

THE POLITICS OF PUBLIC GOODS PROVISION IN RURAL CHINA

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DECLARATION

I hereby declare that the thesis is my original work and it has
been written by me in its entirety. I have duly
acknowledged all the sources of information which have
been used in the thesis.

This thesis has also not been submitted for any degree in any university
previously.

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Summary

The provision of rural public goods in China, which heavily relied on fiscal revenue of local governments, affected peasants' everyday lives. Although the central government had increased the investment on the rural area construction, the situation of rural public goods provision still remained unsatisfactory in villages dominated by agriculture. Not all public goods were under-provided however. This paper explores the factors leading to the high level of variation in the provision of public goods. This paper argues that the different outcomes of different types of public goods depended on the strong support of government and clear policies. Public infrastructure projects were classified into three categories in this paper based on whether local government has clear policy on fund allocation.

The first category of public project was organised and funded mainly by the government with clearly defined policies. The success rate of these projects is high as they are often the key projects on the agenda of local governments. To show how specifically defined policies are crucial to the fundraising and fund allocation, this paper examines two major projects at county and village levels. The second category of public projects is funded mainly by the government, with unclear policies pertaining to fund application and fund allocation. The success is pending that depends mainly on *guanxi* or local governments' own preferences. The interview with local government officials, village officials and farmers, and evaluating the account books of villages has revealed the workings of *guanxi* in the fundraising process of this category of public projects. The third category of rural public goods is provided mainly through village itself with little or no government's financial support. The success rates of these projects are low. This dissertation delves into several case studies to investigate the major factors hindering the success of the provision of this category.

This dissertation concludes that public goods provision in agricultural villages not only depends on local government, but more importantly, on

clearly defined policies that county or town governments have. Public goods under government's responsibility with clear policies are often successfully provided. For public goods that fall under the category of government's responsibility without clear policies, they will fail to be provided unless either *guanxi* exists, or the project promotes local government's achievements. For public goods that are provided by villages without government's responsibility, it mostly fails to be provided unless the project is small enough to be within the affordability of farmers and to avoid free-rider problem, or entrepreneurs donates heavily.

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Chapter 1

Introduction

1.1 The Problem of Rural China's Public Goods Provision

After more than 30 years of reform and opening up, China's economy has witnessed dramatic development. However, the development is uneven and huge disparities have existed between cities and villages, and between coastal areas and inner areas. Rural public goods provision remains a problem despite reforms in agricultural production and management. Lower spending on public goods perpetuated slower growth in poorer provinces.¹ In many villages, the poor condition of rural infrastructure such as roads, drinking water and irrigation facilities has hindered economic and social development of rural China, and has greatly affected the living condition of farmers.

The overall provision of rural public goods has been low. It was reported that until 2008, around 10,000 towns and 40,000 administrative villages in China had no paved road, nearly 280 million peasants did not secure drinking water² and there were insufficient irrigation facilities for farming. According to statistics provided by the Ministry of Water Resources in 2010, 959 million *mu* (nearly half) of the total 1,830 million *mu* of farmland had no irrigation facilities.³

Total investment in rural public goods provision is grossly inadequate. Villages have enjoyed only a relatively small share of total budgetary

¹ Jean-Jacques Dethier, "Governance, Decentralization, and Reform: An Introduction" In *Governance, Decentralization and Reform in Chile, India and Russia*. ed. Jean-Jacques Dethier (Boston: Kluwer Academic Publishers, 2000), p. 24.

² Qu, Yanchun, "Nongcun Gonggong Chanpin Gongji yu Gonggong Caizheng de Jianli" (The Establishment of Rural Public Goods Provision and Public Expenditure), *Shandong Shehui Kexue*, no. 5 (2008): 72.

³ Yao, Ruifeng, "Zhonghan Wuwen—Zhuangfang Guojia Fangzong Mishuzhang, Shuilibu Fubuzhang Liuning" (Five Questions—Interview with Liuning, Secretary General of the State Flood Control and Drought Relief Headquarters, and Vice Minister of Minister of Water Resources), Xinhua News Agency, 26 March 2010. Available at: http://news.xinhuanet.com/politics/2010-03/26/content_13253894_3.htm (accessed 18 May 2010).

investment from upper-level government.⁴ From 1991 to 2004, the reported proportion of public expenditures by the state on rural public goods provision to the total was a consecutive 10.26%, 10.05%, 9.49%, 9.20%, 8.43%, 8.82%, 8.30%, 10.69%, 8.23%, 7.75%, 7.71%, 7.17%, 7.12% and 8.28%. The proportion was not only low but also decreasing.⁵ A large part of public investment on rural public goods in many places came from village level organisations and villagers rather than from the state.⁶

There is also the question of indiscriminate investment in public goods. Some governments invested in vanity projects for a specific event or a brief period to demonstrate their achievements to upper-level government. The result was the oversupply of some public goods and the undersupply of some needy public goods.⁷

The lack of rural public goods provision in many of China's villages was due to historical as well as current institutional factors. After the establishment of the People's Republic of China, the state had focused on heavy industry development and allocated resources from the countryside to contribute to urban construction and industrialisation.⁸ To some extent, the development of industry in the early stage of industrialisation in China was at the expense of agriculture.⁹

⁴ Zhang, Xiaobo, "Fiscal Decentralization and Political Centralization in China: Implications for Growth and Inequality", *Journal of Comparative Economics*, vol. 34, no. 4. (December 2006): 713-726.

⁵ Qu, Yanchun^a. "Nongcun Gonggong Chanpin Gongji Zhidu de Kunjing yu Chuangxin", no. 2 (February 2007): 96.

⁶ Zhang, Linxiu, Li Qiang, Luo Renfu, Liu Chengfang and Sigao, Luo, "Zhongguo Nongcun Gonggong Wupin Touzi Qingkuang Ji Quyue Fenbu" (The Situation and Distribution of Public Investment on Rural Public Goods in China), *Zhongguo Nongcun Jingji*, no. 11 (2005): 18-25; Zhang, Linxiu, Renfu Luo, Chengfang Liu and Rozelle, Scott, "Investing in Rural China—Tracking China's Commitment to Modernization", *The Chinese Economy*, vol. 39, no. 4 (July-August 2006): 57-84.

⁷ Qu, Yanchun, "Nongcun Gonggong Chanpin Gongji yu Gonggong Caizheng de Jianli" (The Establishment of Rural Public Goods Provision and Public Expenditure), *Shandong Shehui Kexue*, no. 5 (2008): 72-76.

⁸ Feng Xingyuan, Christer Ljungwall Renqing Li, *Zhongguo de Cunji Zuzhi Yu Cunzhuang Zhili* (Village Organisations and Village Governance in China), (Beijing: Zhongguo Shehui Kexue Chubanshe, 2009), p. 290.

⁹ Yu, Shui. *Xiangcun Zhili Yu Nongcun Gonggong Chanpin Gongji* (Rural Governance and Public Goods Provision, Shehui Wenxian Chubanshe, (Social Sciences Academic Press) (2008), p. 1.

Unlike other countries, China's provision of rural public goods is based on a dual system, one for the cities and another for the countryside. The provision of rural public goods and services in China is usually a unilateral imposition by government rather than the result of government-society negotiation and consultation. Farmers have to pay for public goods like it or not.¹⁰ Public facilities such as water, electricity, communications, schools, and hospitals in cities are provided by the governments, while rural public goods have to be contributed by the farmers in villages, with the government only providing subsidies.¹¹ The heavy responsibility has lowered farmers' income and purchasing power.¹²

Before the tax-for-fee reform (TFR), rural public goods were provided by non-institutional means—funds from farmers.¹³ To relieve the burden of farmers, the central government has implemented the TFR and the abolition of agricultural tax (AAT). However, studies show that the TFR has adversely affected the ability or willingness of villagers to invest in public goods.¹⁴ Post-reform villages experienced decreases in both village expenditure for public services and public funding input from the county level, with villages in the upper-middle income brackets hardest hit.¹⁵

After the AAT, the fiscal revenue of town governments has been greatly reduced, especially for those less developed areas that depend largely on agriculture for revenue. Town governments with limited financial support

¹⁰ Bernstein, Thomas P. and Lu Xiaobo, *Taxation without Representation in Contemporary Rural China*, (Cambridge: Cambridge University Press, 2003), p. 89.

¹¹ He Xuefeng and Luo Xingzuo, "Nongcun Gonggongpin Gongji" (2008): 28.

¹² Cheng, Youzhong and Weidong Chen, "Guojia yu Nongmin: Gonggong Chanpin Gongji Juese yu Gongneng Dingwei" (State and Farmer: Public Product's Supply Role and Function Locating), *Huazhong Shifan Daxue Xuebao. Renwen Shehui* (Journal of Huazhong Normal University. Humanities and Social Sciences), 45, no. 2 (March 2006): 2-7.

¹³ Ye, Xingqing, "Lun Nongcun Gonggong Chanpin Gongji Tizhi de Gaige" (Discuss of Rural Public Goods Provision System Reform) no. 6 (1997): 57-62; Qin, Guomin. "Shehui Zhuanxingqi Woguo Nongcun Gonggong Chanpin Gongji Tizhi de Goujian" (Building the Rural Public Goods Provision System during the Social Transition Period), *Zhongguo Xingzheng Guanli* (Chinese Public Administration) no. 8 (August 2005): 69-72. He Xuefeng and Xingzuo Luo, "Nongcun Gonggongpin Gongji" (2008): 28-34.

¹⁴ Luo, Renfu, Liuxiu Zhang, Jikun Huang and Scott Rozelle, "Elections, Fiscal Reform and Public Goods Provision in Rural China", *Journal of Comparative Economics*, 35, no. 3 (2007): 606.

¹⁵ Sato, Hiroshi, "Public Goods Provision and Rural Governance in China", *China: An International Journal*, 6, no. 2 (September 2008): 296.

cannot meet the strong demand for public goods and services from villages in China. Village committees with limited funds have to provide public goods, a responsibility, which is more than what they could handle.

Organising rural public goods provision by villagers is another problem. After the AAT, rural public goods provision depends a lot on village community organisations. The establishment of “one case, one meeting” (*yishi yiyi*) at village assemblies or village representative assemblies to discuss public goods provision issues, such as fund-raising and building or maintaining certain type of infrastructure, is ineffective in practice. First, attendance at meeting is poor since many villagers work outside the village.¹⁶ Second, raising the required funds through “one case, one meeting” is impossible because funds collection is officially limited at RMB15 per person. It is far below what is needed in a project. Third, as the contribution is voluntary, it is difficult to persuade villagers to contribute funds. Without funds, projects cannot not take off.¹⁷

Some scholars argue that the public goods provision in villages in China is now at a standstill. While town governments have insufficient money to provide public goods,¹⁸ it is also difficult to get villagers to contribute funds for public goods provision. The inability to improve infrastructure after the implementation of TFR and AAT has negatively impacted on agricultural production and the livelihood of farmers, raising the likelihood of social unrest and undermining the development of the country.

¹⁶ Sheng, Duanfeng, “Quxiao Nongyeshui Hou de Nongcun Gonggong Wupin Gongji Jizhi—Yi Zijin Chouji Wei Zhuyao Fenxi Duixiang” (The Provision Mechanism of Rural Public Goods after the Abolition of Agricultural Tax—the Study of Fundraising). *Difang Caizheng Yanjiu*, no. 8 (2008): 37-42.

¹⁷ He, Xuefeng, “Nongcun Gonggongpin Gongji”, 10, no. 5 (2008): 28-34.

¹⁸ Liu, Jianping, He, Jianjun and Wengao Liu, “Nongyeshui Quxiao Hou Nongcun Gonggongpin Gongji Nengli Xiajiang de Xianxiang Ji Duice Fenxi—Jiyu Hubeisheng Bufen Diqu de DiaoCha” (Phenomenon of Decreasing Ability of Providing Rural Public Goods after the Abolition of Agricultural Tax—Case Studies in Hubei Province), *Chinese Public Administration*, no. 5 (2006): 17-21; Long, Bifeng. “Shuifei Gaige Hou Nongcun Diqu Gonggong Chanpin Chouzi Kunjing Yu Duice Tanxi” (The Difficulties of Financing and Solution of the Rural Public Goods Provision after the Agricultural Tax and Fee Reform), *Qiushi* (Truth Seeking), no. 12 (2005): 103-105; John James Kennedy, “From the Tax-for-Fee Reform to the Abolition of Agricultural Taxes: The Impact on Town Governments in North-West China”, *China Quarterly*, no. 189 (March 2007): 43-59.

Scholars who are more positive argue that there are multiple channels for raising funds such as the transfer of payments from central and provincial governments and funds raised by village corporations and villagers. Even with limited financial support from town governments, village officials and villagers could act collectively to provide public goods.¹⁹

The issue of rural public goods provision has been studied from various angles. But existing literature proves that there is still room for further study. Scholars who have examined rural public goods provision from the perspective of institutional change have examined, at the macro level, the effect of a shift from the mere dependence on government to the joint participation of government, private organisations, and individuals as a result of the Household Responsibility System (HRS).²⁰ Further study of the impact of institutional change on rural public goods provision at the micro level—local or community level—after the TFR and the subsequent AAT is required.

This study finds huge differences between different types of public projects in agricultural villages in China in spite of the fact that a lack of fund after the TFR and AAT was the common phenomenon.²¹ This dissertation argues that apart from the shortage of funds, many underlying factors commonly found in agricultural villages in central and western China, such as the poor allocation of funds and the workings of informal institutions in the funds application process, require more detailed study.

¹⁹ Wang, Yulong (2004), “Xiangcun Gonggong Chanpin Tigong Moshi Jieshi—Jianlun Nongmin Shidu Canyu yu Xiangcun Gonggong Chanpin Tigong de Zijin Laiyuan” (Analysis of Rural Public Goods Provision Mode—Discussion of Farmers’ Participation and Contribution of Funds to It), *Nandu Xuetao [Renwen Shehui Xuebao]* (Academic Forum of Nan Du [Journal of the Humanities and Social Science]), no. 1 (January 2004): 109-112. Jia, Yan, “Nongcun Gonggong Chanpin Gongji Zhuti Duoyuanhua Yanjiu” (The Study of Plural Provision Subjects of Rural Public Goods in China), *Xiangzhen Jingji* (Rural Economy), no. 1 (2007): 14-17. Tsai, Lili,^b “Solidary groups, informal accountability, and local public goods provision in rural China”, *American Political Science Review*, 101, no. 2 (2007):355-72. Yu, Shui (2008), *Xiangcun Zhili Yu Nongcun Gonggong Chanpin Gongji* (Rural Governance and Public Goods Provision. Shehui Wenxian Chubanshe (Social Sciences Academic Press).

²⁰ Zhang Jun and He, Hanxi, “Zhongguo Nongcun de Gonggong Chanpin Gongji”, 5 (1996), 50-57; Zhang, Jun and Jiang Wei, “Gaige Hou Zhongguo Nongcun Gonggong Chanpin de Gongji”, 1 (1998), 36-44; Lin, Wanlong, *Zhongguo Nongcun Shequ Gonggong Chanpin Gongji Zhidu Yanjiu*, 2003.

²¹ Lin Wanlong and Liu Xianjuan, 2006; Yep Ray, 2004; John James Kennedy, 2007; Luo Renfu, 2007; Sato, 2008.

Some studies have identified the complicated process involved, including fundraising, funds allocation, decision-making and production, without systematic analysis.²² Li Linda Chelan and Hu Zhiping focused on the function and role of towns²³ with little analysis at county (district) level and villagers' activity in the provision process. Li Linda Chelan has pointed out in the conclusion of her dissertation that increasing public investment is not enough and that establishing institutions for the allocation of public money, supervision of money spending, and others need to be emphasised. However, she did not analyse these issues in detail. More in-depth analysis of funds allocation and the different types of public projects are thus necessary.

1.2 Significance of this Study

In this dissertation, both formal and informal institutions are combined to investigate the factors resulting in the huge differences on the provision of different public goods in agricultural villages in inland China. This dissertation regards the provision of rural public goods as a process that requires a systematic and micro level analysis. An investigation of the process of fundraising for public goods has unveiled the different roles played by government, village committee and farmer, as well as the relationship between county, town, and village committees. The implementation of certain policies, such as *yishi yiyi* at the local level, reflects a flexibility that may be inconsistent with the initial purpose of the policy.

The classified examination of different public projects in this dissertation would show why some public projects are more successful than others, providing the basis for improving rural public goods provision by revising

²² Zhang, Jun and Jiang Wei 1998; Li, Linda Chelan, "State and Market in Public Service Provision: Opportunities and Traps for Institutional Change in Rural China", *The Pacific Review*, vol. 21, no. 3 (July 2008): 257-278; Hu, Zhiping, "Chonggou Nongcun Gonggong Chanpin he Fuwu de Tigong Jizhi", no. 4 (April 2009): 97-100.

²³ Li, Linda Chelan, "State and Market in Public Service Provision: Opportunities and Traps for Institutional Change in Rural China", *The Pacific Review*, vol. 21, no. 3 (July 2008): 257-278. Hu, Zhiping, "Chonggou Nongcun Gonggong Chanpin he Fuwu de Tigong Jizhi—Jiyu Xiangzhen Zhengfu Zhineng Zhuaxing de Fenxi" (Reconstruction on the Provision Mechanism of Rural Public Goods and Services—based on the Transformation of the Town's Government Functions), *Gaige Zhanlue*, no. 4 (April 2009): 97-100.

policies on the less successful public projects. An examination of the construction of a certain public project in a village group or village will better explain the problems existing in the current situation of rural public goods provision. Especially, the flaws of project application policy and fund allocation policy have caused negative effects on certain public projects construction.

Informal institutions such as *guanxi* and norms in the fundraising process will be examined along with the dynamic mechanisms of both formal and informal institutions in rural public goods provision. *Guanxi* is fundamental to understanding Chinese society. It has been studied in connection with doing businesses in China such as works by Hu Biliang²⁴. This dissertation provides a new perspective of funds application of rural public goods provision in China. The vague policies and regulations regarding rural public goods provision by local level governments have nurtured the growth of *guanxi*. The negative effects of maintaining and building *guanxi* would shed light on the low trust of farmers on local government officials and village officials.

The investigation into the mind-set of farmers would explain why farmers are reluctant to contribute funds to some types of public projects and whether they could cooperate and construct public projects on their own in view of the financial situation of villages. It may also lay the foundation for improving fund allocation for rural public goods in villages without having to establish *guanxi* with government officials.

1.3 Central Argument

This dissertation explains why the provision of some public projects is more successful than that of others by examining rural public goods provision as a dynamic process at the micro level. The central argument is that the success of rural public goods provision in agricultural villages depends on clearly defined policies formulated by the local government. Based on the clarity of government policies, rural public goods in this dissertation have

²⁴ Hu Biliang, *Informal Institutions and Rural Development in China*, New York, Routledge, 2007.

been classified into three categories: first, those overseen mainly by government with government's specific formal institutions and clear policies; second, those funded mainly by government, with unclear policies; and third, those mainly launched by villages.

The first category of rural public goods is most easy to be successful as these projects are often taken as a gauge of government performance. While local governments are liable to be punished if these projects are unsuccessful, they also stand to benefit from the investment they attracted, thus promoting local development in the long run. The construction of inter-village road is a case in point. Local government is highly motivated to provide enough funds for the construction of public projects. Backed by the government's strong support of funds and clear policies, farmers would be greatly motivated to contribute funds, as they are certain that their contribution of funds will be met by the same or more from the government.

The success of the second category of provision cannot be guaranteed, as the unclear policies will give way to the informal institutions. When a public project is not on the agenda of the government and lacks the clear policies for fund application and allocation, *guanxi* is essential to obtain fund. This forms the basis of the second argument of this dissertation. When local governments' policies of funds allocation are unclear, *guanxi* plays an important role in the success of rural public goods provision. Villages having good *guanxi* with local government officials would manage to get the fund and public goods are more likely to be successful than those without *guanxi*. Furthermore, the unclear policies or guidelines for public project construction hindered the progress of the provision due to repetitive construction and construction of vanity projects.

The third category often includes small-scale public goods that often require village's collective income and farmers' large contribution of funds. The failure of these projects could be due to low collective income, free rider problem, and farmers' mind-set of dependence on government and other factors. On the other hand, the success of some special cases could be contributed to the heavy donations from entrepreneurs, the small size of the

project and the capability of the project leader. The third argument is that on their own, village's provision of public goods is difficult in agricultural villages as village collective has little collective funds, and farmers are largely reluctant to contribute funds.

1.4 Overview of Chapters

Chapter 2 reviews literature and theories regarding public goods provision such as public goods, institutional analyses, incentive and *guanxi*. Theoretical framework based on institutional theory would be presented and research method would be discussed.

Chapter 3 reviews the history of rural public goods provision, the period under the People's Commune (PC) system from 1958 to 1983, and the period after the implementation of HRS up till the TFR. The development of PC is reviewed, along with that of town, administrative village and village group, which took over the previous roles of PC, production brigade, and production team respectively, in the second period. The incentives of PC, town government, and farmers to provide rural public goods in these two periods are analysed. The chapter will also highlight problems in rural public goods provision after the implementation of the HRS.

Chapter 4 critically evaluates the effects of TFR and AAT on the provision of rural public goods in China, leading some agricultural towns to debts. The incentives of town government, village committee, and farmer during the post-reform period are examined. The main problem with rural public goods provision after the TFR and AAT is funding. Fiscal transfer from upper level government is insufficient while the implementation of *yishi yiyi* did not help either. The poor state-of-affair of rural public goods is presented.

Chapter 5 examines the first category of public projects. Funds come mainly from the government, while villages contribute only a small fraction. Two types of public projects including inter-village road construction and ponds desilting at T Town, Hunan province are investigated. The examination of fund allocation from government and fundraising within village has shown that public projects with clear application procedures and scientifically

designed fund allocation system are more likely to be successfully constructed. The town government of T Town has little financial ability to provide rural public goods, which are mainly undertaken by county or district governments.

The second category of public projects is analysed in Chapter 6. Compared to the successful projects studied in Chapter 5, many drinking water projects and many New Socialist Countryside Construction (NSCC) projects have not achieved desired outcomes. A comparative study of two similar projects on drinking water in the same village of S Village, T Town has revealed the operation of *guanxi* due to the flawed policies. The negative effects of *guanxi* would be presented.

An examination of NSCC projects in H District, Hunan province would discuss how project application procedures, fund allocation and evaluation systems affect fundraising and how NSCC works. The flaws in these systems would lead to duplicated constructions and the construction of vanity projects. The NSCC project might not achieve the initial purpose of improving the infrastructure of villages and narrowing the gap between cities and villages due to the flaws mainly in the application eligibility and content design of the NSCC. It also reveals different roles of county, town governments, village committee and farmers in the provision process, especially in fundraising.

Chapter 7 investigates the provision of rural public goods mainly by villages through specific case studies. Different levels of rural public goods provision by villages would be explored. First, the policy of *yishi yiyi* that aims to facilitate village's self-organisation of rural public goods provision will be assessed. Problems with *yishi yiyi* such as the lack of supervision and the unscientific fund limit to be contributed by an individual make the actual implementation inconsistent with the policy. Some small-scale rural public goods need efforts on the part of the village. The collective income of the village and entrepreneurs' contribution to rural public goods provision will be evaluated. This chapter will also demonstrate why it is difficult for farmers to contribute funds and cooperate based on the case of T Town, Hunan province.

Chapter 8 concludes the whole discussion by summarising the findings, evaluating their significance and limitations, and singling out areas for future

extensive study. The improvement of rural public goods provision requires the regulation of formal institutions, and a revision of policies and relationship between local government and farmers.

Chapter 2

Review, Theoretical Framework and Research Methods

2.1 Literature Review

The standard of living of villagers to a large extent depends on basic public goods and services provision. A variety of literature has attached great importance to the study of rural public goods provision. There is general consensus that the situation of rural public goods has worsened in agricultural villages after the tax-for-fee reform (TRF) and abolition of agricultural tax (AAT) in agricultural villages. Existing literature has revealed the poor financial situation of town governments and the lack of rural public goods provision in many villages.

Defining Public Goods

The provision of public goods is an essential indicator of governmental performance and the government is regarded as performing well if it provides a modicum of basic public goods and services, in addition to effectively carrying out other duties such as decision-making, budget planning and information collection.²⁵ Kimenyi states that the provision of public goods is the legitimate functions of the government.²⁶

The distinction between public and private goods was first made by Adam Smith who concludes that if the market fails to provide public goods, it is the job of the government to do so.²⁷ Scholars studying public goods often cite Samuelson's definition of classifying goods into two categories—private consumption goods which could be distributed among different individuals and collective consumption goods which are enjoyed by everyone without

²⁵ Lili Tsai, *Accountability without Democracy: Solidary Groups and Public Goods Provision in Rural China* (New York: Cambridge University Press, 2007), p. 5.

²⁶ Mwangi S Kimenyi, "Ethnicity, Governance and the Provision of Public Goods", *Journal of African Economies*, 15, no. 1 supplement (2006): 62-69.

²⁷ Adam Smith, *The Wealth of Nations: An Inquiry into the Nature and Causes* (New York: Modern Library, 1994), p. 779.

taking them away from any other individual's consumption of those goods.²⁸ Buchanan argues that there was a missing link between purely public goods and purely private goods as proposed by Samuelson. He raises the concept of club goods or collective ownership-membership arrangements to fill the gap between purely public goods and purely private goods.²⁹

Olson uses common, collective and public goods interchangeably. He defines public, common or collective goods as "any good such that, if any person X_i in a group $X_1, \dots, X_i, \dots, X_n$ consumes it, it could not feasibly be withheld from the others in that group".³⁰ It means that public goods have the characteristic of non-rivalry and non-excludability and it is unavoidable that people should share in the consumption of the good without purchasing or paying for any of the public good. In addition to non-rivalry and non-excludability, public goods have another characteristic of non-divisibility. However, Bardhan claims that local public goods are more like "club goods", site-specific and semi-public goods that have this exclusive element that deprives other people of their consumption.³¹ He suggests that local public goods in the context of poor countries must include semi-public goods called the commons.³²

When classifying public goods in the Chinese context, scholars differ on their definition. Some Chinese scholars classified rural public goods in China as pure public and semi-public goods.³³ Pure public goods are provided freely by government in areas including rural environmental protection, river and water treatment and information system construction. Semi-public goods

²⁸ Paul A Samuelson, "The Pure Theory of Public Expenditure", *The Review of Economics and Statistics*, 36, no. 4 (November 1954): 387.

²⁹ James M Buchanan, "An Economic Theory of Clubs", *Economica*, vol. 32, no. 125, (February 1965): 1.

³⁰ Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965), p. 14.

³¹ Pranab Bardhan, "Local Governance and Delivery of Public Goods". In *Governance, Decentralization and Reform in Chile, India and Russia*, (ed.) Jean-Jacques Dethier (Boston: Kluwer Academic Publishers, 2000), p. 181.

³² Bardhan, "Local Governance and Delivery of Public Goods" (2000), 185.

³³ Li, Qiang, Jinyong Guo and Gennv Cai, "Woguo Nongcun Gonggong Chanpin de Ziyuan Gongji: Yige Boyi Fenxi de Kuangjia" (The Voluntary Provision of Rural Public Goods Provision: A Framework of Game Theory) *Dongnan Xueshu* (South East Academic Research), no. 1 (2007):64-68; and Yu, Shui, *Xiangcun Zhili Yu Nongcun Gonggong Chanpin Gongji* (Rural Governance and Public Goods Provision (Beijing: Shehui Wenxian Chubanshe, 2008).

include rural compulsory education, electric power facilities, public health, roads construction, clean water supplies and others.

Other scholars classified public goods based on their research aims. For example, in order to examine the roles of central and local governments and rural communities, rural public goods are classified into three categories: capital-intensive goods such as rural water supply, electric power facilities, roads, communications, medical care and others supplied mainly by the central government; labour-intensive goods including mutual aid and cooperation by rural communities and villages; and technology-intensive public goods such as technologies of plant disease prevention, agricultural technical training and others by county and town governments.³⁴

However, Feng Xingyuan et. al. argue that the classification of public goods based on provider organisations could barely reflect the actual situation of China's rural public goods provision. In China, government, nongovernment institutions and individuals all participate in public goods, collective goods and private goods provision. Hence, public goods such as roads might be constructed by private individuals or contributions of private enterprises.³⁵ Feng Xingyuan et. al. use nonmarket provided goods to describe public goods. Others such as Tsai study particular types of rural public goods—roads, running water infrastructure and school facilities³⁶— while Luo et. al. chose roads, bridges, irrigation, drainage and school,³⁷ and Sato examines irrigation, education and health care.³⁸

In this study, public goods are those that have the characteristics of non-rivalry, non-excludability and non-divisibility, as well as semi-public goods that are site-specific (as defined by Buchanan) and with an element of exclusivity. Based on the argument of Feng Xingyuan et. al., rural public

³⁴ Cheng, Youzhong and Weidong Chen, "Guojia yu Nongmin: Gonggong Chanpin Gongji Juese yu Gongneng Dingwei" (State and Farmer: Public Product's Supply Role and Function Locating), *Huazhong Shifan Daxue Xuebao, Renwen*, 45, no. 2 (March 2006): 2-7.

³⁵ Feng, Xingyuan, Christer Ljungwall and Li, Renqing, *Zhongguo de Cunji Zuzhi yu Cunzhuang Zhili* (Village Organisations and Village Governance in China) (Beijing: Zhongguo Shehui Kexue Chubanshe, 2009).

³⁶ Tsai, *Accountability without Democracy* (2007).

³⁷ Luo, Renfu, et. al. "Elections, Fiscal Reform and Public Goods Provision in Rural China" (2007): 583-611.

³⁸ Sato, Hiroshi. "Public Goods Provision and Rural Governance in China" (2008): 281-298.

goods in this dissertation will include essentials such as roads construction, water facilities and small-scale irrigation facilities provided jointly by governments and social organisations or the private sector. It also includes semi-public goods³⁹ such as the maintenance of clean drinking water facilities initiated mainly by villagers' cooperation.

Perspective of Institutional Analysis

Scholars who examine rural public goods provision in China from the perspective of institutional change propose that rural public goods provision would be undergoing institutional change after the implementation of Household Responsibility System (HRS). Zhang Jun and He Hanxi argue that the abolition of the old collective plantation system and People's Commune (PC) as well as the establishment of HRS resulted in the demand for a rural public goods provision system since the institutional arrangements are mutually dependable.⁴⁰ Private organisations and individuals can also undertake to provide some small-scale public goods as in the case of Shaoxing, Zhejiang province where some of the public goods had been converted to private goods or club goods.⁴¹ Lin Wanlong concurs with Zhang and He and points out that the demand for public goods has been diversified and the dependence on the government for supplying them has been changed after the implementation of HRS. Three new modes of rural public goods provision, namely, individuals' provision and conversion from public goods to club goods and from public goods to private goods, have developed in at least some villages.⁴²

The conclusion that the provision is undergoing change is based on Zhejiang province where villages have a well-developed industry and are faring better than villages in other provinces. Hence, this institutional change

³⁹ To simplify the term, public goods will be used in place of semi-public goods in this paper.

⁴⁰ Zhang, Jun and He, Hanxi, "Zhongguo Nongcun de Gonggong Chanpin Gongji" (1996), 50-57.

⁴¹ Zhang, Jun and Jiang, Wei, "Gaige Hou Zhongguo Nongcun Gonggong Chanpin de Gongji" (1998): 36-44.

⁴² Lin, Wanlong, "Zhongguo Nongcun Shequ Gonggong Chanpin Gongji Zhidu Yanjiu" (2003): 206-7.

analysis is limited to villages that are pretty well off. Whether the developments of village enterprises and cooperative organisations are mature enough in other villages to undertake part of the provision of rural public goods needs further investigation.

In addition to examining rural public goods provision through the macro angle of institutional change, the provision system is investigated. Public goods provision system includes four subsystems: decision-making, fundraising, allocation (mainly transfer of payments), and production and management. The first three subsystems are essential to explaining the change of public goods provision system. The change of fundraising system results in the change of public goods provision system: from the government as the sole provider of public goods to provision sharing with villagers and to provision by private person or villages' cooperation.

The works by Linda Li Chelan and Hu Zhiping in this area deserve attention. Based on the examination of the reforms of towns in Xian'an county, Hubei province, Linda Li demonstrates that increased public spending alone is insufficient for improving public services. Examining institutions on allocating and spending of public money, surveying needs and decision-making process, as well as analysing the capability of providers need to be conducted as well.⁴³ Similarly, Hu argues that strong policy support for rural public goods provision by the central government alone does not improve the situation. To re-establish the rural public goods provision system, the functions of town government need a revamp.⁴⁴ However, both of Li and Hu did not explore the processes of rural public goods provision such as the fundraising process for a certain public project.

The decision-making process of rural public goods provision has been studied by scholars, many of whom suggest instituting a bottom-up decision-

⁴³ Li, Linda Chelan, "State and Market in Public Service Provision: Opportunities and Traps for Institutional Change in Rural China", *The Pacific Review*, vol. 21, no. 3 (July 2008): 272-273.

⁴⁴ Hu, Zhiping, "Chonggou Nongcun Gonggong Chanpin he Fuwu de Tigong Jizhi—Jiyu Xiangzhen Zhengfu Zhineng Zhuaxing de Fenxi" (Reconstruction on the Provision Mechanism of Rural Public Goods and Services —based on the Transformation of the Town's Government Functions) *Gaige Zhanlue* (Reformation and Strategy), no. 4 (April 2009): 97.

making process in order to improve the poor provision of public goods in rural China.⁴⁵ The decision-making mechanism decides the quantity, scale and method, and influence the efficiency of public goods provision, while the deliberative democratic discussion in the process of rural public goods provision should be attached great importance as attested by its successful implementation in Zheguo Town, Wenling, Zhejiang province.⁴⁶ To places without financial difficulties like Zheguo Town, the improvement in the decision-making system may enhance the efficiency of public goods provision. However, the improvement of decision-making system alone is limited as it is not applicable to other places where the major problem with rural public goods provision is the lack of funds.

Scholars debating on the fundraising system often focus on the non-institutional way of funding before the TFR and AAT. In addition to the fiscal revenue of towns, including budgetary and extra-budgetary revenue, current rural public goods are provided non-institutionally.⁴⁷ Ye Xingqing maintains that the current non-institutional way of rural public goods provision developed from the time of the PC⁴⁸ should be reformed since a large part of the funds for rural public goods provision came from peasants before the TFR and was a heavy burden for them.⁴⁹

On the other hand, Sun Tanzhen and Zhu Gang argue that the non-institutional way of financing rural public goods, to some extent, has acted as an effective supplement to the current system of funding rural public goods.

⁴⁵ Liu, Yiqiang, “Jiangou Nongmin Xuqiu Daoxiang de Gonggong Chanpin Gongji Zhidu—Jiyu Yixiang Quanguo Nongcun Gonggong Chanpin Xuqiu Wenjuan Diaocha de Fenxi” (Formating Peasants' Demand-Oriented Supply System of Public Goods—Based On A Survey Of Public Goods Demand in Rural Areas in China”, *Huazhong Shifan Daxue Xuebao, Renwen Shehui Kexueban*, no. 3 (March 2006): 15-23; Zhang, Yinghong, “Gonggongpin Duanque, Guize Songchi Yu Nongmin Fudan Fantan”, no. 7 (2009): 18-21; Chen, Peng and Chen Rongrong, “Xieshang Minzhu Yu Nongcun Gonggong Chanpin Gongji de Juece Jizhi”, no. 1 (March 2009): 7-13.

⁴⁶ Chen, Peng and Chen Rongrong, “Xieshang Minzhu Yu Nongcun Gonggong Chanpin Gongji de Juece Jizhi”, no. 1 (March 2009): 7-13.

⁴⁷ Ren, Xiao, “Nongmin Fudan (2002): 59-62.

⁴⁸ Ye Xingqing, “Lun Nongcun Gonggong Chanpin” (1997): 58.

⁴⁹ Ye Xingqing, “Lun Nongcun Gonggong Chanpin Gongji Tizhi de Gaike”, no. 6 (1997): 57-62; Qin, Guomin, “Shehui Zhuanxingqi” (2005): 69-72; He, Xuefeng, “Nongcun Gonggongpin Gongji”, 10 no. 5 (2008): 28-34; Zhang, Yinghong, “Gonggongpin Duanque, Guize Songchi Yu Nongmin Fudan Fantan”, no. 7 (2009): 18-21.

This is despite the heavy burden it had imposed on farmers and the corruption it had engendered due to the lack of standardised management.⁵⁰ However, rural public goods provision in many villages that mainly depends on the non-institutional way of funding is facing a crisis since most funds raised in this way had been abolished due to the TFR.⁵¹ Current debates have failed to address problems during fundraising process for rural public goods provision after the TFR and AAT.

Scholars have also examined the effects of other formal institutions such as the election of village leaders and fiscal decentralisation of rural public goods provision. Besley and Burgess show that the election of local leaders has a positive effect on public goods distribution and calamity relief based on data from India.⁵² Zhang Xiaobo et. al. based their findings on a survey of 60 villages in Jiangsu province from 1995 to 1999. The findings show that election and power sharing improve transparency, thereby reducing the possibilities of profligate spending and enlarging the impact of elections on the efficiency of public investment.⁵³ Luo Renfu et al. also argued that the direct election of village leaders resulted in increased public goods provision investment in villages⁵⁴. They measured whether the village leader is elected or appointed. However, this simplified the causal relationship between election and public investment. The causality between election and rural public goods provision in China may be spurious. In the villages, the election of a certain person may simply be due to his or her personal network with upper-level officials, which could facilitate fundraising for public goods

⁵⁰ Sun, Tanzhen and Zhu Gang (1993), “Woguo Xiangzhen Zhidu Caizh Fenxi” (Analysis on Town Non-institutional Finance in China), *Jingji Yanjiu* (Economic Research Journal), no. 9 (September 1993): 38-58.

⁵¹ Qin, Guomin, “Shehui Zhuanxingqi” (2005): 69-72.

⁵² Besley, Timothy and Burgess, Robin, 2001, “The Political Economy of Government Responsiveness: Theory and Evidence from India”, Working Paper, London School of Economics, <<http://econ.lse.ac.uk/~rburgess/wp/media.pdf>> (accessed 14 May 2010).

⁵³ Zhang, Xiaobo,^a Shenggen Fan, Zhang, Linxiu and Huang, Jikun (2004), “Local Governance and Public Goods Provision in Rural China”, *Journal of Public Economics*, vol. 88, no. 4 (December 2004): 2862-2869.

⁵⁴ Luo Renfu, Liuxiu Zhang, Jikun Huang and Scott Rozelle, “Elections, Fiscal Reform and Public Goods Provision in Rural China”, *Journal of Comparative Economics*, 35, no. 3 (2007): 583-611.

provision. In such a case, the causality does not lie with the election-public goods provision relationship.

The Funds Issue

Lin Wanlong and other scholars point out that the poor provision of rural public goods is the result of a lack of funds.⁵⁵ Many scholars have emphasised the effect of TFR and the subsequent AAT on rural public goods provision. The agricultural tax reform in China has been regarded as another drastic change since the implementation of HRS.⁵⁶ Yep suggests that based on national and provincial level data, TFR would hurt rather than help the poorest regions.⁵⁷ Many of the poorer towns have become ‘administrative shells’, which are unable to provide basic services, deepening their reliance on counties.⁵⁸ Luo Renfu et. al. demonstrate that the TFR has a negative effect on public goods investment of the village.⁵⁹ Sato also finds that the TFR has negatively impacted on the expenditure of public services at the village level and on public funding input at the county level.⁶⁰ These scholars share the same conclusion that the TFR has adverse effects on public goods provision in rural China.

However, Fan Baohong argues that the AAT had both positive and negative effects based on an intensive study of 11 towns in Taizhou city, Jiangsu province. He states that the AAT may stimulate villagers’ contribution of funds to rural public goods provision as it has alleviated the burden of villagers. He further demonstrates that the funds available for town governments have maintained at a certain level due to the transfer of payments from upper-level government to town government.

⁵⁵ Lin, Wanlong and Liu, Xianjuan, “Shuifei Gaigehou Nongcun Gonggong Chanpin Gongji Jizhi Chuangxin”, no. 4 (2006): 30-34.

⁵⁶ Gong, Shumei, “Nongcun Shuifei Gaige Xu Qidong Peitao Gaige” (Supporting Reforms Needs to be Initiated During the Period of Tax-For-Fee Reform in Rural China), *Renmin Luntan*, no. 2 (February 2001): 14-16.

⁵⁷ Yep, Ray (2004), “Can ‘Tax-for-Fee’ Reform Reduce Rural Tension in China? The Process, Progress and Limitations”, *China Quarterly*, no. 177 (March 2004): 42-70.

⁵⁸ John James Kennedy, “From the Tax-for-Fee Reform to the Abolition of Agricultural Taxes”, no. 189 (March 2007): 43-59.

⁵⁹ Luo, Renfu et. al, “Elections, fiscal Reform and Public Goods Provision in Rural China”, 35, no. 3 (2007): 583-611.

⁶⁰ Sato, Hiroshi, “Public Goods Provision” (2008): 289.

Fan's argument on the transfer of payments was refuted by other scholars. The central government has made the transfer of payments to support rural construction in recent years, but it is still inadequate.⁶¹ Long Bifeng points out that the limited transfer of payments from central to lower level governments is far from enough given that the town government is at the lowest rung. China is huge and rural public goods provision may vary across territories. Fan's study is based on Jiangsu province, one of the richest provinces in China, which is not representative of the general situation of transfer payments in the whole country. Further analysis of transfer payments in other places is thus necessary.

The Role of the State

From the aforementioned studies, there is a general consensus that the existing rural public goods provision system needs innovation and improvement. However, scholars disagree on whether the role of state should be weakened or strengthened.

Some scholars suggest that rural public goods provision should not rest solely on the government. Non-government organisations, village organisations and villagers for instance could be a contributor of fund and labour for rural public goods provision.⁶² Jia Yan divides rural public goods into three levels: pure public goods provided by the central government; public goods that are between pure public and private goods and jointly provided by central, provincial and municipal governments and village organisations; and semi-public goods provided by private capital in rural areas.⁶³ Tan Tongxue believes that the solution to the problem of rural

⁶¹ Zhang, Linxiu et al. "Investing in Rural China", vol. 39, no. 4 (July-August 2006): 57-84.

⁶² Zhang Jun and He, Hanxi 1996; Zhang Jun and Jiang Linqi, 1997; Zhang, Jun and Jiang Wei 1998; Lin, Wanlong, *Zhongguo Nongcun Shequ Gonggong Chanpin Gongji Zhidu Yanjiu*, 2003; Yu, Shui. *Xiangcun Zhili Yu Nongcun Gonggong Chanpin Gongji*, 2008; Chen, Wenfang, "Woguo Nongcun Gonggong Wupin Gongji Cunzai de Wenti yu Gongji Jizhi Jianshe", 2008, 36-39.

⁶³ Jia, Yan, "Nongcun Gonggong Chanpin Gongji Zhuti Duoyuanhua Yanjiu" (The Study of Plural Provision Subjects of Rural Public Goods in China), *Xiangzhen Jingji*, no.1 (2007): 14-17.

irrigation is cooperation among villagers.⁶⁴

Jia Xianwen and Huang Zhengquan propose weakening the role of the government during the process of rural public goods provision. This is because based on history up till the ancient period when it was organised by village elites, the current system with powerful government's interference in rural public goods provision hinders the development of rural elites.⁶⁵ However, it will be a hasty conclusion if it is based on history without controlling other factors. The political and financial systems have evolved. Hence, without systematic comparative studies, weakening the role of the state in the provision of rural public goods is not convincing.

Some other scholars propose strengthening the role of government. He Xuefeng and Luo Xingzuo argue that the government must invest in and enforce rural public goods provision after examining five villages in Jinmen, Hubei province. They found that the water user association lacks the power of enforcement and free-rider behaviour is prevalent, thus impeding fund raising.⁶⁶ Qu Yanchun argues that the rural public goods provision system, the major source of funding public goods especially in agricultural villages, should be reformed after the AAT. The government needs to play an active role instead of simply letting the market provide public goods; its responsibilities at different levels should also be specified.⁶⁷ Shen Duanfeng also suggests that the roles of town government and village committee should be emphasised since villagers' voluntary actions do not necessarily result in rural public goods provision. Based on his case study in Gao Town, Jinmin,

⁶⁴ Tan, Tongxue, "Nongtian Shuili Jiatinghua de Yinyou—Laizi Jiangnan Pingyuan Mouzhen de Sikao" (The Worries about Provision of Rural Irrigation by Families—the Case of One Town in Jiangnan Plain), *Gansu Shehui Kexue*, no. 1 (2006): 219-221.

⁶⁵ Jia, Xianwen and Huang, Zhengquan, "Xiangcun Shehui Jiegou Yanjin Zhong de Nongcun Shequ Gonggong Chanpin Gongji Jizhi Bianqian" (The Institutional Change of Rural Community Public Goods Provision System under the Change of Rural Social Structure), *Xueshu Jiaoliu*, no. 10 (October 2009): 94-97.

⁶⁶ He, Xuefeng and Xingzuo Luo, "Lun Nongcun Gonggong Wupin Gongji Zhong de Junheng", no. 1 (2006): 62-69.

⁶⁷ Qu, Yanchun^a, "Nongcun Gonggong Chanpin Gongji Zhidu de Kunjing yu Chuangxin", no. 2 (February 2007): 96-98.

Hubei province, Shen argues that there is a need for the government to organise.⁶⁸

This dissertation agrees that rural public goods provision cannot merely depend on the government, as it requires the support and coordination of farmers. However, existing literature is vague regarding the functions of the government in the whole process. The important funding issue has not been dealt with and the feasibility of farmers' cooperation in most agricultural villages has yet to be further explored.

Perspective of Collective Action and Cooperation

The massive citation of Olson in the area of collective action in public goods by scholars studying a similar subject has made Olson an authority. Olson asserts that rational, self-interested individuals will not act to achieve their common or group interests unless the group is quite small, or there is coercion or some other special devices that make individuals act in their common interest.⁶⁹

The heart of collective action model is the free-rider problem.⁷⁰ Binmore concurs with Olson and argues that unless some explicit, exogenous mechanism is available to enforce commitment of players would not be able to commit about their future conduct.⁷¹

Margolis, however, emphasises the role of altruism or social responsibility or group interest and the role of persuasion.⁷² Similarly, Taylor asserts that rational choice theorists including Olson have excluded three important types of motivations: altruistic motivation, expressive motivation

⁶⁸ Sheng, Duanfeng, "Quxiao Nongyeshui Hou de Nongcun Gonggong Wupin Gongji Jizhi—Yi Zijin Chouji Wei Zhuyao Fenxi Duixiang" (The Provision Mechanism of Rural Public Goods after the Abolition of Agricultural Tax—the Study of Fundraising), *Difang Caizheng Yanjiu*, no. 8 (2008): 37-42.

⁶⁹ Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965), p. 2.

⁷⁰ Elinor Ostrom, *Governing the Commons: The Evolution of Institutions For Collective Action* (New York: Cambridge University Press, 1990).

⁷¹ Ken Binmore, "Game Theory and the Social Contract". In *Game Equilibrium Models II – Methods, Morals and Markets*, (ed.) Reinhard Selten (Berlin: Springer-Verlag, 1991), p. 85-163.

⁷² Margolis, Howard, *Selfishness, Altruism, and Rationality: A Theory of Social Choice* (New York: Cambridge University Press, 1982).

and intrinsic motivation.⁷³ Altruists could be the initiator of the conditional cooperation, finance a political entrepreneur working on the non-altruists, and might shame others into cooperation or bring other informal social sanctions to bear on them.⁷⁴

Ostrom, however, analyses collective action differently, emphasising contextual factors. Cooperation levels vary in different situations due to different contextual factors that may be conducive or detrimental to collective actions. Contextual variables include the predictability of resource flows, the relative scarcity of the good, the size of the group involved, the heterogeneity of the group, the size of the total collective benefit, the marginal contribution by one person to the collective good, the size of the temptation to free ride, the loss to co-operators when others do not cooperate, the presence of leadership and other factors.⁷⁵ After examining irrigation cooperation in South India, Bardhan considers a list of factors that might influence the level of cooperation which includes group size, group heterogeneity, physical condition of water availability, government involvement, local context, history of cooperation and use of guards for monitoring.⁷⁶

Credible mutual commitment and cooperation can help to improve the situation of defection and the collective action dilemma.⁷⁷ Some scholars claim that peasants need to organise and cooperate to solve their own problems.⁷⁸ Villagers' cooperation is critical since the government could not provide full financial support for rural public goods provision currently.⁷⁹

⁷³ Michael Taylor, *The Possibility of Cooperation* (New York: Cambridge University Press 1987), 13.

⁷⁴ *Ibid.*, 110.

⁷⁵ Elinor Ostrom, "Collective Action and the Evolution of Social Norms", *The Journal of Economic Perspectives*, 14, no. 3 (Summer 2000): 148.

⁷⁶ Pranab Bardhan, "Water Community: An Empirical Analysis of Cooperation on Irrigation in South India", 1999, <<http://emlab.berkeley.edu/users/webfac/bardhan/papers/BardhanWater.pdf>> (accessed 20 June 2010).

⁷⁷ Putnam, Robert D, Robert Leonardi and Raffaella Nanetti, *Making democracy work: civic traditions in modern Italy* (Princeton: Princeton University Press, 1993).

⁷⁸ Liang, Shumming, *The Corpus of Liang Shuming*, vol. 2 (in Chinese), Jinan: Shandong People's Press, 1990.

⁷⁹ He, Xuefeng and Zhihui Tong, "Lun Cunzhuang Shehui Guanlian—Jianlun Cunzhuang Zhixu de Shehui Jichu" (On Social Solidarity of Villages—Also on the Social Basis of village Order), *Zhongguo Shehui Kexue*, no. 3 (2002): 124-34;

Among literature on the effect of villagers' cooperation on public goods provision in rural China, some scholars focus on the positive effect using the social capital theory or social solidarity theory, while others doubt the possibility of cooperation among villagers.

Dong Leiming contends that history shows Chinese peasants' strong cooperative capability when they helped each other out and cooperated through kinship networks in the construction of public facilities and against foreign invasions.⁸⁰ Scholars who study solidarity or cooperation among villagers often cite the term social capital by Putnam. Trust, which is an essential component of social capital, can arise from networks of civic engagement and norms of reciprocity.⁸¹ Miao Yuexia defines social capital as trust, norms and networks based on informal social mutual reciprocity and cooperation.⁸² She attaches great importance to the study of social capital and argues that the great achievement of mutual aid and cooperative movement during the PC period was a result of the tradition of villagers' cooperation such as kinship networks, families and folk beliefs.⁸³

Similarly, Luo defines it as the network formed during long-term interactions among villagers, which can be promoted, by trust, reciprocity, tolerance and sympathy. Interactions and trust among villagers contribute to their cooperation.⁸⁴ These scholars however did not show how social capital is measured.

Lili Tsai develops Putnam's social capital theory by advancing a model of informal governmental accountability with the explanation of social solidarity. She argues that even in villages with weak formal institutions of accountability, "solidary groups" that overlap with government structures

⁸⁰ Dong, Leiming, "Nongmin Weihe Nanyi Hezuo" (Why it is Difficult for Peasants to Cooperate), *Huazhong Shifan Daxue Xuebao*, 43, no. 1 (2004): 9-11.

⁸¹ Putnam et. al. *Making democracy work: civic traditions in modern Italy* (Princeton: Princeton University Press, 1993), 171.

⁸² Miao, Yuexia, *The Analysis of Social Capital on the Mode Transition of Village Governance in China: the Comparative Analysis between the Systems of People's Commune and 'Town Politics and Village Governance'* (Ha'erbin: Heilongjiang Renmin Chubanshe, 2008).

⁸³ Yuexia, *The Analysis of Social Capital on the Mode Transition of Village Governance in China*, 2008.

⁸⁴ Luo, Xiaofeng, "Social Capital: A New Perspective for Understanding Cooperation among Peasants—a Case Study of Ma-ping Village", (Thesis, *Fujian Normal University*, 2006).

could incentivise local officials to provide public goods and services. Clans, ethnic groups, fraternal organisations, philanthropic groups and religious groups are “solidary groups” with membership based on ethnical standards and moral obligations.⁸⁵ Tsai argues that “solidary groups” can promote social trust, improve cooperation skills, encourage attitudes and habit of cooperation and thus reduce free riding. Moreover, since village officials are members of or related to “solidary groups”, group pressure will stimulate officials to be accountable for providing public goods for villagers.

However, her study left room for further examination. First, Tsai’s focus is on the causal link between “solidary groups” and informal accountability, and not the funds issue. Second, as Tsai only studied villages from four provinces of Shanxi, Hebei, Jiangxi and Fujian, an investigation of solidarity groups in most other places of China is necessary. Third, Tsai’s study focuses on the period before the abolition of agricultural taxes and fees. A study of the relationship between solidarity groups and public goods provision after the AAT in rural China will supplement her findings.

Few scholars are as positive as Tsai about villagers’ cooperation in rural China. Miao Yuexia raises the issue that many autonomous villages lack villagers’ cooperation.⁸⁶ He Xuefeng et. al. point out that it was not easy for the association of irrigation and water conservation to organise farmland irrigation in most places since the level of social solidarity of large groups of farmers is low and the mechanisms for punishment are not well established.⁸⁷ Jiang Yufu attributes the low cooperation level to the lack of mechanisms for punishment, leading to the failure to provide running water in a village in Changshan county.⁸⁸

⁸⁵ Tsai, *Accountability Without Democracy: Solidary Groups and Public Goods Provision in Rural China*. 2007.

⁸⁶ Miao Yuexia, *The Analysis of Social Capital on the Mode Transition of Village Governance in China*, 2008.

⁸⁷ He, Xuefeng and Tong Zhihui, “Lun Cunzhuang Shehui Guanlian”, no. 3 (2002): 124-34.

⁸⁸ Jiang, Yufu, “Nongmin Hezuo Nengli yu Xinnongcun Jianshe—Yi Zhejiang Sheng Changshan Xian ZF Cun Wei Ge’an” (The Capability of Peasants’ Cooperation and the Construction of New Socialist Countryside—The Case of ZF Village in Changshan County, Zhejiang Province), *Diaoyan Shijie*, no. 1 (2007): 41-43.

A review of social capital and social solidarity shows that scholars emphasised the importance of mutual trust and cooperation. This study argues that the study of farmers' cooperation has to take into account contextual factors in different villages and different public projects. In order to understand whether farmers could be depended on in the provision of rural public goods, a more detailed micro-level comparative study is needed.

2.2 Theoretical Framework

Theory of Local Governance and Institution

The quantity and quality of public goods provision by governments will be directly affected both by their allocation mechanisms and their modes of governance.⁸⁹ Governance encompasses the way individuals and institutions, public and private, manage their common affairs. It includes formal institutions and regimes empowered to enforce compliance and informal arrangements that people and institutions either have agreed upon or perceived to be in their interest.⁹⁰ Gerry Stoker examines in depth governance as a theory and raises five propositions. First, governance refers to a complex set of institutions and actors that are drawn from not only the government but also beyond. Hence, private and voluntary sectors are involved in service delivery and the decision-making process. Second, governance takes into account the blurring of boundaries and responsibilities for tackling social and economic issues. The responsibilities of the government could be shifted to the citizens and to private and voluntary sectors. Third, governance identifies power dependence in the relationship between institutions involved in collective action. As a result, governance as an interactive process engages various forms of partnership. Fourth, governance is about autonomous self-governing

⁸⁹ Jean-Jacques Dethier, "Governance, Decentralization and Reform: An Introduction". In *Governance, Decentralization and Reform in China, India and Russia*, (ed.) Jean-Jacques Dethier (Boston: Kluwer Academic Publishers, 2000), p. 6.

⁹⁰ See Commission on Global Governance, *Our Neighbourhood: The Report of The Commission on Global Governance*, (New York: Oxford University Press, 1995), p. 2.

networks of actors. Fifth, instead of coercion, there are new tools and techniques that the government can employ to get things done.⁹¹

In their analysis of rural governance in China, Feng Xingyuan et. al. define governance as the behaviour of different levels of economic, political and administrative institutions dealing with public affairs. It includes mechanisms such as the common characteristics of grassroots' management, process including influence among various entities or among variables within and outside the village, and institutions, which are entities that are constrained by certain rules.⁹²

Formal Institutions

To understand what institutions constitute, it is necessary to differentiate them from organisations. To Kiser and Ostrom, organisations are composites of participants following rules governing activities and transactions to realise particular outputs, and institutional arrangements are rules that are components of all organisations.⁹³ Hu Biliang points out that all organisations, be they political, economic, educational or social, are not institutions because they are players and not the rules of the game.⁹⁴

North defines institutions as rules of the game in society or humanly devised constraints shaping human interaction. Institution includes both formal rules (political and judicial rules, economic rules and contracts) such as constitutions, statutes and common laws, specific bylaws, individual contracts, as well as informal rules such as codes of conduct, conventions and norms of behaviour.⁹⁵ Institution is often regarded as a structural feature of society or policy. The structure may be formal such as a legislature, a legal framework,

⁹¹ Gerry Stoker, "Governance as Theory: Five Propositions" *International Social Sciences Journal*, vol. 50, Issue 155 (1998):17-28.

⁹² Feng Xingyuan, *Zhongguo de Cunji Zuzhi yu Cunzhuang Zhili* (2009), 14.

⁹³ Larry L. Kiser and Elinor Ostrom, "The Three Worlds of Action: A Metatheoretical Synthesis of Institutional Approaches". In (ed.) Elinor Ostrom, *Strategies of Political Inquiry* (California: Beverly Hills, 1982), p. 193.

⁹⁴ Hu Biliang, *Informal Institutions and Rural Development in China* (New York: Routledge, 2007), 11.

⁹⁵ Douglass C North, *Institutions, Institutional Change and Economic Performance* (New York: Cambridge University Press, 1999), p. 3-46.

or an agency in the public bureaucracy, as well as an informal structure including network of interacting organisations or a set of shared norms.⁹⁶

Based on North's definition, Anthony Lanyi in his analysis of economic reforms in India defines institution as the 'rule of the game' that governed the economy and economic policymaking. They include fundamental legal, political and social rules that establish the basis for production, exchange and distribution, which can either be formally written down and enforced by government, or unwritten and enforced by informal sanctions.⁹⁷ Yu Keping defines formal and informal rules as institutional environment which included the following aspects: constitution, ordinary laws, administrative regulations, decrees and rules, party policy regulations, as well as informal institutions.⁹⁸

Formal institutions related to financing public goods provision includes taxation, general funds and subsidies to private provision.⁹⁹ Taxation can force individuals to contribute more than their voluntary contribution to boost financial backing to public goods provision. General fund is set up by individuals to ensure that funds are allocated to various public goods according to some defined proportions. Subsidies to private provision are granted by the government.¹⁰⁰ Linda Li Chelan emphasises other institutions that are related to rural public goods provision in China, such as the allocation of public money, supervision of money spending, survey of public goods needs, decision-making process and training of service providers.¹⁰¹

⁹⁶ Peters, *Institutional Theory in Political Science* (1999), 18.

⁹⁷ Anthony Lanyi, "Introduction: The Institutional Basis of Economic Reforms". In *Institutions, Incentives and Economic Reforms in India*, (eds.) Satu Kahkonen and Anthony Lanyi (California: Sage Publications, 2000), p. 17.

⁹⁸ Yu Keping, "The Institutional Environment of China's Civil Society". In Yu Keping (ed.), *Zhongguo Gongmin Shehui de Zhidu Huanjing* (Institutional Environment of China's Civil Society) (Beijing: Beijing Daxue Chubanshe, 2006), p. 53-54.

⁹⁹ See Marc Bilodeau, "Public Goods Provision Institutions". In *Preferences and Democracy: Villa Colombella Papers*, (eds.) Albert Breton, Gianluigi Galeotti, Pierre Salmon and Ronald Wintrobe (Boston: Kluwer Academic Publishers, 1993), 138. Bilodeau mentions institutions related to public goods provision including taxation, general fund, government provision and subsidies to private provision. Three of them have been included here as he argues that government provision combines both taxation and a general fund.

¹⁰⁰ Marc Bilodeau, "Public Goods Provision Institutions" (1993), 135-153.

¹⁰¹ Linda Li Chelan, "State and Market in Public Service Provision: Opportunities and Traps in Institutional Change in Rural China", *The Pacific Review*, vol. 21, no. 3 (July 2008), 272-273.

Formal institutions in this dissertation focus on the funding institutions, decision-making institutions and institutions for the allocation of rural public goods provision. This would include financial institutions, cadre management and motivation institutions, and policy implementation institutions. These formal institutions would be examined based on their various government policies and regulations.

Informal Institutions

Informal institutions have played notable roles throughout China's recorded history. China is regarded as being ruled more by men than by laws¹⁰² as it has attached great importance to informal institutions. The latest version of the Constitution passed on 14 November 2002 indicates that the Chinese Communist Party (CCP) rules the country both by law and by virtue.¹⁰³ Although state institutions and policies are important in the process of rural public goods provision, informal institutions are also salient.

As defined by North, informal institutions include conventions and codes of behaviour. To Schlicht, custom is the most influential informal institution consisting of a set of habitual, emotional and cognitive regularities.¹⁰⁴ Hu Biliang argues that informal institutions such as village trust, village rotating savings and credit associations, and *guanxi* community are critical to facilitating modernisation and social economic development in rural China.¹⁰⁵

Path-dependence is a very useful conceptual tool to explain the significance of history and culture in determining the future development of society. David defines path-dependence as important influences upon eventual

¹⁰² Feng Li and Jing Li, *Foreign Investment in China*. (New York: ST. Martin's Press, 1999), 141.

¹⁰³ Constitution of the Communist Party of China. In *Zhongguo Gongchandang Di Shiliu Ci Quanguo Daibiao Dahui Wenjian Huibian* (A Compilation of The Documents of the Sixteenth National Congress of the CPC) (Beijing: Renmin Chubanshe, 2002).

¹⁰⁴ Schlicht, Ekkehart, *On Customs in the Economy*, New York, Clarendon Press, 1998.

¹⁰⁵ Hu Biliang, *Informal Institutions and Rural Development in China*, New York, Routledge, 2007.

outcomes that can be exerted by temporary remote events including happenings dominated by chance elements instead of systematic forces.¹⁰⁶

To sum up, based on the aforementioned definitions of institutions, this study would present an institutional analysis that would discuss both formal and informal institutions. Institutions in this study are ‘rule of the game’ that governs the whole process of public goods provision and decision-making. They include laws, administrative regulations, rules and decrees related to rural public goods provision, as well as informal institutions such as history of rural public goods provision, *guanxi*, conventions and tradition in China.

Theory of *Guanxi*

Guanxi is so important in contemporary China that its implications and intricacies must first be understood before a good study of Chinese society could be conducted.¹⁰⁷ The source or origin of *guanxixue* (the practice of *guanxi*) is rural culture dominated by kinship ties and a tradition of labour exchange and mutual aid and obligation.¹⁰⁸ Yang Mei-hui focuses on the use of *guanxi* to fulfil purposes such as obtaining employment, housing, education and various other purposes in urban areas.

In the existing literature, *guanxi* is often defined as relationships. Pye regards *guanxi* as “friendship with implications of continued exchange of favours”. Nan Lin defines *guanxi* as enduring and sentimentally based instrumental relations that invoke private transactions of favours and public recognition of asymmetric exchanges.¹⁰⁹ To Nan Lin, the private transaction of favours is the process of negotiating for a favour. Fan Ying agrees that

¹⁰⁶ Paul A David, “Understanding the Economics of QWERTY: The Necessity of History”. In *Economic History and the Modern Economist*, (ed.) William N. Parker (Oxford: Basil Blackwell, 1986), p. 30.

¹⁰⁷ Qiao Jian, “Guanxi Chuyi” (My Humble Views on Guanxi). In *Shehui Ji Xingwei Kexue Yanjiu de Zhongguohua* (The Sinicisation of Social and Behavioural Science Research), (eds.) Yang Guoshu and Wen Congyi (Taipei: Institute of Ethnology, Academia Sinica, 1982), p. 354.

¹⁰⁸ Yang Mei-hui, *Gifts, Favors, and Banquets: The Art of Social Relationships in China*, (Ithaca & London: Cornell University Press, 1994), p. 76.

¹⁰⁹ Nan Lin, “Guanxi: A Conceptual Analysis”. In (eds.) Alvin Y. So, Nan Lin and Dudley Poston, *The Chinese Triangle of Mainland China, Taiwan, and Hong Kong: Comparative Institutional Analyses*. (Westport: Greenwood Press, 2001), p. 153-159.

guanxi is a kind of relationship, including relationship by birth or blood (family, kinship and in-laws), relationship by nature (locality, classmate or alumni, teacher-student, co-worker, neighbour), as well as relationship acquired (acquaintance, knowing the same person, friend and sworn brother). But Fan argues that relationships do not necessarily produce *guanxi*. *Guanxi* is a process with a beginning and end, and needs to be developed and maintained by time, energy and money. *Guanxi* is a process involving a series of activities such as having a meal together, gift giving or doing a favour.¹¹⁰

Guanxi in the Chinese context is unique as it has been pervasive in the entire Chinese society throughout much of its historical, political and economic contexts. *Guanxi* could influence a wide range of situations in China such as receiving permits for a second child,¹¹¹ getting a job or changing jobs, getting tickets for a train, entering a preferred school and other situations.¹¹² *Guanxi* exists in various contexts in urban areas such as obtaining employment and promotion, enabling geographical mobility, seeking healthcare, and obtaining housing and better education.¹¹³

Guanxi could be produced through everyday actions and formal occasions. Everyday actions include using kinship terms, visiting and helping out, and embodying *ganqing* (specific human emotions) in the daily life like showing concern when someone is sick. Formal occasions include banquet, wedding and funeral.¹¹⁴ *Guanxi* is represented and generated via material exchange and human feelings. The material exchange of gifts directly generates *ganqing* and *guanxi*. People with close *guanxi* would give big gifts to each other, even

¹¹⁰ Fan Ying, "Questioning *guanxi*: definition, classification and implications", *International Business Review*, 11 (2002): 543-561.

¹¹¹ According to China's *Family Planning* policy, every family should only have one child. Families that want to have more than one child need to apply for a quota.

¹¹² Chiao, Chien, "Guanxi: A Preliminary Conceptualization". In *The Sinicization of Social and Behavioral Science Research in China*, (eds.) Kuo-shu Yang and Chong-yi Wen (Taipei: Academia sinica), p. 345-360.

¹¹³ Yang, Mayfair Mei-hui, *Gifts, Favors, and Banquets: The Art of Social Relationships in China* (New York: Cornell University Press, 1994): p. 91-99.

¹¹⁴ Andrew B. Kipnis, *Producing Guanxi: Sentiment, Self, and Subculture in A North China Village* (Durham: Duke University Press, 1997), p. 37.

more than to friends, and those who wish to claim a close friendship give more than those who did not.¹¹⁵

Cadres are frequent targets of gift giving and *guanxi* overtures because they have at their disposal decision-making and resource-allocation powers. They have more opportunities to engage in private *guanxi* transactions since they lead a relatively leisurely and mobile life, with more opportunities for travelling on business and attending meetings with other cadres.¹¹⁶

Unlike economic transactions, the payoff in *guanxi* is not measured by money and could not be balanced. The payoff to the favour giver in *guanxi* is the broadcast by favour seekers that favours have been rendered by the giver. Word diffusion of a successful *guanxi* enhances the reputation of both the favour giver and seeker. For the favour seeker, it shows his or her capability of obtaining valued resources in society.¹¹⁷ The concept of “face” in China refers to an individual’s public image as one of the key elements of *guanxi*.¹¹⁸ For the favour giver, performing one or more specific social roles that are well recognised by others is an enhancement to public image.

Among all kinds of *guanxi*, family *guanxi* is the most important, encompassing family members, kinship and in-laws.¹¹⁹ Family is emphasised in Chinese society, unlike western societies where individuals and organisations are more important than the family.¹²⁰

Lin Nan uses the word pseudo families to denote family-like structure. This structure is based on some shared identities such as classmates (*tongxue*), shared work unit such as colleagues, same ancestral origin or birthplace, and living in the same place. They often call each other “old brother/sister”

¹¹⁵ Andrew B. Kipnis, *Producing Guanxi* (1997), 58-67.

¹¹⁶ Yang Mei-hui, *Gifts, Favors, and Banquets*, 1994, 86.

¹¹⁷ Nan Lin, “Guanxi : A Conceptual Analysis” (2001), 153-166.

¹¹⁸ Tsang Eric W K, “Can Guanxi be a Source of Sustained Competitive Advantage for Doing Business in China?”, *The Academy of Management Executive*, vol. 12, no. 2 (May, 1998): 66.

¹¹⁹ See Fan Ying, “Questioning guanxi: definition, classification and implications”, 2002: 547; and Tsang Eric W K, “Can Guanxi be a Source of Sustained Competitive Advantage for Doing Business in China?”, (May 1998): 65.

¹²⁰ Liang Shuming, *The Essential Meanings of Chinese Culture* (Hong Kong: Zheng Zhong Press, 1949), p. 93.

(*laoxiong/laojie*) and “old uncle/aunt” (*laoshu/laoshen*). The adjective ‘old’ distinguishes pseudo families from blood relations.¹²¹

A person’s *guanxi* is measured by the access to and influence in various networks.¹²² Personal networks are the relative importance of major social roles, such as those played by next of kin, friends and co-workers.¹²³

Ruan Danching conducted a study of personal network in two Mainland Chinese and Taiwanese villages respectively. The personal network is indicated by this survey question: “From time to time, most people discuss important matters with other people. Looking back over the last six months, with whom have you discussed important matters—spouse, parent/parent-in-law, child, sibling, other kin, co-worker, neighbour, former classmate, friend?”¹²⁴

The same survey question has been posed to farmers in S and N Villages, T Town, Hunan province in this study. It is found that kinship plays an important role in the discussion of networks in village societies and that the role of kinship is even greater for S Village than for N Village.

Based on the aforementioned theories, this study will combine both formal and informal institutions. The incentive theory will be incorporated into the formal institutional analysis to examine the effects of cadre performance evaluation system on rural public goods provision. The discussion on *guanxi* theory will be combined with an analysis of informal institutions to explore the dynamic fundraising process. This study also uncovers how unclear and immature formal institutions provide room for the implementation of informal institutions.

¹²¹ Nan Lin, “Chinese Family Structure and Chinese Society”, *Bulletin of the Institute of Ethnology*, 65: 382-399.

¹²² Feng Li and Jing Li, *Foreign Investment in China* (New York: ST. Martin’s Press, 1999), p. 139.

¹²³ Danching Ruan, “A Comparative Study of Personal Networks in Two Chinese Societies”. In *The Chinese Triangle of Mainland China, Taiwan and Hong Kong: Comparative Institutional Analyses*, (eds.) Alvin Y. So, Nan Lin and Dudley Poston (Westport, Connecticut: Greenwood Press, 2001), p. 189-205.

¹²⁴ Danching Ruan, “A Comparative Study of Personal Network”, 2001, 189-205.

2.3 Measurement

Public goods provision needs to be clarified before defining who the providers are. Musgrave points out that social goods may be produced by private firms and sold to government, or produced directly under public management.¹²⁵

The government is the main provider of funds for public goods through the collection of taxes and fees.¹²⁶ It is common to use investment of rural public goods as a measure of public goods provision. Hiroshi measures public goods provision by the proportion of expenditure of public services to total village expenditure.¹²⁷ Luo et. al. examine three dimensions of public goods investment including investments in roads and bridges, irrigation and drainage systems as well as schools.¹²⁸ Tsai measures by both government investments as well as the observable objective measure like the existence of public goods such as school facilities, roads and running water infrastructure.¹²⁹ The latter is measured by the existence of facilities, thus simplifying the situation of rural public goods provision, as the provision process including the funding body is unknown.

Zhang Linxiu et. al. gauge public goods by the number of public goods projects.¹³⁰ Since the provision of different public goods varies, the sole measure of investment may not fully represent the situation. The use of both the investment of public goods and the number of public goods projects by Zhang Linxiu et. al. will be adopted in this study.

¹²⁵ Musgrave, Richard Ael. and Musgrave, Peggy B. *Public Finance In Theory and Practice* (New York: McGraw-Hill, 1973).

¹²⁶ Fan, Baohong, *Xiangzhen Caizheng Yu Nongcun Gonggong Chanpin Gongji Yanjiu* (Study of Town Finance and Rural Public Goods Provision) (Beijing: Zhongguo Nongye Chubanshe, 2007).

¹²⁷ Sato, Hiroshi, "Public Goods Provision and Rural Governance in China" (2008): 281-298.

¹²⁸ Luo, Renfu et. al, "Elections, fiscal Reform and Public Goods Provision in Rural China" (2007): 583-611.

¹²⁹ Tsai Lili, "Solidary groups, informal accountability, and local public goods provision in rural China", no. 2 (2007): 355-72.

¹³⁰ Zhang Linxiu, Renfu Luo, Chengfang Liu and Scott Rozelle, "Investing in Rural China-Tracking China's Commitment to Modernization", *The Chinese Economy*, 39, no. 4 (July-August 2006), 57-84.

In the case studies, public goods provision was only possible if the required funds were raised. So fundraising is crucial to public goods provision and is the main focus of this study. The successful provision of rural public goods in this research is measured by whether:

1. a certain public goods is provided.
2. upper-level government funds have successfully reached to the public projects at village level and have not been siphoned off to finance other projects.
3. farmers were willing and successfully raised the required amount of supporting funds.

The independent variable of clearly defined local government policies means that local government (below provincial level) has little or no flexibility in deciding funds allocation. It can be measured by whether the amount of funds allocated by each level of government is specifically stated, and whether the criteria of funds allocation are objective and consistent to follow.

The visits to the Highway Department and Water Resources Bureau at Z City have left a strong impression on the author. The funds allocation followed specific and clear guidelines set by the local government. The data on the length of inter-village roads of each village, the total investment, the amount of funds allocated from each level of local governments, and the progress of each project have been digitally compiled between 2006 and 2009. The staff also kept all the relevant documents detailing the measures and guidelines of inter-village road construction. The interviewees were all having good knowledge about the details of the road construction projects.

The Water Resource Bureau offered a sharply contrasting scenario. There is rarely a specific guideline on funds allocation to follow. The documents and government reports on funds allocation were all left lying on the desks. The available data were incomplete for each water resource project compared to that for inter-village road project. The author was surprised by the information given by the Director of Water Resource Bureau that the funds allocation was often based on the discussions with major officials in this department and not on clearly defined allocation policies or guidelines. Since the guideline was an

abstract and general one set by the provincial government, it is difficult to follow in practice. Decisions were usually made by participants of the meeting. Hence, *guanxi* plays an important role in deciding the recipient of funds. Villages with anyone having good *guanxi* with officials participating in the meeting would have an advantage to obtain the needed funds.

Besides the public goods that depended mainly on government allocated funds, a number of small-scale public goods were supposed to be provided by village itself. Interviews with farmers or village officials showed that a large amount of public projects had to depend on farmers' contribution of funds, without government allocated funds. Most of these public projects fell through.

In this dissertation, rural public goods can be divided into three categories based on the indicator of whether the clear local government policies on funds allocation exist. The first category consists of public projects with most clear local government funds allocation policies. The inter-village roads construction and ponds desilting projects are the two examples of this category. The second one makes up of public projects with unclear local government funds allocation policies, such as the water aqueduct construction and environment improvement projects. These two categories of public projects were funded mainly by government allocated funds. The third category is composed of the voluntary provision of public projects by farmers themselves with no or little government funds such as small-scale irrigation projects, small roads and bridges renovation projects. These projects depended largely on the capacity of villages, and government funds, if available, come in the form of subsidy or award money.

2.4 Research Method and Data Sources

In this study, rural public goods can be divided into three categories based on the indicator of whether there are clear local government policies on funds allocation.

One category of rural public goods such as inter-village roads construction is provided mainly through organisations of the county government. The other category is provided mainly by villagers, such as small-scale drinking water facilities construction. This dissertation aims to

investigate rural public goods provision at the village level and even village group level. The data at village level is not available from published statistical yearbooks that often record provincial or city data. Hence, data were collected mainly through the author's field trip in China from November 2009 to February 2010, as well as the field trip in September 2010.

The data of inter-village roads construction was mainly collected from the Highway Administration Bureau of Z City, Hunan province, while the data of water resources related projects were solicited from the Water Resources Bureau of H District, Z City. The environment improvement related data were gathered from the Office of New Socialist Countryside Construction at H District, Z City. The data of villagers' contribution of inter-village roads construction, small-scale drinking water facilities and other public goods compiled from interviews with villagers, village officials and town government officials.

Data regarding local policies guiding rural public goods provision in Z City were extracted from government documents and records at the Highway Administration Bureau of Z City, Water Resources Bureau of H District, the Office of New Socialist Countryside Construction of Beihu District, Z City, Office of Finance, Operation and Management Station, and Office of Statistics at T Town. The examination of policy implementation and the information on informal institutions such as traditions, lineage information and *guanxi* network were obtained through interviews with villagers, village officials and town officials.

Hunan province is located at the south central part of the Chinese mainland. It is one of the major agricultural provinces in China with 14 cities, 122 counties and districts, as well as 2,354 towns.¹³¹ It has been one of the demonstration sites for *yishi yiyi*¹³² (one case, one meeting) village level

¹³¹ Hunan Province Administrative Regionalisation Statistics, Hunan government website: <<http://www.hunan.gov.cn/wshn/qhrk/xzqh/>> (accessed 18 June 2010).

¹³² *Yishi yiyi* village level public works means that decision-making is done by farmers through discussion of works. The idea of one case, one meeting is to relieve the burden of farmers by constructing public projects one at a time. It is also to give farmers the opportunity to voice their own concerns in the meeting instead of being coerced into a commitment by village officials. See State Council General Office Circular Concerning Transmitting the

public works projects in China since 2009 (see Figure 1).



Figure 1 Maps of Hunan Province

Source :<<http://www.hummingbirdminerals.com/300px-Hunan-map-en.gif>>
Access on 20 March 2010.

Two administrative villages were selected from T Town, Z City of Hunan province. Z City whose economic development is close to the average economic development of Hunan province has been selected. For district, H District within Z City was selected for study.

Demographic factors such as location and size, economic factors such as annual net income per capita, policies regarding public goods provision in the same town, fiscal transfer from upper-level government and development of private or village corporations were analysed. S and N Villages belonging to T Town in H District were selected for comparative study based on factors examined and feasibility. These two administrative villages are similar in their formal administrative structures and enjoy similar policies from the same

Ministry of Agriculture's Announcement on the Management Methods of the Villagers' *Yishi Yiyi* on Raising Funds and Recruiting Workers.

provincial, municipal and district/town government. They share similar institutional designs and arrangements such as the relationship between town government and village committees as well as between village committees and village groups, and similar demographic factors such as village size. Moreover, they have similar need of certain kinds of public goods and similar fiscal transfer from upper-level government.

They differ only in the type of public goods, kinship network, development of voluntary organisations and other factors. By controlling the similarities, a comparison of these two villages would reveal the relationship between levels of social solidarity and public goods provision.

Within each administrative village, village group leaders, village head, town government officials and around 20 ordinary villagers were interviewed. The comparison of the two villages in Hunan province is to explore the benefits and problems of rural public goods provision in agricultural villages. The effects of formal institutions on rural public goods provision in agricultural villages in China such as funds allocation, fundraising and project application systems, and informal institutions such as *guanxi*, farmers' mind-set, kinship and tradition were given particular emphasis.

Chapter 3

History of Rural Public Goods Provision

Rural China has undergone three revolutions according to Garnaut and Ma Guonan: the land reform after 1949, the de-collectivisation and shift to household responsibility system (HRS) since the 1980s, and freeing of the markets for farm products.¹³³ The three revolutions have greatly impacted on rural public good provision in China. History has shown the importance of institutional design and policy changes in the rural public goods provision process, which includes subsystems such as fundraising, funds allocation, decision-making and management.¹³⁴

The fundraising and allocation issue as a result of the reduction in funds especially in central and western parts of China with the introduction of TFR would be the focus of this dissertation. Through the examination of history, the changing role of local governments especially town governments, the different mechanisms of fundraising and allocation, and the incentive of both government and farmers would be examined. History was divided into three periods in this paper: People's Commune (PC) period, HRS to the pre-agricultural tax-for-fee reform (TFR), as well as TFR and post-TFR.

3.1 The People's Commune System (1958-1983)

PCs were established to replace town governments after the enactment of the Decision of the Central Committee of the Communist Party of China on Establishing the People's Commune in Rural China in August 1958. Thereafter, the Decision on Several Issues regarding the People's Commune was legislated in December of the same year. PC was regarded as the basic political and economic unit in the Chinese countryside. Below the PC were the

¹³³ Garnaut, Ross and Ma Guonan, "The Third Revolution". In Garnaut Ross, Guo Shutian, and Ma Guonan, (eds.) *The Third Revolution in the Chinese Countryside*, (New York: Cambridge University Press, 1996), p. 1-9.

¹³⁴ Zhang Jun and Jiang Linqi, "Zhongguo Nongcun Gonggongpin", 1997, 4-5.

production brigade (PB) and the production team (PT). The PT, which was about the size of a natural village, was the unit of collective production.

Rural public goods were provided through the unified planning of village collectives, the owner of the basic means of production. PC and PT were the main providers of rural public goods. They controlled the majority of economic resources and farmers did not have any property right. PC was tasked with the construction of irrigation facilities, roads, education, militia training, cooperative medical service, cultural services and popularising of agricultural techniques.

Fundraising for Rural Public Goods Provision

Fundraising for the provision of rural public goods during the PC period took the form of government expenditure, such as agricultural expenditures, educational, scientific, cultural and healthcare expenses, social welfare cost and other administration fees, as well as the commune's collective economic income largely from agriculture with little industrial income.¹³⁵ Local government extra-budgetary expenditure or the commune's extra-budgetary revenue covered expenditures on public welfare. Table 1 shows that the economic income of the commune was used for agricultural production, expansion of corporations of communes, social welfare and administration.¹³⁶

Part of the income of communes for rural public goods provision came from two channels of cost sharing: one was through *gongjijin* (public accumulation funds) and *gongyijin* (public welfare funds)¹³⁷ *Gongjijin* were used for the construction of irrigation facilities, purchase of agricultural fixed assets and establishment of collective enterprises, while *gongyijin* were used for supporting *five guarantees family*, meaning family of the aged, the infirm,

¹³⁵ Lin Wanlong, *Zhongguo Nongcun Shequ Gonggong Chanpin Gongji Zhidu Bianqian Yanjiu*, 2003, 108.

¹³⁶ Fan Baohong, *Xiangzhen Caizheng yu Nongcun Gonggong Chanpin Gongji Yanjiu*, 2007, 97-98.

¹³⁷ Bernstein, Thomas P. and Lu, Xiaobo, *Taxation without Representation in Contemporary Rural China*, (Cambridge: Cambridge University Press, 2003), p. 89.

old widows and orphans, the poor and other social welfare expenses.¹³⁸ These two types of funds accounted for five to eight per cent of the total income of the PB in a year.¹³⁹ Literature shows that of the total income of villages in 1957 and 1965, village collective deductions accounted for 33-35% and 39.93%, national tax accounted for 10-11% and 5.73%, respectively.¹⁴⁰

Table 1 Channel of Funding for Various Public Goods

Forms of Public Goods	Channels of Funding
Irrigation facilities	The state invested 76.3 billion <i>yuan</i> , and funds invested by the PC and the PBs were 58 billion <i>yuan</i> during the 30 years since the People's Republic of China was established.
Small-scale irrigation projects	The PC and the PBs undertook the funding without subsidies from government if they had the capacity. In villages without such capacity, the government would provide subsidies accordingly.
Agriculture, forestry, water and meteorology	Government budgetary funding and collective funds from villages.
Education costs for primary and secondary schools	The costs of schools set up by the Ministry of Education were covered mainly by government budgetary funding and supplemented by local government revenue, as well as fees submitted by students and others. The costs of schools established by the PC and PB were covered by their collective funds and fees submitted by students and others.
Healthcare expenses	Health centres set by the PC were funded mainly by the PC, with subsidies from the government when necessary. Rural cooperative medical service costs were covered by fees charged to farmers in a village. Basic medical service fees were covered by the PC collective funds. The subsidies from the government were mainly used for staff training expenses and others. Health centres in the PBs were covered by the collective economic income of a village.
Cultural undertakings	The costs were mainly covered by funding from the PC and supplemented by government budgetary expenditure.
Social welfare	Government covered a part of the social welfare fees, while the PC undertook another part of social welfare such as establishing homes for the aged within the PC.

Sources: Fan Baohong, *Xiangzhen Caizheng yu Nongcun Gonggong Chanpin Gongji Yanjiu*, 2007, 96.

Another source of cost sharing was *gongfen*, or work points, which were a measure of work attendance. Farmers as members of the production team—the

¹³⁸ Xiong Wei, "Woguo Nongcun Gonggong Chanpin Gongji Fenxi yu Moshi Xuanze" (The Analysis of Rural Public Goods Provision in China and its Mode Selection), *Zhongguo Nongcun Jingji* (Chinese Rural Economy), no. 7 (July 2002): 36-44.

¹³⁹ Xin Yi, *Nongcun Renmin Gongshe Fenpei Zhidu Yanjiu* (Study on the Rural Allocation System of the People's Commune in Rural China), Beijing: Zhonggong Dangshi Chubanshe, 2005.

¹⁴⁰ Yu Hong, *Zhongguo Nongmin Shehui Fudan yu Nongcun Fazhan Yanjiu* (The Study of Farmers' Burden and Rural Development), (Shanghai: Shanghai Caijing Daxue Chubanshe, 2000), p. 68.

basic unit of collective production—contributed to rural public goods provision by replacing capital with labour. Their performance was measured in the form of work points, which were awarded daily. All work points per individual awarded in the previous year were totalled to pay the individual in form of cash or others for his or her labour.¹⁴¹

For instance, the commune could mobilise villagers to contribute labour to construct roads or irrigation facilities. Villagers would then be given work points accordingly. There were two types of work scores: one that was fixed beforehand for working on a project and the other was assigned based on the number of days the individuals had worked. The performance of an individual was evaluated after comparing it with the performance of others and ranked from six to ten. The total score of work for an individual at the end of the year was calculated by multiplying the rank and the number of days he or she had worked.¹⁴² The provision of grain for villagers was closely linked to the score system. In Jiangsu Province, the total amount of money used for basic farmland construction in the 30 years after the establishment of PRC was RMB15 billion, among which government invested RMB3.6 billion, the PC, PB and PT generated RMB3.6 billion and the farmers contributed to the rest of the RMB7 billion in the form of labour.¹⁴³ This work point system at the time of collective production was quite effective.

Incentives of PC and Farmers in the Process of Rural Public Goods Provision

The PC and PB were incentivised to improve rural infrastructure in order to guarantee agricultural production, a task assigned by the state. At that time, agricultural products were planned, controlled and allocated nationwide in a

¹⁴¹ Charles S. Gitomer and Charles S. Gitomer, “Providing Public Goods in Rural China Postreform”. In *Reforming Asian Socialism: the Growth of Market Institutions*, (eds.) John McMillan and Barry Naughton, Ann Arbor: University of Michigan Press, 1996: 223.

¹⁴² Lin Yifu, “Guanyu Zhidu Bianqian de Jingjixue Lilun: Youzhixing Bianqian yu Qiangzhixing Bianqian”. In *Zailun Zhidu, Jishu yu Zhongguo Nongye Fazhan*, Beijing: Peking University Press, 2000.

¹⁴³ Wu Shijian, “Lun Nongcun Gonggong Chanpin Gongji Tizhi de Gaige Yu Wanshan” *Nongye Jingji Wenti*, 2002, no. 7, 48-52.

unified way. The production team was responsible for farming. The PC and PB would decide on the size of land on which crops were planted and the way farming should be carried out. Farmers participated in the collective agricultural production. Each production team was also assigned a quota for agricultural production. To ensure that agricultural products produced were enough to be submitted to the state, rural infrastructure as the basis of agricultural production was crucial.

Farmers participated in the construction of rural infrastructure to earn a living. The food ration system was closely linked to the work point system. The PC allocated food among farmers after submitting the agricultural products assigned by the state and setting aside enough seeds and feedstuffs for the next round of production and ensuring enough grain reserve. The remaining part of the food was allocated among farmers according to the work points they obtained during the production. The key link between the food ration system and the work point system was that farmers had to rely on the commune for food. Hence, they needed to follow the instructions and regulations of the commune and participate in the agricultural production as well as construction of rural infrastructure.

Situation of Rural Public Goods Provision

Rural public goods came in various forms during the period of the PC. Apart from the earlier mentioned public goods and services, new forms of public goods such as medical care, social welfare and education were also provided. The investment in infrastructure for agriculture during the Second Five-Year Plan by the government was emphasised, which accounted for 11.3% of the national total. From the First Five-Year Plan to the 12nd Five-Year Programme, this percentage was the highest (see Table 2).

The average annual investment in rural public goods by the government was RMB6.96 billion, RMB3.19 billion (45.8%) of which were allocated to infrastructure construction and RMB2.42 billion (34.8%) for supporting agricultural production and various fees involving agriculture during the

period of the PC from 1958 to 1978.¹⁴⁴ In 1978 in particular, government investment in agriculture was 13.4% of the national total, the highest during the period after the establishment of the PRC. The funds the government utilised for supporting agriculture were more than RMB10 billion in 1976, RMB15 billion in 1978, RMB17.4 billion in 1979 and RMB15 billion in 1980.¹⁴⁵ Some of the public goods had been constructed including the 50,000 kilometres of electric line constructed during the period from 1958 to 1962.¹⁴⁶ By the end of 1978, 674.48 million *mu* (or 44.97 million hectares) of farmland were effectively irrigated. Investment in rural water resources infrastructure and agricultural meteorology was a respective RMB3.567 billion and RMB74 million.¹⁴⁷ The top-down unified supply of rural public goods under the PC was effective at that time as farmers had fewer diversified demands.¹⁴⁸

Table 2 Percentage of Investment in Rural Basic Construction to Total Investment

Five-Year Plan	Percentage of investment in rural basic construction to total investment (%)
First	7.1
Second	11.3
Third	10.7
Fourth	9.8
Fifth	10.5
Sixth	5.1
Seventh	3.3
Eighth	3.0
Ninth	5.6
2001	6.8
2002	7.3
2003	4.8

Source: Data from Department of Rural and Social Economic Survey, 2009.

¹⁴⁴ Department of Planning of the Ministry of Agriculture, *Zhongguo Nongcun Jingji Tongji Daquan: 1949-1968* (The Economic Statistics in Rural China), Beijing: Nongye Chubanshe, 1989, 364-367.

¹⁴⁵ State Statistical Bureau, *Xinzhongguo Wushinian Tongji Ziliao Huibian* (Statistics Collection of the Fifty Years of New China), Beijing: Zhongguo Tongji Chubanshe, 1999.

¹⁴⁶ Yan Fen, “Zhongguo Nongcun Gonggong Chanpin Gongji Zhuangkuang Ji Tedian” (The Situation and Characteristics of Rural Public Goods Provision in China), *Dongnan Xueshu*, 2009, no. 2, 62.

¹⁴⁷ Nongyebu Jihuasi, *Zhongguo Nongcun Jingji Tongji Daquan: 1949-1968*, (Rural Economic Statistics of China: 1949-1968), Beijing: Nongye Chubanshe, 1989.

¹⁴⁸ Li Jianjun, “Woguo Nongcun Gonggong Chanpin Gongji Zhidu de LUjin Bianqian yu Dongtai Duice Yanjiu”, *Gaige yu Zhanlue*, 2010, no. 6, 102.

3.2 From Household Responsibility System to the Tax-for-Fee Reform (1984-2001)

The PC was officially abolished in 1983. The top-down unified provision of rural public goods has been gradually changed after the abolition of the PC and the implementation of the HRS. Town governments were re-established¹⁴⁹ with roles and functions that are different from that of the PC. The mind-set of the farmers has also undergone changes as a result of the HRS.

Towns and Villages

The town government was established as the lowest level of government after the abolition of the PC according to the “Circular on Separating the Functions of Government from Commune Management and Establishing People’s Town Governments” issued by the Communist Party of China (CPC)’s Central Committee and the State Council on 10 December 1983.¹⁵⁰ A typical town had a town head and a deputy head, and a deputy head if the town was very big. A town government had departments of public security, civil administration, judicial administration, culture, education and public health as well as family planning.¹⁵¹ According to the Constitution of the PRC, the function of a town was to administer economic and social planning and budgeting, and handle administrative works such as economic development, education and social development.

After the abolition of agricultural collectives, an administrative village (*xingzhengcun*) replaced the PB and a village group replaced the PT. A villagers’ committee run by members who were recommended or elected by

¹⁴⁹ The difference between a town (*zhen*) and a township (*xiang*) is urban population. A town has over 10% of its population registered as urban population, while a township has less than 10%. The towns have a larger population, more local industries and are wealthier than townships. See Zhang Yang, *Local Government and Politics in China: Challenges from Below*, Armonk, New York: Sharpe, 2003, 49. To simplify the difference, town is used in this paper.

¹⁵⁰ See “Circular on Separating the Functions of Government from Commune Management and Establishing People’s Township Governments”, 12th October 1983, China’s Law and Regulations Information. Available at <http://www.86148.com/chinafa/shownews.asp?id=528> (accessed 4 September 2009).

¹⁵¹ Chen, Jing and Feng Zhou, “Nongcun Gonggong Chanpin Gongji de Yige Lilunxing Jieshi—Jiyu Jiti Xingdong he Jiaoyi Chengben de Fenxi”, 2007, 17-21.

villagers and approved by the town government governed the administrative village. It was not a formal part of government administration and its members were local leaders instead of employees of the state.¹⁵² The Village Committee Organisation Law took effect on 1 June 1988. The Village Committee (VC) was defined as an autonomous organisation that administered and educated farmers and served their interests. The main tasks were managing public affairs, fulfilling the state grain quota, administering agricultural land use, ensuring compliance of villagers in meeting their obligations, developing village industries, maintaining social order, mediating conflicts among villagers, conveying feedback of villagers to higher authorities and managing birth control.¹⁵³ Village leaders had four major responsibilities: collecting taxes and levying fees, enforcing family planning, fulfilling grain procurement quotas and providing public goods and services. Village leaders had often placed public goods and services provision at a low priority.¹⁵⁴

An administrative village comprised several village groups, each of which covered between 30 and 50 households. The leaders of village groups were elected or recommended by farmer households and responsible for collecting agricultural taxes and fees, acquainting villagers with government policies, mediating disputes, organising public projects construction and other tasks related to agricultural production, and ensuring villagers' livelihood.

Unlike the PC, a town government had no direct control of agricultural production in its subordinate villages and had weaker administrative power over villages than the PC. However, most towns controlled villages through financial and personnel management. The leading functionaries of villages were mostly appointed by and accountable to town party committees. Village finance was checked by the management administration station (*jingying guanli zhan*) in the town government. Village cadres' salaries were paid after their performance evaluated by town government at the end of each year.

¹⁵² Elisabeth Croll, *From Heaven to Earth: Images and Experiences of Development in China*, (New York: Routledge, 1994), p. 31.

¹⁵³ Fan, Jie, Thomas Heberer and Wolfgang Taubmann, *Rural China: Economic and Social Change in the Late Twentieth Century*, 2006, 195.

¹⁵⁴ Xu Yong, *Zhongguo Nongcun Cunmin Zizhi* (China's Rural Self-Governance), Central China Normal University Press, 1997.

Town and town governments provided guidance, help and support to village committees, which in turn assisted town and town governments in their work. In most situations, the town government decided the salaries of village officials.¹⁵⁵ These institutional changes in the countryside had changed the interests of both the government and farmers.

Legally, village committee was a self-governing organisation and politically independent from the town as town government cannot appoint or dismiss village committee members. However, in reality, town government could intervene in village affairs through organisational and economic relations as the Party had its branch at the village level and the town government determined the salaries of village committee members and village group leaders.

Financial System and Village Income of the Town

Government

In the late 1980s, all provinces except Tibet had set up fiscal departments at the town level. Town budgets were part of county budgets, which meant that all revenues were collected by counties and all expenditures at the town level were disbursed from county budgets.¹⁵⁶ After the 1980s, Contract System on Revenue and Expenditure (CSRE) for local government (*caizheng baogan*)¹⁵⁷ had been implemented requiring the county to set a revenue baseline for each town. The town would have to submit revenue to the county based on a certain percentage. Meanwhile, another expenditure was for higher authorities, called *shangjie*. The baseline for *shangjie* had also been set for each town. It meant that if the baseline of revenue exceeded that of expenditure, the excess would go to the county treasury through *shangjie*. If

¹⁵⁵ He Xuefeng and Su Minghua, “Xiangcun Guanxi Yanjiu de Shijiao yu Jinlu” (Perspective on the Relationship between Township and Village). In *Shehuixue Yanjiu*, 2006, no. 1, 7.

¹⁵⁶ Wong, Christine P. W, “Rural Public Finance”, 1997, 191.

¹⁵⁷ The State Council, “Decision on Contract System on Revenue and Expenditure (CSRE) for local government”, 22, July, 1988. See:

<http://cpc.people.com.cn/GB/64184/64186/66696/4495044.html>. Accessed on 8 May 2010.

revenue was lower than expenditure, the county finance would provide subsidy to town revenue.¹⁵⁸

Town governments had three categories of revenue: budgetary, extra-budgetary and self-raised funds.¹⁵⁹ The most important budgetary revenue included four agriculture-related taxes, industrial commercial tax and other taxes from levies. The agriculture-related taxes included agricultural tax, agricultural special products tax, slaughter tax and deed tax. Agricultural special products tax was introduced in 1994 as a special variant to agricultural tax. Local governments imposed higher rates of taxes on more profitable agricultural products such as tobacco, tealeaves, flowers, fruits and aquatic products.¹⁶⁰

The agricultural tax reflected the growth of crop products and the other three agriculture-related taxes showed the growth of cash crops and livestock raising industry. The industrial commercial tax included both value added tax, sales tax and enterprise income tax of local enterprises, and miscellaneous taxes such as personal income tax, resource tax, property tax, stamp tax, operation tax of vehicle and ship, and other taxes. Of the budgetary revenue of town government, the revenue deriving from the four agriculture-related taxes was more than the sum of industrial commercial tax and other taxes such as fines and charges, which was a typical characteristic of the finance of a less developed town.¹⁶¹

¹⁵⁸ Zhou Feizhou, “Cong Jiqxing Zhengquan Dao Xuanfuxing Zhengquan—Shuifei Gaige Dui Guojia Yu Nongmin Guanxi Zhi Yingxiang” (From Absorbing to Floating Government—Rural Fee Reform and the Changing Relationship between State and Peasant), *Sociological Studies*, 2006, no. 3, May, 11.

¹⁵⁹ Some scholars classify the revenue into two categories: budgetary and extra-budgetary by combining extra-budgetary and self-raising revenue. (see Oi, 2007).

¹⁶⁰ Linda Li, Chelan, “Differentiated Actors: Central-Local Politics in China’s Rural Tax Reforms”, *Modern Asian Studies*, 40, 1, 2006: 167.

¹⁶¹ Zhou Feizhou and Zhao Yang, “Pouxu Nongcun Gonggong Caizheng: Xiangzhen Caizheng de Kunjing he Chengyin—Dui Zhongxibu Diqu Xiangzhen Caizheng de Anli Yanjiu” (Examination of Rural Finance: the Trouble and Causes of Township Finance—A Case Study of Township in the Central and Western Part of China), *Zhongguo Nongcun Guancha*, no. 4, 2003, 27-28.

The formal budget was not the most important part of the fiscal system.¹⁶² Extra-budgetary and self-raised funds might constitute a large part of town government revenue. Major revenue from extra-budgetary taxes came from fees and charges, including educational surcharges, surcharges of agricultural taxes, agency development funds, rental incomes from public housing, market management fees, management fees from private enterprises or individuals and others.¹⁶³

Self-raised funds were also called off-budget revenue. The issue of off-budget revenue was first raised by Sun Tanzhen and Zhu Gang in 1993. Budgetary and extra-budgetary revenue and expenditure followed the unified nationwide institutional restriction. Under off-budget finance, town governments could decide on the scope, standard and ways of charging based on the actual situation of the town.¹⁶⁴

Off-budget revenue of town involved four categories: The first was profit and management fees paid by town enterprises and rental fees of collective-owned lands, mountains and rivers. They were stable sources of revenue, a reason for the towns' keen interest in developing town-village enterprises and planting bases. The second was expenses retained for the village's collective undertakings (or *three deductions*) including *gongjijin*, *gongyijin* and *guanlifei*,¹⁶⁵ as well as retained fees from *five charges*. *Three deductions* referred to public reserve funds, public welfare funds and management fees.¹⁶⁶ *Five charges* were fees for unified management of town public undertakings, including charges for rural education, family planning, militia training, inter-

¹⁶² Wong, Christine P. W. and Richard M. Bird, "China's Fiscal System: A Work in Progress". In *China's Great Economic Transformation*, (eds.) Loren Brandt and Thomas G. Rawski, (New York: Cambridge University Press, 2008), p. 442.

¹⁶³ Wong, Christine, P.W, 1997, 201-202

¹⁶⁴ Sun Tanzhen and Zhu Gang, "Woguo Xiangzhen Zhiduwai Caizheng Yanjiu", *Jingji Yanjiu*, 1993, no. 9, 38; Lin Wanlong, 2003, 96.

¹⁶⁵ *Gongjijin* means public reserve funds used for covering expenses for farmland irrigation and costs of collective economy; *gongyijin* means public welfare funds used to subsidise the *five guarantees for the family* (the aged, the infirm, old widows and orphans), poor families and other social welfare costs; *guanlifei* includes management fees which cover salaries of village officials and management expenses. See Xiong Wei, "Woguo Nongcun Gonggong Chanpin Gongji Fenxi yu Moshi Xuanze", 2002: 36-44

¹⁶⁶ Public reserve funds are used for constructing facilities for farmland irrigation and afforestation, purchasing fixed assets for production as well as setting up village collective economy. (Legislative Affairs Office of the State Council), 2003, 6; see also Xiong, 2002.

village road construction and subsidies to entitled groups.¹⁶⁷ Off-budget revenue also included various raised funds, donations, etc. The last category of off-budget revenue included income from imposition of fines and sales from confiscated goods collected from farmers. Table 3 shows that revenue raised by town governments not only had accounted for a large part, but was also the main source of total town government revenue.

Table 3 Proportion of Town Government-Raised Revenue to Total Town Revenue: Several Cases¹⁶⁸

Place	Percentage of town government-raised revenue in total revenue	Year
One town in Beijing	77.4	1989
One town in Zhejiang	72.5	1989
One town in Dalian	74.6	1991
One town in Hunan	41.7	1991
One town in Yicheng County, Hubei	59.7	1992
One town in Jiangmen city, Guangdong	85.7	1993
One town in Leqing city, Wenzhou	63.2	1993
One town in Hebei (A)	45.1	1996
One town in Hebei (B)	43.6	1997
One town in Hebei (C)	45.9	1998
One town in Hebei (D)	59.6	1999

Source: Cases 1 to 4: Sun Tanzhen, Zhu Gang (1993); Cases 5 to 7: Fan Gang (1995); Cases 8 to 11: Lin Wanlong (2002).

The funds raised were used mainly for four purposes: to complete the revenue base, to pay for the salaries of staff on contract and the welfare of staff on payroll, to cover the daily administrative operation costs such as hospitalisation fees, travel charges, communication fees, newspaper subscription fees, water and electricity fees and other administrative fees, and to provide rural public goods and services.¹⁶⁹

Villages had also set aside certain funds for operation costs and public welfare. The funds mainly came from two sources: fees transferred from town government back to the villages, the collective income of village from profit and income from leasing land or fishponds to farmer household, enterprises or town governments, leasing collectively owned machines to farmer households and other fees.

¹⁶⁷ Legislative Affairs Office of the State Council, 2003, 6.

¹⁶⁸ Lin (2002), 98.

¹⁶⁹ Zhou, Feizhou, "Cong Jiquxing Zhengquan dao 'Xuanfuxing' Zhengquan", vol. 21, (May 2006), 28.

The income of villages should generally be first transferred to the town government before they were returned to the villages after checking. Large expenditures must be approved by the town government. In general, villages with robust economy and strong leadership enjoyed more autonomy than those with weak economy and poor leadership¹⁷⁰ as they were heavily dependent on the town government.

Fundraising for Rural Public Goods Provision

The funding of rural public goods after the implementation of the HRS remained the same as that of the PC, which largely depended on off-budget revenue. But the ways of cost sharing shifted from directly deducting from collectives' revenue under the PC system to farmers submitting taxes and fees under the HRS.¹⁷¹ In official words, public goods provision in this period followed the principles of 'whoever benefits pay' and 'collect funds from farmers to be used for them'. Farmers had to pay for public goods according to the extent of benefits they enjoyed.¹⁷²

The costs of public goods were shared among local government, village committee and farmers. A survey in 2002 by the State Council's Development Research Centre showed that town government and village committee contributed 78% of compulsory education costs, the county governments nine per cent, provincial governments 11% and the central government two per cent.¹⁷³

But in some villages with good development of town-village enterprises and rapid development of collective economy, such as Huaxi village in Jiangsu province and Nanjie village in Henan province, infrastructures (roads, electricity and water facilities), education, medical care and pension system

¹⁷⁰ Fan, Jie, Thomas Heberer and Wolfgang Taubmann, *Rural China: Economic and Social Change in the Late Twentieth Century*, 2006, 212.

¹⁷¹ Qu Yanchun, Qu, Yanchun, ^a "Nongcun Gonggong Chanpin Gongji Zhidu de Kunjing yu Chuangxin—Yi Zhidu Bianqian Lilun Wei Fenxi Kuangjia", 2007, 118.

¹⁷² Li Bin, *Xiangzhen Gonggong Wupin Zhiduwai Gongji Fenxi*, (Analysis of Off-Budgetary Provision of Public Goods by Township Government), Beijing: Zhongguo Shehui Kexue Chubanshe, 2004, 54.

¹⁷³ Chang Hongxiao, "Can a new education law save China's compulsory education system?" <<http://english.caijing.com.cn/2004-10-18/100043139.html>> (accessed 31 January 2011).

were provided by village collective without government subsidies or farmers' contribution of funds.¹⁷⁴

Role of Town Government in Fundraising

Town governments had played an important role in the process of rural public goods provision after HRS was implemented. Rural public goods were provided through off-budget finance and farmers undertook a large part of the responsibility. As mentioned earlier, funding for rural public goods provision depended on off-budget revenue.¹⁷⁵

The town government collected funds from farmers for public goods through three channels before the TFR. The first channel was by four agricultural taxes (agricultural tax, agricultural specialty tax, farmland occupation tax and contract tax) and slaughter tax. The tax levied was decided by the central government and town government had no decision power regarding the taxes. Hence, town government depended on the second and third channels of collecting tax for rural public goods provision.

The second channel was from *three deductions* and *five charges* (*tongchou*).¹⁷⁶ *Three deductions* and *five charges* covered almost all aspects of rural public goods and services. In 2002, county and town governments had undertaken almost half (around 42.86%) of the expenditure for supporting various agricultural undertakings, while central, provincial and municipal governments had undertaken 13.42%, 29.49% and 14.23%, respectively.¹⁷⁷

Lin Wanlong pointed out that “*three deductions* and *five charges*” come under collective funds instead of financial funds since they are similar to funds raised by community, which was outside of the governments' financial system

¹⁷⁴ Gao Jianguo, (ed.), *Zhongguo Nongcun Gonggong Wupin de Shequ Gongji Jizhi* (Communal Provision System of Rural Public Good in China), Jinan: Shandong Renmin Chubanshe, 2009, 49.

¹⁷⁵ Liu, Jiong and Fang Wang, “Duo zhongxin Tizhi: Jiejue Nongcun Gonggong Chanpin de Gongji Kunjing de Heli Xuanze” (System of Multiple Suppliers: Reasonable Choice of Solving the Problem of Rural Public Goods), *Nongcun Jingji*, no. 1 (January 2005):12-14.

¹⁷⁶ He Xuefeng, 2008, Qin Guomin, 2005.

¹⁷⁷ Feng, Xingyuan, Christer Ljungwall and Li, Renqing. *Zhongguo de Cunji Zuzhi yu Cunzhuang Zhili* (Village Organisations and Village Governance in China) (Beijing: Zhongguo Shehui Kexue Chubanshe, 2009), p. 286.

during the period of the PC.¹⁷⁸ The third channel for public goods was the various impositions of contributions and the mandatory fundraising.

Table 4 Fiscal Expenses from Different Levels of Governments in 2002

Percentage of total is indicated in parentheses Unit: 100 million

Project	Total	Central Government	Provincial Government	Municipal Government	County and Town
Various Agricultural Fees	692.67	92.93 (13.42%)	204.28 (29.49%)	98.56 (14.23%)	296.9 (42.86%)
Expenses on Agricultural Production	261.8	0 0%	36.08 (13.78%)	71.34 (27.25%)	154.38 (58.97%)

Source: Feng Xingyuan, (2009: 287).

One reason for the huge revenue collected from farmers was the need to meet the shortfall in funds obtained from county and above governments. Agricultural taxes accounted for 30% to 40% of town revenue, or only four per cent of central government revenue in Anhui province in 1998.¹⁷⁹ Table 4 shows that RMB26.96 billion or almost half of total funds was used for various agricultural expenses, while RMB15.438 billion or more than half of total funds for agricultural production came from county and town government revenue in 2002. County government, especially town government, was given the huge burden of providing rural public goods without adequate funds from upper-level government.

The second reason was the tax-sharing reform in 1994, which made town more independent. Town governments gradually became a separate interest group after economic reforms in especially property rights and marketisation of economic management, giving town governments the right to ownership of local resources. Another possible reason was the flexibility in deciding the standard and method of levying fees with no national regulations. There was also a lack of regulation on fund usage.¹⁸⁰

However, the agricultural tax, *three deductions, five charges* and other fundraising channels were not used solely for rural public goods provision but

¹⁷⁸ Lin Wanlong, 2002, 126.

¹⁷⁹ Hu Tuoping, "Xiangzhen Gonggong Chanpin de Gongqiu Maodun Tanxi" (Analysis of Disparities between Supply and Demand), *Caizheng Yanjiu*, 2001, no. 7, 31-36.

¹⁸⁰ Chen, Jing and Feng Zhou, "Nongcun Gonggong Chanpin Gongji de Yige Lilunxing Jieshi—Jiyu Jiti Xingdong he Jiaoyi Chengben de Fenxi", 2007, 17-21.

for accomplishing county government's revenue tasks (see Figure 2). As mentioned earlier, based on the *caizheng baogan*, there was a revenue baseline the town government had to submit to upper-level government, failing which town expenditure would be reduced, affecting the payment of salary to government staff and the town's daily operation. This submission was mandatory even when revenue fell. The failure to submit will had an adverse effect on the performance of town government officials. As a result, town governments normally deployed off-budget revenue to cover the shortfall.

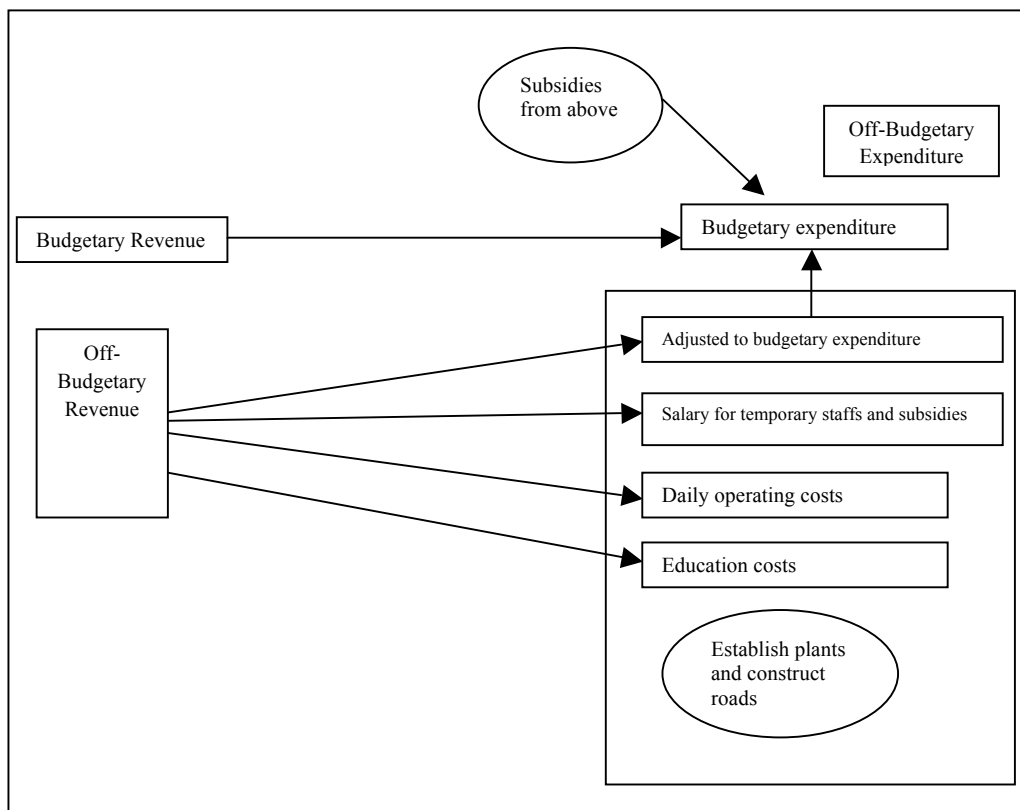


Figure 2 Expenditure of MS Town
 Source: Zhou Feizhou and Zhao Yang, (2003: 32).

Off-budget funds were used to pay for the allowances of town staffs and for hiring temporary staffs as budgetary revenue only covered the basic salaries of town staff. Temporary staffs were hired to collect agricultural taxes and fees, for instance, after the streamlining of town government. These funds were also for meeting daily operating expenses and costs, as well as for

making investment decisions on local public projects such as the construction and maintenance of village schools and healthcare facilities.¹⁸¹

The Incentives of Town Government

Rural infrastructures such as roads and electricity and farmland irrigation facilities were necessary for agricultural production, without which the farmers would not be able to harvest and submit various agricultural taxes and fees. Town governments collected various fees including *three deductions* and *five charges* in the name of public services from farmers. Some form of expenditure on public goods or services such as the maintenance of classrooms and roads would have to be provided; in most cases, the funds allocated were quite small.¹⁸²

Theoretically, the main function of town government should be on providing rural public goods and social welfare. However, in reality, town governments were busy with various tasks including collecting agricultural taxes and various fees, conducting family planning activities and rural compulsory education. Village group leaders had been tasked with collecting taxes and fees before handing them to the village committee for onward submission to the town government. The task of collecting taxes and fees was so important that it was tied to the salary (around two-thirds) of village officials.¹⁸³ The failure to accomplish the task could mean a pay-cut at the end of the year. This put village officials under huge pressure.

The collection of taxes and fees for public goods provision in a way had its plus points. First, it increased the frequency of contact between town government officials and village officials, as well as between village officials and farmers. Farmers could voice their demands for various kinds of public projects in their meetings with village officials during the tax collection process. Second, as the town government had to depend on village officials,

¹⁸¹ Kennedy, 2007, 45.

¹⁸² Zhou Feizhou, 2006, 13.

¹⁸³ Sheng Duanfeng, “Ruanzhibiao de Yingzhibiao hua—Guanyu Shuigaihou Xiangcun Zuzhi Zhineng Zhuanbian de Yige Jieshi Kuangjia” (Soft Index became Hard Index—An Explanation of the Function of Township and Village Committee Since the Tax-for-Fee Reform), *Gansu Shehui Kexue*, 2007, no. 2, 4.

who in turn had to rely on farmers for tax payments, they would have to meet farmers' demands. Hence, it promoted the provision of rural public goods.

The Incentive of Farmers

The need for rural public goods provision for agricultural production was a motivation for farmers to make their contributions dutifully. Unlike farmers during the PC, farmers in this period had more autonomy in their agricultural production since the implementation of HRS.

From the late 1970s, the economic reform in countryside had begun and the HRS implemented. All proceeds went to the farmers after the submission of agricultural tax to the central government, and various fees collected were channelled to the coffers of the collective and town government.

The implementation of the HRS brought dramatic changes to the countryside. One change was the ownership of property rights. The collective under the PC was the sole owner to common property. Under the HRS, common property was owned by both the collective and farmers.¹⁸⁴ Farmers obtained private property rights that were not available before, meaning that farmers had the autonomy of activities in relation to production and management, as well as the control of profits gained.

The implementation of HRS initially aimed to promote agricultural production by providing incentives to farmers through the leasing of land. But it gave autonomy to peasant household as a unit of production as well. The most common form of responsibility system in operation was *baogan daohu* – leasing land and allocating output quotas to each household. The collectives had land ownership, while the households had utilisation right.

This gave great incentives to farmers to increase agricultural production. Household as a chief unit of production was responsible for all field management, from sowing, harvesting to controlling the whole process. This contrasted with production under the PC whereby decision making on the type of crops and the production process, and management of all production tasks

¹⁸⁴ Yan Fen, “Zhongguo Nongcun Gonggong Chanpin Gongji Zhuangkuang Ji Tedian”, 2009, 63.

came under the production team.¹⁸⁵ For farmers who operated their own private business, public services such as electricity, roads, and water were essential.

Situation of Rural Public Goods Provision

Public goods were diversified after the implementation of the HRS as farmers had different demands for public goods. Those who worked in the plantation demanded for good irrigation facilities, while those who specialised in poultry breeding required good roads to facilitate travel downtown to make their sale. However, more often than not, these demands could not be met as rural public goods provision was by the upper-level government. Town government and village committee had to accomplish assigned tasks, which were often irrelevant to the demands of farmers. Sometimes, public projects that were totally unrelated to the needs of the farmers were constructed to showcase the achievements of county and town governments.¹⁸⁶

Funds for rural public goods provision were also far from adequate during this period. Investment by central government on rural infrastructure accounted for 13.4% of national total in 1978, and further down to 9.98% in 1990, 7.75% in 2000, and only 2.73% in 2001.¹⁸⁷ At the national level, rural infrastructure investment accounted for only 2.5%, the lowest in 1994; it rose to 7.3% in 2002, which was still lower than the 11.3% of the Second Five-Year Plan from 1958 to 1962.¹⁸⁸ On transportation and resources, 83% of villages had no secure drinking water, 13% had no road, 53% had no phone connection and electricity supply was not constant. Medical care services were not only inadequate. In many villages, many educational facilities such as classrooms, dormitories and equipment were old and dysfunctional, teachers

¹⁸⁵ Croll, Elisabeth, "Some Implications of the Rural Economic Reforms for the Chinese Peasant Household". In Saith, Ashwani, (ed.), *The Re-Emergence of The Chinese Peasantry: Aspects of Rural Decollectivisation*, (London: New York: Croom Helm, 1987), p. 106-108.

¹⁸⁶ He Xuefeng and Luo Xingzuo, "Nongcun Gonggongpin Gongji: Shuifei Gaige Qianhou de Bijiao yu Pingshu", (Rural Public Goods Provision: Comparison and Analysis Before and After Tax-For-Fee Reform), *Tianjin Xingzheng Xueyuan Xuebao*, no. 2, (September 2008): 30.

¹⁸⁷ Fan Baohong, 2007, 101.

¹⁸⁸ Xian Zude, *Zhongguo Nongcun Tongji Nianjian*, (Statistical Yearbook of Rural China), Beijing: Zhongguo Tongji Chubanshe, 2003.

were under-qualified and salaries were often delayed. Alkaline soil, vegetation deterioration, droughts and floods were common complaints of a deteriorating village environment.¹⁸⁹

The lack of funding had left town governments with little rural public goods provision. This was worsened by the introduction of the Tax Sharing Scheme in 1994; the central share in total budgetary revenue had increased rapidly at the expense of the local government. The percentage of central and local government revenue in total revenue was a respective 22% and 78% in 1993. A year later, the situation was reversed to 55.7% and 44.3% respectively.¹⁹⁰ It was reported that large portions of local government budgets were channelled to payroll and staff-related costs, leaving little funds for public investment.¹⁹¹ For instance, of total expenditure of local education in 2001, payroll for teaching and administrative staff accounted for 62.7%, housekeeping 8.8%, operational costs 6.5%, purchase of equipment 7.1%, minor renovation 8.7%, reception and entertainment 0.4% and others 5.7%.¹⁹²

Some towns even had huge debts. In 1999, of 45,000 town fiscal departments, 52% required financial subsidies from upper-level government to cover administrative and everyday expenses.¹⁹³ The financial situation only witnessed slight improvement in 2000, where 950 (46%) of 2,074 county fiscal departments needed subsidies from upper-level government.

Furthermore it became difficult to require farmers to contribute funds and labour to public goods provision. Farmer households' income had grown quickly due to the implementation of HRS, giving farmers a free hand in agricultural production, thus resulting in rapid rural economic development. The annual average gross social production value grew by 15.1% from 1978 to

¹⁸⁹ Guan Yongbin, "Nongcun Gonggong Chanpin Gongji Zhidu: Xianzhuang, Xingcheng Jizhi yu Mubiao Mushi Xuanze", *Shandong Nongye Daxue Xuebao*, 2005, no. 1.

¹⁹⁰ Chen Xiwen, Zhao Yang and Luo Dan, *Zhongguo Nongcun Gaige 30 Nian Huigu yu Zhanwang*, (Reflections and Future of 30-Year Rural Reform in China), (Beijing: Renmin Chubanshe, 2008), p. 253.

¹⁹¹ Wang, Zhuo, "Lun Guojia Caizheng de Shencengci Maodun" (On the Deeper Contradictions of Government Finance), *Nanfang Jingji* 1998, no. 6: 7-9.

¹⁹² Li, Chelan, Linda, "Embedded Institutionalization: Sustaining Rural Tax Reform in China", *The Pacific Review*, 2006, no. 1, March, 71.

¹⁹³ He Chengjun, "Xianxiang Caizheng Kunnan: Xianzhuang, Chengyin, Chulu", *Zhongguo Nongcun Jingji*, 2003, no. 2, 17.

1996, which indicated rapid growth in rural economy.¹⁹⁴ But income growth was uneven. Farmers reacted differently to rural public goods provision. Some were more willing than others to contribute both funds and labour. Under the HRS, farmers became individual work units, which worked for their own gains. It was thus not easy to get them to work for free.

3.3 Conclusion

The study of the history of rural public goods provision had shown that farmers had made large contributions. During the PC system, rural public goods were provided by top-down unified supply and funded by deductions from the commune's income. Farmers were mobilised by the PC and PB to work and share the costs of public goods provision under the *gongfen* system. They contributed by replacing capital with labour. The close link between daily food and work points provided the incentives for farmers to work hard. The PC and PB that were tasked with providing rural public goods had the incentive to guarantee agricultural production. This unified top-down supply of rural public goods was effective at that time.

With the abolition of the PC system and the implementation of the HRS, farmers still contributed to rural public goods with the submission of various taxes and fees. Town governments collected *three deductions* and *five charges*, as well as other impositions and mandatory fundraising from village committees for rural public goods provision.

After the implementation of HRS, rural public goods provision was compromised due to limited investment. Town government with limited funds allocated from upper-level government had to shoulder the huge burden of meeting the revenue baseline assigned by county government. The funds collected from farmers were not fully used for rural public goods provision, as there were other expenses to pay for as well. To collect various taxes and fees from farmers, town governments had to provide a minimal level of rural public goods. As farmers had become individual work units and had to work

¹⁹⁴ Lin Wanlong, 2002, 63.

for their own agricultural production, town governments faced challenges in getting farmers to replace capital with labour for rural public goods provision.

Chapter 4

The Impact of Tax-for-Fee Reform and Abolition of Agricultural Tax on Rural Public Goods Provision

The tax-for-fee reform (TFR) and abolition of agricultural tax (AAT) were implemented after two rounds of rural fiscal reforms. The first was the decentralisation reform in the late 1980s and early 1990s to improve incentives for revenue generation. The reform increased local revenue but decreased central government revenue. The second was the recentralisation reform in 1994 to share tax between central and local governments. With the tax-sharing system, the tax revenue of local governments fell.¹⁹⁵ Villagers were imposed various taxes and fees by local governments in the late 1990s which later became one of the most serious concerns of the central government. Rural TFR (*feigaishui*)¹⁹⁶ was to reduce the burden of farmers, but it had also affected rural public goods provision.

Before the TFR, farmer households were imposed agricultural taxes, *three deductions* and *five charges* (*tongchou*) and other surcharges. The main tasks of TFR were to abolish the “*five charges*”, administrative fees, slaughtering tax and village compulsory labour services, adjust the agricultural tax and tax on agricultural specialty products, as well as reform the “*three deductions*”.¹⁹⁷

The TFR was initiated in Anhui province as a national demonstration site (*shifandian*) in the year 2000, with other provinces selecting some counties or cities as pilot localities. By 2002, 20 provinces undertook this reform, an attempt by the central government to relieve villagers of their tax and fee

¹⁹⁵ Luo, Renfu, et. al. “Elections, Fiscal Reform and Public Goods Provision in Rural China”, *Journal of Comparative Economics*, 35, 2007, 586.

¹⁹⁶ Yep, 2004; Ruo Renfu, et. al. 2007; Kennedy, John James, 2007.

¹⁹⁷ “Abolishing the Agricultural Tax”. Source: Xinhua News Agency. 6 March 2006. The website of Central People’s Government of People’s Republic of China. Available at http://www.gov.cn/test/2006-03/06/content_219801.htm (accessed on 9 May 2010)

burdens in the 1990s and to simplify the collection of local revenue.¹⁹⁸ The loss in local fees was to be offset by direct transfers from the county government.

The basic policy changes were summarised as “three abolitions, two adjustments, and one reform”(sange quxiao, liangge tiaozheng he yige zubu quxiao). Three abolitions meant the termination of town levies and charges, the levy on rural education, and other levies. Two adjustments referred to changes to agricultural tax and the special agricultural tax. One reform denoted reform of the collection and usage of the administrative village levy.¹⁹⁹

In the initial phase, TFR included several changes to rural taxes. First, most of the town levies and charges such as the earlier mentioned *five charges* and slaughter taxes were abolished without requiring farmers to contribute other forms of funds. Second, the labour obligations to provide 10-20 days of labour per year or its monetary equivalent during the collective era were terminated by 2003. In order to compensate for the loss of revenue, agricultural tax was readjusted to seven per cent on average.²⁰⁰ Third, *three deductions (tiliu)*, which were used to cover remuneration of village cadres, social relief, and administration expenses were abolished. These expenses had since been financed by an agricultural tax equivalent to the maximum of 20% of the tax payment imposed on farmers.²⁰¹ In general, the newly adjusted agricultural taxes replaced all former informal fees collected from farmers.²⁰² Agricultural taxes went to the prefectural and county finance bureau first after collection before they were channelled back to town finance to meet the quota

¹⁹⁸ John James Kennedy, “From the Tax-for-Fee Reform to the Abolition of Agricultural Taxes: the Impact on Township Governments in North-West China”, *The China Quarterly*, 2007, no. 189, 43.

¹⁹⁹ Sato, Hiroshi, Li Shi and Yue Ximing, “The Redistributive Impact of Taxation in Rural China, 1995-2002: An Evaluation of Rural Taxation Reform at the Turn of the Century”, Gustafsson, Bjorn A., Li Shi and Terry Sicular, *Inequality and Public Policy in China*, (New York: Cambridge University Press, 2008), p. 316.

²⁰⁰ Yep, 2004, 49.

²⁰¹ Wu Hongchang, "Nongcun feishui gaige libi fenxi jie chengce jianyi" ("Analysis of the tax-for-fee reform and recommendation"), *Nongye jingji wenti*, no. 10 (2000), 22-25.

²⁰² Tao Ran and Ping Qin, “How Has Rural Tax Reform Affected Farmers and Local Governance in China?”, *China and World Economy*, 2007, no. 3, 21.

set. The new agricultural tax designated for the town and surcharge on the agricultural tax was earmarked for the village.²⁰³

In 2002, around 20 provinces implemented the AAT on a province-wide basis. Pilot programmes involving a full abolition of agricultural tax were conducted in the northeastern provinces of Heilongjiang and Jilin. Eleven agricultural-based provinces were required by the central government to reduce agricultural tax rates by three per cent while the rest of the provinces had to reduce agricultural taxes by one per cent since 2004.²⁰⁴ By the end of 2005, 26 provinces in Mainland China had abolished agricultural tax and the rest did likewise in 2006.²⁰⁵

Meanwhile, to improve rural infrastructure construction, constructing the New Socialist Countryside was advanced at the Fifth Plenary Session of the 16th Central Committee of the Communist Party of China in 2005. The investment by the central government on the countryside was expected to increase. With the joint efforts of local and central governments, rural infrastructure would be improved, especially the construction of roads.

4.1 Finance of County and Town Governments after the TFR and AAT

The TFR and AAT have been well received in rural China for relieving the burden of farmers. However, their negative effects on rural public goods provision are substantial. After TFR and AAT, village expenditure for public goods and services and funding input from the county level have dipped.²⁰⁶ Farmers' ability and willingness to contribute to public goods and services have also waned.²⁰⁷

²⁰³ Oi, Jean, C. and Zhao Shukai, "Fiscal Crisis in China's Township: Causes and Consequences". In *Grassroots Political Reform in Contemporary China*, (eds.) Elizabeth J. Perry and Merle Goldman, Cambridge, (Massachusetts: Harvard University Press, 2007), p. 83.

²⁰⁴ Tao Ran and Ping Qin, 2007, 21.

²⁰⁵ Li Chelan, Linda, "Embedded Institutionalization", 2006, no. 1, March, 78-79.

²⁰⁶ Sato, Hiroshi, 2008; Luo Renfu. et. al. 2007.

²⁰⁷ Luo, Renfu, et. al. 2007.

Both county and town governments, as well as primary providers of public goods and services in China, were financially affected by TFR and AAT. For instance, unlike most countries in the world where central and provincial governments are the chief providers of education and medical care services, in China, the responsibility largely rests with county and town governments. In general, the finance of county and town governments accounts for more than 70% of total education expenditure and around 60% of total medical care expenses.²⁰⁸

The impact of AAT on the finances of county and town governments was greatest for the western and central parts of China as they depended heavily on agriculture for revenue. For instance, agricultural tax accounted for 55.15% of revenue and 33.11% of total expenditure of a county in Anhui province in 2000.²⁰⁹ The importance of agricultural tax and related taxes varied among different towns. For instance, on average, the agricultural tax and agriculture special product tax accounted for a respective 20.2% and 39% of local revenue in less developed towns, and only 5.0% and 9.1% in local revenue in more developed towns.²¹⁰

After the AAT, the county has lost an important source of revenue and faced budget deficit. Some counties could not cover daily operating costs nor pay their staffs. A report of YJ county in the western part of China showed that 74.9% of total county expenditure was for salary, 13.1% for operation costs and only 12% was for providing rural public goods.²¹¹ Although there

²⁰⁸ Zhao, Quanhui, and Gao Jinshui, “Zhongguo Xianxiang Caizheng Shouru Nengli Tisheng de Zhengce Xuanze” (The Policy Choice of Improving the Revenue of County and township Government in China), *Caijing Wenti Yanjiu*, no. 9, (Sep, 2009), 86.

²⁰⁹ Chang Wei and Su Zhenhua, “Nongcun Gonggong Chanpin Wenti de Lishi Kaocha” (Historical Examination of Rural Public Goods Problem), *Zhonggong Ningbo Shiwei Dangxiao Xuebao*, 2008, no. 6, 83.

²¹⁰ Fan Baohong, “Nongcun Shuifei Gaige du Xiangzhen Caizheng Yingxiang de Shizheng Fenxi—Yi Jiangsu Taizhou 4 Shi 1 Qu 11 Zhen Weili” (Positive Analysis of Tax and Fee Reform’s Impact on Township Finance: A Case Study of 11 Towns of Taizhou in Jiangsu Province), *Nanjing Nongye Daxue Xuebao (Shehui Kexueban)*, vol. 6, no. 4, (December 2006): 20.

²¹¹ Qu Zhiyong, Yuan Jianqi and Yang Lin, “Xianxiang Caizheng Guanli Tizhi Cunzai de Zhuyao Wenti yu Duice Jianyi—Yi Xibu Neilu Mousheng Weili” (The Main Problems and Suggestions to County and Township Financial Management—An Example of a Province in the Western Part of China), *Jingji Cankaobao*, no. 61, 2009: 56.

was fiscal transfer from upper-level government, it had failed to bring about an improvement in rural public goods provision.²¹²

The financial relationship between town and county governments has changed since the TFR, which resulted in less autonomy of town government. The loss of revenue of the latter has weakened their autonomy and financial power, making them an agent of county governments.²¹³ Some scholars even suggest changing town governments as a level of government to an agency of county government.²¹⁴

First, the main income of the town government has changed from collecting agricultural taxes, *three deductions* and *five charges* to a heavy dependence on the fiscal transfer from upper-level government. Before the TFR and AAT, the town government was responsible for the salary and incentives of its staffs. After the TFR and AAT, town government staffs as well as teachers are paid directly by the county government, which is also empowered to appoint and deploy personnel, funds and materials of rural education.²¹⁵

An investigation of C town in 2007 showed that the fiscal transfer from county finance for the salaries of town officials, village committee cadres and teachers, as well as the funding of rural compulsory education and direct food subsidy, was as high as RMB9.17 million. The funds were directly allocated from county finance in the name of special funds.²¹⁶

For central and west China, more than half of the town revenue comes from fiscal transfers by upper-level government. The town government only collects industrial revenue, which accounts for a small part of the town

²¹² Sato, Hiroshi, "Public Goods Provision and Rural Governance in China" *China: An International Journal*, 6, 2 (September 2008), 295.

²¹³ Zhou Feizhou and Zhao Yang, 2006, 21.

²¹⁴ Xu Yong, "Bian Xiangji Zhengfu wei Paichu Jigou" (Change Township Government to the Agency of County Government), *Juece Zixun*, 2003, no. 5. 31-33. See also, Kennedy, John James. "From the Tax-for-Fee Reform to the Abolition of Agricultural Taxes", 2007: 46.

²¹⁵ Zeng, Ming, "Nongyeshui Quxiaohou Xiangzhen Zhengfu Caizheng Zhuanyi Zhifu Guocheng—Jiyu Jiangxisheng C Xiang de Diaocha Yanjiu" (The Process of Fiscal Transfer at Township Government after the Abolition of Agricultural Tax—A Case Study of C Town of Jiangxi Province), *Gonggong Xingzheng Pinglun*, no. 5, 2008, 67.

²¹⁶ *Ibid*, 69.

revenue.²¹⁷ The funds for public goods and services are mostly direct investments by the county government.

Second, town governments have thus lost the ability to generate funds and could barely function as semi-autonomous administrative units since fiscal transfers are insufficient to compensate for the financial loss. It was reported that every town in Anhui province had lost an estimated RMB9 billion on average after the TFR.²¹⁸

As mentioned in Chapter 3, the funds raised by town governments were mainly used to meet revenue baseline, pay for staffs' salary, cover daily administrative costs and provide rural public goods. After the TFR and AAT, county transfers could only cover the payroll of the staff. Before the reforms, town governments had more autonomy on their expenditure, including budgetary expenditure and the part controlled by town government used for covering costs for basic operation and public goods and services provision. The basic operating costs were called *chicaizhengfan* and included wages and basic administrative expenditures. The costs for public goods and services were called *banshi de qian*.

For instance, before the TFR, the total expenditure of a town could amount to RMB3.415 million, consisting of a budgetary expenditure of RMB2.57 million (75% of the total), and the *banshi de qian* of RMB0.963 million. The RMB2.57 million was used entirely for staffs' payroll and any outstanding amount would be offset by the remaining funds from *banshi de qian*. After giving part of it for staff payroll, the *banshi de qian*, which included the *five charges* and other fees charged among various departments, was also utilised for hiring temporary staff and relief teachers (*bianzhiwai*),²¹⁹ as well as for daily operation costs such as expenses for hosting guests,

²¹⁷ Chen, Xiwen, Zhao Yang, and Luo Dan, *Zhongguo Nongcun Gaige 30 Nian Huigu yu Zhanwang*, (The Review and Prospect of the 30-Year Rural Reform in China), (Beijing: Renmin Press, 2008), p. 496.

²¹⁸ Wu Licai, "Zhongguo Xiangzhen Zhengfu Wang Hechuqu?", 2003, 7.

²¹⁹ Li Linda Chelan, "Embedded Institutionalization", 2006, 69.

subscribing to newspapers and journals, as well as maintaining a fleet of official vehicles.²²⁰

After the TFR, the allotment for *banshi de qian* has been drastically reduced with the abolition of various agricultural taxes and fees. The tight financial constraints have reduced any incentive to provide rural public goods and services. Table 3 in the previous chapter showed that revenue raised by town governments accounted for around 40% to 80% of total revenue in the late 1990s. After the AAT, this part of town government revenue has been largely lost, leaving little fund left for *banshi de qian*.

Data from agricultural provinces has shown that the growing budget deficits of counties have a direct bearing on their subsidies to the towns.²²¹ Town governments have no choice but to loan from channels including rural collective funds and rural credit associations.

Town debts form as a result of the unscientific evaluation system of town officials and a financial system lacking regulation. Town officials are evaluated based on the collection of industrial and commercial taxes after the AAT. Without an effective regulatory system for the management of extra-budgetary revenue and funds, town government expenditure becomes unaccountable.

A survey of town government officials in Shanxi province showed that the most difficult issue facing them was high debts.²²² In 2004, towns on average had incurred debts of RMB16.74 million in Hunan province, RMB5.9 million in Chongqing, and RMB8.99 million in Jilin.²²³ Town debts consisted

²²⁰ Zhou Feizhou, Zhaoyang, "Pouxi Nongcun Gonggong Caizheng: Xiangzhen Caizheng de Kunjing he Chengyin—Dui Zhongxibu Diqu Xiangzhen Caizheng de Anli Yanjiu" (Examination of Rural Public Finance: the Trouble and Causes of Township Finance—A Case Study of Township in the Central and Western Part of China), *Zhongguo Nongcun Guancha*, no. 4, 2003, 29-30.

²²¹ An Chen, "The 1994 Tax Reform and its Impact on China's Rural Fiscal Structure", *Modern China*, vol. 34, no. 3, July 2008, 323.

²²² Li Qiao, Zhang Hong and Wang Jianhua, "Quxiao Nongyeshui Hou Xiangzhen Lingdao Ganbu zai Xiangxie Shenme—Youguan Nongcun Fazhan de Shizheng Yanjiu" (What are Township Government Officials Thinking after the Abolition of Agricultural Tax?—The Study of Rural Development Based on Surveys), *Xinjiang Nongken Jingji*, 2008, no. 10, 1-4.

²²³ Zhou Feizhou, 2006, 29.

of visible and invisible debts.²²⁴ Visible debts included bank credits or other official loans such as credits from investment funds for all areas of public infrastructure (streets, schools, irrigation systems, etc.). Invisible debts were those incurred for daily allowances for travel, medical insurance premiums, electricity, water and phone bills, or for unpaid wages.²²⁵

Town governments also face financial pressure from villages. The TFR had the unintended consequence of reducing the resources available for public goods investment at the village level based on the survey by Luo Renfu et. al.²²⁶ Village revenue has also dipped due to the TFR and the AAT. Villages have to cut their investments in new types of public goods provision and sought funds from town governments for repair works.

4.2 Incentives for Rural Public Goods Provision

The Incentive of Town Governments

Town governments have little incentive to provide public goods due to their financial crisis. Besides the financial crisis of county and town governments, the incentive to provide rural public goods was reduced due to the new responsibilities of town governments, the new evaluation criteria for town cadres and the new relationship between county, town and village.

After the implementation of the TFR and AAT, the functions of town governments could be classified into three categories: (1) providing basic rural public goods and services: (2) maintaining social stability and village construction including policy propaganda, village financial management, agriculture and forestry work, land management, civil administration, public security administration, family planning and New Socialist Countryside Construction; and (3) promoting investment attraction.²²⁷ The latter two tasks are given high priority by town governments as towns are evaluated based on

²²⁴ Jie Fan, Thomas Heberber and Wolfgang Taubmann, *Rural China: Economic And Social Change in the Late Twentieth Century*, Armonk, (New York: M.E Shape, 2006), p. 169.

²²⁵ Jie Fan, Thomas Heberber and Wolfgang Taubmann, *Rural China*, 2006, 169.

²²⁶ Luo Renfu et. al, "Elections, Fiscal Reform and Public Goods Provision in Rural China", *Journal of Comparative Economics*, no. 35, 2007: 583-611.

²²⁷ Zeng, Ming, "Nongyeshui Quxiaohou Xiangzhen Zhengfu Caizheng Zhuanyi Zhifu Guocheng", 2008, 65.

the two categories. Notably, the sequence of importance is economic development, social stability and security, rural culture, education and medical care services, modern agriculture construction and rural public goods and service provision.²²⁸ Most towns are evaluated based on their ability to attract investment and utilise foreign capital. In some counties, about half of the indicators in the evaluation of town governments are related to economic development, and not about residents' income level, employment rate and provision of other social welfare services.²²⁹

The basic rural public goods such as compulsory education, militia training, road repair and construction, public health care and epidemic prevention and family planning were mostly covered previously by self-raised funds generated from rural residents under the name of *five charges*. After the abolition of these self-raised funds, town governments with less autonomy of revenue could hardly afford the provision of rural public goods.

Town government has less incentive to provide rural public goods due to the change in function and relationship between town and county governments. As town government is no longer needed to collect agricultural taxes or fees from farmers after the abolition of agricultural tax, it shows less enthusiasm for caring for or catering to farmers. This is clearly shown in the following discussion of the relationship between town government and villages when analysing the incentive of villages to provide public goods.

The Effect of TFR and AAT on Villages and the Incentive for the Provision of Rural Public Goods

The village balance sheet has constantly registered deficits after the TFR and AAT, leading it to cut rural public goods investment. The revenue of a

²²⁸ Wu Licai, "Cong 'Guanzhi' dao 'Fuwu'—Guanyu Xiangzhen Zhengfu Zhineng Zhuanbian de Wenjuan Diaocha" (From "Government" to "Public Service"—A Survey of Transformations of Township Functions), *Zhongguo Nongcun GuanCha*, no. 4, 2008: 64.

²²⁹ Chen, Aijin, "Cong Xiangzhen Zhengfu Jixiao Kaoping Kan Qi Zhineng Fahui", (Function of Township Government, Seen From the Evaluation System), *Yunnan Xingzheng Xueyuan Xuebao*, no. 5, 2005: 65.

typical village in Anhui province was slashed by as much as 40% in 2003.²³⁰ Before the TFR and AAT, the *three deductions* and *five charges* as well as the *lianggong* system²³¹ worked as the institutionalised guarantee for providing rural public goods and services. Public projects after the TFR and AAT are called one-time projects (*yicixing*) provided by ad hoc funds such as farmers' contributions and fiscal allocation from upper-level governments, unlike the routine projects in the past.²³²

The development of the collective economy varies greatly among different villages. A survey of 37 villages by Feng Xingyuan et. al. in 2004 showed that in terms of collective income, six villages (16.22%) had zero collective income, 14 villages had below RMB50,000, five villages had between RMB1 million and RMB3 million, while one village had more than RMB3 million.²³³ It had also shown that eight villages had debts below RMB0.1 million and one with a debt of between RMB1 million and RMB1.5 million in 2004. The debts were incurred for infrastructure construction, advances for village cooperative medical care, overdraft of operation costs the year before, and unplanned costs. The survey on Xiangyang county, Hubei province indicated that town and village debts were RMB1.41 billion, with town governments and villages constituting RMB0.41 billion and RMB1 billion of the debts, respectively.

Except for villages that have a well-developed collective economy, most villages have different levels of debts.²³⁴ The sources of collective income come from the income of village or village group-owned enterprises, land

²³⁰ Luo, Renfu, et. al. "Elections, Fiscal Reform and Public Goods Provision in Rural China", 2007, 587.

²³¹ Lianggong includes free labor (*yiwugong*) and accumulated labor (*jileigong*). Free labor means that farmers contribute labor in plantation, flood control, renovating school dormitory and other public affairs in villages without pay. Every labor contributes Accumulated labor means that farmers contribute labor for farmland irrigation and plantation. See Zhongguo Fazhi Chubanshe, *Xinbian Jingji Shiyong Fadian*, (Beijing: China Legal Publishing House, 2005), p. 19.

²³² Ln, Dewen, *ibid.* 2010, 97.

²³³ Feng, Xingyuan, Christer Ljungwall and Li, Renqing. *Zhongguo de Cunji Zuzhi yu Cunzhuang Zhili*, 2009, 180.

²³⁴ Feng, Xingyuan, Christer Ljungwall and Li, Renqing. *Zhongguo de Cunji Zuzhi yu Cunzhuang Zhili* (Village Organizations and Village Governance in China) (Beijing: Zhongguo Shehui Kexue Chubanshe, 2009), p. 287-288.

expropriation fees, land contracting fees, leasing income from mining outsourcing and village tourism, and leasing village collective resources.

The implementation of the TFR and AAT has also changed the relationship between town, village and villagers. Before the TFR and AAT, towns and village committees had common interests, working together to collect agricultural tax and various agricultural fees to provide public goods as the fee collected were often in excess of the actual amount needed for a public project. For instance, the irrigation of farmland cost RMB30 per *mu*, but fees collected from farmers were RMB50 per *mu*. In a town with 0.1 million *mu* of farmland, town and village committees could obtain RMB2 million from the collected fees.²³⁵ The economic incentive promoted the provision of rural public goods by town and village committees.

After the reforms, the pressure on village committees from town government has no longer existed. Non-institutional personal relations become important as the core task is now on attracting investments that has little to do with the villagers. Town governments and village committees have little incentive to actively provide public goods and services for the sake of accomplishing their core task as before. Moreover, without frequent face-to-face interaction like that during the collection of taxes and fees, village committees hardly feel the need to provide public services for villagers.²³⁶

The Incentive of Farmers

Unlike many countries where upper-level governments have to take the responsibility of providing public goods, it is the farmers who have to shoulder a larger share of the responsibility of public goods provision in China. From 1998 to 2003, only 36% of total public projects were funded solely by upper-level governments, while 46% needed matching funds from villages and 18% were solely funded by villages.²³⁷

²³⁵ He Xuefeng and Luo Xingzuo, “Lun Nongcun Gonggong Wupin Gongji Zhong de Junheng”, *The Economist*, no. 1, 2006, 64.

²³⁶ Lv, Dewen, “‘Naqian de Banshiyuan’ he ‘Jitihua’ de Xiaojie”, 2010, 96.

²³⁷ Luo, Renfu, 2007, 590.

Farmers' mind-set has also undergone changes after the TFR. After the TFR, the heavy burden of various taxes and fees on farmers has been removed. Farmers no longer submit agricultural taxes and fees that pose several problems. First, it is no longer easy to organise and coordinate farmers in the provision of rural public goods as farmers' demand for public goods are different. They have the freedom not to pursue agricultural production. Many have gone to cities to work as migrant workers and become less interested in rural public goods and services. It is those who remain in the village that have higher demand for public goods and services, making it rather difficult for town governments to satisfy unequal demands.

Second, many farmers become more dependent after the AAT, believing that they can depend on the government for public goods and services without the need to contribute funds. The abolition of agricultural taxes and fees has given the misconception that the government would eventually change certain policies to cover the expenses later. The interviews with farmers in the case studies mentioned in Chapter 7 will provide evidence to this.

4.3 The Problem of Rural Public Goods Provision after the TFR and AAT

The implementation of the TFR and AAT has had an unintended negative effect on public goods investment as it has reduced the resources available for it. The investment in infrastructure such as irrigation and school after the TFR has been reduced systematically compared with the situation before the reforms.²³⁸ The TFR and AAT have negative effects on rural public goods provision due to the reduced revenue of town government, the altered relationship between county government, town government and farmers, and the mind-set of farmers.

The survey by the Ministry of Finance and World Bank on about 500 farmer households in six counties in China in 2005 is indicative of the severity of the problem of rural public goods provision. A study presented that overall

²³⁸ Luo, Renfu, et al, 2007, 588.

more than 50% of farmer households were dissatisfied with the rural transportation network and about 62% felt that medical care expenses were too high.²³⁹

Fundraising for Rural Public Goods Provision

The lost revenue of towns is expected to be covered by either economic development or fiscal transfers from upper-level government. In some areas that are close to cities, the convenience has stimulated the establishment of plants and abundant collective industries, thus offsetting lost revenue with local economic development. However, for most towns in the central and western parts of China that have few industries, they have to depend on fiscal transfers from upper-level government. Table 5 has shown that the funding for public project before 2006 came from the village including three deductions, collective income and fundraising by farmers. Since the AAT in 2006, the funding has come from fiscal transfers from upper level government.

The investment from villages and upper-level governments and their joint investments in public projects such as irrigation facilities and schools have witnessed a cut. Except for investment in roads, total investment in irrigation and schools after 2004 had dipped from 15.1% and 18.2% to 10.2% and 14.0% respectively. Among the investments, the funds by villages for all three types of public projects have systematically declined due possibly to the loss of revenue after the TFR. Investment in irrigation projects from upper-level government had likewise dwindled dramatically after 2004, from 4.0% to 2.7%, while investment in schools had marginally increased from 3.4% to 3.6%. Only roads construction has been sustained after the TFR due to the government's emphasis on roads. In the fifth session of the 16th Central Committee of the CCP in 2005, the central government decided to further boost investments in rural infrastructure to construct the New Socialist Countryside as well as to attract foreign investments.²⁴⁰

²³⁹ Chen Xiwen, Zhao Yang and Luo Dan, *Zhongguo Nongcun Gaige 30 Nian Huigu yu Zhanwang*, 2008, 249-250.

²⁴⁰ He Xuefeng and Luo Xingzuo, "Nongcun Gonggongpin Gongji", *Tianjin Xingzheng Xueyuan Xuebao*, no. 2, (Sep, 2008), 32.

Table 5 Public Projects in C Town, F County

Year	Item	Source of funds	Cost (RMB)	Others
1982-2002	Dig well	<i>Three deductions</i>	300-2,000/well	Conducted every year
1982-2002	Road construction	<i>Three deductions</i>	N. A.	Twice a year
1982-2002	Road repair	<i>Three deductions</i>	2,000/year	Twice a year
1982-2002	Dig ditch and river	<i>Three deductions</i>	N. A.	Once a year
1982-1995	Rural education	<i>Three deductions</i>	2,500	Every year
1989	School establishment	Fundraising by farmers	3,000	
1998	School establishment	Collective income of village	30,000	
2002	Road construction	Collective income of village	0.256 million	Contract out to private sector
2002	Sewer repair	Collective income of village	18,000	Contract out to private sector
2005	School establishment	Collective income of village	0.2 million of fund allocation	Contract out to private sector
2006	Village committee establishment	Fiscal transfer from the county Organisation Department of CPC	60,000	Organised by the Organisation Department
2006	Bridge repair	Fiscal transfer from the county	3,000	

Source: Lv Dewen, (2010: 97).

Fiscal Transfer

The centre has gradually implemented a programme of fiscal transfer (*zhuan yi zhifu*) after the tax-sharing reform in 1994. There are three types of central transfer: tax rebates (*shuishou fanhuan*), special subsidies (*zhuanxiang buzhu*), and transfer payments (*zhuan yi zhifu*). Tax rebates were distributed to the provinces according to their contribution of tax revenues to the central government, and the fiscal strength of the province concerned.

Special subsidies, also known as earmarked grants, are for the implementation of specific policies in areas such as education, healthcare, social welfare and rural development. Special subsidies, as the biggest category among central subsidies, increased from 21.5% in 1995 to 53.6% in 2002.²⁴¹ However, the allocation to provinces is uneven and poor provinces

²⁴¹ Lv Wei, "Dangqian Caizheng Tizhi yu Zhengce Yunxing de Liudian Sikao", 2003, 9.

are at a disadvantage as they are underrepresented in the central decision-making process.²⁴²

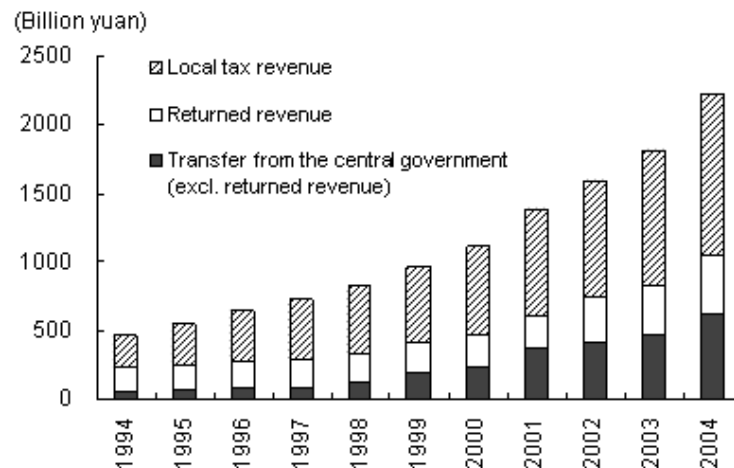


Figure 3 Changes in Local Fiscal Revenue (1994-2004)

Source: Onishi, Yasushi, “The Current Status and Future Prospects of the Public Finance and Tax-System of China”, China Statistical Abstract, 2004

Transfer payments include general fiscal transfer, transfer payments to minority areas, financial award and aid for county and town governments, fiscal transfer for salary adjustment, rural TFR and others.²⁴³ The Ministry of Finance had issued a ‘measure of transfer payment from central to local government during the period of agricultural tax-for-fee reform’ to subsidise villages in the western and central parts of China in 2003. This was to offset local governments’ loss in revenue engendered by the TFR and subsidise village expenditure and rural compulsory education. The centre has transferred huge funds to support the *sannong*—agriculture, farmers and rural areas (see Figure 3). According to this measure, subsidies by transfer payments were mostly for town expenditure, village expenditure and rural compulsory education.²⁴⁴ The fiscal transfer is allocated by the centre to provinces, which will funnel funds to counties and eventually to towns.

²⁴² An Chen, “The 1994 Tax Reform and Its Impact on China’s Rural Fiscal Structure”, *Modern China*, vol. 34, no. 3, July 2008, 213.

²⁴³ State Council, “Guowuyuan Guanyu Guifan Caizheng Zhuanyi Zhifu Qingkuang de Baogao” (State Council Report on the Regulation of Fiscal Transfers), 27 June 2007, <http://www.gov.cn/zxft/ft98/content_903353.htm> (accessed 23 December 2010). Some studies include tax rebates (*shuishou fanhuan*) in fiscal transfers, see Yep, Ray, 2008; Lv Wei, 2003; Duan Haiyan et. al, 2009.

²⁴⁴ Zhou Feizhou, 2006, 8.

A survey showed that towns received RMB58 subsidies per person from upper-level government before the TFR and AAT and RMB84 per person after the reform. The amount of subsidies had increased by 30%. The subsidy per person accounted for 83% of the town revenue in 2000 and 127% in 2004.

On paper, subsidies have exceeded town revenue after the reform. However, this is not the case, as town government has to submit more to county government through *shangjie* after the reform. Before the TFR and AAT, the amount submitted to county was RMB34 per person in 2000 and RMB93 per person in 2004. Of the RMB84 subsidy, RMB23 went strictly to the special fund for subsidising lost revenue after the TFR and AAT, and the remaining amount of RMB61 constituted the net revenue of the town in 2004. After submitting RMB93 to the county, the net income of the town was a negative RMB32 (61 – 93) as against a net income of RMB24 (58 – 34) per person in 2000, before the reform.²⁴⁵

A similar scenario could be witnessed for the fiscal transfer for rural education. In Taigu county, Jinzhong city, total fiscal transfer from 1999 to 2000 for rural education was RMB14.54 million; from 2001 to 2002 after the TFR, the amount was slashed to RMB9.88 million, a reduction of RMB4.57 million.²⁴⁶

Table 6 Central's Fiscal Transfer in Support of *Sannong*

Year	2004	2005	2006	2007	2008	2009
Funds Transfer for Agriculture (billion)	266.6	297.5	339.7	391.7	595.5	725.3

Source: Data gathered from Wen Jiabao, the government work report of 2005, 2006, 2007, 2008, 2009 and 2010.

An analysis of county expenditure in Shanxi Province showed that the declining level of local services had not been reversed by the growing support of the centre.²⁴⁷ Many of the middle and small-scale public projects in less

²⁴⁵ Liu, Haomiao, Zhang Linxiu, Luo Sigao, and Bai Luowen, “Shuifei Gaige dui Xiangzhen Caizheng Zhuangkuang de Yingxiang Fenxi—Quanguo Wusheng Wushige Xiangzhen de Shizheng Yanjiu Baogao”, (The Analysis on Effects of Tax-for-Fee Reform—An Empirical Study on 50 Townships of 5 Provinces), *Guanli Shijie*, no. 5, 2007, 51.

²⁴⁶ Dong, Jiang'ai, “Shuifei Gaigehou Ziyuan Duanque Diqu Xiangcun Zhili de Kunjing” (The Difficulty of Rural Governance in Villages with Limited Resources after the Agricultural Tax Reform), *Jingji Wenti*, no. 4, (April 2006), 17.

²⁴⁷ Yep, Ray, “Enhancing the distributive capacity of the Chinese state?”, 2008, 249-250.

developed areas could not satisfy the national or provincial criteria and are thus not entitled fiscal transfer.²⁴⁸

Fiscal transfers are aimed at balancing regional financial gap by subsidising local finance in less developed regions. Funds are allocated based on the fiscal strength of the locality, success of the province in revenue collection and political considerations meaning that ethnic minority, revolutionary and border regions are given priority.²⁴⁹ Fiscal transfers from the central government have registered a rise recently, from RMB266.6 billion in 2004 to RMB725.3 billion in 2009 (see Table 6 and for the trends). However, only a small portion of transfer payment was made to the targeted towns of the agricultural provinces.²⁵⁰ A survey showed that only RMB5.19 billion (43%) of the RMB12 billion were funnelled to the villages.²⁵¹

Furthermore, local governments or villages have to provide supporting funds for the transfer payments that burden local governments and village finance. In 2002, the construction of a water resources project in Dongbao district required a supporting fund of RMB13.02 million, or 29.88% of the budgetary revenue of the district, before it could receive the central fiscal transfer of RMB11.2 million. However, as such a huge fund was beyond the affordability of the district government, fiscal transfer from central government ended with only RMB0.6 million (4.61% of amount required).²⁵²

Between 1998 and 2003, only 35.6% of public projects were invested by upper-level government, leaving almost half (46.5%) of the public projects to be funded by villages, and 18% by villagers. In rich areas such as Jiangsu Province, villages generally provided 74% of funds for public projects, while

²⁴⁸ Interview in my field work in 2010.

²⁴⁹ Yep, Ray, "Enhancing the redistributive capacity of the Chinese State? Impact of fiscal reforms on county finance", 2008, 240. An Chen, "The 1994 Fiscal Reform", 2008, 312-314.

²⁵⁰ An Chen, 2008, 306.

²⁵¹ Zhang, Linxiu, Li Qiang, Luo Renfu, Liu Chengfang and Luo Sigao, "Zhongguo Nongcun Gonggong Wupin Touzi Qingkuang ji Quyue Fenbu" (The Situation and Distribution of Public Investment on Rural Public Goods in China), *Zhongguo Nongcun Jingji*, no. 11, 2005, 22.

²⁵² Zhang Yubing, Li Wanqing, and Zhang Zhengqin, "Nongcun Shuifei Gaigehou Caizheng Shuili Touru Wenti de Diaocha yu Sikao" (The Investigation and Ideas of The Investment on Rural Water Resources after the Agricultural Tax Reform), *Caizheng yu Fazhan*, no. 2, 2006, 51.

Gansu province's was only 23.1%.²⁵³ The supporting funds accounted for a large share of local government revenue (see Table 7).

Table 7 Overview of Supporting Funds of a County in Western China

	2001	2002	2003	2004	2005	2006
Total Supporting Funds (SF) (million <i>yuan</i>)	276.8	277	278.05	278.05	282.86	294.33
Local Government Revenue (LGR) (million <i>yuan</i>)	237.07	265.43	277.43	304.55	510.05	582.89
Percentage of SF to LGR (%)	117	104	100	91	55	50

Source: Zhao Quanhou and Gao Jinshui, (2009: 86).

The fiscal transfer is also fraught with problems. First, the procedure of allocating fiscal transfer from provincial government to lower level governments has not been regulated or institutionalised.²⁵⁴ The current scheme of fiscal transfer only covers the transfer from central to provincial finance. There is no unified scheme of fiscal transfer from provincial to county government as well as from county to town government.²⁵⁵ The allocation of fiscal transfer is flexible, leading to allocations based on various personal relationships.

Towns obtain funds through various ways. First, towns apply for special funds through *guanxi*. Relationships such as former colleagues, ex-classmates and old work associates became important considerations for the extent of assistance to be rendered. Second, town would form interest groups with county government to gain funds from upper-level governments such as municipal, provincial or even central government. Third, fund applications by towns are characterised by over reporting or making applications from different departments for the same project.²⁵⁶ For instance, if a public project requires a budget of RMB50,000, the town government would apply for RMB70,000-100,000 to cater for expenses in other areas.

²⁵³ Zhang Linxiu et al, "Zhongguo Nongcun Gonggong Wupin Touzi Qingkuang Ji Quyu Fenbu", 2005, 21.

²⁵⁴ An Chen, "The 1994 Tax Reform and its Impact on China's Rural Fiscal Structure", *Modern China*, vol 34, no. 3, (July 2008), 333.

²⁵⁵ Research team of rural financial system innovation and policy choice in China, "Xiangzhen Caizheng: Zhidu Kuangjia yu Zhengce Gaige" (Township Finance: Institutional Framework and Policy Reform), *Zhongguo Nongcun Jingji*, 2002, no. 4, 4-10.

²⁵⁶ Zeng, Ming, "Nongyeshui Quxiaohou Xiangzhen Zhengfu Caizheng Zhuanyi Zhifu Guocheng", 2008, 71-74.

The second problem lies with the allocation that is not scientifically based. The more revenue a region has submitted, the more fiscal transfer it would obtain.²⁵⁷ Poorer regions that submitted less revenue would get less fiscal transfers even though they are genuinely in great need of fiscal transfers. The success of an application is also dependent on the success of the first application of funds by a village. As the village has to provide supporting funds for fiscal transfer for a certain project, a good record of successful fundraising would facilitate its future applications.

Moreover, town governments may not get the entire amount that they have applied for. For instance, a special fund of RMB60 million was allocated for the construction of agriculture-related facilities in a county in the southwestern part of China. Of this, 75% went to the payroll of county government staff, while only 25% went to the town government for rural public goods and services.²⁵⁸

Yishi Yiyi

Rural public goods provision correlates more with political considerations than with economic factors. Villages with high level of political participation tend to be more public service oriented.²⁵⁹ Farmers are encouraged to participate in the provision of rural public goods through *yishi yiyi* (one case, one meeting). After the TFR, farmers could discuss issues related to rural public goods provision such as the contribution of funds and labour through democratic decision-making at villagers' assembly or villagers' representative assembly.

The provision of public goods includes construction of farmland irrigation infrastructure and roads, forestry, land improvement projects, and other public welfare projects for farmers and collective agricultural production.²⁶⁰ The

²⁵⁷Qin Guomin, ““Shehui Zhuanxingqi Woguo Nongcun Gonggong Chanpin Gongji Tizhi de Goujian” (Building the Rural Public Goods Provision System During the Social Transition Period), *Zhongguo Xingzheng Guanli*, no. 8 (August 2005): 71.

²⁵⁸Li Changping, “Xiangzhen Tizhi Bianqian de Sikao”, 2005, 3-10.

²⁵⁹Sato, Hiroshi, “Public Goods Provision and Rural Governance in China”, 2008, 296.

²⁶⁰General Office of the State Council, “Guanyu Zhuanfa Nongyebu Cunmin Yishi Yiyi Chouzi Choulao Guanli Banfa de Tongzhi” (“Notice of Measures of Managing The

implementation of *yishi yiyi* varies among different villages. To avoid burdening farmers, contributions of funds have been capped at mostly RMB15 per person²⁶¹. Many scholars have criticised this contribution as funds required for projects such as improving roads and constructing irrigation facilities are way beyond such meagre contributions.²⁶²

The implementation of *yishi yiyi* has not been smooth sailing either. First, the organising of village meetings is difficult, as many residents of the village have gone to the cities to work as migrant workers. Most of them are young males and females who are key persons of a family who could participate in the construction of rural public goods. The elderly who remain behind usually lack the enthusiasm and relevant knowledge to participate in the discussion of village affairs.

Situation of Rural Public Goods Provision

As mentioned in previous chapters, the provision of rural public goods and services has been far from satisfactory. In 2005, about 83% of villages nationwide had no tap water, 13% had no paved road and 53% had no access to phone. The price of electricity for the countryside was also twice as expensive as that in cities.²⁶³

The No. 1 document of the Chinese Communist Party Central Committee and State Council addressed rural issues consecutively in the eight years from 2004 to 2011. The No. 1 document of each year was to improve farmers'

Contribution of Funds and Labor in Yishi Yiyi From The Ministry of Agriculture), *Zhongguo Nongye Xinxu Wang*. 2007-01-16.

Available at <http://nongcai.caizheng.gov.cn/faigui/2009/0806/article_68.html> (accessed 11 November 2010).

²⁶¹ Hunan Provincial People's Government, "Guanyu Yinfu Hunansheng Cunnei Yishi Yiyi Chouzi Choulao Banfa (Shixing) de Tongzhi", (Notice of Measures of Fundraising and Labor Raising through Yishi Yiyi in Villages of Hunan Province), 2005. Available at:

http://www.hunan.gov.cn/xxgk/tjbm/gfxwj/gfxwj/cxfbml_17028/200906/t20090615_249139.html accessed on 9 May 2011.

²⁶² Xu Xiaojun, Guoqin, "Nongcun 'Yishi Yiyi': Lishi Xingcheng, Zhidu Quexian he Wanshan Tujin" (*Yishi Yiyi: The History, Institutional Flaws and Improvement*) In *Yunnan Xingzheng Xueyuan Xuebao*, 2008, no 3, 133.

²⁶³ Guan Yongbin, "Nongcun Gonggong Chanpin Gongji Zhidu: Xianzhuang, Xingcheng Jizhi yu Mubiao Moshi Xuanze" (Rural Public Goods Provision System: Status, Formation Mechanism and the Choice on Target Pattern), *Shandong Daxue Xuebao* (Social Science) no 1, 2005.

income in 2004, boost agricultural integrated production capacity in 2005, propel New Socialist Countryside construction in 2006, develop modern agriculture in 2007, boost farmers' income in 2008, continually promote farmers' income in 2009, improve the basis of agricultural development in 2010 and accelerate the water resources reform in 2011. The No. 1 document released on 29 January 2011 was the first time that the Party focused on water conservation. According to this document, in the next decade, the average investment in water resources would be doubled compared to a year earlier, amounting to around RMB4 trillion for improving water conservation.²⁶⁴ It specified that 10% of land transfer fees would be used for farmland water resources construction.²⁶⁵ However, there exist discrepancies between documents and the real implementation.

The infrastructure of medical care at county, town and village levels has been improved but the development is far from enough. The centre allocated RMB300 billion for the construction of rural infrastructure in 2007. From 2002 to 2007, 666.7 hectares of farmland had been irrigated, 1.3 million kilometres of roads repaved and drinking water facilities for 97.48 million farmers improved.²⁶⁶ There were 1,451 counties in the new rural cooperative medical care trial sites, which accounted for 50.7% of total counties. Of the total rural population of 0.72135 billion, only 0.41 billion farmers (56.8%) participated in this new rural cooperative medical care programme in 2007.²⁶⁷ The TFR has led to a reduction in village clinics due to the elimination of town fees. A case in point is that of Shanxi province which witnessed a 25% reduction in clinics between 2001 and 2003.²⁶⁸ Irrigated farmland accounted for 48% of total farmland in China in 2008. The provision of rural public

²⁶⁴ Jin Zhu, "\$608b injection for water projects", *China Daily*, 31 January 2011, <http://www.chinadaily.com.cn/cndy/2011-01/31/content_11942630.htm> (accessed 10 February 2011).

²⁶⁵ Xinhua News Agency, the Central Committee of CCP and the State Council, "Decision on Fasten The Development of Water Conservancy", 29 January 2011, <http://www.gov.cn/jrzq/2011-01/29/content_1795245.htm> (accessed 10 February 2011).

²⁶⁶ State Tax Administration, *Zhongguo Shuiwu Nianjian* (Tax Yearbook of China), Beijing: China Tax Press, 2008.

²⁶⁷ Calculated based on data from *China Rural Statistical Yearbook*, 2009.

²⁶⁸ Kennedy, 2007, 53-54.

goods after the TFR is facing various problems, which will be studied in depth in the next few chapters.

In a survey of 2,459 villages among six provinces conducted by Luo Renfu et. al in 2003, nearly 80% of households were dissatisfied with the current condition of the infrastructure. Meanwhile, 90% of households had expressed that if a grant from upper-level government is provided to their village, they would provide supporting funds to public goods. A total of 60% of households were even willing to contribute RMB20 per capita (or around RMB100 per household) to the provision of public goods.²⁶⁹

4.4 Conclusion

After the TFR and AAT, the financial situation of town and county governments has worsened. To lessen the burden faced by farmers after the TFR, various forms of fiscal transfer from the centre have been effected and in increasing amounts. This shows that the central government has been undertaking the main responsibility of providing rural public goods.

Although the centre has allocated huge sums to support rural development, the utilisation of funds could be better managed if the procedure of fiscal transfer from upper level governments to villages were more clearly defined and well incentivised.

The provision of rural public goods is less of a problem with eastern coastal provinces that have a well-developed rural industry, than in central and western China where agriculture is the dominant industry. Chapters 5, 6 and 7 would attempt to answer the question of how villages with little collective funds deal with the problem of public goods provision.

²⁶⁹ Luo, Renfu et al, "Elections, Fiscal Reform and Public Goods Provision in Rural China", 2007, 593.

Chapter 5

Inter Village Road Construction and Ponds Desilting Projects in T Town

Rural public goods provision on the whole was poor in agriculture-dominated villages. A variation in the level of public services provided could however be observed. What account for this differential in public goods provision? Chapters 5, 6 and 7 would identify the factors by looking at several public project constructions in villages at T Town, Hunan province. In general, projects could be categorised into three project types based on funder and policy implementation: those funded by government with clear government policies and institutional design; those funded by government without clear policies; and those funded mainly by villages. Case studies of inter-village road construction and targeted fund projects in two villages of T Town, Chenzhou City, Hunan province would be examined in Chapter 5.

Institutions and policies played an important role in fundraising for rural public goods provision. Clear policies and the backing of the government as an organiser and fund provider were critical determinants of the success of a public project. This chapter would look at two successful public projects in detail. These projects were both funded mainly by the government with clear policies of fund allocation.

5.1 Profile of T Town

T Town, an agriculture-dominated economy, was located at the northwestern part of H District in Z City of Hunan province, 16 kilometres away from the city centre. Of the 14 towns²⁷⁰ governed by H District, T Town was one of its biggest agricultural towns. T Town governed 14 villages and three resident committees. It had a total area of 120.8 square kilometres, of which 15.25 square kilometres were farmland. In 2009, T Town had a total

²⁷⁰ There are in fact five towns and nine townships in H District. The difference between town and township is explained in the Chapter 1.

population of around 24,012 and 6,716 households. The annual per capita income of T Town was RMB5,600 in 2006 and around RMB6,300 in 2007 and 2008.²⁷¹

The Financial Situation of T Town Government

T Town government depended heavily on county government for salary payment and had little revenue to invest in public goods and services. Hence, funding for rural public goods provision depended on upper-level government. From 2003 to 2008, agricultural income on average constituted 20% of total income of three sectors, namely, agriculture, industry and services. With little industrial income, it had to depend on financial subsidies and fiscal transfers from the district government based on the completion of tasks assigned.

There were generally two types of towns in a district or county: the richer ones were those with resources such as mineral resources that contributed to county or district revenue, while the poorer ones had little resources and were highly dependent on subsidies from county or district governments. T Town was the latter with few enterprises or resources. According to a conversation with the finance director of T Town government, a town or town government worked like an agency appointed by county or district government to complete certain tasks. Thus the payroll and welfare benefits of local officials would be subsidised by the upper-level government.

T Town had little funds that could be freely utilised by its own finance department after the TFR and AAT. From 2004 to before the AAT, T Town submitted agricultural tax of around RMB1.6 million to H District finance, of which 20 to 30% was returned in the form of subsidies. T Town used this fund to cover staff salaries and other expenses. After the TFR and AAT, T Town could no longer pay staff salaries and had to wait for annual allocated funds from H District (see Table 8). However, as these funds were for specific purposes, they could not be freely channelled to other uses.

²⁷¹ The figure was calculated unscientifically according to the staff at the Department of Statistics, T Town. It only reflected the general trend of income increase.

Table 8 Items of Town Government Revenue and Expenditure before TFR

Revenue		Expenditure	
Within-Budget Revenue of Town Government	Industrial and commercial tax	Fiscal Budget and Expenditure	Expenditure on agricultural production
	Agricultural and animal husbandry tax		Fees for irrigation, weather service, culture, education and health care
	Farmland occupation tax		Fees for pension, social relief and welfare
	Others		Administration fee
			Others
Extra-Budgetary Revenue of Town Government	Agricultural and animal husbandry tax, tax on agricultural specialty products and additional revenue	Extra-Budgetary Expenditure	Expenditure on agricultural production and construction of town and village enterprises
	Tax on urban public utilities and education		Administrative expenditure of town government
Funds Raised by Town	Profits handed over by town and village enterprises, management fees	Expenditure from Funds Raised by Town	Fees for infrastructure, maintenance and administration
	Revenue of administrative and institution revenue		Fees for development of agriculture and forest, culture and education, sanitation and irrigation
	Fees for unified management of town's public undertakings		Expenditure on social relief and welfare
	Others		Others

Source: Qiu Xinghe (1996) and Lin Wanlong (2003)

T Town derived its income primarily from the growing of tobacco, which contributed around RMB260,000 (around 10% of total tobacco tax submitted to central coffers as national tax) each year to town government revenue. Annual contributions from small enterprises such as power stations and several mineral-processing factories made up around RMB220,000. It was used to pay for the salaries, overtime premium, subsidies and business trips of 24 contract-based employees working in the town government. In recent years, even the contribution from these enterprises had dwindled as the viability of these enterprises had been at stake due to the financial crisis. A mineral-processing factory was hard hit by the downslide in demand and had to stop

operation. A graphite-producing factory had also greatly reduced output, while other factories were doing no better.

Table 9 Expenditure of T Town in 2009 (RMB thousand)

Items of Expenditure	Sub-categories	Amount	Items	Amount
Salary and Welfare	Salary and subsidies for permanent government staffs	728.4		
	Salary and subsidies for staffs of government affiliated institutions	183.3		
	Insurance and subsidies for permanent government staffs	32.9	Insurance of medical care	24.7
			Subsidies for serious illness	2
			Insurance of injuries incurred while working	2.1
			Maternity insurance	4.1
	Insurance and subsidies for staffs of government affiliated institutions	12.2	Insurance of medical care	7.4
			Subsidies for serious illness	0.5
			Insurance of injuries incurred while working	0.6
			Maternity insurance	1.2
			Unemployment insurance	2.5
	Annual bonuses for permanent government staffs	26.8		
	Annual bonuses for staffs of government affiliated institutions	7.6		
	Special funds for people with special needs	80		
	Total (RMB thousand)	1,071.2		
Percentage (%)	42.7			
Expenditures on goods and services	Operating capital outlay	589.4		
	Welfare for government permanent staffs	10.3		
	Welfare for staffs of government affiliated institutions	3.1		
	Labour-union expenditure for permanent government staffs	8.2		
	Labour-union expenditure for staffs of government affiliated institutions	2.5		
	Total (RMB thousand)	613.5		
	Percentage (%)	24.4		
Subsidies for	Annual old-age pension	258.6		

individuals and households	Annual bonuses for retirees	11.5		
	Public accumulation funds for housing construction for permanent government staffs	20.6		
	Public accumulation funds for housing construction for staffs of government affiliated institutions	6.2		
	Salaries for village officials and village group leaders	391.8	Salaries for village officials	310.8
			Subsidies for village group leaders	50.4
			Subsidies for outgoing village officials	30.6
	Subsidies for community committee	18		
Total (RMB thousand)	706.7			
Percentage (%)	28.2			
Subsidies from fiscal transfer funds	Subsidies for management fee at village level	28.6		
	Subsidies for inter-village roads construction	45.8		
	Subsidies for disabled servicemen, and family members of revolutionary martyrs and servicemen	44.6		
	Total (RMB thousand)	119		
Percentage (%)	4.7			
Total Expenditure of T Town		2,510.4		

Source: data collected from the Department of Finance, T Town during the author's fieldwork between 2009 and 2010.

Thus T Town was dependent on the subsidies of county or district government to cover staff payroll and other operating costs. A case in point was the subsidies that T Town received in 2009. The data collected during a fieldtrip showed that T Town received RMB2,510,400 from H District government in 2009 after fully completing the assigned tasks, a prerequisite for subsidies.

The fund received from H District government mainly covered four categories of expenses. Table 9 shows that salaries and welfare, including insurance, subsidies and bonuses of permanent staffs and staffs of government affiliated institutions within T Town, constituted the major component of its

expenditure (43.2%²⁷² of the total amount received). The expense on public goods and services was so negligible that it could hardly qualify as a category. The subsidies for inter-village road construction (1.8%) were included under subsidies from fiscal transferred fund (see Table 9).

According to the deputy head of T Town, the salaries of 32 government staffs (23 permanent staffs and nine staffs of government-affiliated institutions) were covered by the allocated funds from the district government. The payroll of around 24 contractual staff, a necessity due to the heavy workload, would have to be borne by the town government. Often times, the fiscal constraints left T Town government with no choice but to dismiss a few contractual employees. Or in the words of T Town officials, they would have to resort to using “the wall in the east to fill the wall in the west (*chai dongqiang bu xiqiang*)”. However, even this might not be possible without funds. The large amount of funds available at the disposal of the town government before the TFR and AAT were no longer attainable (see Table 8).

The special funds from the district government were also not deployable. The funds for agriculture, rural area and farmers (*sannong*) for instance were for rural infrastructure including inter-village roads improvement, ditch and pond construction, water resources construction, as well as popularisation of rural science and technology.

The limited financial resources and the insignificance of rural public goods provision in the performance evaluation of government officials had not given T Town government enough reason to act actively in rural public goods provision after the TFR and AAT.

Town government officials were of the opinion that the financing of rural public goods provision should not be their responsibility. The finance department head at T Town maintained that the provision of rural public goods once financed by the *three deductions* and *five levies* (*santi wutong*) would be covered by special funds from district, municipal or provincial government after the TFR and AAT. The job of town government was to

²⁷² It includes the total expenses of the first category and the expenses on welfare of the second category (Table 9).

provide a link between county government and the villages and to organise the provision instead of direct investing in it. The main tasks of town governments were to complete the tasks assigned by upper-level governments. The finance department head in T Town added that rural public goods provision followed the principle of “allocated by district government, subsidised by town government and self-raised by villages”. (*Quzhengfu boyidian, Zhenzhengfu buzhu yidian, nongmin zichou yidian*).

Profiles of S and N Villages

There were 14 villages in T Town, among which S and N Villages provided interesting comparison. They shared similar economic background and formal institutional design, and were neither the richest nor the poorest in T Town. Both had little collective income and had the same policy environment. The two villages had been selected as demonstration sites for the New Socialist Countryside Construction programme. Only S Village remained a demonstration site, as N Village did not have the cooperation of villagers.

On the whole, rural public goods provision in both S and N Villages left much to be desired as the two villages were financially constrained. Much of their collective incomes had not been wisely utilised due to the lack of disciplinary supervision.

S Village was located at the eastern part of T Town, around 12 kilometres away from the town centre and 21 kilometres away from the city centre. There were 13 village groups with 457 households and a population of 1,487 in 2009. The total land area was 6.951 square kilometres, consisting of 1.201 square kilometres of farmland, 0.17 square kilometres of dry land, 1.031 square kilometres of wetland and 3.5 square kilometres of forest management area.

N Village on the other hand was located at the southwestern part of T Town, eight kilometres away from the town centre and 12 kilometres away from the nearest city. The nine village groups had 385 households and a population of 1,379. The village groups originated from three natural villages:

village groups 1, 2 and 3 were offshoots of one natural village,²⁷³ 4, 5 and 6 came from another, and 7, 8, and 9 were originally of one natural village. Each village group had a population of between 120 and 200 in 2009. It registered a land area of approximately 8.993 square kilometres, 0.846 square kilometres of which were farmlands, 0.114 square kilometres of dry land, 0.732 square kilometres of wetland and 6.015 kilometres of forest management area.

The main income of farmers in both villages came from the cultivation of tobacco, watermelon and vegetables, and the leasing of the forest management area. In 2009, the output of tobacco and eggplant was about 34 hectares and 20 hectares in S Village respectively. A farmer informed that the profit from the planting of tobacco, watermelon and rice on a per *mu*²⁷⁴ basis was a respective RMB3,000, RMB6,00 and RMB1,500. Seventy percent of S Village farmers grew tobacco of one or two *mu* to six or seven *mu* each, making an annual profit of about RMB2,500 per *mu*.

Hence, most farmers only set aside a small piece of land for growing rice for their own consumption. As discussed in the earlier chapter on farmers' incentive, many farmers, especially the young and those in their 30s and 40s, had gone to the cities to work, leaving behind the elderly who preferred to grow vegetables or fruits rather than farming grain due to high risk and high cost.

There were more vegetable bases in N Village than in S Village. A farmer in S Village said that operating a vegetable farm was risky due to the poor purchasing system. He recalled how he made huge losses in the last few years as the relevant department did not purchase vegetables from them and they had difficulties selling them due to the poor transportation and the distance to the market.

The whole vegetable base was also vulnerable to natural disasters such as a snow disaster or flood. In a good harvest, the best outcome was only a few thousand *renminbi* after deducting business overhead such as vegetable shoots,

²⁷³ Villagers within one natural village live close to each other and are separated from other clusters of villagers.

²⁷⁴ One *mu* equals to around 0.07 hectare.

fertilisers and transportation. Farmers in S Village thus preferred to cultivate tobacco plants instead. Although the profit gained from each *mu* of tobacco was less than that of a vegetable base, there was an element of certainty in returns. A vegetable base of about 100 *mu* (or 6.7 hectares) would give a profit of around RMB4,500 per *mu*. In the case of N Village, it was profitable for farmers to grow vegetables, as it was closer to the city and involved only around half an hour's bus trip.

Weak Collective Income

The major collective income of S Village was the profit from timber. However, trees had a growth cycle of around 10 years and were depleting quickly due to frequent logging. The head of S Village informed that logging in the forest management area produced an average net income of around RMB300,000 per year in the past. Now income had dwindled especially in 2008 after the snow disaster when trees were destroyed, leaving many previously forested areas barren and little for the coffers of S Village in 2009.

At H District and T Town, villages could contract part of the barren forest management area to farmer households collectively or put up for bidding. The awarded households would have to plant trees in the contracted area within two years, failing which the collective would have the right to expropriate the area. The profit gained from this land lease would be used for public goods and services provision within the village.

S Village had adopted this strategy and gradually leased out the forest management area that once belonged to the collective. Until the author's trip in 2010, little was left to the collective because of frequent logging and leasing to farmer households to fund operational costs of village collectives. In 2008 the profit from logging of forest management area was around RMB10,400 which was used fully for repaving village roads.

A similar situation could be observed in N Village. The profit from logging was about RMB5,976 in 2007 and RMB10,200 in 2010. Barren areas had also been leased to farmer households. Income from logging had thus become less significant.

Town officials admitted that the move was not a long-term solution. Given the limited resources and underdeveloped off-farm industries, it would be difficult for villages in the future to implement any public project.

The two villages had registered decreasing collective income and mounting debts. Average operating income amounted to RMB23,470,000, while debts remained at RMB54,692.55 from 2005 to 2008. In 2010, debts nudged up to around RMB66,911.65. In 2010, though N Village had a lower debt burden of RMB5249.4 than S Village, the operating income was only RMB10,200.

The financial capacities of village committees in these two villages were weak and would worsen in the coming years due to the dip in collective income. With limited collective income, the two villages would need to apply for funds for any public project in their villages. The accounts of these two villages showed that management expenses including lavish dinners to receive visiting officials constituted the major item, followed by travel expenses, newspaper subscriptions, costs of office stationery and payroll. The account books also showed an active application of funds. S Village's management expenses were RMB87,679 while N Village's were RMB66,359 in 2008. Among these expenses, most had been spent on meals with officials.

Weak Supervision of Collective Income

The policies of *cuncai zhenguan* (town government took charge of village finance and was responsible to villages), *cunwu gongkai* (publicised village affairs) and *minzhu licai* (democratic management of village finance) had been implemented to supervise the use of funds in villages. However, the actual implementation still fell far short of its initial objective.

The villages' finance was managed by the Station of Operation and Management of T town. It required villages to report on the flow of funds to town government. Any receipt issued by N Village would have to be checked by the town finance office. Official receipts of expenditures were required to be submitted. For expenditure such as social assistance costs and family planning expenses, the signature of the recipient was needed.

The expenditure of villages included productive construction expenditure, public welfare expenditure, bonuses of village officials, administration costs and entertainment expenses, poverty alleviation expenses, land expropriation compensation, family planning expenses and other costs.

Expenditure below RMB200 could be approved by village committee head, but anything more would have to be examined by the village branch secretary first before it was submitted to the head for approval; this was an internal check and balance mechanism of village finance. The balance sheet of the village, as well as the receipt and disbursement statement would be publicised by a neutral audit group, called the Democratic Financial Management Group (DFMG) (*minzhu licai xiaozu*) for public scrutiny on a quarterly basis.

Feng Xingyuan pointed out the importance of *minzhu licai* in raising fund for public goods provision at villages in a case study of Maliu Township in Chongqing city.²⁷⁵ However, the case studies of villages in Hunan province in this study reflected the limitations of the *minzhu licai* system. Theoretically, expenditure of every village should be examined and verified by the DFMG before it was endorsed by the group leader and then submitted to the head of the village committee for approval.

In practice, the actual operation in villages was flawed. The DFMG in S Village was comprised of the village branch secretary, village head, village secretary, head of village's women federation and two other Party members. It was helmed by the village branch secretary, the decision maker of village affairs. Consensus on the expenditure could thus be easily arrived at, as the village branch secretary often had the real power and other members seldom disagreed.

The situation in N Village was another extreme case. The village branch secretary had absolute power and the final say over almost every village affair.

²⁷⁵ Feng Xingyuan and Christer Ljungwall Renqing Li, *Zhongguo de Cunji Zuzhi Yu Cunzhuang Zhili*, (Village Organizations and Village Governance in China), Beijing: Zhongguo Shehui Kexue Chubanshe. 2009.

Other village committee members told the author that interviewing the branch secretary would be enough as he managed everything in the village.

Another policy of *cunwu gongkai* (publicised village affairs) also helped in the supervision of village finances. Items to be publicised covered 12 categories of village affairs such as financial plan, various expenditures, assets and debts, national funds allocation, various fees collection, rural collective land use and others.

Both N and S Villages had a 10-sq metre publicity board at the gate of the village committee office. Some village affairs such as the information on rural new medical insurance programme, the fines on family planning, the allocation of subsidies covering households were under the “five guarantees”.²⁷⁶ Farmers were asked if they are aware of the financial information displayed on the publicity board. Some displayed ignorance while others said they had read the information sometimes.

However, the consensus of farmers was that the information provided was useless as it lacked details. They were also of the opinion that the financial information only involved numbers, something that they could not comprehend, as they did not have the details of village finance. They also questioned the authenticity of the figures displayed, as the supervisors were the managers of the funds. To them, the financial information on the publicity column was only for the benefit of upper-level government officials and was of little meaning to ordinary farmers.

5.2 Inter-Village Road Construction

The construction of inter-village roads connecting administrative villages to town (inter-village *gonglu*)²⁷⁷ in T Town at Z City of Hunan province, the central area of China, illustrated the joint efforts of government and farmers in the fundraising process, with the latter playing a secondary role.

²⁷⁶ Households of childless couples and infirm old persons enjoy the five guarantees such as guaranteed food, clothing, medical care, housing and burial expenses.

²⁷⁷ *Inter-village gonglu* refers to roads connecting the closest county road to where village committee or school is located. Usually village committee and village school are housed in the same building.

Rural roads were of three types: *xiandao* (road connecting counties), *xiangdao* (road connecting towns with counties and connecting different towns), as well as *cundao* or inter-village road. In 1978, rural roads in China spanned only 586,000 kilometres, making most townships and villages inaccessible. In 2002, rural roads reached a length of 1,337,000 kilometres.

The upgrading of rural roads kick-started in 2003 when the Ministry of Transport (MOT) greatly increased its investment in rural roads construction, promising good concrete paved roads for farmers. The plan to construct paved roads to connect villages to towns in the eastern area, link towns with counties, join different towns in the central area, and bridge different counties in the western areas in China had begun since 2003.

The State Council approved the Construction Plan of Rural Highway in 2005, while the MOT had implemented the “100 Billion Yuan Project in Five Years” since 2006. According to MOT statistics, total investment from both government and society for rural highway was RMB752.8 billion between 2006 and 2009, with the central government taking up a share of RMB166.1 billion. New roads had since been built for 2,200 towns and 100,000 administrative villages, and rural roads had been paved with concrete for more than 7,900 towns and about 145,000 administrative villages between 2006 and 2009.²⁷⁸

The Role of Government in the Construction Process

The central government had attached great importance to village road construction and had assigned specific organisations with the task and backed it up with a plethora of rules and policies and huge funds from various levels of government. In Z City, Hunan province, roads construction and maintenance in various counties and towns in Z City came under the purview of the county-town highway department. The roads improvement projects in Z

²⁷⁸ Ministry of Transport, “Nongcun Gonglu Shiyiwu Fazhan Chengjiu: Huiji Yiwun Baixing Hongda Shiye” (The Achievement of Rural Highway during the 11th Five-Year Programme: Great Achievement Benefiting People), 30 October 2010. Available at http://www.moc.gov.cn/zhuantizhuanlan/qita/huigushiyiwu/meitibaodao/201012/t20101206_883526.html (accessed 23 May 2011).

City had been conducted in stages under the principle of first *tongda* (which meant that village was accessible but the road was sands paved instead of concrete or asphalt paved) and then *tongchang* (which meant that roads were concrete- or asphalt-paved). The sands-paved road was around 3.5 or 4 metres wide, while the concrete- or asphalt-paved road was 4.5 metres wide and 20 centimetres thick.

From 2003, roads connecting county road to villages had been planned and only villages with enough collective income would be advised to construct concrete-paved roads. Since 2005, *tongchang* had been widely advocated. The construction and improvement of roads would involve joint efforts and be backed by provincial government, subsidies of local governments such as municipal, county, district and town governments, donations from society, as well as funds raised by ordinary people.

As early as 2002, the highway department had started to assess the road conditions of towns including whether a road was located in the mountain or along a reservoir, the existence or non-existence of roads in a village, as well as the ability of villages to raise funds by themselves. The nationwide investigation of inter-village roads began in 2004 and Z City had been a participant.

According to the investigation of roads in 2005 in Z City that T Town belonged to, 65 out of the 250 towns (26%) did not have the required 764 kilometres of concrete- or asphalt-paved roads, while 29 administrative villages had no road, not even muddy roads. Only 893 (30%) of 2,951 administrative villages had concrete- or asphalt-paved roads. Since then, Z City had stepped up efforts to build more inter-village roads. Administrative villages were now all accessible, with 40% reachable by buses by 2007. By 2009, 99.6% of towns and 76% of administrative villages had concrete or asphalt roads, while 72.3% were accessible by buses, a huge improvement from that of 2005.

The investigation would determine if a project was called for. Every town government would name the villages that had a need for roads. The highway department checked the names of villages against the investigation data and

temporarily established a project for the village. After the establishment of a project, the village organised fundraising activities within the village. The village could either use collective income or mobilise farmers to contribute funds. After raising enough funds, the village would submit a report to the town government for verification and further transmission to the highway department. The highway department would give the final green light to the project and prepare for the funds allocation.

The construction project would be put up for bidding by the town government. According to the deputy head of the highway department, the construction team was vital, as it would affect the budget. A professional construction team would save costs on concrete used and prevent wastages. It would also be able to give fairly accurate estimation of material usage and costs, thus avoiding the need to call for a second quote in the event of a shortfall in estimation.

Farmers would be scheduled to supervise the construction. As one of the contributors of the funds, they would be concerned with the performance of the construction team and the type of materials utilised.

According to the highway department director, road construction cost was around RMB200,000 per kilometre in 2005. National funds made up RMB100,000 to RMB120,000 per kilometre. Z City subsidised inter-village road construction with an allocation of RMB5,000 per kilometre. The different counties or district governments contributed different levels of subsidies based on their financial situation. The subsidies ranged from several thousand *renminbi* per kilometre to RMB70,000 per kilometre (as in the case of H district). The funds from provincial, municipal, district and county level governments were pooled and managed by the highway administration bureau of H district, which was reportedly the first among other districts or counties to complete the construction of inter-village roads.

The huge progress of inter-village roads construction could be attributed to first, the emphasis on inter-village roads construction by each level of government. The central government had allocated huge funds, while each level of government had also attached great importance to it. The number and

length of roads to be completed had been stipulated by the provincial government.

Table 10 The Evaluation of Road Station at County Level

Items and Scores	Sub-Category	Score	Explanation	Method
Organisation (10)	As emphasised by the leader	2	The leader often stays at the construction site to supervise the work, convene a meeting and evaluate the performance of the leaders of the construction team.	By checking the cashier and documents
	Have special work team	4	Special work team to organize road construction	On-site checks
	Have specific work requirements	4	Have a complete set of operating systems	By checking the relevant documents
Funds allocation (20)	Effective management of funds	10	Allocate funds in time and never misappropriate funds.	By checking accounts
	Successful fundraising	10	Manage to mobilise fundraising among towns and villages.	By checking accounts
Completion of tasks (50)	Inter-village road construction	40	Ensure the achievement of the required road length	On-site checks
	Project management	10	Ensure the quality of technicians and construction, and the robustness of the management system	On-site checks
Construction environment (10)	Standard management	3	Strictly follow standard management rules	Investigation
	Smooth construction	2	No collective incident and theft.	Situation-based
	Communications and reports	5	Construction in the news of provincial and municipal television stations	By checking reports
Safety in production (10)	Safety	5	No report of injuries	Situation-based
	Build an honest Party's and clean government	5	Maintain good Party conduct and an honest and clean government	Situation-based

Source: data from documents gathered in the field trip in 2010.

For instance, Z City worked according to the demands of the provincial MOT, which initiated 467 roads projects and added 1,190.6 kilometres of roads in 2009. By end 2009, 1,682.21 kilometres of roads had been made accessible even though the provincial funds only covered 1,041.1 kilometres. Z City accomplished this by initiating fundraising activities within the city. The enthusiasm could be motivated by the inclusion of inter-village roads

construction and road maintenance in the performance evaluation of county and town officials (see Table 10).

Since 2007, the H District Party's Committee and District Government had regarded the construction of main roads in the rural areas as essential to promoting balanced development between urban and rural areas, optimising economic development environment and constructing New Socialist Countryside. The objective was to link all villages within H District by 31 May 2009. A fund of RMB16.952 million from district finance had been allocated to the construction.

Table 11 Summary of the Objective and Performance of Counties and Districts in Inter-village Roads Construction, 30 November 2009

County or District	Objective		Actual Performance		
	Length (kilometre)	Accessibility (%)	Length (kilometre)	Accessibility (%)	Task completed (%)
H district	80	93	90.87	93	113.6
X district	80	93	81	93	113.6
ZX county	180	85	223.43	87	124.1
AR county	160	88	210.35	88	131.5
YX county	210	84	237.6	84	113.1
GY county	250	85	274.5	88	109.8
JH county	90	90	94.4	90	104.9
LW county	80	86	82	86	102.5
YZ county	90	87	96.7	87	107.4
RC county	140	83	145.16	83	103.7
GD county	140	86	146.2	87	104.4

Source: Data from the highway department of Z City in 2010.

From 10 February to 25 February 2009, Z City had conducted an investigation of roads construction in the villages of all its counties and districts. The investigation had laid a foundation for the examination of inter-village road projects completed in the year of 2008 by the provincial transportation department from 17 June to 23 June 2009. The inspection team

of N Province examined the inter-village roads construction of 2009 from 1 December to 4 December 2009. Thereafter, the inspection team of Z City would examine the inter-village roads construction from 7 December to 12 December 2009. Table 11 shows that the 11 counties and districts had outperformed their targets of inter-village roads construction and attained the accessibility percentage; ZX, GY and GD counties had even surpassed the tasks allocated. Take H District for instance. The objective of rural construction was 80 kilometres and accessibility was set at 93%. H District had not only attained 93% accessibility, but also built a road length of 90.87 kilometres.

The enthusiasm could be attributed to the opportunity to participate in the appraisal for counties or districts that have completed the tasks assigned at a score above or equal to 80. Z City also implemented many relevant policies to gain the support of various departments and its residents.

Furthermore, it was the general belief that roads construction was essential to get rich (*yaoxiangfu, xian xiulu*). The ease in attracting investment for the government and the ease in the transportation of goods for the farmers was a win-win situation for all. Farmers interviewed said, “Building of roads is a good thing liked by almost everybody.”

Fundraising within Villages for Inter-village Roads Construction in S and N Villages

The construction of inter-village road in S Village began in 2007. It would be six kilometres long. The highway administration bureau of H district had allocated RMB700,000, while the village contributed RMB590,000 from the selling trees in the forest management area.

There were 13 village groups in S Village with a total population of about 1,700 in 2009. Village groups 6, 7, 8, 9 and 13 were under an area called *dawanli* as they share the same surname and are too closely knitted to be distinguished. Almost 90% of residents in S Village had Wang as their surname, indicating a common ancestor. They had many relatives within the same village and not all of them had the need for an intra-village road. Village

groups 2 and 4 were located close to the inter-village road and village group 5 was at the entrance of the village that is close to the main county road. These three groups did not require an intra-village road. The other 10 village groups were given subsidies totalling RMB200,000 from S Village committee.

Farmers were mobilised to contribute funds to the construction of intra-village road and inter-village road in S Village. The fundraising process was organised by the village group leader who collected between RMB150 and RMB200 from each farmer. Distance from the inter-village road was taken into consideration. The further a village group was located, the more it had to pay. Hence, village groups 3, 10 and 11 which were located furthest away contributed the most. Farmers showed enthusiasm towards the project, with more than 600 farmers contributing a sum of around RMB146,000. See Table 12 for the fund contributions of government, village committee and farmers for the two construction works.

Table 12 Channels of Fundraising for both Inter-village and Intra-village Roads Construction in S Village, 2007-2008

Channels of Fundraising		Amount (RMB)	Approximate Percentage (%)
Funds allocated by the Highway Administration Bureau, H District		700,000	48.7
Funds within village ²⁷⁹	Funds from the village committee, mainly from forest management area in S Village	590,000	41.1
	Farmers' contribution of funds	146,000	10.2
Total		1,436,000	

Source: Data was sorted out based on the data gathered in my field trip in 2009 to 2010.

The 7.1-kilometre-long inter-village road of N Village ran through the village from the east to west, the longest road in H district. The construction began comparatively late in 2009. According to the initial project plans, a 3.8-kilometre inter-village road connecting the village committee at the village centre to the main county road was scheduled. The highway administration bureau of H district initially allocated RMB145,000 per kilometre or a total of

²⁷⁹ The funds from S Village are for both inter-village road and intra-village road construction, with government subsidising more for the former.

RMB551,000 (RMB145,000 multiplied by 3.8) to N Village, with a village contribution of RMB480,000.

However, this proved to be a vast underestimation, as the road did not reach village groups 7, 8 and 9 with such cost estimates. A reapplication for funds and road extension to 7.1 kilometres was submitted to the H district government and the traffic office of H district. An additional RMB290,000 was finally secured, making it a total subsidy of RMB841,000.

The outstanding sum of RMB480,000 would have to be raised by N Village to kick-start the construction project. After numerous fundraising efforts, the village managed to secure a contribution of around 33% of the total project costs. First, farmers were mobilised to raise RMB80,000 at RMB100 to 120 per person. Not all responded to this call, as the disabled old people for instance did not have the capacity to do so. In total, about 80% of farmers in N Village contributed. Farmers who lived close to the main county road contributed RMB100 per household. The baseline in which the distance was calculated was set at the village committee. So farmers from village groups 7, 8, 9 contributed RMB120 per household. Second, village officials initiated a donation drive among village officials, Party members and entrepreneurs. The village branch secretary donated RMB5,000, while entrepreneurs handed in RMB10,000 to RMB20,000. Party members donated several thousand *renminbi* per person. Total donation from this donation drive was RMB80,000. Donors were named on a memorial tablet (*gongdebei*) constructed in 2010. Third, efforts by a Ms Li, deputy to the People's Congress, to secure donations from other deputies to the People's Congress of H District brought in RMB75,000 for N Village. Fourth, the forest management area was sold at an auction for RMB285,000. In total, funds raised by the village was RMB520,000 (see Table 13).

Both S and N Villages had successfully constructed a respective six-kilometre and 7.1-kilometre of inter-village road. The success comes from the support of specific institutions and the backing of strong policies. Each level of government has attached great importance to the construction, while

farmers had shown great interest, stimulated by the government's strong funding.

Table 13 Fundraising Channels for Road Construction in N Village 2008-2009

Channels		Amount (RMB)	Approximate Percentage (%)
Allocated funds from upper-level government		841,000	61.8
Funds within village	Farmers' contribution	80,000	5.9
	Donations within village	80,000	5.9
	Forest management area	285,000	20.9
Donations from deputies to the People's Congress, H district		75,000	5.5
Total		1,361,000	

Source: data from an interview made by the author during a field trip from 2009 to 2010.

5.3 Ponds Desilting Projects

The third category of fund application was mainly based on provincial policies named *duikou zijin* (targeted fund). The desilting of ponds on hills and reservoirs was a case in point. In November 2009, Hunan province decided to channel the allocated central financial funds of RMB0.24 billion for agricultural materials to desilting ponds on hills that had not been reforested for a long time in prevention of drought. Of the 60 million *mu* of farmland, one-third was large or medium irrigated area, while the remaining had to depend on ponds on the hills for irrigation. Before the implementation of Household Contract Responsibility System, the collective did the desilting work. However, the migration of young workers to the cities had caused the long-term neglect of the ponds.

In H District, the desilting and expansion of ponds on the hills had also been conducted accordingly since 2009. Farmers, water users' associations, other special cooperative organisations and village committees were invited to tender for this project by the Water Resources Bureau and Finance Bureau of Z City (see Table 14). The inclusion of drought relief in the performance evaluation of government officials and ponds desilting project was a possible push for this enthusiasm.

Altogether 216 ponds from 59 villages of 14 towns in H District had been desilted. In 2009, 0.14 million cubic metres of ponds had been desilted and 3,957 *mu* (around 2.64 square meters) of irrigated area improved. The total

investment was around RMB2.06 million in 2009. Funding came from various subsidies, namely, RMB1,179,840 from provincial level, RMB147,480 from municipal level and RMB147,480 from county or district level, as well as RMB589,920 raised by farmers through one-case-one-meeting (*yishi yiyi*). Farmers' contribution outstripped subsidies from municipal and county/district governments, and second only to provincial subsidies. This represented the spirit of *minban gongzhu*.

Table 14 Selected Registration Form of Ponds on the Hills of H District, 6 January 2010²⁸⁰

Town	Village	Project	Desilting Area (Cubic Metre)	Amount of Funding from Different Channels (renminbi) ²⁸¹				
				P	M	C	F	Total
T Town	N Village	The lower pond of Yueliangwan	350	3,000	375	375	1,500	5,250
	N Village	The upper pond of Yueliangwan	630	5,400	675	675	2,700	9,450
	S Village	Gantang	630	5,400	675	675	2,700	9,450
	T Village	Longtangjiao	560	4,800	600	600	2,400	8,400

Source: The form was obtained from the Water Resource Bureau, H District during the author's fieldtrip from 2009 to 2010. Some categories such as specific area of irrigation, area of containing water, increased area for containing water, and renovated area of pond in the original form has been excluded, along with information of other villages.

5.4 Conclusion

Inter-village roads and targeted fund projects were two examples of the first category of public goods that were funded mainly by government with clear policies. In inter-village roads construction and targeted fund projects, formal institutions and policies of fund application and funds allocation were determinants of their success. Most rural public goods provision needed funds from both the government and villages. The county or district government had taken the responsibility of supporting rural public goods provision as town

²⁸⁰ This form was a part of the complete registration form of 216 ponds from 59 villages in 14 towns, H District in 2010.

²⁸¹ P indicates provincial level subsidies, M is municipal level subsidies, C is county or district level subsidies and F is funds raised by farmers.

government had little financial capacity to do so. Thus, formal institutions and policies were critical to ensuring smooth fund allocation to town government and subsequently to targeted villages. The success of such projects hinged on clear application procedures and specific allocation of funds.

Inter-village road and ponds desilting projects had been systematically constructed. First, special organisations took charge of the organisation process. The Highway Administration Bureau of H District was tasked with road construction and the Water Resources Bureau and Finance Bureau of Z City were held responsible for the ponds. Second, these two projects were initiatives of the central or provincial government, a top-down provision. The inter-village road construction was under the “100 Billion Yuan Project in 5 Years” implemented by the Ministry of Transport, and a series of rules and policies at local levels were based on this plan. Ponds desilting came under targeted fund projects.

Third, fund allocation at each level of government was specifically defined. Inter-village road construction had been allocated funds based on the length of the road. The provincial, municipal and county or district governments subsidised on a per kilometre basis RMB100,000 to 120,000, RMB5,000, and up to RMB7,000 respectively. S Village and N Village had obtained a respective RMB700,000 (about 49% of total cost) and RMB841,000 (around 62%) from upper-level governments. The funds allocated for ponds desilting were based on pool size. On a per cubic metre basis, the provincial government subsidised about RMB8.5, while municipal and county/district governments subsidised about RMB1.07. Government funds thus constituted about 71% of the total costs of ponds desilting in villages such as S and N Village.

Fourth, the specifically defined funds allocation at each level of government gave farmers the confidence of contributing to inter-village road construction. Fund allocations by government were contingent on the villages raising a required sum on their own. This had motivated village officials to mobilise farmers to contribute funds within the village. However, the small proportion of funds undertaken by the villages had likewise promoted a

similarly small contribution from farmers. In S Village and N Village, farmers' contribution for inter-village road construction was about 10% and 0.6% of total costs respectively. For the three ponds desilting projects, farmers' contribution accounted for about 29% of total costs of each of these projects.

Finally, the inclusion of inter-village road construction in the performance evaluation system of government officials had positively impacted on the success of the project in H District. To sum up, the success of the first category of public projects, however, found no resonance in many other public projects due to flaws in formal institutions and policies. These public projects will be examined in Chapter 6.

Chapter 6

Water Resources Related Projects and the New Socialist Countryside Construction Project at H District

Unclear policies were a hindrance to the success of public goods provision. A comparative study of the construction of two drinking water projects would shed light on how *guanxi* is a major deciding factor in the success of these projects. Unclear and unspecific policies of fund application for public goods provision had given rise to the implementation of *guanxi*. Villages with good *guanxi* had better access to government funds than those without.

The unscientifically designed policies and the lack of specific guidelines for the provision process had impeded the progress of public goods provision. The initial objectives of the New Socialist Countryside Construction (NSCC) project were to strengthen agricultural infrastructure to guarantee production of grain products and to narrow city-village income gap. However, problems with application eligibility and fund allocation, and local officials' overemphasis on showcasing achievements had put the project in check.

6.1 Water Resources Related Projects

Unlike the inter-village road project, water resources related projects encompassed a broad range of works that require more funding and energy. The tasks of H District water resources bureau included enhancing middle- and low-yield fields by strengthening farmland irrigation construction, restoring projects to protect drinking water, increasing water use efficiency in agricultural production, reinforcing reservoirs, constructing drinking water facilities, building a crisis management system such as flood relief and drought control, and conserving water and soil by regulating river flows.

The central government had attached particular importance to some water resources related projects such as small-scale farmland irrigation. Farmland irrigation was emphasised in the No. 1 Document of central government in 2005 titled “Suggestions on the Policy of Further Strengthening Rural Work and Improving the Comprehensive Production Capacity of Agriculture in 2005”. The document clearly stated that alongside large- and medium-sized farmland irrigation construction developments, the investment in small-scale developments had also been increased since 2005.

The special subsidized funds would be arranged from the budgetary revenue of central and provincial government for the construction of small-scale farmland irrigation facilities. The municipal and county/district level governments would also correspondingly increase their investment.²⁸²

Farmland irrigation had also been mentioned and discussed in the No.1 Documents of the subsequent years.²⁸³ . The Report of the 17th National Congress of the Communist Party of China in 2007 pointed out that the weak rural foundation and underdevelopment of rural areas necessitate the strengthening of the construction of rural infrastructure and water resources projects. In the Government Work Report at the First Session of the 11th National People’s Congress in 2008, then Premier Wen emphasised the construction of small-scale farmland irrigation projects and the renewal of irrigated districts.

Though the central government had repeatedly stressed the importance of rural irrigation, the improvement of local irrigation had not been as notable as that of rural roads construction. A Water Resources Bureau staff at H District said that although the central government has allocated large sums of money,

²⁸² Yu Weiya, ed, “Suggestions of the State Council of the P.R. China on the Policy of Further Strengthening Rural Work and Improving the Comprehensive Production Capacity of Agriculture”, 30 January 2005, Xinhuanet, <http://news.xinhuanet.com/newscenter/2005-01/30/content_2527272.htm> (accessed 19 April 2011).

²⁸³ See “Suggestions on Impelling the New Countryside Construction” in 2006, “Suggestions on Actively Develop Modern Agriculture and Impel the New Countryside Construction” in 2007, “Suggestions on Conscientiously Strengthening Agricultural Infrastructure Construction” in 2008, “Suggestions on Promoting the Steady Development of Agriculture and Continuous Increase of Farmers’ Income” in 2009, and “Suggestions on Increasing the Development Efforts of Balancing Urban and Rural Development and Further Consolidating the Foundation for Agricultural and Rural Development” in 2010.

the funds were limited by the time they were funnelled down. He also said that project such as large river regulation had priority over small-scale farmland irrigation projects for the allocation of funds at the provincial or municipal level.

Furthermore, there were no specific mechanisms for project application and funds allocation at the local government level. In July 2005, the Ministry of Finance and Ministry of Water Resources implemented measures (*banfa*) to manage central special funds of *minban gongzhu*²⁸⁴ for the construction of water resources facilities. The measures spelt out the general principles, the mechanisms of project application and approval, the use and management of funds, the implementation of projects and maintenance and others. The core idea of the measures had been *minban gongzhu*. Central finance has allotted special funds for supporting water resources facilities construction.

According to the Government Work Report Measures, Hunan province had implemented the measures and provincial finance had allotted the special funds (30% of the whole investment in accordance to the standard set by central and provincial special funds). The remaining 70% would be borne by the village. In the case of small-scale farmland irrigation projects undertaken by Hunan province on 12 October 2005, subsidies for irrigation and drainage system renewal was less than RMB200 per case, constructing new electromechanical pump station was less than RMB2,000 per kilowatt-hour and sprucing up the electromechanical pump station was less than RMB1,000 per kilowatt-hour. The subsidy for desilting small-irrigated areas on per cubic metre basis was RMB2 to RMB4 and constructing a pondlet (<500 cubic metres) and a dike was less than RMB50 and RMB2 to RMB5 respectively.²⁸⁵

Although the Water Conservancy Bureau at the provincial level had set the subsidy standards, it had not established a guideline for fund allocation to the lower levels. The application system was unclear and incomplete. According to the Deputy Director of the Water Resource Bureau at H District,

²⁸⁴ This means that the construction would be run mainly by farmers and subsidised by different levels of government.

²⁸⁵ Data obtained from the official government website of SY City of N province, <http://www.hnsyczj.gov.cn/syczj/zcfg/nync/sljs/content_751.html> (accessed 20 April 2011).

Chenzhou City, there were too many applications vying for a limited amount of funds; hence, choices would have to be made after a complicated decision making process. Priorities were given to serious cases and those with good returns. Serious cases referred to projects such as endangered reservoirs and good returns refer to economic and social returns.

Endangered reservoirs were often given priority in the application process as they involve the safety of the entire village. They went through the strictest application and examination. Once defined as a case of endangered reservoirs, the application would be funded. For the huge number of less serious cases, assessments were made subjectively, without any set of criteria. A lot thus depended on *guanxi* in real implementation.

H District had no specific policies for allocating funds to different villages. Farmland irrigation in H District was modelled on the one implemented at the provincial level. Decisions according to the Director of Water Resources Bureau were made in a meeting attended by key personnel. When asked if decisions were made based on specific criteria, he revealed that it depended on the discussion in the meeting. When I asked whether *guanxi* played a crucial role in the discussion, he only smiled and showed no objection to the suggestion. In the words of the deputy director, “*guanxi* is so important that it is often regarded as a productive force (*guanxi shi shengchanli*)”. The following two cases of drinking water facilities construction would throw light on the importance of *guanxi* in the application process.

Drinking Water Project at S Village—A Successful Case with *Guanxi*

The drinking water project in S Village involved village groups 6, 7, 8, 9 and 13 in an area called *dawanli*. In the past, water came from wells that were polluted and unsuitable for drinking. Together with two village group leaders, the village secretary who lived in the area made a formal application for the construction of an aqueduct to connect the nearby reservoir to these village groups.

The village secretary when interviewed was proud to reveal that his former classmate, WTX who was working at the department of education in H District government, had good relations with the Director of the Water Bureau in that district. Having good connections with someone who worked in the upper-level government was considered a rare privilege. Through WTX's assistance, the village secretary of S village met the director to discuss the issue.

Prior to this, the village secretary met WTX several times for lavish meals and splurging him with expensive gifts. With the introduction of WTX, the village secretary and village head met the director and other officials. According to the village secretary, the costs for establishing good *guanxi* including gifts, meals and travelling between the city and village was around RMB10,000. Farmers however believed that this was an underestimation. In 2008, the Water Resources Bureau finally agreed to launch the project two years after the submission of the first application in 2006. Funds allocated were RMB440,000.

Table 15 Fundraising for Drinking Water Project at *Dawanli*, S Village, 2009

Channels of Fundraising		Amount (<i> yuan</i>)	Percentage (%)
Funds allocated by the Water Resources Bureau, H District		440,000	67.7
Funds within village	Funds from the village committee	30,000	4.6
	Farmers' contribution of funds	180,000	27.7
Total		650,000	

Source: Data is based on the interviews with village officials and farmers in 2010 and materials obtained from S Village.

The village committee also contributed RMB30,000 to *dawanli* for the project. Villagers from these five village groups contributed about RMB300 per person or a total of around RMB180,000. A total sum of RMB650,000 was used for the construction of a six kilometre-long aqueduct (see Table 15).

Water Aqueduct Construction Project at S Village—A Failed Case without *Guanxi*

Without political *guanxi* networking, a similar water aqueduct construction project application by village group 4 of S Village was rejected.

The village group leader submitted the application in 2004, two years earlier than that of *dawanli*. The retired village leader revealed in a 2009 interview that he was still very regretful about his failure to solve the problem when he was the village group leader.

In terms of location, village group 4 was situated at the entrance of S Village in the south. In 2000, the construction of a highway in front of the area had destroyed the aqueduct for irrigation. Since then, the village had been running out of water for farmland irrigation. For drinking water, they had to depend on the wells. Without water, villagers could not work as farmers anymore and had to buy their basic necessities such as rice and vegetable like urban residents. As a consequence, almost all the young males in the village had gone to the cities to work as migrant workers, leaving behind the old, young women and children.

The village group leader submitted separate applications to T Town government, H District government and city government in 2004, but to no avail. He even went to the Office for Petitions and Appeals (*xinfangban*) of H District to lodge a complaint. A female staff that attended to him asked him if he would foot the bill for the dinner with the officials at *xinfangban*. The group leader was indignant with the absurdity of a poor farmer having to invite officials to meals. As he had no acquaintance or friends there, the lady did not take him seriously. Undaunted, he went to a higher level, namely, the Office for Petitions and Appeals (OPA) of Z City to make his appeal. The OPA of H District was then contacted and told to act upon it, as the H District government, town government, and the highway construction company did the damage to the aqueduct.

H District was thus pressured to deploy people to S Village group 4 to assess the situation. A cost of around RMB400,000 was arrived at. While the highway construction company was no longer in operation, the H District government could not afford the cost of construction; it could only repair the aqueduct. However, the thick silt deposits hindered the repair work. As desilting would cost more, the repair works did not kick off.

Without government funds, the cost of RMB400,000 was too much for the village group of only 110 people to shoulder. Without the financial support of H District, no construction work could be carried out. The group leader lamented the village's lack of *guanxi* with officials at H District. The impact of *guanxi* was thus positive for the case of *dawanli* and negative in the case of village group 4.

Problems of *Guanxi*

The construction of drinking water facilities in the rural area was not systematic or well organised by government. It was under *minban gongzhu*, a situation where informal institutions such as *guanxi* prosper. *Guanxi* had resulted in corruption, inefficient deployment of collective funds and villagers' antagonism towards officials.

The inefficient deployment of collective funds had diverted village finance from rural public goods provision. The high expenses on meals, accommodation and gifts to cultivate *guanxi* had added undue pressure on villages' collective finance that was already weakened by developments mentioned in Chapter 5. For S Village, expenses on meals and accommodation totalled RMB32,550.2, or 37.1% of management fee (see Table 16), which was almost equivalent to the total annual salaries of four village officials. This was discounting the fact that some of these expenses had been incorporated under the "Others" category.

Table 16 Management Fee of S Village in 2008

Types of Expenses	Amount (RMB)	Proportion (%)
Meals and Accommodation	32,550.3	37.1
Salary	13,718	15.6
Newspaper and Magazine/ Office Supplies	716	0.8
Others	40,694.8	46.4
Total	87,679.1	

Source: The data obtained from the station of operation and management, T Town, during the author's fieldwork in 2011.

The image of officials accepting gifts and enjoying lavish meals in return for fund allocation had cast them in a bad light. As a result, farmers had low trust of local government officials, which inhibited them from contributing to

rural public goods. While town governments used to collect taxes and fees from farmers, the central government successfully abolished the three agricultural taxes. Farmers were thus grateful to the central government for taking this burden off them. This low trust in local officials was evident in an interview with a farmer who affirmed that he would contribute only if there was such a project in reality to be constructed. He was particularly perturbed with officials' lavishness on entertainment without accomplishing anything. He added, "I trust nobody in this village except myself."

6.2 Village Environment Improvement Projects

The New Socialist Countryside Construction (NSCC) was raised by the "Party Central Committee's Proposal on the 11th Five-Year Programme of National Economic and Social Development" passed at the fifth plenary session of the 16th Central committee of Chinese Communist Party in October 2005. The proposal pointed out that NSCC construction was a major historical task in the modernisation process. It was to promote agricultural production, raise living standard, boost cleanliness of villages, and enhance democratic management in various villages. Each level of government was required to invest more on agriculture and countryside and strengthen public goods and services provision in rural areas in order to improve the living conditions and production capabilities of the farmers. The NSCC was discussed and emphasised in the No. 1 Document of the central government titled "Suggestions on Impelling the New Socialist Countryside Construction" in 2006 and "Suggestions on Actively Develop Modern Agriculture and Impel the New Socialist Countryside Construction" in 2007. The implementation of NSCC began in 2006.

Yet, there were inconsistencies between the central government's ambitious blueprint of a new countryside and local government's actual implementation of the NSCC. The NSCC was to cover various aspects of rural life, including increasing financial input in rural infrastructure construction, expediting rural roads construction, developing rural communication and power networks, eradicating the problem of unsafe drinking water,

accelerating the development of rural culture and education, reinforcing public health and basic medical care service system, establishing a new rural cooperative medical insurance system and promoting distance learning. However, translating the project into reality might not be that easy. An examination of the NSCC in H District, Chenzhou City of Hunan Province had presented a micro picture of the NSCC at the local level.

The NSCC in H District

The core task of NSCC is to improve village environment. The NSCC in H District, Chenzhou City, Hunan province involves *three cleanings, five changes, and one afforestation*. Three cleanings include cleaning rubbish and weed around houses, cleaning silt and ditches, as well as cleaning roadblocks. Five changes refer to improving drinking water sources, changing sand roads to concrete or asphalt-paved roads, changing byre and sty to more standardised ones, changing shabby kitchens to more modernised kitchens, and changing dilapidated toilets to more modernised toilets. *One afforestation* referred to planting more trees within villages to beautify the environment. The village environment improvement project was one of the main tasks of the New Socialist Countryside Construction Programme (NSCCP).

The NSCC in H district in 2009 was such a complex project that almost all departments of municipal government, district government and town government, as well as village committee were involved. Three to five people, comprising former officials, teachers, workers, Party members and young activists applying for Party membership from each village, form a NSCC council to take charge of NSCC issues. A NSCC work team consisting of government staffs from various departments at the district level were responsible for NSCC affairs in villages that had been chosen as demonstration (*shifan* or *tuijin*) sites. At S Village, work team members came from various departments in H district including the standing committee of People's congress, bureau of agriculture, labour bureau and social security administration, construction bureau, bureau of land and resources and highway

administration bureau. Mr Liao, the team leader, was from the bureau of agriculture.

The application process involves several stages. At the preliminary stage, the town government would pick 14 to 20 *tuijin* and three to five *shifan* sites in H District. *Shifan* site should have at least 40 households, while *tuijin* site should have no lesser than 20 households; the two sites were subject to different application criteria.

The proposed *tuijin* and *shifan* sites would be examined and endorsed by the Leading Group of NSCC at the district level. *Tuijin* sites should satisfy five criteria: first, the town government should provide support in the form of specific working plan; second, village committee should attach great importance to the sites; third, village officials had to propagate NSCC to all villagers; fourth, villages should prepare initial NSCC plan; fifth, farmers must be active on a voluntary basis. To apply for *shifan* site, villages should satisfy two additional criteria. First was the growth of off-farm industries in the village that could boost the wealth of farmers. Second was the availability of supporting facilities such as distance learning site. Villages would stand a better chance of being granted application if they satisfied the following seven criteria: villages with good party branch, speedy completion of three cleanings, motivated and enthusiastic farmers who could raise huge funds, good foundation for village planning, good prospect for industrial development, villages in close proximity to the main national, provincial or county road, and a chosen *shifan* site for NSCC at the provincial or municipal level.

After the Leading Group of NSCC had approved the sites, the work team would be sent to the village to investigate and help the village council work out development plans. The Leading Group of NSCC at H District Party Committee set the agenda and each village was required to submit its development plans based on it. The development plans mainly dealt with location, allocation of road, ditch and residential areas, areas for livestock rearing, industry development, public entertainment, and refuse area. Each team would have to work out a budget before submitting the plans and budget to the town government for approval. After the town government had done a

budget check, it would mobilise multiple channels of fundraising. The implementation usually took as long as six months.

Table 17 The Development Plan for NSCC of S Village, 2009

No.	Item	Content	Budget (RMB)	Completion date
1	Place for village activities	Renovate the interior and exterior of the room and the enclosure. Replace gate, door and windows	128,000	30 July 2009
2	Road around the village	Construct road to run 700 metres, with a 3.8-metre width of and 18-centimetre thickness	258,700	30 June 2009
3	Ditch within village	Construct ditch to run 480 metres, with a 2.5-metre width and 15-centimetre height, paved with concrete.	122,000	30 July 2009
4	Waste storage tank	Build five tanks, with a length of 2.2 metres, a width of 2.5 metres and height of 1 metre	5,000	20 July 2009
5	Flower beds	Build 10 flower beds, with a length of 2 metres, a width of 1.3 metres and height of 0.5 metre	9,000	20 August 2009
6	Fitness park	Install body-building apparatus, table, greensward and flowerbed sand lay concrete paved playground	96,000	30 August 2009
7	Restoration of ancient stage	Tidy the room, repair the backyard and renovate the stage	128,000	30 July 2009
8	The governance of the river way	Build riverbank for the road around the village and the playground	1160,000	30 November 2009
9	Basketball playground	Pave the playground with concrete and establish the basketball stands	28,000	30 August 2009
10	Restoration of the ancient bridge	Restore footpath of the bridge, wall and railing	62,000	20 August 2009
11	Landscape paradise	Build an arbour and footpath among the hills.	165,000	30 September
12	Public bathroom	Build two public bathrooms, with an area of 3 metres by 8 metres	70,000	30 July
13	Culture	Build a village library	TBA ²⁸⁶	30 August
14	<i>Three cleanings, five changes and one afforestation</i>	cleaning rubbish, weed around houses, silt and ditches, as well as roadblocks. Five changes refer to improving drinking water sources, changing sand roads to concrete- or asphalt-paved roads, changing byre and sty to more standardised ones, changing shabby kitchens to more modernised kitchens, and changing dilapidated toilets to more modernised toilets.	275,000	30 November
Total			2,506,700	

Source: data obtained from the village committee of S Village during the author's fieldwork from 2009 to 2010.

²⁸⁶ Funds would be supplied by the Bureau of Culture, H District.

Besides the work team, there were two or three contact persons for each village chosen as *tuijin* or *shifan* site at H district. The work team of NSCC should be well conversant with NSCC sites including their natural conditions, inhabited environment, economic and social development, infrastructure construction, demands for rural construction and the preferences of local farmers.

Five towns in T Town were selected as *shifan* sites in 2009 and S and N Villages were two of them. S Village was approved as a *shifan* site in 2009. Table 17 shows the development plan and budget of S Village. To some farmers, items such as flowerbeds, fitness park and landscape paradise could be dispensed with.

The planned budget of RMB2,506,700 was on the high side and not easily attainable. The allocated funds from upper-level governments would be disbursed to the *shifan* site or *tuijin* sites progressively after achieving a task. The first batch of funds would reach the sites before the project starts and the rest would arrive after clearance of work done by the town government and the Office of NSCC.

Table 18 The Development Plan of NSCC at N Village 2008

No.	Item	Content	Budget (RMB)
1	<i>Three cleanings</i>	Twenty disorderly houses and nine sundries	30,000
2	Road paved with concrete	Construct concrete road of 1,000 metres in length and four metres in the width.	10,000
3	Drinking water renovation	Renovate two wells and establish small running water plants.	20,000
4	Kitchen renovation	Renovate the kitchens of 48 households	30,000
5	Renovate sties and byres	Dismantle 39 old sties and byres and build a new standard place for raising livestock.	28,000
6	Renovation of bathrooms	Dismantle 42 old toilets and build new flush toilets	8400
7	Agriculture industry adjustment	Develop fruit plantations within 2,000 <i>mu</i> of land	40,000
Total		166,400	

Source: data based on the development plan of N Village submitted to the Office of NSCC, H District in 2008.

N Village was approved as a *shifan* site in 2008. On 25 March 2008, the N Village committee submitted its seven-item development plan (see Table 18). Compared to S Village', the N Village's development plan was on a

smaller scale, more practical and less ambitious. Most of the items were related to improving household environment such as kitchens, sites, byres and bathrooms. Both S and N Villages had not included many items closely related to farming such as irrigation, farmland improvement and other aspects of agriculture.

Contractor companies would undertake the construction of various public projects in villages. The village council (Party A) would sign a contract with the contractor company (Party B) covering the name of the project, construction cost, mode of contract, method of payment, description of project quality and safety, duration and final acceptance of construction. Five copies of the contract would be prepared, one each to the town government, village committee, work team of NSCC, Party A and Party B.

The implementation process required the collaboration of the work team, village committee and the farmers. The work team leader took the responsibility of supervising contractor company's work and coordinating with the village council, which in turn was tasked with submitting a monthly progress report to the Office of NSCC. The village council shouldered the heavy and tedious task of organising, coordinating and explaining to farmers the rationale of renovating kitchens or dismantling byres or sties.

After the completion of these projects, the town government would conduct preliminary inspection before the Office of NSCC at the district level conducts a secondary inspection. As the project involved huge sums of money, the examination by the Office of NSCC was done in two stages, one in mid-year and the other at the end of the year. The examination directly affected the application of *shifan* or *tuijin* sites in the following year. N Village did not apply for *shifan* site in 2009 due to poor performance in 2008. According to an official at the Office of NSCC at H District, farmers in N Village lacked enthusiasm, making it difficult for the village to reach consensus on various issues.

S Village passed the examination stage and was thus successful in its reapplication for *shifan* site in 2010. The summary of the completion of NSCC projects at S Village could be seen from **Table 19**. The inspection of *three*

cleanings, five changes and one afforestation in S Village went through individual and final inspections. The individual and final inspection forms would be jointly endorsed by the head of NSCC council of the village, town official in charge, work team leader and member of the inspection group (see Table 20 for a sample form).

Table 19 The Completion of NSCC Projects and Funds Utilised by S Village in 2009

Item	Amount of Funds Used (RMB)	Completion Date
Renovation of place for recreation and cultural activities	209,800	20 July
Build intra-village road paved with concrete	187,700	7 August
Build new village path paved with concrete	41,300	28 July
Build new ditch	12,000	12 August
Slope-protection works along river course	141,800	12 August
Slope-protection works along the road to the village	37,800	15 September
Renovation of ancient stage	136,400	10 September
Renovation of ancient bridge	120,800	6 August
Build public toilets	68,000	20 October
Waste storage tanks	4500	16 July
Wall plastering	75,600	26 October
Total	1035,700	

Source: data obtained from the Office of NSCC, H District during author's fieldwork from 2009 to 2010.

Table 20 Individual Inspection of Three Cleanings, Five Changes and One Afforestation Items of Each Household of S Village, H District, 2009 (Excerpt)

Name	Area of Dismantled Sties and Byres and Newly Established Ones (square metre)	Renovated Bathrooms (number)
A	7.8	1
B	38.7	1
C	25.8	1
D	7.2	0
E	6.1	1
F	26.5	1
Signature of Head of Village Council: Signature of Town Official in Charge: Signature of Work Team Leader: Signature of Inspection Group Member:		

Source: Table obtained from the Office of NSCC, H District, 2009 during the author's field work.

Table 19 shows that NSCC projects construction required an investment of RMB1,035,700. The budgeted funds for subsidising NSCC projects in S Village by the Office of NSCC, H District were RMB750,000 which were

insufficient to meet costs. Furthermore, the RMB750,000 were allocated in two stages, with the first amounting to RMB350,000 and the remaining of RMB400,000 allocated after the year-end inspection. To complete these projects, more funds were needed.

S Village thus had to raise funds from other sources such as the village work team, other departments and labour contribution. The village council also mobilised fundraising among villagers (see Table 21). Farmers contributed RMB137,000, or 11.7% of the total in 2009. Farmers had to contribute labour in some construction work with payment. The final amount of RMB1,174,300 was enough to foot the bill of about RMB1,035,700.

Table 21 Channels of Fundraising for S Village in 2009

Channels	Amount (RMB)	Percentage (%)
Funds from allocated funds of the Office of NSCC, H District	750,000 ²⁸⁷	63.9
Work team formed by various departments at H District	160,000	13.6
Farmers' contribution	137,000	11.7
Other funds raised by different departments	75,000	6.4
Funds from u contribution	52,300	4.4
Total	1,174,300	

Source: compiled from documents at S Village during the author's fieldwork from 2009 to 2010.

Table 22 Channels of Fundraising for N Village in 2009

Channels	Amount (RMB)	Percentage (%)
Funds of project approval by District government	320,000	53.3
Work team	80,000	13.3
Donations from deputies of the People's Congress, H District	150,000	25
Others	50,000	8.3
Total	600,000	

Source: compiled from documents at S Village during the author's fieldwork from 2009 to 2010.

Funds would be allocated once projects are accepted after examination. N Village obtained a total of RMB600,000, including RMB320,000 from District government, RMB80,000 from the work team of NSCC at N Village, donations of RMB150,000 from deputies of the People's Congress at H

²⁸⁷ It included RMB350,000 that were allocated by the Office of NSCC to S Village, and the remaining RMB400,000 were allocated at the end of the year.

District, and other funds of around RMB50,000. Items on the development plan of N Village were furnished in Table 22.

After the completion of the NSCC projects, the work team of different villages would be evaluated by the Organisation Department of H District Committee at the end of the year. The evaluation was conducted along with the inspection and examination of NSCC projects. The evaluation team consisted of a person chosen from the departments that work team members came from, the staff from the Party Building Office at H District Committee, and the leader in charge of the Party's organization building at the town level.

Table 23 The Inspection and Acceptance of Work Conducted by the NSCC Project Work Team, H District, 2009

Item	Score	Method
Formation of grassroots organisations	30	Check documents and reports, and listen to the feedback from farmers
Infrastructure construction	15	Check materials and examine the field
Industry development	15	Check materials and examine the field
Building a harmonious society	10	Check materials and visit farmers
Management of funds	10	Check materials and visit farmers in the field
The responsibilities of work teams	10	Check reports and visit farmers
The internal construction of work teams	10	Check materials, visit farmers and conduct surveys among farmers
Optional items	No more than 5	Check materials, visit farmers and related departments

Source: The sample form was extracted from the Notification on the Inspection and Acceptance of the Work by the Work Team in NSCC of 2009, the Party Building Office, H District.

The evaluation would look at reports, documents and conducting a field survey. The evaluation of grassroots organisation building was mostly based on the documents and reports submitted by the village secretary. However, as documents and reports could be forged, the 30 % score for the formation of grassroots organisation was not a good indication of performance. The work teams of many villages uncannily received similar score for this item (see Table 23 for items of evaluation of work team in 2009).

The inspection and examination at the end of the year were a way of monitoring work done in the villages the work teams had been allocated to. The work teams were required to stay in the village to supervise and help in

the NSCC work, guide village officials in the organising or coordinating of work and mobilising villagers to contribute labour to certain tasks such as clearing the surrounding areas of their houses, dismantling the sties and byres, and clearing the rubbish. Local residents' impression of work team members also mattered in the year-end inspection (see Table 24 for a sample of the survey). The appraisal form, based on a four-point scale of excellent, qualified, average and unqualified, had to be completed by all attendants of the evaluation meeting held in the evaluated village, including farmers and village officials. The items in survey on the whole were rather subjective.

Table 24 The Democratic Appraisal of Work Team Members in Different Villages, H District, 2009

Department of Bureau where work team member came from	Name of work team member	Evaluation Scale			
		Excellent	Qualified	Average	Unqualified

Source: The form was obtained from the Office of NSCC, H District 2009 during the author's fieldwork.

Institutional Design Problems

The implementation of NSCC at the local level was a hurdle to meeting the initial objective of NSCC, which was to improve various aspects of the rural areas to greatly improve the agricultural infrastructure and narrow the city-village gap. However, it was difficult for NSCC to achieve the initial objective as the NSCC at H District covers only a few villages and focused on *three cleanings, five changes, and one afforestation*, which were mainly vanity projects.

First, as NSCC covered various aspects of rural public projects, government departments of agriculture, water conservancy, culture, construction, forestry, transportation and other departments related to agriculture were involved. This in turn meant that the work team would have to make up of people from various departments. The participation of several departments in a project complicated not only the supervision of each department, but also the fundraising of each village. The idea that the more

departments involved, the more funds raised did not work if there are no guidelines or policies on the funds to be raised by each department. The flexibility only gave some departments the excuse not to raise funds at all and some overzealous departments to employ whatever means possible to raise funds. Some village officials and town officials said that as long as money could be gotten, they would go anywhere. This mentality had given rise to the massive implementation of *guanxi*.

Second, the eligibility to become NSCC site, including *shifan* or *tuijin* site, is so stringent that it precludes some villages. The priority was given to villages located close to the main national, provincial or county roads and to villages with good industry development potential, which were barriers to some remote and often forgotten villages.

In some cases, only a part of a village was selected as *shifan* or *tuijin* site. For instance, the *shifan* site at S Village was only at *dawanli* where village groups 6, 7, 8, 9 and 13 were located. Since NSCC focused on places that had investment potential, it was a hotbed for tension and conflict caused by inequality. As *shifan* sites of NSCC might not be the entire village, there was a clear demarcation where an NSCC site is clean, beautiful, and modern-like city, and the remaining part of the village is still a backward rural area. A farmer at village group 10 complained that while they lacked funds to build a ditch for irrigation in their village group, *dawanli* had funds to build a useless ancient stage and playground. His view was concurred by that of another farmer at village group 4 of S Village who believed that NSCC sites were for showcasing officials' achievements and not for the benefit of the farmers. He doubted if anyone would use the ancient bridge or perform on the ancient stage.

Moreover, the eligibility for *shifan* or *tuijin* site also required active participation of farmers in public affairs within the village. However, villages that met this requirement often were not the most in need. Their infrastructures were often better than villages that failed to meet these requirements. For instance, the infrastructure at S Village was better than those of some villages located in the mountain area, far away from the main national, provincial and

county roads. All village groups within S Village were accessible via the intra-village road. The infrastructure of N Village was poorer than that of S Village, and yet farmers in N Village showed less enthusiasm than S Village farmers. N Village however failed to raise funds from farmers for the intra-road construction. Even though S Village had better infrastructure than N Village, it continued to be chosen as *shifan* site for three successive years in 2009, 2010 and 2011; N Village was only chosen in 2009 as farmers in N Village did not show any enthusiasm and fundraising among farmers also did not make the mark.

Table 25 The Allocation of Award Money to Departments and Individuals in 2009

Category and total amount of award money (RMB)	Award subject	Number	Award money (RMB)
New industrialisation (28,000)	Departments	10	2000
	Individuals	20	400
Family planning (75,200)	Departments	24	2000
	Individuals	68	400
Politics, laws and comprehensive improvement (96,000)	Departments	36	2000
	Individuals	60	400
Security management (34,000)	Departments	8	2000
	Individuals	45	400
Investment attraction (28,000)	Departments	10	2000
	Individuals	20	400
Fiscal and taxation work (28,000)	Departments	10	2000
	Individuals	20	400
Key construction projects (28,000)	Departments	10	2000
	Individuals	20	400
Optimisation of economic development environment (28,000)	Departments	10	2000
	Individuals	20	400
Agricultural development (28,000)	Departments	10	2000
	Individuals	20	400
New urbanisation (28,000)	Departments	10	2000
	Individuals	20	400
Development of the service industry (28,000)	Departments	10	2000
	Individuals	20	400
Optimisation of ecological environment (28,000)	Departments	10	2000
	Individuals	20	400

Source: data were collected during the author's field trip from 2009 to 2010.

Third, the lack of project guidelines had caused the misallocation of funds. Funds were often allocated to vanity projects and not to projects that serve a functional purpose. For instance, the NSCC in S Village spent RMB209,800 (20.2% of total cost) on boosting facilities for recreation and culture, RMB136,400 (10%) on upgrading ancient stage and RMB120,000

(11.7%) and on renovating ancient bridge (see Table 19). About 42% of the total costs for NSCC at *dawanli* had been used for constructing facilities for recreational and cultural activities. A farmer when interviewed said that he was so preoccupied with farming and related work that he had little time to play basketball or to fully utilise these facilities. Farmers who were hard at work in the field certainly did not need to work out again at the fitness park after work. To the farmers, the ancient stage was absolutely redundant, as it had never been utilised before. Officials on the other hand had very different opinions. An NSCC official said that it served the objective of attracting investment. This was understandable as investment attraction was one of the indexes of economic development, which was given top priority in the performance evaluation of town government departments and officials, along with industrialisation, agricultural industrialisation, new urbanisation and revenue generation (see Table 25).

Hence, local officials tried to improve the environment of villages to improve their potential of attracting investment as in the case of S Village. S Village had a primary forest that was located close to *dawanli* where village groups 6, 7, 8, 9 and 13 were. The NSCC Office of H District had accepted the application of S Village as it could be built into a tourist site due to its primary forest. Accordingly, the NSCC site only focused on *dawanli* area rather than the entire S Village. The construction included not only the *three cleanings*, *five changes*, and *one forestation*, but also the renovation of the ancient stage and ancient bridge and the restoration of the riverbank running along the side of the primary forest. The construction of these projects had been heavily criticised by farmers in the village, especially farmers outside *dawanli*. A farmer complained that the government did not fund the construction of an irrigation facility in his village group at S Village, but had plenty of funds to rebuild *dawanli* where a few useless projects had been built. He questioned the rationale of these projects: “What is the use of that fancy ancient bridge? Who would visit the primary forest? Who would perform on the renovated ancient stage? The entire project is a big showcase and a total waste of money!” (See Table 17 for a list of projects planned)

The NSCC should also be made applicable to a wider range of villages and focused on agriculture and infrastructure rather than investment-oriented structures. An official at T Town proposed rotating the NSCC project systematically from one village to the next each year, rather than repeatedly focusing on the same villages, or same village groups.

6.3 Conclusion

The examination of the second category of public projects such as drinking water projects and environment improvement projects had shown that the success of them was less predictable than that of the first category. The success depended on several factors due to problems with existing formal institutions and policies in rural public goods provision. Unlike the benefits brought about by clear institutional design for inter-village road construction and ponds desilting projects discussed in Chapter 5, the unclear institutional design for public projects had made the outcome less desirable.

Although the central government had attached great importance to providing agricultural water resources infrastructure, a series of policies such as application and funds allocation at local level had hindered progress. Most departments at the municipal level had not provided specific measures regarding application eligibility and funds allocation. Without specific guidelines for projects selection, the selection was entirely at the discretion of major officials of the bureau, leaving room for, *guanxi* to emerge.

The two drinking water projects within S Village had presented how *guanxi* had played an important role in the process of choosing a project. With similar formal institutions, policy environment, cost, and farmers' affordability, the two drinking water projects had arrived at two different outcomes in funds application. Through the manipulation of *guanxi*, the drinking water project in *dawanli* had been successful in obtaining government funds, while that of village group 4 in S Village had been rejected without *guanxi*.

Guanxi building and maintaining did not come cheap. The annual costs of meals or gifts for *guanxi* cultivation were almost equivalent to the annual

salaries of four village officials at S Village. *Guanxi* had left negative impression on farmers as well as lowered their trust of local officials. To certain extent, it had also inhibited them from contributing money to rural public goods provision for fear of officials squandering their money away on lavish entertainment.

The objective of NSCC projects was to improve the agricultural infrastructure and reduce the gap between the cities and villages. However, the preclusion of some villages or some parts of a village from the application process (priority given to villages with industrial potential, proximity to main national, municipal or town road, as well as strong enthusiasm in NSCC participation) worked contrary to the aim the project sought to achieve.

The bias towards projects with industrial potential had also resulted in funds going to vanity projects for attracting investment instead of to villages most in need of upgrading. The huge funds spent on renovating the ancient bridge and stage as well as providing recreation and promoting culture in *dawanli*, S Village was a case in point. The NSCC should have made more progress and received desirable outcome if the formal institutions and policies had been more scientifically designed.

Chapter 7

Public Goods Provision Mainly by Villages

This chapter would pay close attention to the third category of public goods that includes small-scale public projects such as village path hardening, irrigation ditch construction, and river treatment funded mainly by villages with little or no government support. The success rate of this category of projects was often low because problems such as fiscal constraints of village committee, free-rider problem, farmers' strong dependence on government, lack of good leadership, and flawed policies hindered the fundraising. Successful cases were usually more of an exception than the norm. Overcoming the aforementioned problems was an uphill task that few could achieve except huge donations existed.

While some villages of industrialised provinces could rely on villages' collective income for rural public goods provision, agriculture-based villages had little collective income to fall back on. This chapter studied the collective income of N Village, T Town at length to unravel its impacts on rural public goods provision. Entrepreneurs' donations to a village served as a supplement to fundraising for rural public goods provision. Mr Deng's donation to B Village and Mr Li's investment in irrigation ditch construction for village group 3 of N Village were two examples of entrepreneurs' donations to public projects. This chapter would also show how farmers' financial capacity and mind-set, and the role of leadership had affected farmers' contribution as reflected in a case study of villages in T Town.

The study of the above cases would also throw light on the effectiveness of *yishi yiyi* as a formal institution for self-development in the rural areas. Introduced by the State Council, the effectiveness of *yishi yiyi* was however limited as its functions were largely impractical for implementation in Hunan Province. The initial purpose of relieving farmers' burden could not be fulfilled as local officials could circumvent the policy in actual implementation. The case study would illustrate why *yishi yiyi* could not meet the needs of rural public goods provision.

7.1 One-Case-One-Meeting (Yishi Yiyi)

After the TFR and AAT, the central government had decided to decentralise rural public works to villages through democratic discussions via *yishi yiyi* at regular villagers' assemblies. However, the implementation of *yishi yiyi* might not achieve its desired objective. It was reported in a survey of Henan province in 2005 that about 91% of its villages had not practised the one-case-one-meeting, while five per cent had conducted it within an irregular framework.²⁸⁸

Yishi Yiyi in Official Documents

Yishi yiyi first appeared in the Notice of the Central Committee of CCP and the State Council on Trial Sites of Agricultural Tax and Fee Reform in March 2000. The notice specified that the funding of public and collective projects would be conducted through democratic discussions in the form of *yishi yiyi* at villagers' assemblies, rather than regularly collecting *three charges (tiliu)* or *five deductions (tongchou)* from farmers. In 2007, the State Council issued the Notice of Ministry of Agriculture on the Measures on Managing *yishi yiyi* within Villages, which stipulated the sphere of application, and the procedure and management of fundraising. First, fundraising and labour contribution would be on a voluntary basis and were for projects such as farmland irrigation infrastructure construction, roads construction, and public projects for collective production and raising living standards of villagers.

Second, fundraising and labour contribution issues should be discussed and passed with the consensus of at least half of the participants at farmers' or farmers' representatives' assemblies. Farmers and farmers' representatives should make up two-thirds of the attendees. The proposal would be first

²⁸⁸ Meng Zhaozhi, "Dui Nongcun 'Yishi Yiyi' Zhidu de Fansi" (The Reflection on One-Case-One-Discussion System in Rural China), *Zhongzhou Xuekan*, no. 3, (May 2007): 58-60.

examined by the town government before it was submitted to the county or district government.

Third, a cap on funds and labour contribution from farmers should be set based on local economic development and the financial capacity of farmers, and approved by the provincial government. Many provinces including Hunan province capped funds from farmers at RMB15 per person a year, but differed on the ceiling of labour contribution. Raised funds should also come under a separate account and be used only for public projects applied. The financial management group should take the responsibility of supervising funds and labour contribution, and publicise the usage of funds regularly.²⁸⁹

To promote *yishi yiyi*, the government had embarked on a pilot project of giving out awards and subsidies. This was stipulated in the Notice on Conducting Pilot Work on Government Awards and Subsidies for Village Level Public Works Projects in 2008 jointly issued by The State Council Working Group on Comprehensive Rural Reform, Ministry of Finance and Ministry of Agriculture. The notice also spelled out that such public projects should come under projects of existing policies to ensure that no projects were left out in the subsidy while preventing duplications. All small-scale irrigation, intra-village roads, environmental sanitation facilities, and other farmer-related public projects would now be financed by funds largely raised by farmers through *yishi yiyi* as well as village collective funds, with government subsidies playing a secondary role.

Awards and subsidies would only be granted after successful completion of the project. All applications would go through a long process. The town government would first examine the compliance, feasibility and validity of the application of claims, before county or district departments of finance and agriculture re-examined the application and sent it to the Provincial Leading Group Office on Comprehensive Rural Reform and further to the departments of finance and agriculture for examination and verification. After approval,

²⁸⁹ General Office of State Council, *General Office of State Council Fording the Notice of Ministry of Agriculture on the Measures on Managing Yishi Yishi within Villages*, 16 January 2007, <http://www.gov.cn/zwggk/2007-01/26/content_509904.htm> (accessed 17 May 2011).

provincial financial departments would allocate the funds directly to county or district government that was responsible for its management.²⁹⁰

In early 2009, the Ministry of Finance released the Notice on Issues of Government Awards and Subsidies for Village Level Public Works Projects through *Yishi Yiyi* and put a ceiling of labour contribution at RMB20 a day. The central and local governments would undertake one-third and two-thirds of government subsidies for *yishi yiyi* respectively.²⁹¹

Subsequently, the State Council Working Group on Comprehensive Rural Reform, Ministry of Finance, and Ministry of Agriculture released the Notice of Expanding the Pilot Work on Government Awards and Subsidies for Village Level Public Works Projects in 2009. The notice grouped project selection from easy to difficult and gave priority to those most needed by farmers or those that yielded quick returns such as roads hardening and beautifying village environment.

Since 2009, to conduct province-wide implementation of *yishi yiyi*, pilot areas had been expanded from three (Heilongjiang, Hebei and Yunnan provinces) to seven (Jiangsu, Inner Mongolia, Hunan, Anhui, Guizhou, Chongqing, and Ningxia provinces). Furthermore, another seven provinces had been chosen to implement this policy in some areas within the provinces.²⁹² In 2010, pilot provinces further increased to 11 to include Zhejiang, Fujian, Hubei and Guangxi. Six more provinces had been chosen to conduct *yishi yiyi* in some areas within the provinces.²⁹³

²⁹⁰ The State Council Working Group on Comprehensive Rural Reform, Ministry of Finance and Ministry of Agriculture, *Notice for Conducting Pilot Work on Government Awards and Subsidies for Village Level Public Works Projects*, 26 February 2008, <http://www.law-lib.com/law/law_view.asp?id=249029> (accessed 17 May 2011).

²⁹¹ Ministry of Finance, *Notice on Issues of Government Awards and Subsidies for Village Level Public Works Projects through Yishi Yiyi*, 19 January 2009, <http://www.mof.gov.cn/zhengwuxinxi/caizhengwengao/2009niancaizhengbuwengao/caizhengwengao2009dierqi/200904/t20090413_132176.html> (accessed 17 May 2011).

²⁹² The State Council Working Group on Comprehensive Rural Reform, Ministry of Finance and Ministry of Agriculture, *Notice of Expanding Pilot Work on Government Awards and Subsidies for Village Level Public Works Projects*, 21 May 2009, <http://www.moa.gov.cn/sjzz/jgs/zcfg/nmfd/201010/t20101018_1683116.htm> (accessed 17 May 2011).

²⁹³ The State Council Working Group on Comprehensive Rural Reform, Ministry of Finance and Ministry of Agriculture, *Notice of Conducting Pilot Work on Government Awards and Subsidies for Village Level Public Works Projects*, 1 March 2010,

Following the 2009 notice, different provinces had released notices on *yishi yiyi* on their own. H District had worked out a specific scheme to implement government awards and subsidies based on the Notice of Implementing Government Awards and Subsidies for Village-Level Public Works through *yishi yiyi* issued by the Provincial Department of Finance, Office of Rural Work and the Leading Group of Comprehensive Rural Reform of Hunan Province together with the Circular of Hunan Provincial Government on Yishi Yiyi Fundraising and Labour Contribution within Villages. On an annual basis, a farmer was only required to contribute RMB15 and labour for 10 days. Government awards and subsidies would be three times that raised by farmers.²⁹⁴

The public projects covered under this arrangement in Hunan province include (i) intra-village road construction,²⁹⁵ (ii) small-scale water facilities such as ditches, ponds on the hills, culverts, groundwater irrigation wells, and other small-scale irrigation and drainage facilities; (iii) public environmental sanitation facilities within village; and (iv) afforestation within villages.

In the application of public project, villages should submit the examination form of public projects through *yishi yiyi* in H District, the minutes of farmers' assemblies and the scheme of fundraising and labour contribution. The project would be given the green light after examination by the town government and related departments at district or county level. The village could apply for government awards and subsidies after project completion. An application form along with other documents such as the description of funds and labour contribution, statement of account and final accounts of project completion to the town government, should be completed by the village committee.

After inspection by the Office of Finance and the Rural Operation and Management Station at town government, the endorsed projects would be

<http://zgb.mof.gov.cn/zhengwuxinxi/zhengceguiding/201003/t20100310_275231.html>
(accessed 17 May 2011).

²⁹⁴ Data was based on the documents gathered in the author's field trip and confirmed by interviews with town officials.

²⁹⁵ It means roads within a village connecting each village group.

submitted to the Office of Finance and Office of Reducing Burden at county or district level for approval and allocation of awards and subsidies.

***Yishi Yiyi* on the Ground**

In spite of this arrangement via *yishi yiyi*, not all villages with public projects were successful in obtaining funds. There were simply too many urgent projects vying for a small amount of fund. However project selection often lacked specific guidelines, again giving room for informal institutions such as *guanxi* to proliferate.

Table 26 Minutes of Farmers' Representatives' Assembly on *Yishi Yiyi*

Minutes of Assembly of Farmers' Representatives on <i>Yishi Yiyi</i>
Date: Morning of 26 May 2010
Place: Party Members' Conference Room at S Village
Quorum: 43
Number of Attendants: 43
Chairmen of the Conference: The Village General Secretary, Wang **,
Minutes taken by: Secretary of village committee, Wang**
Contents of the Conference: To discuss the project of river treatment and building a new anti-flood wall in S Village.
<p>The standard is as follows: the basic earthwork is 525 cubic metres, concrete needed is 150 cubic metres, and rubble concrete needed is 336 cubic metres. The overall estimated costs of the project are RMB270,000.</p> <p>First, according to the standards of <i>yishi yiyi</i> policy, everyone would contribute RMB15, making it a total of RMB24,300 for a population of 1,620.</p> <p>Second, there are a total of 1,100 workers in the village. The fee for labour is RMB10 per day. If everyone works for five days, it would amount to RMB55,000.</p> <p>Third, encourage donations from non-local businessmen and from more well-to-do farmers in the village.</p> <p>Fourth, any outstanding capital required would be filled by funds from upper-level government.</p> <p>The head of the village committee, Wang** would take charge of river treatment and anti-flood wall construction projects. A supervisory group to check on project quality would be established.</p>
Comments of villagers' representatives: Omitted
Voting and Result: All attendees have voted for this project.
Signatures of all participants: Omitted

Source: The form has been translated from the original Chinese form obtained during the author's field trip in 2010.

A Rural Operation and Management Station official who was in charge of managing funds application in *yishi yiyi* admitted that the key to the application process was *guanxi*. If the village general secretary were close to officials working in town departments in charge of *yishi yiyi* related issues, the success rate of his/her fund application would have been higher.

A T Town case study in the author's second field trip in 2010 well illustrated this in the process of application. In practice, the many documents and resources required to verify the implementation of *yishi yiyi* were not needed as they would be prepared by the Rural Operation and Management Station of the town government. A staff said that most of the documents were fabricated. For instance, there were no detailed minutes of villagers' or villagers' representatives' assemblies (see Table 26). In many cases, the assemblies for *yishi yiyi* did not take place at all. All the documents were prepared by the staffs to meet the requirements of the application as village committees had no inkling as to how to prepare them in such a way that they would be accepted by the higher authorities.

Farmers were often reluctant to contribute funds for these public projects, as they believe it was the job of the government. The figure of RMB15 per person had been included for the sake of application. In reality, farmers might or might not contribute depending on the project concerned. In some cases, farmers might even contribute more than the required sum if they had urgent need of the projects.

But even the RMB15 per contribution was way too little for a public project construction. The *yishi yiyi* at S Village was an example. Table 27 shows that the funds raised through *yishi yiyi* were only RMB138,100, representing about 27% of total funds raised within the village. The majority of the funds (73%) came from donations.

The initial objective of advocating farmers to deal with their own issues without burdening them through *yishi yiyi* was thus not fulfilled, as farmers would be asked to contribute more than the cap of RMB15 per person. However, on paper, only RMB15 per contribution was reflected to meet criteria set. The excess would be labelled as donations.

Table 27 Application Form for Government Awards and Subsidies for Village Level *yishi yiyi* of H District (Excerpt)

Name of the Village		S Village			
Population	Number of households		400		
	Total population		1620		
	Number of workers		1100		
Name of the Project	River Treatment and Anti-flood Wall Construction				
Total Costs (yuan)	580,000				
Total Funds Raised by Village (yuan)	520,000	Funds Raised and Labour Contribution via <i>Yishi Yiyi</i>	138,100	Funds Raised by Farmers	24,300 (15*1620)
				Fees for Labour	113,800
				Donations	381,900
Funds to be Applied (yuan)	60,000				
The remaining part is omitted					

Source: The form is an English translated version of the original Chinese form obtained during the author's field trip in 2010.

At the government level, subsidy for public projects through *yishi yiyi* was also quite limited. Government awards and subsidies for *yishi yiyi* for each public project within a village were set at three times the total amount of funds raised by farmers. Table 27 shows that the total cost of river treatment and anti-flood wall construction was RMB580,000 and the funds raised by farmers were RMB24,300. An application of RMB60,000 (10% of total cost), or around three times RMB24,300, for the river treatment and anti-flood wall construction projects was made.

The allocated funds were often less than the applied one. For instance, the applied amount of funds of Village X, Y and Z in T Town 2010 was RMB139,000, RMB70,000, and RMB 80,000, but the allocated funds was RMB90,000, RMB50,000, and RMB 60,000 (see Table 28). These three villages received less than the amount applied except S Village that obtained more than applied due to special *guanxi*. The head of the Rural Operation and Management Station said that the Chairman of H District People's Congress of CCP had been allocated to S Village as the resident cadre (*zhucun ganbu*). With his special position and *guanxi* with officials at various departments of H

District government, it would not be difficult to obtain extra funds for S Village. It would not be violating the subsidy policy as it was allowed to properly raise the proportion of subsidies based on the standards set for subsidy of Hunan province.²⁹⁶ Moreover, being one of the demonstration sites in H District, there are grounds for more fund allocation.

Table 28 Funds Applied and Allocated for *Yishi Yiyi* in Villages S, X, Y, and Z in 2010

Village	Applied Funds (RMB)	Allocated Funds	Percentage of Funds Received (%)
S Village	60,000	160,000	267
X Village	139,000	90,000	65
Y Village	70,000	50,000	71
Z Village	80,000	60,000	75

Source: data compiled from the author's field trip in 2010.

The effectiveness of *yishi yiyi* was questionable. First, the policy stipulating the ceiling of RMB15 per person for fundraising and RMB10 per day for labour contribution had not been carefully thought-out or researched before implementation. Even a large village as S Village with a population of around 1,620 could only raised RMB24,300, which was way below project cost.

The low ceiling yielded not only a likewise low contribution from farmers, but also government subsidy. Based on this ceiling, the official government subsidy for river treatment and anti-flood wall construction in S Village was only RMB60,000, which was only 10% of the estimated costs of the project.

Second, the initial purpose of *yishi yiyi* to relieve farmers' burden could not be achieved, as farmers were often required to contribute more than the stipulated RMB15. Though it was the intention of central and provincial governments to relieve farmers' burden, local governments would always manipulate their way to get farmers to contribute more than the required amount. As mentioned earlier, the large amount of donation at S Village was

²⁹⁶ The Provincial Department of Finance, Office of Rural Work, and the Leading Group of Comprehensive Rural Reform, *Notice of Implementing Government Awards and Subsidies for Village Level Public Works through Yishi Yiyi*, 31 August 2009. The document was retrieved from the Rural Operation and Management Station, T Town during the author's field work in 2009.

derived from extra funds raised within village. Finally, *yishi yiyi* implementation was highly dependent on voluntary contributions from farmers, which were contingent on a number of factors to be discussed in detail in the following section.

7.2 Village's Collective Income

The importance of village's collective income has been presented in Chapter 6. For instance, in the construction of inter-village road, S Village had contributed funds of RMB590,000, or about 41% of total funds for road construction. Likewise a study of 27 villages from five cities in Fujian province had shown that the investment by village's collective income on average accounted for 40.1% of total investment for rural infrastructure construction.²⁹⁷

Another good example was A Village of Zhejiang province. A Village had collective economy dealing with mining. It had established a village-run enterprise for mining marble since 1998. It was reported that the total output value of both industry and agriculture of A Village was RMB16 million in 2005, of which RMB15 million came from the village enterprise. A Village had permanent assets of RMB13,113,000 and RMB10,800,000 of savings in the bank in 2005.

A Village had invested part of the collective income on public goods and services. Until 2008, it had spent three million *renminbi* on improving village infrastructure, one million *renminbi* on building inter-village road connecting A Village with G Town government and three million *renminbi* on village afforestation and construction of areas for social activities. It had even established a social welfare system for local residents, such as allocating bonuses of RMB30,000 for each farmer every year-end, subsidising people above 60 years old with RMB50 or above a month, contributing 50% of safety

²⁹⁷ Yang Guoyong, Xu Wenxing, Zhang Yewen and Chen Yonggui, "Fujian Yanhai Diqu Nongcun Jichu Sheshi Gongji Fangshi Chuangxin Yanjiu" (Innovating Method of Rural Infrastructural Facilities Supply in Fujian Coastal Areas), *Fujian Nonglin Daxue Xuebao*, 2007, 10 (6): 23.

insurance fee for each farmer working in the village-run enterprise and awarding college graduates.

Table 29 Village Revenue and Expenditure

Revenue		Expenditure	
Operating revenue	Farm produce sale revenue	Operating expenditure	Cost and expenses of selling farm produce
	Material sale revenue		Cost and expenses of selling materials
	Lease revenue		Cost and expenses of leasing
	Service revenue		Cost and expenses of providing services
	Labour service revenue		Cost and expenses of providing labour
			Other costs
Revenue from contracting and revenue submitted by other parties	Land contract revenue	Costs and expenses of one-issue-one-discussion	
	Orchard contract revenue	Management fee	Newspaper subscription fee
	Revenue submitted by village-run enterprises		Officials' payment
Funds obtained through one-issue-one-discussion	Rewards and subsidies by government		Office expenses
	Project through self-financing		Travel expenses
Funds allocated by government for welfare undertakings		Conference expenses	
Government subsidies		Coordination fee	
Other incomes		Expenses for family planning	
		Other expenses	
		Other expenses	

Source: author's field trip to T Town.

However, villages like A Village that provided extensive public goods and services were rare in China. Rich villages accounted for only 10% of total villages in China. Ninety per cent of villages either had little collective economic resource or were even in debt.²⁹⁸ Most villages, especially in the central and western parts of China, did not have developed collective economy.

²⁹⁸ Wang Yulong, "Xiangcun Gonggong Chanpin Tigong Mushi Jiexi—Jianlun Nongmin Shidu Canyu yu Xiangcun Gonggong Chanpin Tigong de Zijin Laiyuan" (An Analysis of Offering Public Products in the Rural Area Model—the Peasant's Moderate Participation and

Villages at T Town had poor collective economies. After the TFR and AAT, the collective incomes of village committees comprised mainly government transferred funds supplemented by various sources of income such as operating revenue, and revenue from contracts and other parties such as village-run enterprise, and others (see Table 29). Some might have certain level of debts. A study showed that villages with village-run enterprises had lower debts than those without.²⁹⁹

As many villages at T Town had little or no collective economy, the income under the category of operating revenue was often negligible or zero. The village collective revenue of T Town often came from funds obtained through one-issue-one-discussion and other government subsidies. Previously many villages such as S Village of T Town received RMB150,000 in 2005, RMB470,000 in 2006, RMB676,000 in 2007 and RMB340,000 in 2008 from logging. The income from logging was however not guaranteed as the growth of trees was constrained by natural conditions. As discussed in Chapter 5, the snow disaster in 2008 had destroyed the entire forest, leaving many hills bare and villages with almost zero income in 2009.

The forest management area at S Village had been contracted out gradually after the snow disaster. When villages were urgently in need of money, trees were cut regardless of whether it was just a small tree. In order to support the NSCC project, S Village had no choice but to contract out the forest management area to individual farmer households. Hence, the collective income from the forest management area had dwindled in S Village. According to the clerk at the Rural Operation and Management Station, the collective income of many villages in T Town, including S Village, was so paltry that he was worried how they could fund public projects in their villages.

N Village had almost no collective funds to conduct village level public projects. Few public projects had been organised and limited funds had been

the Capital Source of Offering Public Products in the Rural Area), *Nandu Xuekan*, no.1, 2004: 111.

²⁹⁹ Chen Hong, Dong Xueyan, Li Caihong, Liu Tian and Luan Yijun, “Shuifei Gaige Mianzheng Nongyeshui Hou Cunweihui Chouzi Wenti de Tantao” (Fundraising of Village Committees after the Rural Taxation Reform), *Zhongguo Nongye Daxue Xuebao*, 2006 (2): 43-48.

raised by farmers. Only small public projects such as the construction or maintenance of ditches and ponds had been carried out in some village groups such as groups 1, 3 and 5. For instance, the local government had allocated subsidies to village groups 1 and 5 of N Village for accepting migrant households. The subsidies were partly collectively owned and used by individual migrant households. Each of village group 1, 3 and 5 received about RMB20,000 as collectively owned funds each year.

Groups 1 and 3 were also compensated RMB35,000 each for expropriating farmland for the construction of a high-speed railway. The compensation for doing so was RMB20,000. Seventy per cent of these funds were retained as collective funds in the village group, while the remaining was allocated to individual households. Hence, total compensation as collective funds of each village group amounted to RMB38,577. Village groups 1 and 3 had each utilised RMB30,000 from the collective funds to construct ditches and ponds while village group 5 had channelled RMB10,000 into ditch maintenance.

Collective income of a village or village group was thus important for public project constructions. However, public projects larger than a ditch or a pond were almost impossible if collective income was solely depended upon. The town official of the Station of Operation and Management at T Town was pessimistic that villages with limited resources and little industry could conduct any public project in the future due to the shortage of collective funds.

7.3 Entrepreneurs' Contribution

Donations from entrepreneurs for public projects were common. It was a win-win situation for both the donor and the benefactor. B Village of H District, Z City had benefited greatly from the donation of a home-grown entrepreneur Mr Deng, who was now the Chairman of the JY Ecological Construction Group in Y province. In 2006, with over RMB100 million in assets, Mr Deng returned to his hometown to revive the dilapidated village. He invested RMB30 million in B Village, constructing hundreds of gardens and

more than a hundred of ecological projects. As offspring of the village, he was determined to improve the ecological environment of B Village.

In the beginning of 2006, Mr Deng urged his former primary classmate who was now the village head of B Village to apply to become a NSCCP demonstration site. One month thereafter, Mr Deng returned to his hometown with his family to discuss the ecological improvement project with village officials and NSCCP officials. The aim was to construct the village into an ecological garden and jointly develop its agritourism and biotechnology.

The invested funds were used for various projects such as afforestation, sanitation and waste management to improve the village environment. A four-star hotel within the village had also been built with farmers as shareholders. This was on top of a flower cooperative of 200 *mu*, a pear planting cooperative of 450 *mu*, a fish pond of 100 *mu* and two piggeries. The average annual income of each household in B Village hit RMB25,000 in 2008 and RMB30,000 in 2009, a figure that was ten times that of 2005.

Another example was the irrigation ditch construction for village group 3 of N Village invested by a local-born entrepreneur Mr Li. Mr Li had his first pot of gold in the cities before he returned to the village to operate a holiday resort near village group 3. The resort needed a ditch to divert water to it. As village group 3 had no running water for drinking and irrigation. Mr Li decided to extend the ditch to cater to village group 3 as well. He invested RMB125,000 in the entire project and became a household name whenever the ditch was mentioned. His contribution had won the respect of the entire village as well as the admiration of other village groups.

Compared to government funds, contributions from entrepreneurs were comparatively random and infrequent. Oftentimes, the investment was one-off and could not be depended upon for rural public goods provision.

7.4 Farmers' Self-Organisation and Fundraising

As government transferred funds covered only part of rural public goods provision, a large part of small-scale public projects needed to be undertaken by the farmers. Farmers' initiative and cooperation in the process of public

goods provision were vital. Whether farmers would cooperate and contribute funds to the rural public expenditure depended on several factors: farmers' financial capacity, farmers' mind-set and leadership.

Farmers' Financial Capacity

Farmers who derived their incomes from agriculture were usually poorer than those whose incomes came from industry. In general, farmers from provinces that mainly depended on agriculture had lower income than those with various village economies. For instance, based on 2007 statistics, farmers' per capita net income were high in Shanghai, Beijing, Zhejiang, Tianjin and Jiangsu at RMB10,144.62, RMB9,439.63, RMB8,265.15, RMB7,010.06 and RMB6,561.01 respectively. Farmers in Hunan province had per capital net income of RMB3,904.20, ranked 16th among 31 provinces included in the statistics.³⁰⁰

Farmers' per capita annual net income at T Town were between about RMB5,000 according to an interview with village cadres. Farmers were not that well off as to contribute enough money to rural public goods provision. Based on the funds raised, the affordable level of each household for a certain public project that was urgently needed by them is less than RMB2,000 per household a year.

Take the construction of drinking water facility at village group 9 in S Village for example. Village group 9 had no running water and used to fetch water from wells. Because of pollution, the water in the wells was no longer suitable for drinking. Mr Zhou, a resident at group 9 who sold pork for a living decided to construct a pipe to divert water from a small reservoir nearby. He mobilised 34 households in his village group for this project. At first, every household contributed RMB600, but when construction works proceeded, they ran out of funds. So they contributed another RMB600 per household. Mr Zhou said that he managed to obtain RMB5,000 from the Water Resources

³⁰⁰Department of Rural and Social Economic Survey of National Bureau of Statistics of China, *China Rural Statistical Yearbook 2008*, National Bureau of Statistics of China, December 2008: 267.

Bureau of H District using his personal network with a staff there. The project cost about RMB50,000 in total.

The cost of drinking water diversion facility construction at village group 9 was considered moderate. Some drinking water projects were pretty costly. The failure of village group 4 of S Village in Chapter 6 to obtain government funds for its drinking water facility project was a case of cost outstripping farmers' financial capacity. The project needed as much as RMB400,000, well beyond the financial capabilities of the farmers as the total population at the time was only 110. Farmers would have to fork out as much as about RMB4,000 per person. The project was left unfinished eventually.

Farmers' Mind-set

Farmers' mind-set had a crucial bearing on their participation and fundraising. Farmers would only contribute funds to public goods that were most useful to them including inter-village road construction and drinking water pipe diversion. Road construction in particular had the financial support of the government. Projects such as small-scale farmland irrigation had difficulties getting the support of farmers due to high cost and the free rider problem.

Dependence on Government

Local officials revealed that farmers had a strong dependence on government (*yilaigan taiqiang*). An interview with farmers at T Town showed that they had a strong dependence on central government and an equally strong distrust of local government.

Farmers believed that the central government would solve their problems gradually in the future, including funding for rural public goods and services. This confidence was boosted by the central government's abolition of agricultural taxes and fees. A farmer said, "The central government has been good to us and really relieved our burden. It has also allocated huge funds to construct public projects in rural areas according to television news."

Farmers believed that the government would solve their problem sooner or later. Farmers in village group 5 of N Village as mentioned earlier in Chapter 6 refused to contribute funds for the construction of intra-village road after the inter-village road was invested jointly by government funds and village's funds. Some of them including the village group leader believed that the upper-level government would implement a new policy to allocate funds for constructing an intra-village road in the near future since the government had constructed an inter-village road. During a villagers' representative assembly, the most frequent question raised was on the intra-village road. The leader of village group 5 appealed to the village branch secretary to raise this issue with upper-level government officials.

Some farmers also regarded rural public goods provision as the task of government or village officials. In N Village, a farmer said, "It is the job of the government. If government does nothing about it, what can ordinary people like me do? It is up to village officials who have connections with upper-level government officials to get funding from the government. We, as ordinary farmers, can hardly write a decent report or explain such things well." The situation was especially so for farmers who work outside of the village and public projects had little relevance to their everyday lives.

There were also others who were sceptical about the reliability of local governments or village officials and reluctant to contribute funds to public goods provision. Some farmers informed that they only believed in themselves in the village. A farmer said that when a public project needed fundraising, he would investigate if the project would really kick-off so that money would not go to waste. He said he was aware that the central government had allocated huge funds to the countryside based on television news, but had no idea as to where had all the funds gone to. The many corruption cases on television made them wonder if the allocated funds had gone to the pockets of local officials, several farmers added.

Free Rider Problem

Free rider problem was common in collective actions especially in rural public goods provision such as the intra-village road construction and farmland irrigation facilities. Individuals preferred not to contribute, but to free ride on others' efforts.³⁰¹ Some public projects managed to overcome the problem by reducing group size, defining the users clearly and constraining social norms.

Olson stated that rational, self-interested individuals would not act to achieve their common interests in the absence of small group size, or coercion or some other special device to make individuals act in their common interests.³⁰² Collective action was easier in smaller groups. It was rather difficult for farmers in S Village to organise a village level public project for instance. The size of an administrative village was too big to have smooth information flow as some village groups were separated by large areas of farmland or small hills. The interviews had shown that it was difficult to discuss public issues at villagers' assemblies, as absenteeism of farmers was high.

In the end, village group leaders and Party members of the village had to go door to door to inform households. Party members who came from different village groups and happened to be group leaders would help to convey information from upper-level governments. In S Village, the frequency of Party members' meetings used to be five to seven times a year. Party member was normally awarded RMB10 for each attendance. However, given the tight financial constraints, the village branch of the Party could no longer afford the participation fee and there was thus little incentive for members to attend the meeting. For those who were currently working in the cities, attendance at meetings was impossible.

Farmers' provision of rural public goods often took place in small groups like within a village group or among several groups located near to each other.

³⁰¹ Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*, (New York: Cambridge University Press, 1990), p. 6.

³⁰² Mancur Olson, *The Logic of Collective Action: Public Goods and The Theory of Groups*, (Cambridge: Harvard University Press, 1965), p. 2.

Take S Village as an example. Most of the small-scale public projects such as the construction of a ditch and drinking water diversion project had been conducted within village groups. There were 13 village groups in S Village with a total population of about 1,700 in 2009. Groups 1 to 13 had 140, 70, 170, 110, 170, 168, 180, 90, 150, 140, 70, 68 and 120 members respectively. While some groups had conducted intra-village road construction, some had completed drinking water pipe diversion or ditch construction: Groups 2 and 11 had conducted drinking water pipe diversions, and groups 10 and 12 had constructed sand-paved intra-village road.

Drinking water pipe diversion project was easier and often not regarded as a pure public project as it could selectively choose participating households. The water pipe would not pass by households that refuse to pay for the construction. Neighbours who had good relationship and who needed this project could be gathered to bring this project to fruition. Otherwise, the water pipe would bypass a person's house.

Villages might differ in the provision of rural public goods due to different village culture. He Xuefeng had classified Chinese villages into two large categories. If a village lacked a basic shared value or understanding, or a basic unit of action except family ties, it was an atomised village (*yuanzihua*). The other type was traditional village. Atomized village had little contact with others except their own core family,³⁰³ thus making cooperation difficult.

Based on He's category, N Village was more like an atomized village than S Village. A shared value or understanding and a basic unit of action existed in S Village that was more like a village dominated by a clan. Farmers in N and S Villages reacted differently to the provision of rural public goods. Farmers were generally more cooperative in S village than in N Village. The interviews with farmers showed that the main difference between N and S Villages lied with the different village culture.

In S Village, about 90% of the farmers had the surname of Wang, which means that they shared the same ancestor. Farmers here celebrate big events

³⁰³ He Xuefeng, "Nongmin Xingdong Luoji yu Xiangcun Zhili de Quyue Chayi" (The Regional Differences on Farmers' Logic of Action and Rural Governance), *Kaifang Shidai*, no. 1. 2007: 105-121.

like wedding, funeral, and house warming together. Their behaviour was influenced by traditional norms. For instance, they were supposed to help out in big occasions of one's family such as weddings and funerals. The more people who attended these big occasions meant that the more respected and regarded this person was among peers. When one played host, his relatives would help out by preparing dishes, loaning chairs and tableware as if they were living in the same house. This was the typical big family (*dajiazu*) tradition. A lady informed that she belonged to another village and one of her relatives lives here. With his introduction, she got married to a resident in S Village. Many of the residents in *dawanli* were thus related to each other.

Farmers in S Village also had close contacts with each other. The shared value had been formed for generations. The village identity was strong in S Village. A farmer said that S Village especially at *dawanli* was known for being hospitable and few would attempt anything that would ruin the good reputation of S Village. The farmer added laughingly, "That is why young men in our village are highly sought after and many young women are happy to be married into our village."

However, in N Village, almost every village group had its own surnames. The annual ancestor worship would see many farmers in N Village joining their relatives in other villages. Hence, in N Village, the contacts among farmers were far less than that in S Village.

A punitive measure for free riders in public goods provision was to isolate them from the majority. Farmers revealed that few people in S Village were free riders. Those who refused to contribute funds to public projects would experience some forms of peer pressure. They would often be described as *houyanwuchi* (thick-skinned and shameless), a subject of gossip and shunned in his or her big occasions. He or she would suffer from public disgrace and felt the social stigma of being separated or ignored by the community. A farmer said that in normal situations, people would not risk doing so as living in isolation could be rather unbearable. Only farmers who were really poor such as the lone elderly who has no income would be exempted from contributing to public expenditure.

The Role of Leadership

A good leader was necessary to see public projects to completion. The function of the village committee and the coordination with village group leaders would determine the success of a public project.

The village committee in S Village functioned better than that in N Village. First, village committee members in S Village who lived close to each other in *dawanli* often met to discuss public issues. In such a clan-dominated village, the village committee faced pressure from the clan that also, to some extent, supervised the village committee to avoid arbitrary use of power. Sometimes, the village committee would exercise clan power to get people to participate in the provision of rural public goods.

In N Village, the village branch secretary who dominated the village often made decision without seeking the advice of other village committee members. The village head often referred questions directed to him to the branch secretary, known as the *yibashou* (the chief) to the local people, as “he knows everything”. In other instances, some village group leaders were not resident leaders. The lack of communication and discussion between village committee members and village group leaders had negative effects on the organisation of rural public goods provision.

Two cases of drinking water projects in S and N Villages would illustrate the role of leadership in the provision process. Village group 2, located west of the main village road, was not far from the entrance of S Village. There were 19 households with about 150 residents. For many years, they had depended on a stream for drinking water. However, waste discharge, the operation of highway, and the establishment of a coal yard at the upper reaches of the stream in the recent years had polluted the water quality of the stream. Residents began to fall ill from drinking unclean water. The leader of group 2 reported the issue to the Party Committee of H District, H District Government, Water Resources Bureau of H District and Environmental Protection Agency of H District, but still failed to obtain any subsidy.

Initially, he was hesitant about getting farmers to fund the project as it was too costly and too colossal a task. He was however persuaded repeatedly by his son, a university graduate who worked in Beijing, to persuade group 2 residents to go ahead with the project, as safe drinking water was essential to their wellbeing.

The group leader thereafter gathered the representatives of each household to his house to discuss the issue. It was no easy job as the sum needed from farmers was a little high. After serious consideration and discussion, a consensus was reached for every registered resident of the village to contribute RMB493. The collective income that came from an annual pond lease of RMB200 would also go to the project. Total funds raised were around RMB40,000, including a donation of RMB10,000 from a local entrepreneur who worked outside the village.

The group leader took charge of task allocation. The construction work was done by free labour contributed by village group 2 residents. Young local male residents who had experience working in the construction sector were roped in. The group leader who also had prior experience in construction oversaw the entire process. Construction materials were purchased from the city. Three villagers accompanied the group leader on the purchase trip to ensure that no graft or misappropriation took place.

Drinking water for group 2 would have to be diverted from the nearest reservoir on the hill via a 500-metre underground pipe to connect the reservoir to the pond located at the centre of the village group. The pond was constructed by bricks, with a perimeter and height of six metres each. The whole construction work lasted 300 days, with each farmer contributing 30 labour days on average. The project had been regarded as the most successful among all the projects in S Village.

N Village, on the other hand, was an example of bad leadership. The leader of group 5 not only was unenthusiastic about public goods provision, but also stressed repeatedly that the village group had no funds to contribute to public goods provision. At the Party members' meeting, instead of pursuing

self-development, he would often urge the village branch secretary to apply for funds from upper-level government to construct intra-village road.

7.5 Conclusion

Public projects funded mainly by agricultural villages with little or no government support were normally fraught with problems, registering low success rates in general. The fiscal constraints of village committee and farmers aside, such projects would have to overcome a multitude of obstacles such as free-rider problem, misconception of government's responsibilities, poor leadership, and lack of sound policy. The success of such projects was rare and attributed largely to huge donations and good leadership.

The government policy of *yishi yiyi* had yet to fulfil its objectives. It attempted to regulate farmers' contribution of fund and organise efforts towards rural public goods provision to reduce farmers' financial burden. But the limit set at RMB15 for each farmer's contribution only proved too impractical for actual implementation. At the same time, the government subsidy for *yishi yiyi* was also insufficient to be effective. Farmers were still required to contribute beyond the ceiling of *yishi yiyi*. If farmers were unwilling, *yishi yiyi* was ineffective in encouraging farmers to raise funds for rural public projects.

A village's collective income was vital to rural public goods provision. However, for villages that were dominated by agriculture, they had little or almost no collective economy like many villages in T Town. The dependence on logging for collective income was not guaranteed due to natural factors. The decreasing collective incomes of S and N Villages were good examples. Data also showed that the majority of villages in China had limited collective economy.

Entrepreneurs' donation acted as an important supplementary funding for rural public goods provision. As in T Town, villages B and N were lucky to receive huge donations from a respective Mr Deng and Mr Li, two home-grown entrepreneurs from the villages. However, public goods provision could

not rely on entrepreneurs' donations, as they were rare and infrequent and could not be relied upon as a common way of fundraising.

Despite the difficulties in organising rural public goods provision for agriculture-dominated villages, some villages managed to overcome financial constraints and traditional government-reliant mind-set through good leadership to push through public projects. Agricultural-based farmers, the lowest earners in the farming industry, could only rely on the government for funds. The government's funds allocation to some public projects had greatly motivated farmers' enthusiasm in playing a part, albeit minor, in raising funds. The mobilisation, fundraising and organisation of rural public goods provision would not be possible without good leadership. S Village had good village committee members who worked closely together to organise rural public goods provision, while the overconcentration of power in the hands of the village branch secretary of N Village was a hindrance to public goods provision.

The free rider mentality was common in collective actions. Whether it hindered cooperation among farmers in the provision of rural public goods depended on contextual factors such as group size and cultural factors. The free rider problem was overcome in the case of the drinking water diversion project conducted by the village group as a small unit in a village. Households that did not contribute to the project would not have the water pipe running through their household. Village culture also played an important part in eliminating the free rider problem. Villages like the clan-dominated S Village had overcome the problem better than N Village, an atomised village. The strong village identity at S Village would act to shame and isolate those who attempted to free ride on public projects. However, villages like S Village were disappearing in China attributable to the high mobility of farmers between cities and villages and the gradual fading of traditional village culture. The atomisation of villages thus had negative effects on collective action and cooperation in public goods provision.

Promoting self-development among farmers thus still had a long way to go. The few successful cases mentioned earlier were very special and isolated

cases. Most of these successful cases were related to drinking water facility construction that was small projects that could be handled by villages. These projects satisfied certain criteria: the project should be within the affordability of farmers or the collective income; farmers must be prepared to contribute funds or labour; free rider problem could be overcome by strong village culture; large donations, and the existence of good leadership. Most villages could not meet these criteria. As villages became more atomised and farmers moved to the cities to work, the difficulties of promoting self-development of villages would be further compounded.

Chapter 8

Conclusion

Village officials in agricultural villages struggled to finance rural public goods provision after the TFR and AAT. The central government has increased the fiscal transfers to villages, but why is the provision of some public goods more successful than that of others given that these villages are in a same town and are subject to similar financial situation? By examining funds allocation as a process, this dissertation argues that the success of rural public goods provision in agricultural villages depends on not only the strong support of the government, but also more importantly the enforcement of clearly defined policies on funds allocation of local governments. When these policies are unclear, *guanxi* plays an important role in the successful provision of public goods. It is difficult for farmers to organise public goods provision in agricultural villages as villages have little collective income and farmers are reluctant to contribute funds.

Public projects undertaken in the rural areas that were examined in this study had been classified into three categories to depict the different degrees of success of their provision. For public goods that were funded mainly by the government, there were two categories—one with clearly defined policies and the other without. The first category of public goods had a higher success rate, while the second category had to rely on *guanxi* or local government officials' preferences. The third category of public projects funded mainly by villages faced immense hurdles in its implementation, constrained largely by the limited financial capacities of village committees and farmers, the free-rider problem, and misconception of government's role.

This dissertation had examined formal institutions, especially the fundraising and fund application and allocation system of T Town, H District, Chenzhou City in Hunan province at a micro level. Formal institutions, such as a specialised government department, a specific fund application and allocation system, strong government policy support and an effective

evaluation system, had played essential roles in the success of public projects in villages dominated by agriculture.

This chapter reviews some of the main findings. Firstly, it restates the significance of formal institutions and policies in rural public goods provision. Secondly, it examines the role played by *guanxi* in raising fund for rural public expenditure in agricultural villages and lays out its negative effects. Moreover, it also uncovers the role of local officials' preferences on public project funds allocation. Thirdly, it reviews the factors constraining rural public goods provision by villages and farmers. The chapter will end with suggestions on further areas of studies such as an analysis of the fund allocation and project application systems.

8.1 Government-Oriented Provision

This section discusses public goods funded mainly by government with specific procedures, clearly defined fund application and allocation policies, and other relevant guidelines or regulations. Inter-village road constructions came under the care of the Highway Administration Bureau and pond desilting constructions were the responsibility of the Water Resource Bureau. With the backing of these government departments, the workflow of this category of projects was normally smooth and efficient. The existence of specialised government departments had greatly reduced bureaucracy and simplified official procedures.

Fund allocations for inter-village road construction and ponds desilting works were clearly and scientifically defined and effectively implemented, fuelling farmers' enthusiasm in the projects. Almost all villages had been granted a certain amount of government subsidy for the works. Each level of government would provide subsidies based on the inter-village road length and pond size. For inter-village road construction, a respective 49% and 72% of total road construction costs of S and N Villages came from government subsidy. N and S Villages had obtained government subsidy for around 70% of the total costs of ponds desilting work.

The clearly and scientifically defined fund allocation systems and the huge funds provided by the government had strengthened farmers' confidence

in raising the remaining funds for public projects, which was not substantial. Farmers' contribution accounted for around 10% of total inter-village road construction costs and approximately 29% of total ponds desilting costs at S and N Villages.

The inclusion of public project construction in the performance evaluation of officials acted as an effective gauge of the provision process. Performance was based on the completion of a certain length of road as well as in the success of raising and managing funds.

8.2 Provision with Flawed Policy Design

The second category of public projects was funded mainly by the government but with unclear or unscientific policies. The success of such projects was low due to low accessibility of government funds as a result of unclear policies. Villages that had good *guanxi* with government officials had better chances of soliciting government funds for public goods provision. So would projects that reflected achievements of local governments. A comparison of two cases of similar drinking water facility construction projects had revealed the effect of *guanxi* in the fund application process. For drinking water projects, which came under the central policy of *minban gongzhu*, the government would only provide supporting funds. Unlike inter-village road and ponds desilting projects, the Water Resources Bureau of H District had not formulated specific guidelines for fund application and allocation. A comparative study of the drinking water projects in *dawanli* and village group 4 of S Village had shown the importance of *guanxi* in the fund application process. The *guanxi* between the village secretary and the official at H District Government had enabled *dawanli* to obtain funds, while village group 4 failed for the lack of *guanxi*.

The massive implementation of *guanxi* had negative impacts on villages. Not only did it give rise to corruption and lead to poor utilisation of funds, it had harmed farmer-official relationship in the long run. Villages had to splurge huge collective income to entertain officials at meals or to buy gifts for central officials to cultivate *guanxi*. Such expenses alone could easily surpass the annual salaries of four village officials. In addition, most farmers

had low trust of local officials, as corruption cases of officials were rampant and widely reported on television news. Farmers were afraid that the hard earned money raised by them would be unwisely channelled to entertain officials, or embezzled. The low trust largely explained farmers' reluctance in raising funds for rural public goods provision.

This finding was important to uncovering many hidden problems associated with the current rural public goods system. The recommendation was to improve formal institutions such as regulating project application and fund allocation systems. Further work in this area could look at proposing specific measures for improving these formal institutions to reduce *guanxi* manoeuvrings.

The NSCC projects under the second category of projects came under formal institutions and policies that were flawed. First, the application eligibility of NSCC projects was not comprehensive enough to cover every village. The local government's emphasis on investment attraction had disadvantaged villages without industrial potential. As some NSCC projects were conducted only in certain parts of a village, the excluded would feel unduly ostracised and antagonistic towards local officials in the long run.

Second, the NSCC had given rise to investment-oriented construction in countryside, which led to funds being diverted to projects that were of little utility to farmers. Farmers at S Village could not appreciate the ancient bridge, ancient stage, and recreation ground at *dawanli*. The money spent on these fancy projects took up as much as 42% of total costs of NSCC construction.

Third, the requirement of enthusiasm and readiness in contributing funds or labour might not be a fair measure for some villages. It would only further widen the gap between villages with good agricultural infrastructure and those without. The alacrity of villages with good infrastructure was understandable. It was a vicious circle of improved infrastructure inevitably leading to better production efficiency and more income, while poor infrastructure limiting production capacity and income. The giving of priority to villages with better infrastructure would only aggravate the situation. The cases of S and V Villages in T Town were salient cases. S Village, which had better

infrastructure than N Village had been successively selected as a demonstration site for three years, while N Village was only chosen for a year due to the perceived lack of farmers' enthusiasm and cooperation.

8.3 Village-Oriented Provision

This dissertation also examined the possibility of self-organizing provision of the third category of public projects funded mainly by villages. Given the limited resources available in villages, self-organizing might seem a far-fetched reality.

First, the policy of *yishi yiyi* to promote public goods provision within the village had not been widely implemented due to some flaws in the policy design. The stipulated contribution of an unpractical ceiling of RMB15 per farmer reflected badly on the decision-making capacity of upper-level governments. Moreover, the flexibility of labelling excess contributions from farmers as donations only burdened farmers further by requiring them to contribute more to the funds.

Second, fundraising was constrained by a village's collective income. The collective income of some villages was so limited that it could hardly provide for public projects except for extremely small projects such as the maintenance of a ditch. Government fund allocation was often a push factor for farmers to raise funds. Inter-village road construction depended mainly on government funds. The collective incomes of both N and S Villages were on the decline as they are derived mainly from logging, which is contingent on natural conditions. Villages with decreasing collective income had no other alternatives but to rely on government funds for public goods provision.

Third, to raise funds, villages needed to overcome their fiscal constraints, possess a changed mind-set and have good leaders. However, these conditions were rather difficult at agricultural villages. Agricultural-based farmers who were low-income earners were usually reluctant to contribute to public goods provision. They could only contribute to extremely small public projects.

The heavy reliance on government was common especially after the TFR and AAT. The AAT had endeared the central government to farmers. Local

government officials on the other hand had fallen out of favour with farmers after the media widely reported on their corrupt practices and scandals. Farmers were fearful of being cheated of their money. Interviews had shown that the recent pro-farmer and pro-agriculture policies had given farmers the misperception that the government would eventually solve all their problems including public goods provision.

Farmers were also reluctant to contribute funds if a free rider problem was prevalent. A closely-knit village with strong identity was a deterrent to free riding behaviours. Farmers who were afraid of being isolated by peers would be pressured to contribute to public expenditure. However, with more farmers migrating to cities to work, these constraints had been gradually weakened. Only small public projects such as drinking water projects that could divert pipelines away from free riding households would farmers' participation be evident.

Even small public projects could be stalled if good leadership was lacking. The leader undertook the main responsibility of raising funds among farmers and acted as their spokesman when communicating with upper-level government. The author's fieldtrip revealed that village committee members and group leader were usually the organisers. It was easier for the committee to function when members were cooperative as in the case of S Village.

The few successful farmer-initiated public project constructions were restricted to extremely small projects, or projects with large donations from entrepreneurs. Good examples were the donation of RMB30 million by Mr Deng to B Village and the donation of RMB125,000 by Mr Li to N Village which had greatly supplemented funds. Villages could only contribute to rural public goods when their collective income was abundant, when there were donations by entrepreneurs, and when farmers had organisational capabilities. Successful cases like those of villages in T Town were few as these preconditions were difficult to satisfy.

8.4 Contribution

This dissertation looks at government policy such as fund allocation and examines how fund allocation as a process affected rural public goods provision in agricultural villages. The different roles played by governments at different levels, village committees and farmers are likewise analyzed. The relationships between county, town and village committees after the TFR and AAT have also been explored.

The detailed investigation of the fund allocation for three classified public projects has unveiled the reasons for the success of some public projects after the TFR and AAT when the lack of funds is the general situation for agricultural villages. Huge differences existed in fund allocation among different types of public goods provision. The classification of public projects based on the indicator of clearly defined fund allocation policy has enriched the literature of the effects of TFR and AAT on rural public goods provision.

This dissertation supplemented Tsai's study on the role played by formal institutions. Unlike Tsai's emphasis on informal institutions as an explanation to the differences on public goods provision in different villages, this dissertation ascertains that clearly defined fund allocation policies are a factor in the success of rural public goods provision. By viewing funds allocation as a process, the relationship between local government officials and farmers, as well as relationship among different levels of local governments such as district and town governments were also presented.

Finally, the importance of informal institutions such as *guanxi* has been explored in this research to examine the public goods provision in agricultural villages. The dissertation extends Tsai's study of villages with strong solidary groups to agricultural villages in the central part of China where solidary groups are uncommon, and cooperation among peasants is weak. Tsai focused on solidary groups such as temples, churches, and lineage groups which provide informal rules to make local officials accountable for providing public goods for peasants.

In this study, the solidary groups such as temples and churches in agricultural villages like S and N Villages in Chenzhou City, Hunan Province

in the central part of China, are uncommon. Agricultural villages thus require different solutions from villages in Tsai's study. The lack of funds and the unclear policies on funds allocation have left villages with no choice but to attempt all means to obtain funds. *Guanxi* played an important role in fund allocation when formal institutions regarding funds allocation are not strong.

8.5 Future Work

The comparative case study of both successful and unsuccessful projects had highlighted the importance of formal institutions and policies. The investigation had unveiled deep-seated problems in the process of rural public goods provision pertaining to fund allocation, fundraising, and project application systems at the district level. The fund allocation system at provincial and municipal levels could not be examined due to the difficulty in obtaining relevant data that had been labelled confidential and restricted.

A supplementary study of the ways to regulate funds allocation at different levels of government would go hand in hand with the theme of this dissertation. Policies needed to be tightened to ensure effective use of financial resources, avoid duplicated constructions, prevent the construction of vanity projects and arrest the cultivation of *guanxi*.

The focus of this dissertation was limited to rural infrastructure related public projects. Other public goods projects could be examined in future studies. The exploration of factors hindering self-development of villages in rural public goods provision through case studies had given solid ground to why rural public goods provision should not overstate the capability of villages and farmers. Strengthening the role of the government would be a better alternative.

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