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The 8-7 National Poverty Reduction Program in China— The National Strategy and Its Impact

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Executive Summary

During the post-1978 reform period, China dramatically reduced large-scale poverty through specific government reform policies and rapid economic growth. Using the official poverty line, the number of poor people is estimated to have fallen from about 200 million in 1981 to 28 million in 2002. Alternatively, using the World Bank's \$1/day income measure, the number of poor is estimated to have dropped from about 490 million to 88 million over the same period, a decline in poverty incidence from 49 percent in 1981 to 6.9 percent in 2002.

China's large-scale poverty reduction has been achieved mainly through rapid economic growth. Real GDP grew at an average of 9.4 percent per year in the period 1979–2003. This increase was realized through continuous reform and structural changes that included shifts from central planning to markets and from agriculture to manufacturing and services, and opening up to international trade and knowledge transfer. Poverty in China is a rural phenomenon (at the beginning of the 1980s, absolute poverty in the urban population was 0.3 percent vs. 28 percent of the rural population.) Because rural-urban migration is limited, growth in rural areas has been most important to reducing poverty. In the early 1980s, when fast rural growth emerged from institutional reforms—including institutional changes in land holding, production, distribution and procurement prices—the poverty rate in China rapidly halved from 49 to 24 percent at the \$1/day income level, and the number of rural poor declined from 250 million in 1978 to 125 million in 1985, measured at the official poverty line.

After rural economic growth slowed, once the poverty effects of the early rural reforms were realized, China saw relatively slow progress in poverty reduction, and widening inequalities. By 1994, the poverty rate was at 18 percent at the \$1/day level. Measured at the official poverty line, 80 million of the rural population remained poor. Since the mid-1980s, overall progress in poverty reduction in China has been slower and even reversed in some years, coinciding with stagnation in the rural economy. The growth rate of per capita net income fell from 12.2 percent in the period 1978–85 to 2 percent in 1986–93.

In 1994, the government introduced the “8-7 Plan” (National Plan for Poverty Reduction), aspiring to lift the majority of the remaining 80 million poor above the government's poverty line during the seven-year period 1994–2000. Originally, the 8-7 Plan targeted poor counties, emphasizing the responsibility of local leaders for the effectiveness of poverty reduction work in their jurisdictions. The objectives of the 8-7 Plan were to: (1) assist poor households with land

improvement, increased cash crop, tree crop and livestock production, and improved access to off-farm employment opportunities; (2) provide most townships with road access and electricity, and improve access to drinking water for most poor villages, and (3) accomplish universal primary education and basic preventive and curative health care. Since 1997, funding for poverty reduction jumped by over 50 percent in real terms annually, reversing a decade of decline in real funding for poverty reduction in China.

The 8-7 Plan focused on three main programs: subsidized loans, food-for-work, and government budgetary grants. Subsidized loans—over half of the total funds under the plan—at first covered mainly enterprises and later households with activities in industry and agriculture. The food-for-work program, representing almost 30 percent of total poverty funds, used surplus farm labor mainly to develop infrastructure. Government budgetary grants, accounting for less than 20 percent of the total poverty funds, supported investment in poor areas across sectors. In total, about 30 percent of poverty funds went to agriculture and industry each, and 35 percent to infrastructure. Given its short-term horizon and low returns to education in the then still very distorted labor market, the 8-7 Plan placed less emphasis on rural education and health. Under the 8-7 Plan during 1994–2000, central government funding on poverty programs totaled RMB 113 billion (US\$ 13.6 billion equivalent) and annually accounted for 5–6 percent of total government expenditures, a significant amount given the government’s tight budget constraint. Central government funding required matching from provincial- and lower-level poverty funds. This was difficult to provide from the limited fiscal resources available in poor localities.

Analysis indicates that the 8-7 Plan assisted China’s poverty reduction, and contributed to both the social and economic development of China’s poor areas. Empirical analysis indicates that the allocation of poverty funds across the officially designated “poor” counties under the 8-7 Plan was correlated with their level of poverty incidence. During 1994–2000, officially designated “poor” counties delivered higher than average growth in grain and agricultural production, and in household net income. The growth rate of agricultural GDP in the officially designated “poor” counties was 7.5 percent, compared to the national average of 7 percent. Household net income per capita increased from RMB 648 to RMB 1,337, growing at an annual rate of 12.8 percent, 2 percentage points higher than the national average. Analysis suggests that RMB 1 investment in agriculture increased household net income by RMB 0.17, and RMB 1 investment in commerce, restaurants, and services increased household net income by RMB 0.76. The effect of poverty reduction investment on the number of poor, however, does not appear strong. Our analysis indicates that special poverty reduction investments had negligible impact on the actual number of

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poor in the short term, which indicates that non-poor residents of poor counties may have enjoyed a greater share of the growth in household income.

The 8-7 Plan benefited from continuing macroeconomic and political stability, sustained economic growth, and sustained government efforts to seek effective institutional and policy measures to reduce poverty. The government's capacity for resource mobilization was a critical factor, bringing together its established administrative system with numerous enterprises, financial institutions, and nongovernmental and international organizations to work on poverty programs. Institutional innovation refocused China's poverty reduction method from relief to development, moving from government-led to a broadly based effort. Continuous learning and experimentation permitted China to learn from its own and international experience, and to work toward improving the participation and effectiveness of a large number of projects at village and household levels. The implementation of the 8-7 Plan, for instance, revealed the relatively weak poverty reduction effect of the subsidized loans and the complexity of the needs of poor villages. This prompted the government to launch multisectoral rural development projects, such as the Southwest Poverty Reduction Project (SWPRP, which is analyzed in another case study for the Shanghai Conference) as well as conduct various incremental changes within the ongoing poverty reduction programs.

The poverty reduction effect of the 8-7 Plan could have been strengthened by greater clarity in government objectives, better targeting, and more participatory approaches at the local level. A combination of different goals, namely the goal of the subsidized loans program both to reach the poor and promote economic development, led to sometimes conflicting objectives for local officials trying to carry out the program. Targeting could have been improved by considering poor villages (or at least townships) instead of poor counties and by complementing this geographic approach with specific household targeting to reduce leakages to non-poor as well as reaching poor households outside the officially designated "poor" localities. The selection of programs, project design, management, and evaluation could have been conducted in a more participatory manner to minimize instances when villagers saw poverty project investments as contradictory to their needs and failed to achieve the desired poverty reduction effect. Recent experience with multisectoral rural development projects indicates that community participation can be high when programs credibly seek to address the villagers' needs.

Drawing on important lessons learned from the 8-7 Plan, the Chinese government launched a New Century Rural Poverty Alleviation Plan for the period of 2001–10. In addition to poor counties, the new plan targets 50,000 poor villages. This will particularly benefit poor villages in non-poor counties excluded from the 8-7 Plan. The new plan also emphasizes participatory village

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poverty reduction planning and multisectoral approaches. Furthermore, sickness has been recognized as a principal factor contributing to rural poverty, and China is now experimenting with basic health and social security schemes in rural areas. Importantly, the new plan is complemented by policies to further reduce the existing obstacles to rural-urban migration and strengthen education services in rural areas.

Background: Evolution of China's Poverty

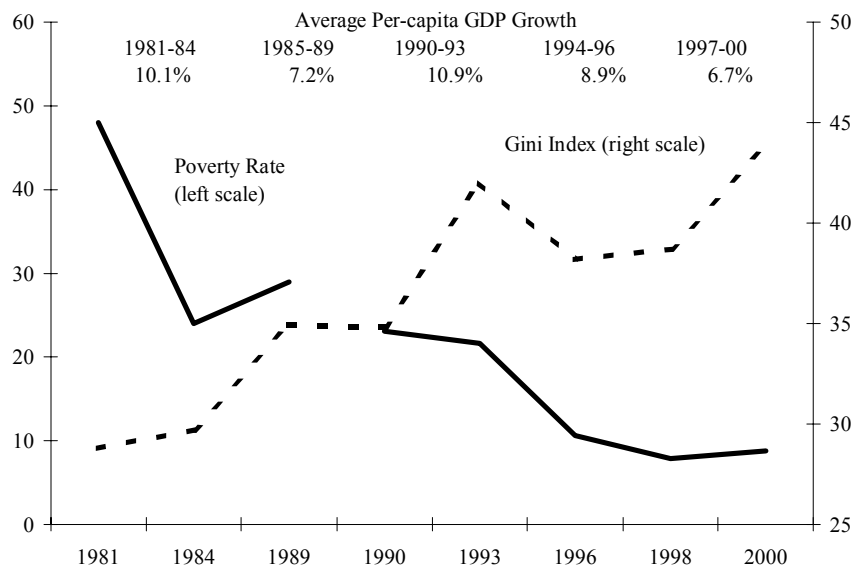
Reduction Policies

During the post-1978 reform period, large-scale poverty reduction benefiting from government poverty reduction programs as well as fast economic growth has been one of China's greatest accomplishments. Using the official poverty line, the number of poor people is estimated to have fallen from about 200 million 1981 to 28 million in 2002. Alternatively, using the World Bank's \$1/day income measure, the number of poor is estimated to have dropped from about 490 million to 88 million over the same period, which corresponds to a decline in poverty incidence from 49 percent in 1981 to 6.9 percent in 2002. Finally, using the World Bank's \$1/day consumption measure, the number of poor declined from 360 million in 1990 to 161 million in 2002, which corresponds to a decline in poverty incidence from 31.5 in 1990 to 12.5 percent in 2002.

China's large-scale poverty reduction has been achieved in the context of its rapid economic growth. Official statistics show that real GDP grew an average 9.4 percent a year in 1979-2003, exceeding 10 percent in the first halves of the 1980s and 1990s. Though the urban-rural and regional disparities have increased considerably, economic growth has, in general, benefited the majority of the population including the poor and become the major force for poverty reduction in the past twenty years. When economic growth was fast, poverty reduction was also more dramatic, as seen in early 1980s and middle 1990s. Since poverty in China has been a rural phenomenon (at the

beginning of 1980s, absolute poverty was reality for just 0.3 percent of the urban population but for 28 percent of the rural population), growth in rural areas (along with rural-urban migration, which however has been limited) has been most important to reducing poverty. When rural

Figure 1. Poverty Rate, Inequality and Growth 1981-2000



economic growth slowed down, the effect of growth on poverty weakened. As a result, China saw relatively slow progress in poverty reduction, accompanied by widening inequalities, in the second half of 1980s and late 1990s (Figure 1).

Fast economic growth in China has been realized through continuous reform and structural changes as well as opening up to international trade and knowledge transfer. Structural transformations included shifts from central planning to markets, from agriculture to manufacturing and services, and from a closed to a globally-integrated economy. Based on a wide variety of calculations, nearly a quarter to a third of China's post-1979 growth is estimated to have come from increases in organizational and production efficiency.

China's poverty reduction policies have focused on providing opportunities by building assets for the poor and transferring assets to the poor, largely avoiding pure "handouts". Poverty reduction programs have sought to raise income generating capacity of poor rural households. In rural areas, they have provided important investments in infrastructure, agriculture and enterprises, and rising support to human capital development.

China's poverty reduction policies can roughly be classified into four phases since 1978. These include the rural reform of 1978-1985, the National Targeted Poverty Reduction Programs of 1986-1993, the 8-7 Plan of 1994-2000, and the New Century Rural Poverty Alleviation Plan for 2001-2010.

Rural Reform (1978-1985)

The most pressing problem during the early years of the post-1978 reform period was to boost rural economic growth through rural reforms. The national economy was stagnating and poverty widespread all over the country, exacerbated by the shocks of the ten-year long Cultural Revolution and the long-standing restrictions on economic activity. To boost the rural economy, the Government of China launched institutional reforms of the rural production, distribution systems, and procurement prices. The fundamental institutional change was the land reform characterized by the implementation of the household responsibility system in rural China.

The early rural reforms delivered remarkable results in terms of poverty reduction as well as agricultural production and rural industries. A strong growth in grain yields (5.7 percent per year) and in rural industries, accompanied by sharp increases in agricultural procurement prices¹,

¹ Because of the planned procurement system and long-term shortage of agricultural products at that time, selling of agricultural products encountered no difficulty even after the sharp increases in production.

raised rural incomes at 15 percent a year in real terms. The growth in agricultural production and farmers' income was spectacular in some extremely poverty-stricken regions, such as the Huanghuaihai region in Eastern Fujian (Wang, 1994). As poverty in China was widely dispersed across China's rural areas in the early years of post-1979 reforms, rural income growth delivered nearly universal poverty reduction. Between 1981 and 1984, income poverty at the \$1/day level fell from 49 to 24 percent, and the number of rural poor declined from 250 million in 1978 to 125 million in 1985 measured at the official poverty line.

The National Targeted Poverty Reduction Programs (1986-1993)

Once the poverty effect of the early rural reforms was realized, poverty reduction during 1986-1993 was slower, mainly driven by the targeted rural poverty reduction programs. By the mid-1980s, rural economic growth and living conditions appeared to lag again, particularly in the revolutionary, minority, and border regions.² As a result, these areas received special attention in the Seventh Five Year Development Plan (1986-1990). This marks the beginning of China's targeted rural poverty reduction programs.

The rural poverty reduction programs launched in mid-1980s comprised a wide variety of actors, initiatives and funding channels. The State Council's Leading Group for Poverty Reduction (LGPR) was established in 1986 to provide coherence to the large number of poverty reduction initiatives and, in particular, to expedite economic development in poor areas. As the basic unit for poverty targeting, the government designated poor counties. For the officially designated "poor" counties, the central government created special funds to support a subsidized loan program, food for work (FFW) program, and budgetary poor area development fund grants. Subsidized loans covered both households and enterprises in industry and agriculture, food-for-work program was utilizing surplus farm labor mainly to develop infrastructure, and government budgetary grants supported investment in poor areas across all the sectors (World Bank, 2001a). At the local level, most poor provinces, prefectures, and counties have all established Leading Groups, and local governments were required to provide counterpart funds. Different agencies became responsible for different poverty reductions projects and activities (rural roads constructed under the FFW program, for example, have been implemented by local staff of the Transport Bureau). Certain preferential taxation treatment was offered to poor regions (Office of the Leading Group for Poverty Reduction and Development, 1989).

² This problem surfaced perhaps especially thanks to the strong political connection and influence of the revolutionary base areas.

But the overall progress in poverty reduction in China has been slower and even reversed in some years, coinciding with stagnation in the rural economy. Country-wide, the rapid growth of agricultural productivity halted at mid-1980s, and China's agriculture and rural economic development stagnated. Comparing the period 1986-1993 with 1978-1985, growth rate in the per-capita value added from agriculture dropped from 9.7 percent to 3.4 percent, and the growth rate of net income per capita fell from 12.2 percent to 2 percent. The decline on both fronts was closely associated with the relative decrease of agricultural prices and deteriorating rural-urban terms of trade in late 1980s and early 1990s. Farmer's annual net income per capita even declined in some years, and the income inequality gap between urban residents and rural resident widened. By some estimates, poverty reduction programs on average contributed 1 percentage point to farmers' income and consumption growth. By 1994, poverty rate was at 18 percent at the \$1/day level or, measured at the official poverty line, 80 million of rural population remained poor, lower by 45 million compared to 1985.

The 8-7 Plan (1994-2000)

In 1994, the Government introduced the "8-7 Plan" (National Plan for Poverty Reduction), aspiring to lift the majority of the remaining 80 million poor above the government's poverty line during the seven year period 1994-2000. The diminishing pace and increasing difficulties in poverty reduction (Figure 1) revealed that greater determination and effort are needed to solve the food and clothing problem of the remaining 80 million rural poor population. The 8-7 Plan was introduced to intensify the poverty reduction policies that had commenced in the second half of 1980s.

The 8-7 Plan outlined several objectives. It aimed at 1) assisting poor households with land improvement, increased cash crop, tree crop and livestock production, and improved access to off-farm employment opportunities, 2) providing most townships with road access and electricity, and improving access to drinking water for most poor villages, 3) accomplishing universal primary education and basic preventive and curative health care, 4) graduating better-off counties in the coastal provinces from the newly-established list of nationally-designated poor counties, 5) managing well available funding, with attention to the appraisal and financial viability of poverty reduction investment activities, recovery of loan funds and leakage of poverty reduction funding to alternative activities, and 6) enlisting involvement and support from all government ministries and agencies, the coastal provinces and major municipalities, and other domestic and international organizations. In implementing the 8-7 Plan, the Government refined its selection of "poor" counties and emphasized the responsibility of local government leaders for the effectiveness of

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poverty reduction work in their jurisdictions.³ Since 1997, annual funding for poverty reduction jumped by over 50 percent in real terms, which reversed a decade of decline in real funding for poverty reduction in China. The 8-7 Plan maintained the three channels of interventions launched in 1986: subsidized loans program, food-for-work program and government budgetary grants. Subsidized loans program accounted for the greatest increase in funding.⁴

Analysis indicates that the 8-7 Plan had a positive impact on the designated “poor” counties. Our empirical analysis indicates that the allocation of poverty funds across the official designated “poor” counties under the 8-7 Plan was correlated with poverty incidence, namely the poorer counties received more funding. Our analysis also suggests that although the efficiency of poverty investments has been declining, designated poverty reduction funds under the 8-7 Plan achieved rate of return over 10 percent.

³ Accountability of local government leaders for poverty reduction performance was confirmed as the “poverty reduction responsibility system” in the 1996 National Poverty Reduction Conference.

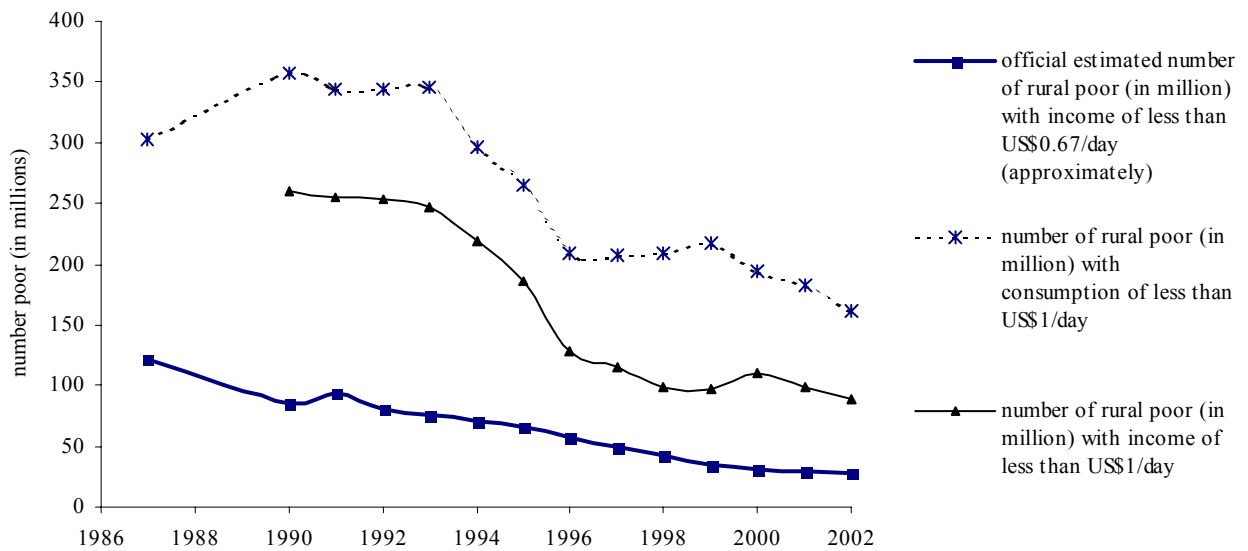
⁴ Subsidized loans program was mainly financed through the banking system, with its fiscal cost visible only many years later when banks have require capital injection. This fact made it politically easier to expand the subsidized loans program, compared to the programs financed directly from the government’s own budget.

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Poverty reduction in China accelerated, particularly during 1994-1996. Using the official poverty line, the number of rural poor declined from 80 million to 32 million between 1993 and 2000, or at an annual rate of 12.3 percent, which is 3.6 percent points higher than the average poverty reduction rate over the entire post-1978 reform period. Measured by \$1/day income, the total number of poor dropped from 266 million in 1993 to 111 million in 2000 at an annual rate of 11.7 percent. Finally, at \$1/day consumption, the number of poor decreased from 344 million to 195 million, at an annual rate of 7.8 percent. Fast poverty reduction during the 8-7 Plan period was

a joint effect of economic growth (which was directly supported by the 8-7 plan), agricultural price increases (related to the 1994-1996 government procurement reform), rural-urban migration and poverty reduction efforts. As Figure 2 illustrates, according to some poverty measures, the greatest effect on poverty reduction under the 8-7 Plan period was realized during 1994-1996, mainly as a result of the procurement reforms, which raised agricultural prices and boosted rural growth. Box 1 discusses China's poverty reduction performance in the context of the Millennium Development

Figure 2. The Numbers of Poor in China, 1986-2002



Source: NBS and World Bank

Note: China's official poverty line is about two-thirds of the \$1/day income poverty line. The gap between the \$1/day income measure and the \$1/day consumption measure suggests that rural households accumulate savings, possibly reflecting the requirement to cover relatively high, both anticipated and unanticipated, fees for schooling and health care.

Box 1. Contribution of China's poverty reduction to the world MDGs

China's achievements in rural poverty reduction have contributed greatly to the world poverty reduction efforts and have become the determinant factor in the effort to fulfill the Millennium Development Goals (MDGs). Measured by \$1 one-day international poverty line, the world poor population was 1.28 billion in 1990 and still as high as 1.17 billion in 1999, decreasing at an annual rate of 1 percent. Poor population in South Asia, Eastern Europe and the Middle Asia, South Sahara Africa, and the Middle East and North Africa increased over this period. The only region with dramatic poverty reduction is East Asia and Pacific region where China locates. Poor population in this region declined from 450 million in 1990 to 270 million in 1999, decreasing at a rate of 5.5 percent (The World Bank, 2001). Poor

Goals.

There was also steady progress in human capital development in China in the 1990s. By 2001, adult literacy rates had risen to 85 percent, and enrollment rates to 99 percent (net) in primary schools and to 89 percent and 44 percent (gross) in junior and senior secondary schools, respectively. During 1980-2001, the average years of schooling in the 15-64 year age group rose from 5 to 8 years. In terms of educational attainment, the share of population with primary schooling remained at about 35 percent, but the shares increased from 15 percent to 34 percent for those with junior secondary schooling and from 6 percent to 11 percent for those with senior secondary and technical schooling.⁵ Major progress was also achieved in health, with China overhauling lower middle-income standards by 2001. Average life expectancy at birth reached 70 years, infant mortality declined to 3.1 percent, and under-5 mortality fell to 3.9 percent. The share of one-year olds fully immunized against tuberculosis and measles reached 98 percent. Nearly 85 percent of the population has gained access to essential drugs and less than 10 percent are undernourished.⁶

Notwithstanding improvements in both rural and urban areas, rural-urban and coast-interior disparities in human development have widened. Schooling is on average 2-3 years longer in urban areas compared to rural areas. In 2000, the enrollment rate in senior secondary schools was 34 percent in Central and West China, compared to 50 percent in East China, with fewer qualified teachers in poorer localities.⁷ In health, the gap between rural and urban indicators has remained striking (Table 1).

Table 1. Recent Trend in Health Indicators

	Infant Mortality		Under 5-Year Mortality		Maternal Mortality	
	Rural	Urban	Rural	Urban	Rural	Urban
1991	58	17	71	21	100	46
1992	53	18	66	21	98	43
1993	50	16	61	18	85	39
1994	46	16	57	18	78	44
1995	42	14	51	16	76	39
1997	38	13	49	16	80	38
1998	38	14	48	16	74	29
1999	38	12	48	14	80	26
2000	37	12	46	14	70	29

Source: China Health Statistical Digest. 2001

⁵ In 2001, enrollment to tertiary schools was 13 percent (up from 2 percent in 1980) and 4 percent of the population had education college or above, up from less than 1 percent in 1980.

⁶ United Nations (2002).

⁷ Drop out rates were significantly higher in poor localities where tuition fees and the cost of textbooks appear to be the main cause.

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Moreover, the improvements in rural areas slowed in the mid-1990s.

Poverty Reduction Strategy in the New Century (2001-2010)

Learning an important lesson from the “8-7 Plan”, the Chinese Government launched a New Century Rural Poverty Alleviation Plan for 2001-2010. During the 1990s, China’s rural poor population shrunk in scale and further concentrated in western regions (Table 2 and 3). Within the western regions, however, poor households are relatively scattered in poor villages rather than concentrated in poor counties. Based on the official rural poverty line, rural poverty incidence dropped to 3.0 percent in 2002 and under 9 percent even in poor counties. Poverty reduction targeting poor counties was proven no longer efficient.

The new plan is targeting poor villages rather than poor counties, emphasizes human capital and social development in poor localities and promotes participatory poverty reduction approaches. China’s Rural Poverty Reduction and Development Compendium (2001-2010) was formed and issued in 2001. Villages have been made the basic targeting unit, and poverty reduction investments would cover poor villages in non-poor counties while the list of poor counties has been updated to focus more on the western regions. The new plan emphasizes the development of science and technology, education, culture, and health, recognizing that sickness has been the principal factor pushing rural households into poverty. Furthermore, the new plan calls for participatory poverty reduction approaches and village-based comprehensive development and overall progress (LGPR, 2001; Gao, 2001). Finally, the new plan has recognized that rural-urban migration is a

Table 2 Rural Poverty by Province, 1999 (%)

	Share of China’s rural poor	Provincial rate of rural poverty
Yunnan	9.4	8.1
Guizhou	9.1	9.0
Sichuan	7.4	3.4
Henan	6.8	2.9
Shanxi	6.4	8.0
Shaanxi	5.8	6.7
Gansu	4.7	7.0
Hunan	4.6	3.0
Guangxi	4.5	3.6
Hebei	4.1	2.6
Jiangxi	4.0	3.7
Chongqing	3.8	5.3
Hubei	3.7	2.8
Xinjiang	3.7	7.7
Anhui	3.4	2.2
Inner Mongolia	3.3	5.6
Heilongjiang	3.0	4.3
Liaoning	2.9	4.2
Jilin	2.4	4.8
Shandong	2.1	1.1
Qinghai	1.6	12.6
Tibet	1.1	20.6
Ningxia	1.1	9.6
Zhejiang	0.8	0.7
Jiangsu	0.6	0.4
Fujian	0.3	0.3
Guangdong	0.2	0.1
Beijing	0.1	0.6
Hainan	0.1	0.6
Tianjin	0.1	1.1
Shanghai	0.0	0.0

Note: Based on NBS household survey and official poverty line. National average rate of rural poverty is 3.5 percent.

Table 3 Rural and Urban Poor by Region, 1999 (%)

Regions	Share of China’s rural poor	Share of China’s urban poor
Western Provinces	46.6	23.0
1 Central Provinces	42.1	46.2
Coastal Provinces	11.3	30.8

Note: Based on NBS household survey and official poverty line.

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critical avenue for poverty reduction and new policy initiatives are making it easier for rural inhabitants to benefit from new job opportunities arising in China's towns and cities.

Objectives, Measures and Organizational Structure of the 8-7 Plan

Objectives

The overall objective of the 8-7 Plan was to lift the majority of the remaining 80 million poor above the government's poverty line during the seven year period 1994-2000. The plan sought to pool human, material and financial resources and mobilize all sorts of social forces to resolve the food and clothing problems of most of the remaining 80 million rural poor (the Leading Group for Poverty Reduction and Development, 1993).

The 8-7 Plan also set a number of specific targets. These include:

- the annual net income per capita for the majority of the poor households to exceed RMB500 (at 1990 constant price)
- where permitted, each person be provided 0.5-1 mu basic farmland with steady high yield
- each household to plant 1 mu orchard or cash crop
- each household to have 1 person employed off farm, locally or in more developed regions
- each household to undertake livestock production or other production
- each household in pastoral area to possess one piece of enclosure grassland or one grass storehouse
- poor townships to solve drinking water problems of human and livestock
- poor townships to establish local markets and link main commodity producing areas with highroads
- poor townships to have access to electricity
- children to obtain at least primary education and most young and middle-aged population to become literate and grasp practical skills
- poor townships to promote adult vocational education and technical training
- poor townships to improve health and sanitation conditions, prevent, cure and reduce endemic diseases, and prevent disabilities
- townships to implement family-planning policy and reduce population growth rate

Measures

Based on its experience with the targeted poverty reduction programs of 1986-1993, the Government put forward a large set rural poverty reduction measures under the 8-7 Plan. The measures focused on providing opportunities by building assets for the poor. The main poverty reduction measures brought forward in the 8-7 Plan included:

- Officially designate 592 national “poor” counties, which accounted for 27 percent of all county level units in China, to receive the majority of the poverty reduction resources from the central government.
- Assign poverty reduction responsibility to the local governments and put leaders of the provincial and autonomous region governments in charge of poverty reduction activities.
- Establish a framework for East-West counterpart poverty reduction activities, and demand large cities like Beijing, Tianjin, and Shanghai, and relatively developed coastal provinces, such as Guangdong, Jiangsu, Zhejiang, Shandong, Liaoning, and Fujian, to assist one or two poor western provinces or regions.
- Divide poverty reduction responsibilities among government departments, and specify their poverty reduction tasks.
- Expand and strengthen poverty reduction efforts, and demand that party and government departments at the central and local levels as well as enterprises and government-supported organizations sponsor several specified poor counties each.
- Raise spending on poverty reduction in line with the growing financial capacity of the government.
- Make adjustments in the allocation of poverty funds to benefit poor localities in western provinces.
- Introduce tax reduction policies (a refund) for newly established enterprises in revolutionary base areas, minority regions, border areas, and other poor localities.
- Encourage international and nongovernmental organizations to contribute to poverty reduction in China.

Policy Adjustment During Implementation

Measures and programs of the 8-7 Plan have been regularly evaluated and adjusted to improve effectiveness. In September 1996, the Government convened the highest-level poverty reduction

conference to review the experience and lessons learnt under the 8-7 Plan. Several policy adjustments were adopted as a result, including the following:

- Strengthen the responsibility of local governments for poverty reduction performance, establishing the principle of “four to provinces”, which meant “funds to provinces, power to provinces, tasks to provinces, responsibility to provinces”, and stating that local government officers who fail to accomplish poverty reduction objective would be dismissed.
- Significantly raise poverty reduction funds.
- Designate ten pairs of counterpart provinces, autonomous regions and municipalities, asking the coastal provinces and municipalities to support poor western provinces and autonomous regions in a comprehensive manner.
- Completely withdraw government poverty reduction support from designated “poor” counties located in eastern provinces, and require local governments in eastern provinces to use their own resources to solve the localized poverty problems.
- Promote micro-credit programs.
- Strengthen targeting of poor households.
- Consider poverty problems of particular social groups, such as individuals with disabilities and women.
- Improve poverty monitoring, assigning the National Bureau of Statistics (NBS) the responsibility to monitor the economic and social development and poverty reduction investments in the 592 poor counties, and publish a poverty monitoring report.

Organizational Structure

To implement the 8-7 Plan, the Government set up a comprehensive organizational system. The system encompassed many different government ministries, departments and agencies at the local as well as the central levels, with LGPR at its top (Figure 2).

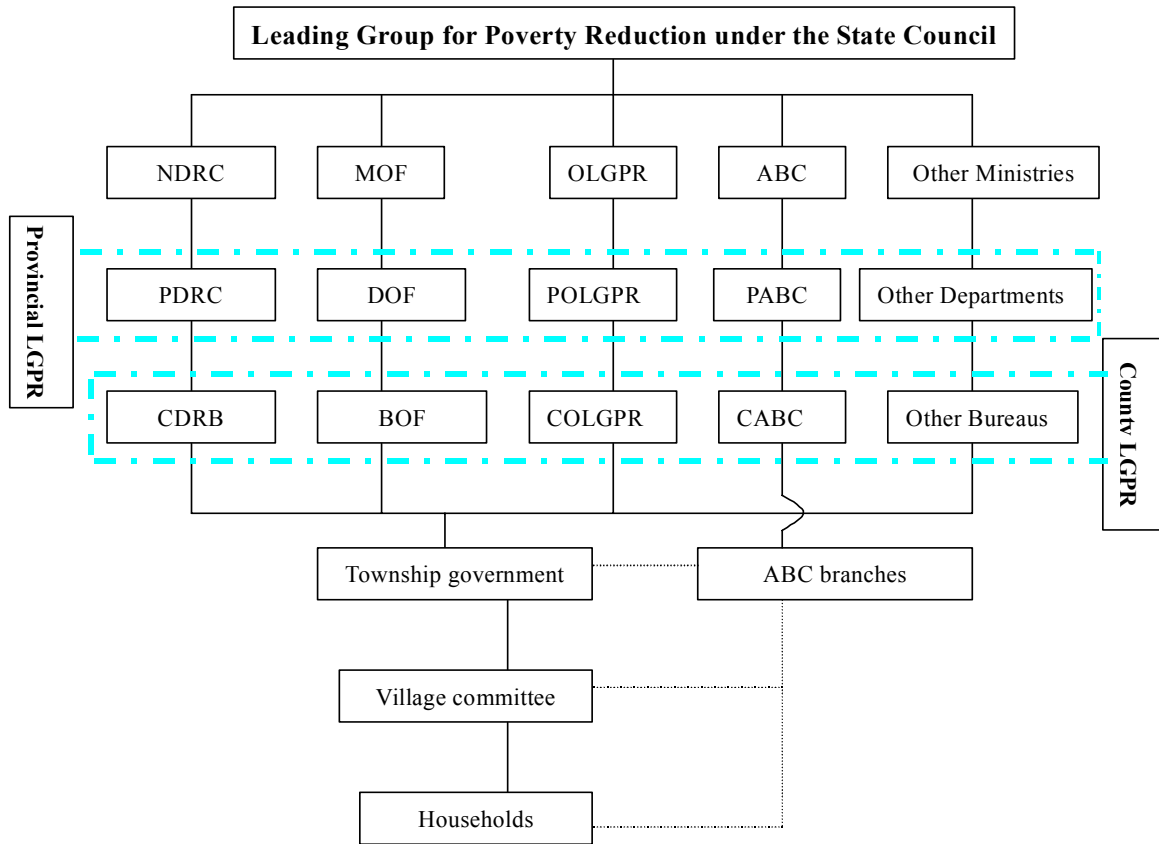


Figure 2. Organizational structure for China’s rural poverty reduction

N(P)DRC-the National (Provincial) Development and Reform Commission

CDRC-the County Development and Reform Bureau

MOF-Ministry of Finance; DOF-Department of Finance; BOF-Bureau of Finance

OLGPR-Office of the Leading Group for Poverty Reduction

P(C)OLGPR-Provincial (County) Office of the Leading Group for Poverty Reduction

ABC-Agricultural Bank of China; P(C)ABC-Provincial (County) Agricultural Bank of China

The Leading Group for Poverty Reduction and Development under the State Council, established in 1986, is China’s highest authority in charge of poverty reduction. Its main responsibility is to design China’s poverty reduction policies and programs, allocate poverty reduction funds, and coordinate the relationship among the different ministries, departments and agencies participating in poverty reduction. The LGPR is a non-standing body. It is usually led by a vice premier or a member of the State Council and, as his deputies, includes the deputy heads are deputy directors (vice ministers) of the General Office of the State Council, the National

Development and Reform Commission, the Ministry of Finance, the Ministry of Agriculture, the State Economic and Trade Commission, and the vice governor of the People's Bank of China. LGPR's members are the vice ministers of the other (over 20) ministries.

The Office of the Leading Group for Poverty Reduction and Development (OLGPR) is LGPR's permanent working body in charge of the day-to-day operations. It is responsible for: 1) conducting poverty surveys and research on China's rural areas and on the effect of government poverty reduction programs and suggesting policy implications to LGPR; 2) preparing the plan of fund allocation and schemes for subsidized loans; and 3) collecting data on the performance of poverty reduction programs (e.g., on the allocation, use and repayment of poverty reduction credit funds).

Poverty reduction organizations at the provincial, prefectural and county levels mirror those of the central government. At each level an LGPR is formed, with an OLGPR set up underneath. County-level OLGPR play a critical role in the final utilization of poverty reduction funds.

The majority of government ministries, departments and agencies in China have been involved in rural poverty reduction activities and thus have become a part of the national poverty reduction system. For instance, the Ministry of Education has been responsible for managing compulsory primary education projects and the Ministry of Health for improving health and hygiene in poor regions. Party and government organizations, large state owned enterprises and agencies attached to and financed by the government have shared the responsibility for poverty reduction in their assigned poor counties.

The Implementation

Fund Allocation

The allocation of poverty funds mainly reflected the numbers of poor counties and poor population in each province and the bargaining power of local governments. In line with the principle of "four to provinces" since 1997, poverty funds have been distributed from the central government to the provincial governments according to a set of weighted factors. Among these factors, the number of poor residents has the greatest weight. Other factors included: rural net income per capita, local

economic resources, GDP per capita, and factors of policy adjustment.⁸ In the following years, allocations were adjusted on an incremental basis and reduction in poverty funds allocated to a province has been considered politically sensitive.

Within provinces, allocation to counties followed different criteria. Generally, provinces allocated poverty funds across specific projects submitted directly by county governments in a competitive process. Several provinces developed and applied weighted factors, but provincial governments have still directly approved individual projects as well as the overall fund distribution. The allocated funds have then been transferred via the respective prefectures (cities) directly to poor counties. All funds were to be used for the approved projects within the county.

Empirical analysis suggests that the allocation of poverty funds to counties has been significantly correlated with their level of poverty incidence. We have conducted the analysis using the NBS county level data collected from the Rural Poverty Monitoring Survey and an OLS regression model, considering poverty funds of the different sources for the period 1998-2001.⁹ Regression results are presented in Annex 1. The results suggest that, except for investment from other sources, fund allocations have been significantly and positively related to the level of poverty incidence in counties. Specifically, one percent point increase in poverty incidence is associated with an increase of RMB0.76 in the total poverty funds per capita, RMB0.90 in the central government total poverty funds, and RMB0.46, 0.20, 0.23 in subsidized loan, FFW and budgetary grants from the central government, respectively.

Large counties seem to have been disadvantaged in poverty fund allocation. Our empirical analysis indicates that the allocation of poverty funds is negatively correlated with the size of rural population. Namely, an increase in rural population by ten thousand reduces poverty funds by RMB2.44 per capita.

Another interesting result of our empirical analysis is that although revolutionary base counties had been favored in the process selecting “poor” counties, they received relatively lower poverty funds. Specifically, revolutionary base counties received on average RMB26 per capita

⁸ These factors were somewhat simpler from those listed in the Management Rules for Fiscal Poverty Alleviation Funds, which also covered the number of the poor counties in a province, natural and local economic resources, the conditions of infrastructure, and the efficiency of fund use

⁹ Among 592 poor counties, 532 counties have complete data for all four years. Provincial dummies are included in all regressions.

less than non-revolutionary counties after controlling for poverty incidence and county characteristics. The gap appeared mainly in the allocation of subsidized loan and FFW funds.

Minority counties and inland border counties received relatively more poverty funds. Minority counties on average received RMB14 per capita more than non-minority counties, mainly from subsidized loan and budgetary grants. Inland border counties obtained on average RMB67 per capita more than other counties. Finally, our analysis suggests that topography, namely the presence of highland and mountainous areas, is not significantly correlated with poverty fund allocation.

Some provinces seem to have been favored in the allocation of poverty funds from the central government. In our analysis, many provincial dummies took large and significant coefficients. Compared with Hebei, even after controlling for poverty incidence, population size, geography and minority status, Shanxi, Inner Mongolia, Liaoning and Yunnan have been disadvantaged, while Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan, Guangxi, Hainan, Chongqing, Sichuan, Gansu, Qinghai, Ningxia and Xingjiang have been favored. For example, poor counties in Qinghai and Sichuan received RMB211 and 164, respectively, more on per capita basis than poor counties in Hebei.

Fund allocation among sectors was in favor of production activities and infrastructure construction. Between 1998 and 2001 and in 519 poor counties, 46 percent of poverty funds were allocated to agriculture, 20 percent to infrastructure, 14 percent to industry, 6 percent to transportation and 3 percent to education and health care. This related to the 8-7 Plan's emphasis on raising income generation capacity of the designated "poor" counties within the relatively short, 7-year time horizon. The short time horizon obviously underestimated the needed fund allocation to rural education and health, which are critical to raising income generation capacity of poor families in the longer term.

The Main Types of Poverty Programs

The 8-7 Plan mainly included three types of poverty programs: subsidized loans program, food-for-work program and government budgetary poor area development fund grants.¹⁰ Subsidized loans covered both households and enterprises in industry and agriculture, food-for-work program was utilizing surplus farm labor to develop infrastructure, and government

¹⁰ Additional support for poor areas has been provided through earmarked grants for education, tax incentives, a revolving fund, and budgetary subsidies.

CASE STUDIES IN SCALING UP POVERTY REDUCTION

budgetary grants supported investment in poor areas across all the sectors. The programs were expected to boost economic growth in poor areas and directly benefit the poor. The central government provided on these programs a total of RMB124 billion (US\$14.9 billion), annually accounting for 5-7 percent of total central government expenditures. The annual funding increased sharply since 1997, when it jumped to RMB17.9 billion from 11.1 billion in 1996 (Table 4). Most of the funds were allocated to 592 designated “poor” counties. The local governments provided matching funds for FFW program and government budgetary grants. Under the 8-7 Plan, matching funds accounted for about one fourth of the total poverty reduction spending.

Table 4. Allocation of Poverty Funds (RMB billion)

Year	Subsidized Loans		Food for Work		Budgetary Grants		Sub-total	
	Current price	1986 constant price	Current price	1986 constant price	Current price	1986 constant price	Current price	1986 constant price
1986	2.3	2.3	0.9	0.9	1.0	1.0	4.2	4.2
1987	2.3	2.1	0.9	0.8	1.0	0.9	4.2	3.9
1988	3.1	2.4	0.0	0.0	1.0	0.8	4.1	3.2
1989	3.1	2.0	0.1	0.1	1.0	0.7	4.2	2.8
1990	3.1	2.0	0.6	0.4	1.1	0.7	4.8	3.1
1991	3.6	2.3	1.8	1.1	2.4	1.5	7.7	4.9
1992	4.1	2.5	1.6	1.0	2.6	1.6	8.3	5.0
1993	3.5	1.9	3.0	1.6	2.8	1.5	9.3	5.0
1994	4.6	2.0	4.0	1.8	2.9	1.3	11.5	5.0
1995	4.6	1.7	4.0	1.5	2.8	1.1	11.4	4.3
1996	5.5	2.0	4.0	1.4	1.6	0.6	11.1	4.0
1997	8.5	3.0	4.0	1.4	5.4	1.9	17.9	6.4
1998	10.0	3.7	5.0	1.8	5.2	1.9	20.2	7.4
1999	15.0	5.7	6.0	2.3	4.7	1.8	25.7	9.7
2000	15.0	5.8	6.0	2.3	5.5	2.1	26.5	10.2
2001	18.5	7.2	6.0	2.3	6.0	2.3	30.5	11.8
2002	18.5	7.2	6.0	2.4	6.6	2.6	31.1	12.2
Total	125.3	55.8	53.9	23.1	53.6	24.3	232.7	103.1

Different agencies funded and managed different poverty programs. OLGPR and the Agricultural Bank of China (ABC)¹¹ managed subsidized loans program. For this program, People's Bank of China (PBC) and, since 1997, ABC, provided the credit funds, with Ministry of Finance (MOF) only covering the cost of the interest subsidies. ABC managed the funds. The State Development Planning Commission (SDPC, recently renamed as the National Development and Reform Commission) managed the FFW program, and MOF managed the budgetary grants. In this situation, departmental administrative frameworks and interests often guided the distribution and utilization of poverty funds. Funding for the budgetary grants and, since 1997, also for the FFW program came from the central government budget.¹² Funds provided by the central government required matching by provincial and county governments.

Subsidized Loans

The subsidized loan program, accounting for over one half of the total poverty funds under the 8-7 Plan, aimed at supporting the production activity and economic development of poor areas and the poor households directly. Subsidized loans could only be used for investment, not consumption.

The aggregate amount of funds designated for subsidized loans was allocated by PBC to the provincial ABCs based on LGPR's annual allocation plan for subsidized loans. According to LGPR's fund allocation scheme, the provincial ABCs then made allocations to the prefectural and county ABCs. County-level ABCs worked closely with county-level OLGPRs and managed the final allocation and utilization of the subsidized loans. Specifically, to qualify for subsidized loan, a project needed first to be approved by county-level OLGPR, and then confirmed by county-level ABC, which could reject the project based on its risk.

¹¹ ABC is a state-owned bank in charge of various policy functions, including the allocation, management and recovery of *subsidized loans* under the 8-7 Plan. With the rapid commercialization of ABC in recent years, ABC is gaining more independency in managing the subsidized loans.

¹² In the 1980s, the FFW program made use of left over commodity stocks. The poor areas needed to secure the state-allocated commodities from coastal and other developed areas and then to distribute them across the project implementation units, which would sell the commodities at the local markets or distribute them directly to the poor. Later, recognizing the high cost of transporting the commodities from the coastal to the western areas, the government let the commodities be sold in places of their origin and the cash remitted into the poor areas, where the responsible planning committee office would distribute the cash across the implementation units. This arrangement continued until 1997.

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Ensuring that subsidized loans bring long-term benefits, however, has proven to be extremely challenging and the Government has tried different approaches to increase the program's effectiveness. When the subsidized loan program started in 1986, subsidized loans were issued directly to poor households. This was based on the Government's belief that lack of available capital and restricted access to the formal credit system constrained the ability of poor farmers to generate more income. Therefore, in the first phase of lending, subsidized loans – along with technical assistance and other services – were offered directly to poor households to develop cropping, animal husbandry, and agricultural processing. An official survey at the end of 1987 showed that in the first year of the program, 92 percent of subsidized loans reached directly or indirectly farm households.

In 1989, the allocation of subsidized loans switched from households to county and township enterprises. The switch reflected government findings that most poor households failed to make good use of subsidized loans because they lacked the necessary technological and management ability and could not achieve economies of scale in their economic activity. LGPR therefore adjusted its policy to encourage the development of economic entities (*jingji shiti*) for assisting the poor. Economic entities with at least half of their employees from poor households qualified for subsidized loans. The new policy was expected to improve the effectiveness of subsidized loans as well as improve repayment rates. Data shows that since 1989, over 70 percent of subsidized loans was distributed to economic entities (Wang, Park and Wu, 1999).

The poverty impact of subsidized loans to enterprises fell short of expectations and, since 1996, subsidized loans again directly targeted poor households. Many of the supported rural enterprises were capital intensive, loss making firms with minimal poverty reduction impact. Many industrial projects built with subsidized loans failed due to technical, management and market limitations. As a result, the repayment rate on subsidized loans did not improve. At the 1996 national poverty conference, the Chinese government decided to return the focus of subsidized lending on poor households for cropping and animal production. Furthermore, the government began experimenting with using the subsidized poverty loan funds for micro-credit activities. By 2001, these experiments involved total investment of about RMB3.8 billion and used variations of the Grameen Bank approach, which has been employed successfully in other countries and in programs promoted by UNDP, several bilaterals and NGOs in China.

Efficiency problems have been endemic under the subsidized loans program. The goal of the program to both reach the poor and promote economic development has led to sometimes conflicting objectives for local officials trying to carry out the program. Local government officials

have been aware that past performance is a criterion for more future loans, so they have tended to pick projects that they perceive as bringing higher financial benefits regardless of whether or not such projects help reduce poverty. Favorable terms and large size of subsidized loans leads to strong competition from the non-poor. A number of factors contribute to the preference for lending to enterprises and richer households: First, there is a common perception that the poor are less capable of managing projects successfully. Second, procedures for loan application and approval are complicated, which tends to discourage poor applicants. Third, to guarantee repayment of the loans, ABC requires physical collateral (other than the land use rights available to farmers), which often leads to exclusion of poor households. Fourth, ABC's obligation to bear the burden of the repayment risk conflicts with its role as a commercial bank, and creates an incentive to divert loans to commercial purposes and to richer households. Since 1998, ABC has passed the repayment risk to local governments, which in turn have passed the risk to village councils. This makes village councils hostile to lending to poor households. Monitoring and supervision difficulties under the programs have further exacerbated these problems. (World Bank, 2001)

Food for Work

The FFW program, accounting for 23 percent of the total poverty funds, aimed at making use of surplus labor in poor areas mainly to build infrastructure in poor areas. The program was to deliver roads, farmland, pastures, water conservancy, drinking water facilities, and forestation, while directly providing job opportunities and income for the poor. It was expected to raise short-term poverty assistance and long-term development capacity.

SDPC's Poverty Alleviation Office was responsible for designing the FFW's allocation plans, application rules, and financial management regulations. SDPC submitted these to LGPR for approval. Provincial, prefectural and county governments established FFW offices to coordinate the relationships among the various departments contributing to FFW. In this process, the types of investment (for example, water, roads, land improvement) were determined by national and provincial governments. County governments selected the villages to participate in the program, and village committees decided the allocation of project investments (for example, which areas should be terraced) and labor contribution. Project costs were paid in kind. SDPC directly distributed material coupons to the project implementation agencies (such as the traffic bureau, or the water conservancy bureau). The coupons could be exchanged for grain, cloth and daily necessities. Supplies of these commodities were managed by state-run commercial departments (such as the grain bureau, or the commercial bureau). In some cases, food coupons could be exchanged for cash through a state commercial bank.

Box 2 Rural Roads to Alleviate Poverty

Rural roads and transport services have been associated with rural poverty alleviation. In the late 1990s, Henan province, like many others, invested into building rural roads in low income counties to better integrate local rural economies with outside markets and to improve access of rural residents to education, health and other services. During 1996-99, with the new roads in place, these counties saw their agricultural production reach outside markets and grow by 35 percent, with the production of medical herbs, mushrooms and chestnuts rising by 80 to 320 percent. Facilitated by the new transport network, off-farm employment surged in services (with employment in services rising by one third, mainly in logistics, commerce and tourism), in mining (granite and marble doubled their output during 1996-99), and in the processing industries. New job opportunities have emerged and clustered in towns and townships. This was supported by urbanization and new bus transport links facilitated commuting and migration. Closer contacts with the outside world brought information, knowledge and ideas, which contributed to enhancing crop selection and technologies, supported entrepreneurship, and further boosted migration. Partly as an indirect effect of the new road network, income per capita increased by 30 percent and the number of poor dropped by over 40 percent in the affected counties. Through the positive income effect as well as directly, the new roads have been associated with higher enrollment and completion rates at local schools (numbers of students in senior and junior high schools rose by over 30 and 20 percent respectively, and villages in Qinba Mountain Areas reported enrollment rates rising from about 40 to 90 percent). The social impact of these road investments has been positive also because these investments were closely coordinated with other developmental policies, including investments to improve access to safe water, electricity, and telephones.

Source: Highway Bureau in Henan Communication Department, Zhengzhou, Henan.

Implementation of the FFW program was complicated by the shortage of matching funds at the local level. In most cases, provincial and county governments were unable to provide the required matching funds. This meant that central funds covered the cost of construction inputs, and labor contributions from villagers were required on voluntary basis.¹³ Some 40 percent of labor used for FFW construction was estimated to be free labor. Most assessments indicate that the selection of individual participants for FFW was done in an equitable manner. Generally, each household was assigned a certain number of days of FFW work. Richer households sometimes chose not to participate and contribute cash instead.

Available analyses indicate that the FFW program did a relatively good job in constructing infrastructure that has benefited poor areas, but could have done better in immediate poverty

¹³ In most areas of rural China, villages operate a “work day contribution system,” with each villager obligated to work a certain number of days annually. FFW labor contribution was deducted from this annual requirement.

alleviation. Improvements in rural infrastructure – particularly in transport, irrigation, and flood control – have indirectly contributed to rural poverty reduction (Box 2). According to some analysts, villages with more favorable economic conditions, those in remote areas, and those with larger populations were more likely to receive FFW funds in the early years of the program. By mid-1990s it appeared that the FFW program could have higher impact on the poor if poorer villages had been targeted. Furthermore, the program would have benefited the poor more if all the work were paid, even if this would have reduced the total amount of infrastructure built.

International experience has shown that public works schemes, using wage rates below the current wage, are very effective in alleviating poverty and in protecting those who have escaped poverty from falling back below the poverty line. Using FFW as part of a public works scheme could form an important part of China's emerging social safety net. (World Bank, 2001)

Budgetary Grants

Government budgetary grants, accounting for 23 percent of the total poverty funds, supported investment in poor areas. The majority of these funds was used to support the productive construction projects, small-scale infrastructure, basic education and health care, culture promotion, science and technology extension, training and industry promotion in poor areas.

The primary responsibility for budgetary grants was with MOF. MOF prepared its annual allocation plans for budgetary grants and, once approved by LGPR, transmitted the funds to the provincial departments of finance. Provincial departments of finance allocated these funds to county finance bureaus, based on the respective provincial plan. County finance bureau managed the final disbursement of these funds, cooperating with the respective sectoral county government departments, which managed construction projects. Similarly as under the FFW program, provincial and county governments often fell short of providing the required matching funds.

Budgetary grants have been relatively effective. Their effectiveness could have been improved by measures to limit their diversion toward administrative expenditure, to assign clearer authority over their use, to ensure their predictability and timely distribution, and to synchronize their provision with projects under the subsidized loan and FFW programs.

Departmental Efforts

In 1996, the Chinese Government set up a separate fund, *national compulsory education project*, to support basic schooling conditions in the poor counties. The project covers the construction of new primary and secondary schools, enlargement and repairs of old schools, purchases of desks, chairs, books and equipment, and training of teachers and principals. The project encourages local

governments in poor counties to merge small schools and provide boarding facilities for students to improve the quality of schooling and reduce the numbers of small schools and teachers. The Ministry of Education (MOE) is in charge of the project funds and the county education bureaus are responsible for project implementation. In the first five-year project period, the central government provided under this project a total of RMB3.9 billion to 568 national designated poor counties and 284 provincial designated poor counties. Matching funds have been required but often not available.¹⁴

Fixed-target poverty alleviation effort involves support to the officially designated poor counties that is extended by party and government bodies, agencies and social organizations from their own resources. The purpose has been to mobilize government departments, state enterprises and institutions, and social organizations to participate in poverty alleviation and to fill the gaps in the input from the central authorities on as needed basis. Until 1998, 122 central party and government bodies, enterprises and institutions and social organizations had taken part in fixed-target poverty alleviation work, granting support to 369 poor counties in total. Since then, a total of 138 units have been extending support to 350 poor counties. Departments that provide most support include the Ministry of Agriculture (21 counties), the State Forestry Bureau (16 counties), the Commission for Science, Technology and Industry for National Defense (16 counties), the Ministry of Communications (11 counties), the ABC (11 counties), the China Association of Sciences and Technology (8 counties), the China National Construction Corporation (8 counties), the Ministry of Water Resources (7 counties), the State Development Bank (7 counties), the Ministry of Science and Technology (6 counties) and the Ministry of the Information Industry (6 counties). Usually the poor counties supported by a participating unit are concentrated in one or two regions. For example, the fixed-target poor counties supported by the Ministry of Agriculture are all located in Wuling mountain areas, and poor counties supported by the Ministry of Water Resources are all located in the Three Gorges area, within Chongqing Municipality. The

¹⁴ The second phase (2001-2005) project began in 2001, covering 522 poor counties with the emphasis on mountainous, pastoral, border and minority areas (especially minority areas where the total population is under 100 thousand). The project has added subsidies for poor students, now accounting for 10 percent of its cost. Central government subsidies have been mainly used to cover the textbook cost. Local governments are required to provide matching funds for tuition exemption and boarding fee deduction. Under the project budget, 60 percent has been designated for school construction, 10 percent for IT and electronic equipment, 10 percent for desks, chairs, book and other equipment, and 10 percent for school teacher and principal training.

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participating units generated the needed funds by diverting funds from other activities, by saving their own extra-budgetary revenues, and by collecting personal donations of their own employees. During 1998-99, units participating under the fixed target efforts contributed to poor counties direct investments of RMB1.37 billion, cash and in kind donations of RMB114 million, and funds introduced from other sources of RMB 6.88 billion (NBS, 2000).

Fixed-target poverty alleviation approaches and projects have been closely linked with the own professional services of the respective participating units. The Ministry of Agriculture's efforts in the Wuling mountain area, for example, have focused on agricultural development, while the Ministry of Health has focused on the control of epidemic diseases and on the construction of grassroots health care units. Ministry of Water Resources has focused mainly on providing drinking water for the local inhabitants and livestock, water and soil conservation, small farmland irrigation facilities and the development of hydropower. The Ministry of Water Resources has provided support and policy preferences to poor areas as part of large state and ministry projects. The state rural county electrification project in the rural water conservancy and hydroelectric development plan is an example. The project itself was a state project assigned to the Ministry of Water Resources for implementation. The ministry chose a number of key counties in its fixed-target designated localities as places in which to implement the development plan.

Overall, the fixed-target poverty alleviation program emphasized support to education, training, health care and other social services. If a particular participating unit could not directly involve their professional services in the poor counties, it has shifted its focus to support to culture, education, training, health care and other social services. Even those participating units that have primarily used their professional services use their self-collected funds on social services. Primary education, farmers' vocational training and basic medical facilities have been generally low-cost and relatively easy to supervise and manage (e.g. building classrooms and clinics, providing subsidies for dropouts), which has made them suitable for small-scale investment by the participating units. Moreover, social services needed urgent support in poor areas, and issue that was not addressed adequately under the main programs of the 8-7 Plan.

East Supports West

East-Supports-West poverty reduction effort was launched under the 8-7 Plan with the objective to mobilize the developed eastern provinces and cities to contribute to poverty alleviation and to the development of China's poor areas. In 1996, LGPR decided that the 13 relatively well developed provinces and cities in eastern China should help the 10 poor provinces and autonomous regions in

western China. Specific pairing arrangements have been formed.¹⁵ The support mainly involves four types of activities: 1) free donations of funds for schooling, health care and infrastructure; 2) donation of supplies to farmers for their production and daily life; 3) economic and technical cooperation, i.e., cooperation between the developed and poor regions in production and management by using the capital funds, technical know-how, management skills and markets of the former and the resources and cheap labor of the latter; 4) personnel exchange, with developed provinces and cities sending technical personnel and young volunteers to provide services in poor provinces and autonomous regions, and the poor provinces and regions sending administrative and technical cadres to the developed provinces and cities for training or sending workers for employment. Data on this program are not easily available but, during 1996-99, cash and in kind donations from the 13 eastern provinces and cities may have amounted to RMB1 billion. Some 2600 project agreements had been signed, total investment of RMB4 billion was realized, and 250,000 workers from poor provinces had been employed in sister provinces (NBS, 2000).

Poverty Reduction Activities of Nongovernmental Organizations

A number of domestic nongovernmental organizations (NGOs) have been involved in poverty reduction, directly or indirectly complementing the activities of the 8-7 Plan. The major domestic NGOs engaged in poverty reduction and their activities are listed in Table 5.

¹⁵ According to these arrangements, Beijing would provide support to Inner Mongolia, Tianjin to Gansu, Shanghai to Yunnan, Guangdong to Guangxi, Jiangsu to Shaanxi, Zhejiang to Sichuan, Shandong to Xinjiang, Liaoning to Qinghai, Fujian to Ningxia, and Shenzhen, Qingdao, Dalian and Ningbo together to Guizhou.

Table 5. Chinese NGOs and Their Poverty Reduction Activities

NGO	Poverty Reduction Activities
China Foundation for Poverty Alleviation	Micro-credit, capacity building, applicable technology extension, emergence relief, health care for women and children, and primary education
China Charity Federation	Income generation activities, relief, medical subsidies, subsidies for students and schools, professional technical training
Women's poverty reduction action of the All China Women's Federation	Technical training, micro-credit, paired assistance, labor migration, assistance for female students, small scale infrastructure construction and health care for women
China Disabled Persons Federation	Applicable technical training, micro-credit, repair of endangered house, establishment of service center
Project Hope of the China Youth Development Foundation	Fellowship for dropout children from school, construction of hope primary school, teachers' training, teaching equipments
China Society for the Promotion of the Glorious Cause	Project investment, donation for education and support for other public affairs
Happiness project of the China Population Welfare Foundation, the China Family Planning Association and the China Population News Press	Micro-credit
Song Qingling Foundation	Subsidies for female students, construction of primary and middle schools, library on wheels for children, fellowship for female students attending normal colleges, teachers' training and reward fund for teachers
Microfinance Center of the Chinese Academy of Social Sciences	Micro-credit and micro-credit training

Compared with government poverty reduction programs, the scales of NGO poverty reduction activities are usually small, specialized, focusing on a few areas of the respective NGOs' comparative advantage. For instance, in selected poor areas, Project Hope has mainly focused on supporting the development of primary education, while the Happiness Project has concentrated on providing microcredit services for women. NGO activities have tended to be relatively creative and efficient.

Poverty Reduction Activities of International Organizations

The 8-7 Plan prompted expansion in the scale, scope and coverage of poverty reduction activities of international organizations. International organizations have been involved in poverty reduction in China since the beginning of the post-1978 reform period. Table 6 shows the main players in poverty reduction in China among the international organizations. International organizations differ in their approaches to poverty reduction in China. Their activities cover most sectors and involve numerous different types of programs, including micro-credit, small-scale infrastructure construction, community development, environment protection, technical assistance and capacity building, and multi-sectoral rural development. Among international financial institutions, the World Bank has led the support with its large-scale multi-sectoral program for poverty reduction and development, which has included technical assistance to improve China's own capacity and efficiency in poverty reduction. The World Bank also directly contributed to the results of the 8-7 Plan, particularly with its Southwest Poverty Reduction and Loess Plateau projects. Poverty reduction activities of international NGOs are relatively small and diverse. Some emphasize the combination of environmental protection and poverty reduction, while others focus on community development and local capacity building.

Table 6. International Organizations Contributing to Poverty Reduction in China

International development agencies	UNDP, FAO, WFP, UNICEF, UNIDO, ILO, UNFPA
International financial institutions	IBRD, ADB, IFAD
Bilateral agencies/governments	AusAID, CIDA, DFID, GTZ, JICA, the Netherlands, Finland, Sweden
International NGOs	The Ford Foundation, WWF, Oxfam Hong Kong, KfW, Aide Foundation, World Vision, Save the Children of Britain, International programs, the International Crane Foundation, Trick-up USA

Outputs and Impact

Outputs

Through its different types of program, the 8-7 Plan delivered a number of important outputs. The 8-7 Plan was perhaps the largest government-led poverty reduction initiative worldwide. Its outputs span across numerous areas. Subsidized loan program provided poor counties with large amount of cheap credit (equivalent of US\$7.6 billion during 1994-2000) that facilitated significant working capital and fixed capital investment. The FFW and budgetary grant programs helped the poor areas construct large infrastructure, cultural, educational and health facilities, and contributed technology extension and farmers' training. Fix-target and East-Supports-West initiatives supplemented the insufficient investment from the central government in areas of social and human development. NGOs and international organizations, delivered many new ideas and innovation and enhanced domestic institutional capacity, as well as contributed own resources.

The magnitude of outputs is enormous. The rural poverty monitoring survey indicates that the 8-7 Plan directly supported 30.7 million households and 125 million persons in the officially designated "poor" counties, employed 17.24 million workers in poverty reduction activities, formed RMB26.9 billion of fixed assets, newly developed 3.25 million hectares of cash trees, and facilitated migration of 83.43 million farmers to pursue off-farm jobs. The 8-7 Plan delivered 60.12 million mu of basic cultivatable land, 320,000 km of roads, 360,000 km of electricity lines, and drinking water for 53.5 million persons and 48.4 million animals in the officially designated "poor" counties. By the end of the 8-7 Plan, the percentages of villages with electricity, radio and TV coverage, road access, postal service, and telecommunication access in the officially designated "poor" counties reached 95 percent, 95 percent, 89 percent, 69 percent and 67 percent, respectively, which neared national averages (The Information Office, 2001). For illustration, Box 3 shows the outputs achieved under the FFW program.

Box 3 Outputs under the FFW Program

Statistics show that during 1996-2000, the central government invested RMB25 billion in the FFW Program. Out of this amount, RMB20 billion came directly from the budget and RMB5 billion from government bonds. "Hidden" investments from households and local governments accounted for another RMB25 billion. The central government channeled RMB10 billion into the expansion of cultivatable land and small scale irrigation systems, adding 30 million mu of improved land and 40 million mu of land with new or improved irrigation; RMB3.5 billion into digging wells, building pipelines, collecting rain water and building dams or

small ponds for drinking water, which solved the drinking water problem for 30 million persons and 40 million animals; RMB9 billion into road construction, building and improving 100,000 km of roads; RMB1.5 billion into controlling soil and water erosion along small rivers, bringing under control the soil and water erosion problem of 30 thousand km² of land. Other activities involved pilot resettlement and regional integrated development to promote agricultural structural adjustment. (NBS, 2001).

Impact

The 8-7 Plan contributed to both the social and economic development of China's poor areas and to poverty reduction. The reduction of China's rural poor population during 1994-2000 shown in Figures 1 and 2 was the result of multiple factors. Among these, the 1994-96 government procurement reform, which raised agricultural prices and boosted farmers' income, may have been the strongest. To assess the impact of targeted poverty investments on poverty reduction is difficult. Our empirical analysis fell short of isolating the impact of targeted poverty programs from the impact of other anti-poverty policies such as procurement reform, tax reduction, and institutional innovation, and from the impact of overall national and rural economic growth (which anyway was partly supported by the 8-7 Plan).

A simple comparison of economic development indicators across counties countrywide indicates that officially designated "poor" counties delivered higher than average growth in grain and agricultural production, and in household net income. During 1994-2000, the growth rate of agricultural GDP in the officially designated "poor" counties was 7.5 percent, compared to the national average of 7 percent. The growth rate of grain production was 1.9 percent, 3.2 times as high as the national average of 0.6 percent. Household net income per capita increased from RMB648 to RMB1337, growing at an annual rate of 12.8 percent, which was 2 percent points higher than the national average. (The Information Office, 2001; NBS, 2001).

Literature shows that household income and consumption in the officially designated "poor" counties grew significantly faster than in other counties. Ravallion and Jalan (1999) found that, during 1985-1990, living in a national poor county increased consumption by 1.1 percent per year, though this gain is offset by growing divergence in consumption due to other reasons. The rate of return on poverty investments was estimated at 12 percent.¹⁶ Park, Wang and Wu (2002)

¹⁶ The authors assess whether being located in an officially designated poor county affects growth in household expenditures, controlling for other community variables that are likely to determine income growth. They used NBS panel data (1985 to 1990) on households in four southwest provinces (Guizhou, Yunnan, Guangxi, and Guangdong). The authors point out that they may have overestimate the effect of

found that household net income per capita increased 2.2 percent and 0.9 percent faster in the officially designated “poor” counties compared to the other counties during the period of 1986-1992 and 1992-1995. The rate of return of poverty investment was estimated at 15.5 percent during the first period and 11.6 percent during the second period.¹⁷

Our own analysis conducted for this case study indicates that poverty reduction investments had a significant impact on household income in short term. Using 1998-2001 poverty investment data from the officially designated “poor” counties, the analysis suggests that RMB1 investment in agriculture increased household net income by RMB0.17, and RMB1 investment in commerce, restaurant and services increased household net income by RMB0.76. (Detailed results are shown in Annex 2). Surprisingly, our analysis indicates that some infrastructure investments had either negligible or negative (drinking water investment) impact on household income growth in the short run.

The effect of poverty reduction investment on the number of poor however does not appear strong. Our analysis indicates that special poverty reduction investments had negligible impact on the actual number of poor in the short term. This suggests that non-poor may have enjoyed a greater share of the exhibited growth in household income.¹⁸

poverty efforts since some public expenditures on the programs may not be included, funds may be used for consumption rather than investment purposes, and community variables may omit factors that give poor counties advantages in achieving income growth. Although the data used come from reflect the results of the poverty effort launched in the 1986 rather of the 8-7 Plan per se, the similarity of the programs used in the late 1980s and under the 8-7 Plan allows us to present these for illustration.

¹⁷ The authors used MOA’s available county level data to estimate the impact of poverty efforts on average income growth in the officially designated “poor” counties. Only investment from the central government were included in the calculation of rates of return. There are no accurate data on investments from other sources. A recent study revealed that poverty investments from local governments and government departments equal one forth of the investments from the central government (Li Zhou, 2001).

¹⁸ The analysis presented here suffers from data limitations, since there are only 60-100 sample households in each officially designated “poor” county in the national poverty monitoring survey, so the estimation of poverty incidence at the county level are not very accurate. In the analysis, we control for the initial conditions (income per capita, grain production per capita and industrial share of GDP in 1997), geography, minority and political status, and the provincial dummy.

Key Factors

The 8-7 Plan benefited from continuing macroeconomic and political stability, sustained economic growth and unfading government effort to seek effective institutional and policy measures to reduce poverty. The central and many local governments showed strong resource mobilizing capacity, working on poverty programs across government departments and with numerous enterprises, financial institutions, and non-governmental and international organizations. Although the resources mobilized under the 8-7 Plan may be considered inadequate given the extent and nature of poverty reduction effort needed, they were in line with the tight budgetary constraint facing the government that time. Institutional innovation allowed for enhancing the existing government administrative system by emphasizing the comparative advantage of each government department and for reducing administration costs. Interest in learning and experimentation under the plan permitted China to learn from its own and international experience and work toward improving the participation and effectiveness of a large number of projects at village and household levels. The implementation of the 8-7 Plan, for instance, revealed relatively weak poverty reduction effect of the subsidized loans for poverty reduction and the complexity of the needs of poor villages, prompting the Government to launch multi-sectoral rural development projects, such as the Southwest Poverty Reduction Project (SWPRP which is analyzed in another Case Study for the Shanghai Conference).

Commitment and Political Economy for Change

Stable political environment and rapid economic growth established an important context for successful poverty reduction. Implementation of the 8-7 Plan did not suffer from any major political changes or conflicts, terrorism, or war threat. China's economy maintained fast growth, largely unaffected by the Asian financial crisis of 1997. Measured at comparable price, China's GDP per capita increased by 5.2 times with an annual growth rate of 7.8 percent between 1978 and 2002. The average GDP growth rate during the phase of the 8-7 Plan was 8.2 percent. Growth by itself was contributing to poverty reduction. Provincial data indicate that elasticity of poverty reduction with respect to growth was about -0.8 , namely that each 1 percent point of growth in GDP brought about 0.8 percent drop in the number of poor. Similarly, empirical analysis based on county level data from Sichuan and Shaanxi provinces indicates that economic growth was the foremost factor to poverty reduction (Rozelle, Zhang and Huang, 2000).

Analysis also suggests that poverty reduction in China is highly correlated with agricultural GDP growth. For instance, analysis using provincial level data between early 1970s

and late 1990s found that poverty incidence was negatively and significantly related to agricultural GDP per labor, proportion of nonagricultural employment to rural labor force, and other indicators representing rural economic growth (Fan, Zhang and Zhang, 2001). Closer analysis of the data on sectoral changes and poverty rates also reveals that poverty in China is highly sensitive to trends in agriculture. The rate of poverty reduction has been slower in provinces where agriculture's share of GDP has fallen markedly. Simple regression analysis shows that, holding constant the rate of overall GDP growth, a one percent decline in agriculture's share of GDP reduces the rate of decline in poverty by 1.9 percent points¹⁹ (the World Bank, 2000a).

Poverty reduction also benefited from the rapid development of the non-state economic sector. Data suggest that private enterprises increased the employment of rural workers by 25 million during 1990-97, which accounted for above 50 percent of the new off-farm job opportunities in the rural areas. Although the growth rate of employment in the officially designated "poor" counties areas fell short of the national average, it exceeded the growth rate of labor supply.²⁰ Encouraging rural-urban migration, jobs created in the non-state sector in urban areas also benefited rural workers, with their remittances raising income levels in villages.

Government commitment to poverty reduction remained strong throughout the implementation of the 8-7 Plan. The basic ideology of Chinese Government is to preserve a socialist system in China, recognizing that neither poverty nor excessive inequality belong to socialism (as said by former China's President Jiang Zemin's at the 1996 Poverty Reduction Conference). China decided to allow some people to get rich earlier with the view that profit-oriented incentives of individuals would contribute to economic growth, which could be shared by a greater portion of the population. The Government placed emphasis on assisting the poor and has repeatedly proclaimed assistance to the poor and poverty reduction to be its key responsibility.

The strong resources mobilizing capacity of Chinese government was another critical factor to the implementation of the 8-7 Plan. The central government not only expanded the scale of subsidized loan, FFW, and budgetary grant programs, but also mobilized many ministries and agencies affiliated to central government, social groups, and state-owned enterprises to undertake

¹⁹ This regression used data from 26 provinces, excluding Beijing, Tianjin, Shanghai, and Zhejiang, an outlier.

²⁰ For instance, the annual employment growth rates of private enterprises in Yunnan, Inner Mongolia, Shaanxi, Gansu, and Ningxi provinces and autonomous regions were all above 10 percent.

fixed-target poverty reduction, prompted local governments from developed regions to participate in the East-supports-West initiative, and encouraged NGOs and international organizations to join in poverty reduction. Complementing the central government, also relevant provincial, prefectural, city and county governments mobilized their affiliated departments, enterprises, and organizations to participate in poverty reduction. Involving many players, from party and government agencies to social groups, from large and medium cities to economic developed provinces, the scale and patterns of assisting the poor areas were quite enormous. This was an important achievement, allowing to achieve probably more than the government's tight budgetary constraint would have permitted.

The implementation of the 8-7 Plan was supported by an established administrative system. In addition to the establishment of the LGPR, the Chinese government brought the entire existing administrative management system into full play for poverty reduction. Fund management, project identification, approval, and implementation as well as poverty monitoring have been conducted within the existing administrative system. Adopting the existing administrative system to manage poverty reduction funds and implement poverty reduction projects allowed to save cost. On the other hand, this approach may have increased the risk of poverty funds being diverted and not effectively supervised.

Institutional Innovation

China turned from relief dependent poverty reduction to poverty reduction emphasizing development. Before the mid-1980s, the main poverty reduction method in China was relief, namely, governments or communities would provide living items and subsidies to household encountering disaster or exceptional hardship. The effect on the poor was immediate but not sustainable. Therefore, China adjusted its poverty reduction strategy to promote regional and rural economic development. The objective was to raise income and self-help capacity of the poor by improving conditions for production and investment. The (increasingly inefficient) targeting of poor counties has recently been complemented by targeting of poor villages and households. More innovative programs launched in this context involved micro-credit, labor migration and resettlement.

China has moved from government-led to a broadly based poverty reduction effort. Originally, as common in a planned economic system, poverty reduction was undertaken entirely by the government. With the growth in income of both rural and urban residents and in the scale of non-state sector, including NGOs, poverty reduction started to involve a greater variety of players and activities parties.

China set up a multi-departmental coordinating mechanism. The establishment of the LGPR and its Office has been mirrored at the lower levels of government all over the country. In addition, government ministries and agencies participating in the fixed-target poverty reduction initiative have set up their own poverty reduction offices. Also under the East-supports-West initiative, poverty reduction offices have appeared even in several coastal provinces and municipalities (such as Shanghai and Jiangsu) that themselves did not contain any officially designated “poor” county. The ultimate difference between LGPR and other government organizations is that the primary function of the former is to coordinate multi-departmental poverty reduction efforts and activities and thus mobilize resources from all walks in poverty reduction. This coordinating mechanism seeks to utilize resources and specialized skills of different government departments to jointly promote the development of poor regions while maintaining the normal operation and functions of these departments.

Learning and Experimentation

China's poverty reduction is a process of constant learning and exploration. Over the past quarter of century, and under the 8-7 Plan specifically, China's poverty reduction management methods have been tested and improved through experiments with the objective of increasing their efficiency. Learning from experience has been harnessed through the administrative system. LGPR is conducting own analysis, collecting feedback from government agencies involved in poverty reduction programs at the central and local levels, drawing lessons, and has the authority to influence nation-wide poverty reduction policies as well as adjust poverty reduction programs. To promote the sharing and dissemination of knowledge, agencies involved in poverty reduction organize annual workshops to learn lessons from ongoing poverty reduction activities and to benefit from outside expertise. Top-level government officials participate in regular policy workshops discussing issues of policy implementation and exploring policy implications of the lessons learned. To facilitate policy adjustments, training programs and field visits are regularly organized for local officials. For instance, LGOPR and its local counterparts have organized a large number of training courses and field visits to promote the implementation of the participatory village planning.

There have been a number of changes in poverty reduction project and fund management. Initially, poverty reduction projects were known for careful central planning and for certain rigidity during implementation. Program and project plans had been formulated at the top and implemented by local administrative departments. With the development of market economy system and with a growing emphasis on participatory approaches, the management of programs and projects has

gradually changed. Villages, for instance, started to take a more active role in project selection and approval process, and introduced public bidding in procurement. In fund distribution and management, a set of weighted factors has been accepted by an increasing number of local governments and by fund management departments at the central level. International experiences in project and fund management such as special account management, reimbursement system, and transparency mechanism have been increasingly adopted.

Similarly, the mode of delivery and management of credit funds for poverty reduction has changed. There have been two major changes in the delivery and management of credit funds for poverty reduction. The first was switch from household targeting to enterprises or economic entity targeting in late 1980s, with the intention to create more employment opportunities for the poor. As most of the enterprises established in poor regions, however, went bankrupt suffering from inadequate agglomeration and market access, there was a switch back to household targeting in late 1990s. The second change was the gradual recognition of the advantages of micro-credit: efficiency (by allowing households to independently select projects) and high recovery rate with low transaction cost (by introducing joint liability mechanism and peer screening), which eventually prompted the government to support micro-credit programs.

Furthermore, learning from pilots often implemented under foreign-financed projects, the Government has gradually adopted *participatory approaches* to poverty reduction. China introduced participatory poverty reduction approaches during the period of the 8-7 Plan. Participatory poverty reduction was widely welcomed by the poor population and achieved relatively encouraging outcomes during experiments. Their greatest advantage was that they encouraged the poor to be actively engaged in poverty reduction process. More recently, participatory poverty reduction approaches have been widely promoted in the new century poverty reduction strategies.

External catalysts

International organizations contributed knowledge and ideas as well as significant funds to poverty reduction in China. In total, international development agencies, international financial institutions, bilateral agencies and international NGOs contributed some RMB10 billion during 1994-2000, when the 8-7 Plan was implemented. Even more importantly, their poverty reduction activities in China have influenced and changed government perception of poverty and enhanced understanding of approaches to address poverty. The introduction of participatory poverty

reduction practices, integrated poverty reduction planning and micro-credit in China can be to a large extent credited to international organizations.²¹

Lessons

Economic Growth Is Critical for Poverty Reduction

Economic growth and poverty reduction are two indispensable parts to economic development. Without economic growth, it would be difficult to generate new off-farm job opportunities and ensure more adequate government funds for poverty reduction. Without new off-farm jobs and rural-urban migration (since most productive jobs will continue to emerge in urban rather than rural areas), and rising returns to farm labor (through out-migration, farm land consolidation and agricultural growth) rural poor households would be unable to overcome poverty. Without poverty reduction, on the other hand, low effective demand and low productivity would constrain economic growth. If the poor rural population cannot share the benefits from economic growth, the gap between the rich and the poor (in China, this is primarily the urban-rural gap) possibly eroding social cohesion and, thus also, economic growth.

China's experience indicates that economic growth can benefit a large share of the population, while poverty reduction investments can assist those localities and households that for various reasons have been excluded from the benefits of economic growth. China's growth was pro-poor particularly in the early stages of the post-1979 reform period, when reforms supported fair land distribution and more efficient land utilization in rural areas, on increasing agricultural procurement prices, and on promoting labor intensive off-farm activities through the expansion of township and village (rural) enterprises.

Basic Insurance Programs Need to Complement Poverty Reduction Effort

Basic insurance programs can significantly reduce vulnerability of households to poverty. Rural households in China are vulnerable to various risks that make them extremely vulnerable to poverty. Evidences shows that illness and disability have become one of the main causes of

²¹ Chinese government provided relatively favorable policy environment for international organizations to participate in China's poverty reduction. For instance, allowing non-financial institutions engage in micro-credit poverty reduction activities, which did not fully comply with existing domestic financial regulations.

poverty. Large medical expenses and inability to work have forced many farm households into poverty. Therefore, in addition to development-oriented poverty reduction programs, basic social security network, especially minimum living standard subsidies (a minimum income maintenance scheme) and basic health insurance are particularly needed in rural China. Currently, the Chinese Government and several local governments across China are experimenting with a new type of rural medical cooperatives and other measures to enhance households' ability to cope with risks.

Targeting and Participation of the Poor Matter

China's experience shows that geographical targeting needs to be carefully designed and complemented by household targeting. During the period of the 8-7 Plan, the majority of severely poverty-stricken counties belonged to the officially designated "poor" counties. The proportion of poverty reduction funds reaching poor villages and poor households within the officially designated "poor" counties, however, was relatively low. This was partly because the poor (and particularly poor women) did not actively participated in the process of fund allocation, program identification, and impact evaluation, because the needs of the poor villages were not correctly understood by county-level poverty officials, and because some local governments diverted poverty funds for activities generating their fiscal revenue. Poor villages and poor households outside the officially designated "poor" counties were left out altogether. China's recent move to consider villages rather than counties as the basic targeting unit, to use more participatory approaches to poverty reduction, and to contemplate basic insurance schemes for rural households are promising a good progress in poverty reduction in the future.

The Objectives Need to Be Clear

Poverty reduction effort needs to involve clear goals and objectives for government officials and implementation officers in order to be efficient and effective. Under the 8-7 Plan, there was a conflict between development goals and poverty reduction objectives (fuxian and fumin). As a result, local governments that controlled poverty funds would often sacrifice poverty reduction objective in favor of economic development and fiscal revenue generation. Consequently, a great amount of poverty reduction funds has been invested in projects or areas with little impact on poverty reduction. More recent experiments in China suggest that clear focus on poverty reduction makes poverty reduction programs more efficient and effective. For instance, micro-credit programs in Yunnan have achieved high repayment rates while covering a large number of poor households. Participatory village planning and integrated community development experiments in

Gansu have also had positive results in mobilizing the poor to actively engage in community development and in ensuring better targeting of the poverty funds.

Human Development Deserves Special Emphasis

Analysis of China's experience has confirmed that human development is very effective in poverty reduction in the longer term. As its time horizon for contributing to the income generation capacity of the poor was relatively short, and infrastructure needs in rural areas enormous, the 8-7 Plan emphasized investment in physical facilities. This has improved productive conditions, such as basic farmland and irrigation, and living conditions, including drinking water and electricity, for the poor communities. Another reason explaining the relatively low attention to human capital development under the 8-7 Plan (and in the preceding poverty reduction effort) relates to the very low returns on education in China associated with the serious distortions in China's labor market until late 1990s (Heckman, 2003).²²

Empirical analysis indicates that public investments in rural education and public health in China are very effective for poverty reduction in the longer term (Fang, Zhang and Zhang, 2002). These findings are reinforced by the need for poor farmers to possess health and skills enabling them to improve their crop selection, efficiency of agricultural production and market access, and to seek off-farm jobs in urbanized areas. Indeed, human development is obtaining more attention in recent years. Ensuring adequate public services for education and health (as well as for infrastructure and agricultural services) is the responsibility of local governments. Providing local governments with resources that would match their spending responsibilities is perhaps too a big challenge for the existing inter-government finance system. Analysis suggests that comprehensive reform in the assignment of government revenues and spending responsibilities and in inter-government transfers is needed to ensure adequate delivery of core public services in poor rural areas (World Bank, 2003). Poverty reduction programs can complement but not substitute for adequate budgetary spending within the respective sectors.

²² Empirical analysis suggests that the private rate of return to education in China was about 4 percent in the early 1990s and 8 percent in 1999. This was below the estimated rate of return to physical capital in industry, estimated at 20 percent. Returns to secondary (senior high school) and tertiary education, however, increased sharply in late 1990s. Even more importantly for poverty reduction, the social rate of return to education is estimated to be as high as 30-40 percent in the late 1990s.

Poverty Alleviation Requires a Coordinated Effort

Poverty reduction requires a strong institutional coordinating capacity to combine resources from different departments to support a more integrated development. China has achieved multi-departmental cooperation in poverty alleviation under the leadership of the LGPR. The present coordination, however, is mainly effective in resource mobilization. It is sufficient for individual project management, but not for the implementation of large-scale integrated poverty reduction initiatives. The new strategy of the integrated poverty reduction through participatory village planning with the intention to pool resources from all departments is a big step forward. This needs to be complemented by strengthening coordination mechanism at the county level and above.

Poverty Alleviation Effort Should Eventually Abolish Rural-Urban Segmentation

The long-established rural-urban segmentation needs to be overcome so that rural population can benefit more fully from the increasing opportunities offered by the growing economy. Abolishing rural-urban segmentation and integrating rural and urban populations more fully have been on the agenda of China's institutional reform since the early 1980s. However, the process has been slow and far from completed. The persistent features of rural-urban segmentation in China, including obstacles to rural-urban migration and segmented social security, public service delivery, and public finance management, have severely restricted the poor population in benefiting from the opportunities generated by China's growing economy. This, in turn, makes the achievement of poverty reduction goals more difficult. In this respect, the recent government initiatives and pilots to further reduce the existing obstacles to rural-urban migration and to equalize the rights of rural migrants, to offer at least basic social security schemes and strengthen education services in rural areas, and to reform the system of rural public financing, are of tremendous significance.

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Annex 1. Determinants of the Allocation of Poverty Funds (1998-2001)

Dependent variables	Total investment	Investment from central gov.	Investment from other sources	Subsidized Loans	FFW	Budgetary Grants
Poverty incidence	0.76*** (3.57)	0.90*** (4.98)	-0.10 (-0.34)	0.46*** (3.67)	0.23*** (3.34)	0.20*** (4.84)
Rural population	-2.44*** (-18.29)	-2.03*** (-17.89)	-0.66*** (-3.68)	-1.18*** (-14.80)	-0.54*** (-12.58)	-0.31*** (-11.58)
Revolutionary base county	-25.83*** (-3.02)	-22.99*** (-3.16)	-3.81 (-0.33)	-14.47*** (-2.83)	-6.39** (-2.30)	-2.13 (-1.26)
Minority county	13.65* (1.84)	8.95 (1.41)	6.31 (0.63)	7.12 (1.60)	-0.72 (-0.30)	2.54* (1.72)
Boarder county	66.96*** (6.24)	52.94*** (5.81)	-6.63 (-0.46)	24.32*** (3.81)	17.55*** (5.05)	11.06*** (5.20)
Highland	0.11 (0.01)	2.93 (0.36)	-4.21 (-0.33)	1.36 (0.24)	0.88 (0.29)	0.69 (0.37)
Mountainous areas	6.64 (0.76)	11.77 (1.59)	4.25 (0.36)	4.15 (0.78)	4.80* (1.67)	2.81 (1.63)
Year	3.18 (1.57)	4.35** (2.52)	-6.31** (-2.30)	1.00 (0.83)	0.53 (0.80)	2.82*** (7.00)
Shanxi	-27.53** (-2.09)	-17.78 (-1.58)	-4.13 (-0.23)	-26.35*** (-3.34)	6.26 (1.46)	2.32 (0.88)
Inner Mongolia	-6.53 (-0.43)	-16.48 (-1.27)	2.04 (0.10)	-24.22*** (-2.65)	6.80 (1.37)	0.94 (0.31)
Liaoning	-56.69*** (-2.86)	-59.59*** (-3.52)	3.12 (0.12)	-44.20*** (-3.72)	-6.75 (-1.05)	-8.64** (-2.18)
Jilin	49.52* (1.96)	87.91*** (4.08)	17.14 (0.50)	54.22*** (3.58)	27.92*** (3.40)	5.76 (1.14)
Heilongjiang	103.35*** (5.56)	82.00*** (5.21)	56.90** (2.27)	25.59** (2.32)	40.54*** (6.75)	15.86*** (4.31)
Anhui	143.74***	120.40***	38.76	64.55***	38.72***	17.14***

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	(7.29)	(7.17)	(1.45)	(5.48)	(6.05)	(4.37)
Fujian	5.49	-49.89 **	60.16**	-41.04***	-0.43	-8.42**
	(0.26)	(-2.73)	(2.07)	(-3.20)	(-0.06)	(-1.97)
Jiangxi	37.09**	33.09**	4.94	12.89	18.25***	1.95
	(2.18)	(2.28)	(0.21)	(1.26)	(3.29)	(0.56)
Shandong	-10.45	-3.86	-23.29	-4.87	1.93	-0.92
	(-0.53)	(-0.23)	(-0.01)	(-0.42)	(0.31)	(-0.24)
Henan	53.63***	53.33***	16.61	27.99***	17.11***	8.23***
	(3.93)	(4.58)	(0.90)	(3.43)	(3.86)	(3.03)
Hubei	34.42**	30.89**	3.15	19.41**	9.98*	1.49
	(2.15)	(2.26)	(0.15)	(2.03)	(1.92)	(0.47)
Hunan	122.77***	94.81***	26.84	59.61***	22.48***	12.73***
	(5.39)	(4.89)	(0.87)	(4.38)	(3.04)	(2.81)
Guangxi	14.43	29.53**	-13.72	21.51**	8.48*	-0.47*
	(0.97)	(2.33)	(-0.68)	(2.42)	(1.75)	(-0.16)
Hainan	-27.86	34.32	-26.73	-13.45	43.23***	4.54
	(-1.10)	(1.59)	(-0.78)	(-0.89)	(5.26)	(0.90)
Chongqing	65.01***	63.30***	4.41	31.178***	20.93***	11.21***
	(3.29)	(3.77)	(0.17)	(2.64)	(3.27)	(2.86)
Sichuan	163.53***	160.60***	-7.14	103.73***	37.01***	19.86***
	(9.85)	(11.39)	(-0.32)	(10.49)	(6.89)	(6.03)
Guizhou	3.35	9.02	-6.44	11.84	0.11	-2.93
	(0.25)	(0.79)	(-0.36)	(1.49)	(0.03)	(-1.11)
Yunnan	-11.93	-23.35 **	23.31	-7.95	-7.61*	-7.79***
	(-0.98)	(-2.25)	(1.41)	(-1.09)	(-1.92)	(-3.21)
Shaanxi	3.64	10.77	-0.85	13.08*	-1.93	-0.38
	(0.29)	(1.00)	(-0.05)	(1.73)	(-0.47)	(-0.15)
Gansu	7.39	22.69 **	-7.67	4.62	3.04	15.03***
	(0.59)	(2.15)	(-0.46)	(0.62)	(0.75)	(6.09)
Qinghai	211.25***	238.74 ***	31.08	174.86***	64.13***	-0.24**
	(12.09)	(16.02)	(1.31)	(16.73)	(11.29)	(-0.07)
Ningxia	117.41***	115.49***	31.83	60.24***	20.00***	35.25***
	(5.41)	(6.24)	(1.08)	(4.64)	(2.83)	(8.16)
Xinjiang	25.151	86.61 ***	4.29	14.22	51.29***	21.10***

THE 8-7 POVERTY REDUCTION PROGRAM IN CHINA

	(1.55)	(6.26)	(0.20)	(1.46)	(9.72)	(6.53)
No. of obs.	2121	2123	2123	2123	2123	2123
Adjusted R ²	0.38	0.45	0.02	0.38	0.33	0.30

***significant at 0.01 level, **significant at 0.05 level, *significant at 0.1 level.

Annex 2. Impact of Poverty Reduction Investments (1998-2001)

Independent variables	Increase in net income p.c.	Increase in GDP p.c.	Number of poor pop. reduced
Agr. Investment p.c. (RMB)	0.17* (1.81)	0.35 (1.20)	5.97 (0.45)
Industrial investment p.c. (RMB)	0.17 (0.85)	0.72 (1.13)	10.29 (0.36)
Transportation investment p.c.(RMB)	-0.59 (-1.54)	-0.54 (-0.45)	26.09 (0.48)
Invest. in commerce, restaurant and service p.c. (RMB)	0.76** (2.58)	2.32** (2.51)	-16.51 (-0.39)
Invest. in education and health p.c. (RMB)	-0.13 (-0.23)	2.45 (1.39)	-52.04 (-0.65)
Invest. in land improvement p.c. (RMB)	-0.11 (-0.46)	-0.26 (-0.33)	23.35 (0.65)
Invest. in drinking water p.c. (RMB)	-1.33** (-2.11)	0.39 (0.19)	-26.83 (-0.29)
Road investment p.c. (RMB)	-0.26 (-0.99)	-1.00 (-1.23)	32.30 (0.87)
Invest. in training and extension p.c. (RMB)	-2.11 (-0.93)	-6.99 (-0.97)	-0.03 (0)
Labor pop. ratio	1.86 (0.84)	-4.65 (-0.67)	-487.31 (-1.53)
Proportion of migrated labor to total labor	2.27 (1.65)	2.19 (0.50)	24.92 (0.13)
Net income p.c. in 1997 (RMB)	-0.16*** (-3.894)	-0.02 (-0.16)	21.21*** (3.473)
Percent of industrial GDP to total GDP in 1997 □ percent□	516.84*** (5.03)	1885.94*** (5.81)	-35183.93** (-2.38)

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Grain production p.c. in 1997 (kg)	0.29*** (4.72)	0.09 (0.47)	4.52 (0.51)
Mountainous areas	45.69 (1.27)	75.96 (0.67)	-11245.37** (-2.17)
Plain areas	194.09*** (4.08)	96.59 (0.64)	-27744.12*** (-4.04)
Revolutionary base counties	-16.77 (-0.39)	198.19 (1.48)	21286.24*** (3.49)
Minority counties	21.54 (0.61)	215.82* (1.92)	6669.98 (1.3)
Border counties	54.50 (1.01)	28.26 (0.17)	-2689.27 (-0.35)
Shanxi	-312.90*** (-4.69)	-510.63** (-2.43)	4365.99 (0.46)
Inner Mongolia	144.61* (1.78)	1028.14*** (4.00)	-13115.72 (-1.12)
Liaoning	-31.95 (-0.32)	517.09* (1.66)	3498.67 (0.25)
Jilin	137.65 (1.07)	1341.1*** (3.29)	-524.51 (-0.03)
Heilongjiang	-467.63*** (-3.95)	-366.39 (-0.98)	-16868.63 (-0.99)
Anhui	4.42 (0.05)	-284.45 (-0.98)	-9417.30 (-0.71)
Fujian	623.63*** (5.66)	326.97 (0.94)	-42148.73*** (-2.65)
Jiangxi	211.70** (2.44)	129.27 (0.47)	-60149.08*** (-4.81)
Shandong	517.19*** (5.37)	1124.33*** (3.69)	-15242.32 (-1.09)
Henan	212.95*** (3.17)	452.60** (2.13)	-14447.44 (-1.49)
Hubei	202.06** (2.57)	-609.82** (-2.46)	-35217.86*** (-3.11)

CASE STUDIES IN SCALING UP POVERTY REDUCTION

Hunan	156.09 (1.41)	-220.46 (-0.63)	-60267.87*** (-3.78)
Guangxi	-133.94* (-1.79)	116.55 (0.49)	-6386.40 (-0.59)
Hainan	1027.11*** (8.05)	1073.28*** (2.66)	-34187.41* (-1.86)
Chongqing	309.39*** (2.95)	318.92 (0.96)	-40360.7*** (-2.67)
Sichuan	246.59*** (2.82)	-253.43 (-0.92)	-15179.49 (-1.20)
Guizhou	224.54*** (3.3)	-86.03 (-0.4)	-24336.68** (-2.48)
Yunnan	258.16*** (3.90)	257.18 (1.23)	-22893.31** (-2.4)
Shaanxi	146.88** (2.05)	383.37* (1.69)	-17182.78* (-1.66)
Gansu	255.92*** (3.74)	71.21 (0.33)	-10838.25 (-1.09)
Qinghai	262.21*** (2.66)	668.39** (2.14)	-16325.63 (-1.15)
Ningxia	156.79 (1.32)	83.01 (0.22)	41.95 (0.00)
Xinjiang	151.88* (1.75)	72.27 (0.26)	-8255.34 (-0.66)
No. of obs.			
Adjusted R ²	0.48	0.29	0.21