County abolished the numerous "transitory" bank accounts of the tax departments. Together with the local branch of the People's Bank of China, which acted as the county-level state treasury, the county Finance Bureau in 1999 obtained the support of the county leadership to push through a new procedure of tax collection (Interviews, 1999). Under the new system taxpayers would pay tax directly into the state treasury accounts, eliminating the problems of delays, loss of interests, sunken monies and deduction of the "costs" of tax collection by intermediaries. Moreover, a new computerized system would record revenues at the point of payment. Not only could much time and effort be saved, as it was no longer necessary to synchronize revenue statistics manually, the revenue information available was also more accurate and reliable (Interviews, 2000).[25] Altogether a total of 232 transitory bank accounts were abolished in the conversion to the new system, virtually eliminating tax revenue "in transit" (Zhao, 1999: 136-7).

Centralizing the Collection of Non-Tax Revenue: Off-budget revenue, in various forms of administrative fees, government funds, and surcharges, historically has been managed in a fragmentary manner, making it a bigger source of revenue haemorrhage than tax revenue. As noted previously, whilst there are informal estimates, even the county Finance Bureau could not estimate exactly how much off-budget revenue and expenditure there were within the county, especially before the mid-1990s.[26] County agencies collected these monies independently, placed them into their own bank accounts, and spent as they saw fit.[27] What were collected in the name of government revenues became

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"departmentalized," and the "semi-private" properties of the agencies?

Given the scale of this problem, it was perhaps no surprise that an effective response emerged incrementally. In late 1995, as part of a local response to increasing vigilance from the central government, the county Finance Bureau established under its auspices a new unit, the "Extra-budgetary Funds Management Bureau." County and sub-county agencies were henceforth required to remit all extra-budgetary revenues to a specially designated bank account (the special fiscal account, or *caizheng zhuanhu*) of their respective finance bureaus (Zhou, 2001: 192-3).[28] A senior local finance official described the thinking underlying the move:

> The abuses in fee collection, corruption and the inequities between agencies were getting worse. We felt we had to keep things under control. The problems kept coming back to us and could not be set aside any longer. The central and provincial governments were getting more vigilant. Some specific measures to tighten management of extra-budgetary funds had been implemented, like strengthening the management capacity through more staff deployment, and centralizing part of the agencies' funds for coordinated use by the finance bureau. But central regulations and provincial instructions had said nothing on new institutional arrangements, nor did they specify the exact ratio of centralization of the funds. These came out of local initiatives (Interviews, 2000).

The post-1995 system required all off-budget revenues be deposited centrally in the county Finance Bureau's special fiscal account, to be transferred to the agencies' expenditure bank accounts only when authorized expenses were incurred. The announced objective was not to take away the agencies' right to the use of the funds, but to improve transparency, and reduce the likelihood for abuses (Interviews, 2000). Nevertheless, as noted above, from 1996, a portion of the agencies' off-budget funds was also centralized at the county Finance Bureau. The ratios of centralization increased from between 5% and 10% initially to a range of 10%-30% in 2000, indicating an intention to gradually erode the agencies' claim to the exclusive use of the funds (Interviews, 2000).

Local officials made it clear that the ultimate purpose of reform was more centralized planning of *expenditures*:

> Each county bureau would submit an expenditure plan to us at the beginning of the financial year for approval, covering routine items like salaries and operating costs. Extra-plan expenses would be approved on a case-by-case basis by the Director of county Finance Bureau or a county government leader. The problem is that there have been far too many such items. Since the annual plan is often very coarse and guidelines on expenditures are inadequate, expenditure control has come to rely heavily upon item-by-item approval. Particularistic lobbying thrives and abuses are commonplace (Interviews, 2000).[29]

In the new situation, a detailed expenditure plan was to be drawn up, revenue collection and expenditures "delinked," and the off-budget funds consolidated in a comprehensive budget. However, due to agency resistance, little change was effected (Interviews, 2000). The problem was that, after non-tax revenues were centrally channelled into the special fiscal account, they would still be spent by agencies in the previous decentralized and largely uncoordinated manner. The only exception was the portion discussed above as CO funds, which was basically a "tax" imposed by the county Finance Bureau.

Even reforms on the revenue side had mixed results. On the one hand, the desired result appears to have been achieved as funds deposited in the county special fiscal account saw an immediate surge in 1996, to 110 million yuan from 45 million yuan in

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1995 (Table 2). At the same time, year-end checks uncovered still more hoarding of funds.[30] In response, the county Finance Bureau in 1997 required that all county agencies cancel their transitory revenue bank accounts. This measure helped somewhat, and the off-budget revenue centrally collected in 1998 increased to 200 million yuan. This did not eradicate the problem of agencies withholding funds entirely, however, since they still remained responsible for both the charging and collection of fees. Although transitory revenue accounts were abolished, agencies could still withhold collected monies in cash or in personal bank accounts. They could also charge a higher level of fees to retain the over-charged portion for discretionary use (Interviews, 2000)

To close these loopholes, the county Finance Bureau launched a third reform in 1999 – "the three separations and two integrations model" (*sanfen liangtong moshi*) (Zhao, 2000: 22-25). The "three separations" refer to: (1) assigning an independent unit to collect the fee revenues; (2) having a similar arrangement as (1) for penalty revenues; and (3) delinking revenues and expenditures. The "two integrations" are: (1) integrating all fiscal funds, whether budgetary or off-budget, which would go directly to the state treasury; and (2) centralizing expenditure planning of all county departments, including off-budget expenditures. The first two "separations" and the first "integration" targeted the revenue side of the reform, whilst the third "separation" and the second "integration" addressed the decentralized expenditure control system. Under the new system, the charging agencies issuing notices of fee payment do not collect the monies themselves. Fee payers pay directly into local state treasury through designated bank branches, as in the case of tax revenue in the *shuikuan zhida* reform. Computerization ensures instant sharing of information between the banks, state treasury and finance departments. Moreover, to prevent overcharging, each fee is assigned a computerized code showing the authorized payment amount. The system thus rules out unauthorized fees simply because no codes exist for them. Any unauthorized fees may thus be collected only outside the normal avenue, and hence more distinguishable from authorized fees. In the first six months of operation of the new scheme, 97 categories of unauthorized fees were identified and abolished, eliminating over-charging and illegal charging of 1.3 million yuan (Interviews, 2000).

By the end of 2000, Yichang County had put in place the institutional infrastructure for the direct entry to state treasury of both tax and non-tax revenues. As in earlier initiatives, changes in the expenditure side were often the hardest to implement. As it turned out, whilst all non-tax revenues were successfully centralized into the local state treasury, those belonging to the extra-budgetary category and had previously been used by the departments in a decentralized manner would still be routed back to the special fiscal funds of the county Finance Bureau. From there, the funds would be transferred to the departments as the expenditures were incurred, in much the same manner as before the time of the new model (Interviews, 2000).

The limited progress in the expenditure side of the reform pointed to the depth of resistance to change. The core of agency interests lies in a decentralized system of expenditure decisions, as a result, reform only progressed incrementally from the relatively easier end of revenue collection. It would be wrong, however, to dismiss the revenue-side changes as insignificant. The changes have greatly improved the efficiency

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and transparency of revenue collection. It is likely that transparency in itself constitutes an important check on abuse.

The "Zero-bank-account" Initiative (linghu tongguan): Fiscal management at the township level was characterized by the dominance of off-budget funds,[31] the small scale of operation and the shortage of accounting expertise. These characteristics made the nationwide phenomenon of unrestrained agency autonomy more acute in the townships than elsewhere in the state hierarchy. Most township departments had only a few staff (Zhao, 1998: 39-40).[32] Often the same person tripled as accountant, cashier, and user. The temptation of malpractice was large and its occurrence widespread.

In 1998, the county Finance Bureau spearheaded a major initiative of "zero-bank-account." It includes the following elements. First, *all* bank accounts of township level agencies were abolished, with the exception of a "special fiscal account" managed by the township finance bureau. Second, all revenues and expenditures were centralized in the special fiscal accounts. In other words, with the exception of some petty cash, the township agencies would no longer manage the flows of monies. A small team of trained accounting personnel at the township finance bureaus took care of all revenues and expenditures (Yichang Finance Bureau, 1999). This initiative thus targeted the prevalent fiscal malpractices among township agencies at their root.

Such a drastic move was justified on the grounds that the scale of operation of township agencies had been small, that their compact staff precluded any internal monitoring, and that previous "*post hoc*" monitoring through sporadic checks had proved ineffective. Moreover, the shortage of qualified accounting personnel was a genuine difficulty. Centralizing accounting at township finance bureaus required only five accounting staff, whilst four to eight times more were needed before. However, since the township was itself one level of local government, there was once some worry within the county Finance Bureau that the county might be criticized as encroaching on the jurisdiction of the townships (Interviews, 1999).[33] County officials eventually justified the reform by emphasizing that the changes involved a redistribution of responsibilities between the township finance bureau and other township departments. Since the centralization of fund management was confined *within* the township level of government, it could not be accused of offending the established principle of "fiscal management by the same level of government" and thus could be safely defended (Interviews, 1999).

How did the county Finance Bureau come up with this reform idea? Local officials admitted that the problems with township monies were not new, and that multiple attempts had been made previously to tackle them, for instance through periodic sudden spot checks of accounts.

> Yes we knew of this problem before ... but it was quite different when the details of the problem unfolded right before you, in a physical sense... In that particular spot check I simply felt overwhelmed. The magnitude of abuse was ridiculous. I was shocked and felt that something genuine needed to be done to resolve this old problem. We used to rely on *post hoc* checks, but these didn't work. The situation simply relapsed after a while. We need innovations (Interviews, 2000).

Another county official revealed the context behind the move, which might have

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supplied the motivation at the county for initiating the change.

> Back then the county was often asked to bail out township governments who failed to pay their cadres. It was not because townships were poorly funded. Often funds had been misappropriated, leaving the burdens to the county (Interviews, 2000).

Eleven of the twenty townships in the county had had problems in paying their cadres in late 1997, and the debt levels had been increasing.[34] In this context, a senior county finance official worked out the "zero-bank-account" initiative with his township colleagues during a routine round of check of township accounts in early 1998, and experimented with the idea in two townships in June 1998. The county also made use of the new mechanism to centralize salary payment of township officials, wiping out the source of non-payment at the root (Interviews, 2000).

It is important to note that township leaders supported the reform which sought to reduce fiscal autonomy of township agencies. A county official explained how they secured support from the townships:

> Oh, the township party and government leaders were quick in giving their support. That was pretty obvious. We were in fact helping them to take control of the agencies. They had had a hard time in getting to know what was going on there (Interviews, 2000).

Intra-township dynamics thus mattered. Three months after the pilot implementation in two townships, in September 1998, all 20 townships in Yichang County had adopted it. Between June 1998 and March 2000, 728 bank accounts of township agencies, and 107 bank accounts of township finance bureaus were written off. Altogether, 277 million yuan entered the special fiscal accounts, including off-budget funds and county grants of 76 million yuan, which was 67% more than the amount collected in the preceding 20-month period (Interviews, 2000).[35]

This initiative quickly earned Yichang County fame and recognition. There was high-profile national media coverage from November 1998 (*Hubei Caishui*, 4, 1999: 28; *China Taxation Daily*, 19 June 2000). In December 1998 Hubei Provincial Finance Bureau formally recommended the scheme for broader implementation in the province (Hubei Provincial Finance Bureau Notice, No. 1129, 7 December 1998). Hundreds of agencies from over 20 provinces have since sent delegations to learn from Yichang's experience (*Hubei Daily*, 10 December 2001).[36]

Despite the initial success of the scheme, abuses soon emerged. For centralized management to work, the new manager needed to perform well. Whilst the scheme sought to contain abuses by agency personnel, its pronounced aim was not to dispense with the agency's claim to the authorized uses of the funds (Shen, 1999: 43). Such reassurance was considered necessary to neutralize agency resistance to reform. The new system seeks to improve fiscal management through the provision of accounting and management *services*. What was centralized were "tasks" – the day-to-day bookkeeping, etc. - not "powers," or so was the rhetoric. In practice, it turned out that township leaders had sometimes failed to respect the agencies' right to the funds. In some cases, new bureaucratic barriers were erected. Monies were not dispatched speedily when authorized expenditures were incurred, as township leaders had "borrowed" the monies for other purposes. Some townships even charged fees to the agencies for providing accounting services (Li, 2000: 27).

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One comment pointed out the crux of the problem: who was there to monitor the managers (Zhu, 1998: 104)? Too much leeway had been left to the discretion of the township leaders in the scheme. There was a need for new rules limiting the new powers. Two examples of ambiguities in the new system were: (1) the circumstances whereby "borrowing" from the funds was allowed, and for how long; and (2) the range of expenditure items requiring item-by-item approval. It was unclear, for example, whether routine expenditure items such as payroll, which had been pre-approved in annual expenditure plans, would still require approval once more when incurred (Interviews, 2000; Zhu, 1998: 104). In response to this need for more detailed guidelines, in 2000 the county Finance Bureau issued a lengthy document, "Rules on implementation details," delineating the details of many of the contentious areas (Interviews, 2000).[37] In the final analysis, resolving the monitoring problem would require not only technical improvements in the rules, but also a change of culture in favour of a higher degree of transparency. The dynamics of implementation of the new scheme after 1998 has gradually led some county officials to realize that abuses of power may only be minimized through a system whereby all stakeholders place the exercise of power under regular scrutiny (Interviews, 2002).

Contradictory Trends?

Discussion so far portrays two trends in local actions. Penetrating the reform initiatives is an explicit interest in co-ordination and control, effective governance and social stability. Agency survival is, meanwhile, the dominant concern of the autonomy-seeking actions. The differences between the two trends are most evident in the treatment of the off-budget sector. A major element of the reform initiatives is to move towards a comprehensive budget, getting rid of the off-budget funds altogether. At both the township and county levels, a large part of improvement efforts are thus expended at enhancing the transparency and physical control over off-budget revenues and expenditures. Through stamping out abuses in revenue collection, the county government seeks to contain a growing threat to social stability right within its own house. By reducing the misuse of funds, it hopes to enhance the chance for its policies to be implemented.

These trends are not isolated developments in one county. Autonomy-seeking actions have been a pervasive local phenomenon. Bottom-up initiatives have also characterized the reform process of contemporary China, with many local initiatives eventually making their way into national policies. In this case, it is obvious that Yichang's reform measures went ahead of the national reform.[38] They have become the object of emulation for many localities and a source of reference for national policies. The central government announced in 2001 its decision to reform the state treasury management system, for example, and in it the influence of the "zero-bank-account" initiative, and other related local innovations, was obvious.[39]

Observing the interactions within the county then appears to be instrumental to explaining these processes. This article notes that it was the "domestic" concerns of cleaning up one's "backyard" that had originally motivated the county Finance Bureau to initiate reform measures. Getting one's backyard in order was instrumental to extending

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one's scope of autonomy and avoiding unwanted intervention from higher levels. In this sense the reform and autonomy-seeking initiatives contributed towards the same objective, namely enhancing local autonomy and buttressing the standing of the county government vis-à-vis external oversight. In fact, the unity between the two trends was readily accepted by the county officials, who made it clear during interviews that the reform initiatives had *never* been intended to undercut the autonomy initiatives.

If it turns out that the contradictions are more apparent than real, and that the two trends are but two parts of a single strategy, the question becomes one of interpreting the meaning of the actions. On closer inspection, it is found that autonomy-seeking initiatives are mostly targeted at the county-municipal/provincial/national interface, while the reform initiatives addressed issues within the county, either at the county level, in the townships, or at the county-township interface. Thus, the county Finance Bureau would centralize part of the county departments' off-budget funds (a reform initiative) and yet placed this centralized fund outside the budget (an autonomy-seeking action). The centralization of agency funds aimed at enhancing the management capacity of the county Finance Bureau vis-à-vis other county departments. Placing the centralized fund outside the county budget, on the other hand, sought to protect the fiscal autonomy of the county vis-à-vis higher level interventions. In short, the contradiction between the reform and the autonomy-seeking initiatives was resolved by their differing loci of action.

This eclecticism was also found in the reform initiatives. These were mostly applied to a select group of actors rather than universally. The managers had intended, through instituting the reforms, to tighten control and to enlarge room for *their own* discretionary action. Take the "zero-bank-account" initiative as an example. Here the county finance officials, supported by the county leaders, joined hands with the township leaders to place under control the unrestrained discretion of the township agencies. Agency funds were centralized in the township finance bureaus and the township leaders, who hence enjoyed enlarged powers. In other words, rationalization of the targets of management was pursued for the sake of enhanced autonomy of the managers. However, as implementation progressed, new abuses of funds occurred right within the new managers. Growing complaints and resistance to continued implementation of the scheme presented pressure on the county leaders for a second round of reform initiatives, in which the township finance bureaus and township leaders became the main targets of control.

In other words, internal pressures accumulated within the county during reform have led to subsequent changes to previously installed reform measures, to an effect that the scope of reform was broadened and the reformers themselves also brought within regulation. The development of the reform initiatives, despite their original purpose, eventually undercuts the autonomy agenda. It is important to note that this has happened *not* because of the greater political might of the central government championing reform against the county government championing autonomy, as the conventional implementation-as-compliance thesis would argue. Rather, Yichang county government had championed *both* rationalization reform and autonomy. The development and interaction of the local actions, and the actors concerned, *within* the county itself have generated endogenous forces of further changes.

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Notes

1. See, for instance, DiMaggio (1988), Hall and Taylor (1996, 1998), Hay and Wincott (1998) and North (1999).
2. See Hill and Hupe (2002) for an excellent overview of the literature.
3. The monitoring problem is elaborated by the principal-agent literature (Jensen and Mecking, 1976, Alchian, 1950, Alchian and Demsetz, 1972, Fama, 1980, Moe, 1984, Bendor and Mookherjee, 1987).
4. In the final analysis, this alternative conception of the roles of central and local actors draws on a recognition of agency freedom within the constraints of the structural context, a notion central to "structuration theory" (Giddens, 1991, 1993; Bryant and Jary, 1991).
5. Yichang County was renamed Yining District of the larger Yichang Municipality in July 2001, as a result of the unfolding urbanization process which saw counties being amalgamated into cities. See Breslin (2003) on the forces for change and resistance in financial reform.
6. For the notion of institutionalization projects, and interaction between projects, see Eisenstadt (1968), DiMaggio (1988) and Jepperson (1991).
7. Major works on national fiscal system and practice include Oksenberg and Tong (1991), on the formal fiscal system up to the 1980s, Wong (1991, 1997), on the central-local interface and local government finance, and Zhang (1999), Li (2003a, b) on fiscal and public finance reforms since the 1990s. Other areas of major change at that time include the opening of the borders to foreign trade and investment, the so-called "Open Door Policy," experiments in increased autonomy in state-owned industrial enterprises, as well as the largely peasant-initiated changes in the resurgence of family farming in the rural sector.
8. Over the 1980s, the share of central fiscal revenue fluctuated between 20 and 40 percent (*China Finance Yearbook, 1999*, pp. 448, 467).
9. The State Council Circular No. 29, 1996, signalled the start of this process. The order stipulated a more stringent management regime for extra-budgetary funds, subsumed a sizable portion of the funds within the management of the budget, and announced the goal of achieving a comprehensive budget, eventually eliminating the extra-budgetary sector altogether.
10. The policy of adopting the "public finance" approach in fiscal management was first mentioned in a speech by Vice-premier Li Lan-qing at the national fiscal meeting in December 1998 (*People's Daily*, 16 December 1998, p. 1).
11. What distinguished this new policy from the earlier procedure of "separating the government and enterprises" (*zhengqi fenkai*) was that whilst the latter called for an end of direct involvement of party and state organs in business activities, and advocated control at arms' length, the former demanded a pull-out of state investment from "competitive" business activities. Like many other new policies, however, the scope of this new policy was by no means clear, and this ambiguity has allowed room for innovative interpretations by the local governments (Li, 2003a).
12. Provincial and national GDP grew three-fold during the same period (*Yichang City Statistical Yearbook, Hubei Statistical Yearbook, China Statistical Yearbook*, various years).
13. The share would have been higher if one major component of extra-budgetary funds, the enterprise funds, was not excluded from the statistic accounting since 1993, as a result of a nationwide change of accounting rules (Xiang, 1999: 721-2). This development was part of an initiative to follow international accounting standards.
14. The inflow/outflow statistics include all kinds of in/out-bound fiscal resources, and thus provide a summary indicator of the fiscal relationship between the county and the higher-level governments.
15. Belcher and Shue (1996: 90) had noted the difficulty of observing these manoeuvres in their study of county finance of an earlier period.
16. This was the strategy Guangdong provincial officials had employed to stretch the central ceiling on investment at times of economic retrenchment, during the late 1980s, by pointing out how much external investment and other benefits Guangdong would have lost if the central government did not relax its control.

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17. In 2000 Yichang County ranked 140th in terms of local budgetary revenue among over 2000 counties nationally. The top ranking county in the country was Nanhai of Guangdong, with total revenue of 1805 million yuan (*China Finance Yearbook*, 2001: 331-2).
18. "Transfer payments" refers to the specific category of "equalization" transfer payments which had come to place in China's intergovernmental fiscal arrangements since 1994, as a constituent component of the fiscal reform. By definition, equalization transfer payments were geared for redistributive purpose, so that better-off areas were not the intended beneficiaries.
19. Particularistic bargaining and lobbying still loomed large in the resource allocation process between governments despite much talk about the "factoring" method. This was especially true for the earmarked grants, but also for the equalization transfer payments (Interviews with national and provincial (Hubei) fiscal officials, 2001 and 2002).
20. "Off-budget funds" is used to refer generally to all fiscal funds collected outside the budget. A related term is "extra-budgetary funds," which refers to fiscal funds officially (centrally) mandated to be placed outside the budget. In theory the two terms should refer to the same thing, but in practice a lot of fiscal funds placed outside the budget were not included in the official statistics of "extra-budgetary funds," either because they were deliberately "hidden" to avoid oversight, or because they were officially left alone (e.g. "self-raised funds" in townships (before such funds were abolished in 1996), social security funds in cities). The term "off-budget funds" consequently emerged in the literature, as adopted here, to refer to all fiscal funds (official or "unofficial") collected from society and kept outside the budget.
21. One example is the centrally mandated pay rise for civil servants since 1999, for which the county had to pay 60% of the total bill out of its own coffers (Interviews, 2000).
22. Two major national developments in 1996 were a State Council decision to launch a comprehensive nationwide survey on extra-budgetary funds (State Council Notice No. 12, 1996) and a subsequent decision to overhaul and tighten the management of the extra-budgetary funds (State Council Notice No. 29, 1996).
23. A vice-director of the county Finance Bureau was instrumental in conceiving the program and steered through its implementation. His effort won him the Class One Award by Yichang Municipal Government in 1999 (Interviews, 2000).
24. The administration of the state treasury follows the principle of "unitary leadership at the centre, decentralized management by levels" (*tongi lingdao, fenji guanli*). According to the State Treasury Regulation promulgated by State Council in July 1985, each level of government will operate its corresponding state treasury. Thus there are the national state treasury (central level), the provincial-level treasuries, the municipal-level treasuries, and county-level treasuries. The sub-national treasuries constitute the "branches" of the national state treasuries whilst also act as treasuries for local government. Funds are collected into and disbursed from the local treasuries from/to the corresponding level of local governments without routing through the national state treasury.
25. The county received a special grant of 750,000 yuan from the provincial government on this initiative and spent 400,000 yuan of it to develop a computerized network system among the tax collecting units, finance bureaus and local state treasury. A similar computerized network was reported as instrumental in reforms in Guilin of Guangxi, where the "zero-bank-account" system was first adopted in late 2001 (*China Information World* (*Zhongguo jisuanji pao*), 22 October 2001.
26. The lack of transparency and proper documentation in county extra-budgetary finance was also noted in Blecher and Shue (1996: 82). Qin (2000: 1-2) estimates that there were 1,100 types of non-tax charges in Yichang County. In a nationwide special audit, some 2,500 fees were discovered to have been levied as of 1996 without proper authorization. Authorized fees numbered 905 (World Bank, 2000).
27. These fees were supposed to finance specific public services, such as education and road construction, as a supplement to budgetary allocation, but were often diverted to cadres' perks, and financing local leaders' "pet" projects.
28. This was largely a step-up of pre-existing policy, as central policy since 1986 had required some form of centralized management of extra-budgetary funds at each level of government, but this had not been

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vigorously enforced (*State Council Notice No. 44*, 1986).

29. See also Zhao (2000: 22-25).
30. Checks as late as 1998/9 discovered hoarded revenues up to 19 million yuan, even after more stringent measures were introduced in the previous year (Interviews, 2000).
31. Official figures put the share of off-budget revenue (extra-budgetary and self-raised funds) in township-level finance at 33%-37% in the years 1994-97, whilst the overall share in national revenue during the period is between 24%-27%, except for 1996, which saw a sudden surge in the share to 34.5% (*China Finance Yearbook*, 1996, 1998). The sudden surge in 1996 is likely due to a large-scale inspection exercise by Ministry of Finance officials on off-budget funds nationwide, which uncovered a substantial portion of unreported extra-budgetary funds. Whilst the 1996 national figure strongly suggests that the figures for other years grossly underestimate the real picture, the difference between the township shares and the national shares as reported suggests that the share of the off-budget in township finance has been higher than that in other levels of government finance.
32. The larger departments are the Education Unit, Medical Services Unit, and the administration office of township government.
33. According to Budget Law, each level of government shall formulate its own budget which shall be approved by the People's Congress of the corresponding level.
34. http://www.hbyczk.com/other/hbyckj/xhxh/index.htm, p. 2.
35. The 67% rise confirmed that off-budget funds and county grants had been the weak point in township fiscal management. As elsewhere a lot of these revenues had not been remitted to special fiscal accounts as was formally required.
36. A search in http://www/chinainfobank.com easily found news of the "zero-bank-account" scheme in provinces such as Heilongjiang, Anhui, Guizhou, Guangxi, and Beijing.
37. Officials in three townships were penalized since then under the new rules. See http://www.hbyczk.com/other/hbyckj/xhxh/index.htm., p. 5.
38. The central government had prescribed the centralized collection of administrative fees and penalties in special fiscal accounts as early as in 1993, but implementation amongst the central ministries gathered momentum only in 2002. As of 2002, many central government agencies still operated their own transitory bank accounts in a highly decentralized revenue collection system for non-tax revenues, whilst Yichang County had moved to abolish transitory bank accounts of county departments in 1997 (Interviews with national finance officials, Beijing, June 2002).
39. See Ministry of Finance and People's Bank of China (2001); http://www.chinainfobank.com.

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