A case study from

Reducing Poverty, Sustaining Growth—What Works, What Doesn’t, and Why
A Global Exchange for Scaling Up Success

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The China Southwest Poverty Reduction Project

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Executive Summary

The China Southwest Poverty Reduction Project (SWPRP), implemented in 1995–2001 in the Guangxi Autonomous Region and the provinces of Guizhou and Yunnan, covers 35 of China’s poorest counties, with about 2.8 million primary beneficiaries. The project areas are dominated by the karst topography, common in Southwest China, that features limestone mountains marked by sharp peaks and ridges, with sinks and underground caverns. Cultivable land is found only in the sinks and valleys. The picturesque karst landform unfortunately makes for harsh conditions for people living in the rural areas.

SWPRP was the first World Bank Group-supported project in China to use an integrated multisectoral rural development approach to attacking absolute poverty in a severely resource deficient area, where single-sector programs cannot achieve sustainable poverty reduction. Closely linked to China’s national poverty reduction program, SWPRP’s principal objectives were to (a) demonstrate the potential of a multisectoral approach to poverty reduction at the village level, (b) develop a program to find employment for the rural poor in the rapidly growing urban areas of China, (c) upgrade poverty monitoring at the national and local levels, and (d) significantly reduce poverty in these very poorest counties in southwestern China. The project cost at completion was $464 million (5 percent below the appraisal estimate). The Bank provided a loan of $47.5 million and an International Development Association credit of $200 million equivalent.

Project genesis

In the early 1990s, China’s Leading Group for Poverty Reduction (LGPR) collaborated with the Bank to produce the 1992 study, China: Strategies for Reducing Poverty in the 1990s. This study concluded that poverty was now heavily concentrated in rural, upland areas of China’s interior, where agricultural growth had stagnated and growth of rural enterprises had not been significant. The report emphasized the limited access to education and poor health conditions in these areas, and made the case for increased fiscal transfers to the poorest communities. Arguing that the prospects for improved growth in agriculture and rural enterprises in some of these areas were relatively limited, the report took the view that a broader multisectoral approach was instead necessary to overcome poverty in the most disadvantaged areas. This multisectoral approach should include support for public health, basic education, rural infrastructure, and increased inter-regional labor mobility. It was also recommended that an improved poverty monitoring system be established. The study was released at an International Conference on Poverty Issues in China held in Beijing in October 1992. Attending were high-level representatives of the Chinese government, World Bank, United Nations, nongovernmental organizations, and academia. At the end of the conference, the government and the Bank proposed to operationalize the study’s recommendations through a Bank-assisted project to reduce poverty in southwestern China.

Recommendations of the Strategies study were also reflected in the National Seven-Year (1994-2000) Plan for Poverty Reduction, known as the 8-7 Plan, which the government
introduced in 1994 to target increased investment to the remaining absolute poor in designated poor Chinese counties. (The 8-7 Plan is discussed in another case study.) The Southwest Poverty Reduction Project was undertaken as part of the 8-7 Plan.

**Project description**

Support was provided through six components for: (1) social services, including education and health; (2) labor mobility; (3) rural infrastructure, including roads, drinking water systems, electrification, and other small rural works; (4) land and farmer development, including support for grain and cash crop, tree crop, and livestock production; (5) development of town and village enterprises (TVEs); and (6) institution building and poverty monitoring.

**Achievements**

The project was very successful in demonstrating the effectiveness of a new multisectoral poverty reduction model and in directly involving senior policymakers in the design and implementation of this new model. While previous multisectoral projects in other countries had experienced difficulties, this one was a success. Many of the key lessons of the Southwest Poverty Reduction Project—including the multisectoral and multiyear project approach, with benefits targeted to the poorest townships and villages—have now become part of China’s national poverty reduction policy and been extended to poor counties throughout the country. The project’s approach was also subsequently extended under the Bank-assisted projects for Qinba Mountains Poverty Reduction, Gansu and Inner Mongolia Poverty Reduction, and a proposed Poor Rural Communities Development Project. The same model was adapted in a Vietnam Northern Mountains Poverty Reduction Project.

Among the achievements was an upgrading of poverty monitoring at national and local levels, with the National Bureau of Statistics (NSB) completing annual sample surveys of households in project and non-project areas. The database thus created allowed for objective measurement and analysis of what worked and what did not. Based on the questionnaire adopted for the Southwest Poverty Reduction Project, NSB is now monitoring poverty in all of China’s 600 nationally-designated poor counties.

On completion, the project was found to have had a strongly favorable impact on income levels, grain and other agricultural production, and the overall well-being of the majority of project area poor households. Specifically, the following improvements were realized from 1995 to 2001:

- An increase in per capita net income from Yuan 939 to Yuan 1,422 and increased per capita savings from Yuan 93 to Yuan 352
- A drop in the incidence of absolute poverty from 31.5 percent to 13 percent.
- Improved food security, as indicated by a drop from 17.7 percent to 4 percent in the population, with per capita grain production below 150 kilograms per year
- An increase in sixth grade completion rates from 46 percent to 78 percent
The China Southwest Poverty Reduction Project

- Increased girls’ enrollment, as indicated by a reduced education gender gap from 86 percent to 97 percent
- A decline in infant mortality from 5 percent to 2 percent in Guangxi and from 8 percent to 5 percent in Guizhou
- Increased village access to road transport, drinking water, electricity, and other basic infrastructure.

The labor mobility component was notable in benefiting the project’s absolute poor and having significant policy implications at the national level. Overall, about 280,000 people were assisted in securing seasonal and long-term off-farm jobs, thus increasing the rate of labor mobility from about 8 percent to 12.5 percent and providing remittances to the home villages totaling about Yuan 1,590 million. Participation in the labor mobility component was limited mostly to single young adults, and the remittances they sent home were more often than not sufficient to raise their entire family above the poverty line within a matter of months. The home families have used the remittances to improve their housing, buy grain and fertilizer, cover education and medical expenses, and in some cases to invest in family-run microenterprises. These achievements were in large part thanks to the strong commitment of the government and implementing agency to effective poverty reduction. Without this commitment, the many obstacles encountered during implementation could not have been overcome.

Shortfalls

While very successful overall, such an innovative and complex program is bound to encounter some difficulties and shortcomings. Here are three significant difficulties:

- While the basic health services component achieved its objective of increasing the accessibility and quality of health services to the poor, it did not establish a village cooperative medical scheme as envisioned. Without such a scheme, much of the improvement in basic health care services will deteriorate in the absence of continued government support.
- TVE development under the project was unsatisfactory. It was adversely affected by (1) cumbersome procedures and requirements for clearance of TVE proposals; (2) uncertain ownership of enterprises and inadequate counterpart financing; and (3) inadequate market analysis, poor product quality, and/or collapse of the market for certain products. The component was reduced in size during the latter years of implementation.
- While the overall labor mobility component went well, a subcomponent to generate employment opportunities in three Guangxi municipalities by supporting a poverty-reduction enterprise development zone; low-cost housing schemes; and activities in mariculture, agriculture, and tree plantation did not succeed. The subcomponent was eventually cancelled and the funds redirected to other successful activities.
Scaling-up features. In terms of scaling up poverty reduction, the project has demonstrated new approaches to labor mobility, village development planning, and poverty monitoring.

- **Multisectoral model.** By directly engaging senior policymakers in the design and implementation work, the project demonstrated the effectiveness of a multisectoral poverty reduction model in China’s poorest areas. This approach has now become a dominant theme in China’s national poverty reduction program.

- **Labor mobility.** In the 1990s, about 100 million rural inhabitants found off-farm jobs in towns and cities, mostly in the coastal provinces; but the upland poor comprised only a very small share of this flow of migrant laborers. The SWPRP was the government's first attempt to organize and support a voluntary system of labor placement for the upland poor in safe off-farm jobs. Over time, the outflow of labor from all of China's upland poor areas has grown and by now represents a large and growing share of the entire labor movement. SWPRP convincingly demonstrated that labor mobility is an extremely effective poverty reduction measure. The government at all levels now actively supports labor mobility, and labor mobility has become an important element in China's overall poverty reduction program.

- **Village development.** The Village Development Plan model first piloted and advanced under SWPRP has now been extended to 146,000 poor villages in China.

- **Poverty monitoring.** The SWPRP Monitoring Component had an impact that goes far beyond the project itself. A national poverty monitoring system drew heavily on the experience of the SWPRP in questionnaire design, sampling, and data collection; and it builds on methods developed under the SWPRP. Staffing of the national poverty monitoring offices at the central and provincial levels has also drawn on the SWPRP personnel. Since 1997, China has conducted a national poverty survey that covers all nationally designated poor counties, and the National Bureau of Statistics (NBS) now publishes an annual *Poverty Monitoring Report of Rural China.*
2. Implementation Process

2.1 Project Background

China has significantly increased its agricultural productivity and farmer’s income since the initiation of economic reforms in 1978. China’s population in absolute poverty, according to the official poverty standard\(^1\), dropped from 250 million to 125 million between 1978 and 1985. But this was accompanied by a trend to the income inequality between the areas with a favorable resource endowment and those less favored in the remote mountainous areas. The Government, therefore, started a large-scale program to target poverty reduction through development of the poorer rural areas after 1986. The implementation of the program combined with the growth of China’s economy contributed to further reduction in the poor rural population to 80 million by 1993.

The remaining rural poor, however, were marginalized economically and physically at this time and it was difficult to lift them out of poverty by employing the usual approaches. About 90 percent of the rural poor were found to be concentrated in four remote regions with poor resource endowments; the southwest karst region, northwest loess plateau, In Bad mountainous region and Qinghai-Tibet high altitude and Frigid Zone. In order to assist the remaining 80 million poor rural population to escape from poverty, the Chinese government in 1994 set up the State Seven-Year Plan to Help 80 Million People Get out of Poverty; this was known as the 8-7 Plan.

In order to realize the 8-7 Plan and to develop new approaches to poverty reduction, the Government and the World Bank started to prepare the China Southwest Poverty Reduction Project (SWPRP) in 1993. The poverty status of the project areas in 1993 is shown below.

### Basic Status of SWPRP Area in 1993

<table>
<thead>
<tr>
<th>Province</th>
<th>Per capita cultivated land (ha)</th>
<th>Per capita grain (kg)</th>
<th>Per capita net income (yuan)</th>
<th>Illiteracy rate (percent)</th>
<th>Primary school Enrollment (percent)</th>
<th>Primary school completion Rate (percent)</th>
<th>Infant mortality Rate (percent)</th>
<th>Iodine deficiency disease (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangxi</td>
<td>0.06</td>
<td>192</td>
<td>337</td>
<td>22</td>
<td>86</td>
<td>67</td>
<td>5.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Yunnan</td>
<td>0.098</td>
<td>157</td>
<td>147</td>
<td>48</td>
<td>87</td>
<td>41</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guizhou</td>
<td>0.09</td>
<td>175</td>
<td>286</td>
<td>27</td>
<td>74</td>
<td>56</td>
<td>8.0</td>
<td>5.9</td>
</tr>
<tr>
<td>Country average</td>
<td>0.145</td>
<td>266</td>
<td>921</td>
<td>16</td>
<td>98</td>
<td>82</td>
<td>3.2</td>
<td></td>
</tr>
</tbody>
</table>


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\(^1\) The rural poverty line was defined as per capita income of RMB 400 in 1990 price, which is about 60-70 percent of the $1 per capita income depending on inflation.
2.2 Project Objectives and Targets

The project aims to address absolute poverty in some of China’s most highly disadvantaged areas. The principal objectives of the project are to: (a) demonstrate a multisectoral rural development approach to poverty reduction; (b) facilitate a "market friendly" increase in labor mobility from the poor areas to better off rural and rapidly growing urban areas; (c) upgrade poverty monitoring at the national and local levels; and (d) significantly reduce absolute poverty in 35 of the poorest counties in Southwestern China. The following targets were set for the Year 2000:

- The per capita net income of farmers’ household beneficiaries in average would be over RMB 400 at the constant price of 1990 while less than 10 percent of the households would have per capita income of lower than RMB 300.
- The project households would be equipped with basic farming land and economic forest as shown below:

<table>
<thead>
<tr>
<th>Province</th>
<th>Guangxi</th>
<th>Guizhou</th>
<th>Yunnan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita basic farm land (ha)</td>
<td>0.057</td>
<td>0.033</td>
<td>0.05</td>
</tr>
<tr>
<td>Per capita economic forest (ha)</td>
<td>0.075</td>
<td>0.067</td>
<td>0.133</td>
</tr>
</tbody>
</table>

- About 80 percent of the project households would have one working age member mastering one applied technology in the area of food crop production, and all workers would be eligible to participate in the labor mobility component.
- The primary education enrollment and completion rates should be over 90 percent in line with the national target.
- The infant mortality rate and the incidence of iodine deficiency and fluorine excess should be less than 3 percent and 5 percent respectively (within the provincial standard). The new method of child birth would be no lower than 85 percent and the rate of family planning would be close to the provincial standard.
- About 90 percent of the project townships would have access to highways and over 85 percent project villages would gain access to motorable roads. The drinking difficulty of human and animals would be basically resolved.

2.3 Project Areas and Components

The SWPRP is located in Guangxi, Guizhou and Yunnan provinces in China’s Southwest covering 2.8 million people in 1,798 villages, in 290 townships of 35 counties. About 50 percent of project beneficiaries are minorities. The Project’s eight components are summarized below and discussed in more detail in Section 3.

- **Basic Education** to improve children's access to elementary school education.
- **Basic Health Services** to increase the accessibility and enhance the quality of health services provided to the poor at the village and township level.
**Labor Mobility** to increase the access of the upland poor to off-farm jobs in the urban and industrialized areas of China. The Guangxi Municipal Employment Development subcomponent (GX-MED) aims to generate employment opportunities in three municipalities in Guangxi.

**Rural Infrastructure** to improve access to transport, drinking water, electricity and other basic services.

**Land and Farmer Development** to increase upland agricultural productivity and reverse the trend of environmental degradation.

**Township and Village Enterprise (TVE) Development** to augment the development of local township and village enterprises.

**Institution Building** to strengthen all levels of the project management system.

**Poverty Monitoring** to monitor the physical progress and impact of the project, and to improve national level poverty monitoring capability.

### 2.4 Project Management

The Leading Group Office of Poverty Reduction (LGPR) under the State Council had overall responsibility for of the Project. A World Bank Project Office (WBPO) was set up to supervise and manage the Project at the Central Government level, to work with the World Bank, and to manage the implementation of the project as a whole.

Project Leading Groups (PLGs) were established from the central government down to the townships. Their task was to 1) make decisions and policies regarding the project implementation; 2) check and approve the overall design of the Project; 3) decide on the distribution and disbursement of the Loan/Credit and arrange counterpart funds; 4) coordinate the work of the various departments involved in project implementation; and 5) supervise and inspect the work of the project management offices (PMOs).

Project management offices (PMOs) under the guidance of leading groups were set up at various levels. Their task was to: 1) take charge of the management, organization and coordination of the project related activities; (2) supervise and manage project implementation in the areas of preparation, planning, financing, procurement, technical training, labor mobility organization and project monitoring.

The PMOs were usually divided into planning, monitoring, finance and procurement units. Project workstations were established in all project townships. Administrative villages covered by the Project set up implementation groups, normally headed by the chairmen of the village committees. A complete set of standardized procurement methods was put in place based on the practice of the World Bank. Competitive bidding incorporates the basic principles of economy and transparency, and leads to efficient procurement.
3. Impact Analysis

3.1 Component Effectiveness Review

Basic Education This component's key outcome was a significant increase in school attendance and an improvement in educational quality brought about through primary school construction, the provision of tuition assistance, school equipment, and teacher training. The National Bureau of Statistics (NBS) project survey data show that sixth grade completion rates in the project area increased from 46 percent in 1995 to 78 percent in 2001. Primary school renovation and construction targets were successfully completed in each of the three project provinces. The improved and new school buildings have provided adequate, safe and hospitable space for village children to attend school.

The training activity was most successful and the number of qualified teachers increased considerably during project implementation. An unexpected payoff to the basic education component was that its early implementation provided a favorable introduction to the Project in many of the poorest and most remote project villages. These villages became enthusiastic about the overall project and were more eager to access other project activities and benefits.

The per capita income of those who received elementary education is about 20 percent higher than those who are illiterate. Based on this key parameter and the per capita income data from 1996 to 2001, the rate of return to elementary education is around 18 percent.

Basic Health Services This component successfully achieved its primary objective of increasing the accessibility and enhancing the quality of health services to the poor at the village and township level, it was not successful in establishing village cooperative medical schemes (VCMS). The project monitoring report showed that the infant mortality rate declined from 5 percent to 2 percent in the Guangxi project area and from 8.2 percent to 5.0 percent in the Guizhou project area between 1995 and 2001. The National Health Economics Institute (NHEI) review found the major indicators for population health like maternal mortality, infant mortality and incidence of infectious diseases to be greatly improved.

Although the component made great contributions to basic health services at the local level, efforts to establish the Village Cooperative Medical Services (VCMS) were not successful. The NHEI reviews laud the good intentions of the project's VCMS experiments, and notes that the severe poverty in the project areas was a major obstacle. Overall, it is now increasingly recognized that funding for health services in China's rural areas is inadequate and that the problem is most severe in the poorest rural areas. While the SWPRP basic health services component made a valuable contribution to basic health in the project area, it did not establish a clear replicable model for upgrading basic health services on a sustainable basis for the rural absolute poor.

Labor Mobility In the 1990s, about 100 million rural inhabitants found off-farm jobs in towns and cities mostly in the coastal provinces, but the upland poor comprised only a very small share of this flow of migrant laborers. The SWPRP was the Government's first attempt to
organize and support a voluntary system of labor placement for the upland poor in safe off-farm jobs.

The key outcome of the component was the establishment of a voluntary system of enhanced rural labor, and the placement of about 280,000 workers in safe off-farm employment. Placement and monitoring were critical to the success of the component. A strong, extensive and flexible placement mechanism succeeded in finding jobs for the low skilled workers over the life of the Project despite a rapidly changing labor market. The extensive monitoring effort helped ensure that the workers were safe, and that any difficulties or concerns were quickly addressed.

Because of the impressive poverty impact of the component, which was evident even from the early years of implementation, great efforts were made to ensure that the component benefited the very poor. In the early years of the component, there was tendency to target workers somewhat better off than the average. However, as implementation proceeded, the targeting of the component improved, and the component was better able to reach the poorer villagers. All 1798 project villages participated in the project.

Based on a 2 percent sample survey of participants in the component, workers averaged Yuan 1135 per year in remittances over the life of the project. These funds were invested in farm inputs (24 percent), housing (20 percent), children’s education (10 percent) and health care (6 percent). The remittances also were used to reduce household debt burdens (11 percent) and to start small businesses in rural areas (4 percent). In addition to the cash remittances, the workers brought back substantial amounts of consumer goods (averaging Yuan 900 per worker) to their families. Major efforts were made to ensure that women and ethnic minorities had adequate opportunities to participate in the component. The success of these initiatives varied among locations, partly due to cultural influences. Overall, the component did a good job in balancing the benefits of participation with the particular risks inherent when people take off-farm jobs.

Workers participating under the Project were compared with those who found off-farm jobs on their own (spontaneous migration). It appears that participating in this component brought the workers higher salaries and more stable jobs than would have been possible through spontaneous migration. Despite the overall success of the component, a number of difficulties were encountered. The component suffered from a shortage of counterpart funds and from slow disbursements of project funds to the implementing agencies.

The overall impact of the Project would possibly have been greater if the component had been better integrated with other components. For example, the impact of the labor mobility component on the agriculture component was not well-monitored, and in some cases (although probably the minority), the component may have inadvertently reduced the effectiveness of the agriculture component by reducing the amount of available labor.

The GX-MED subcomponent was a large-scale experiment in creating employment opportunities for the upland poor in labor intensive enterprises in three municipalities in Guangxi. GX-MEDs performed poorly -- especially in Beihai Municipality -- and about 20 percent of this subcomponent's funding was eventually redirected toward the construction of small on-farm water tanks in the project's upland counties. Overall, GX-MEDs provided fewer job opportunities
than anticipated, the investment cost per job created was often too high, and many of the enterprises and activities supported were not financially viable.

Using the data from the village surveys, the ERR for labor mobility is estimated to be more than 50 percent. The reason for such a high ERR is that the cost of mobility for poor farmers is low while the income is comparatively high.

**Rural Infrastructure** This component improved access to roads, drinking water, irrigation water, electricity, and other basic infrastructure. Rural roads improved the flow of goods into and out of remote poor areas, and increased the access to outside jobs, health care, and education services. Unfortunately, constraints imposed by the counterpart funding mechanism and repayment requirements adversely affected the timeliness of the physical completion of these works and limited their scale.

Solving household water supply shortages both improved household hygiene and living standards and also reduced the time and hard labor previously expended mostly by women and girls in transporting water. Small-scale irrigation works greatly improved food security. All of the SWPRP rural infrastructure activities had important synergistic effects on other project activities. For example, with road access, school and health clinic construction was made much easier and it became possible to bring in chemical fertilizer and other materials for agricultural activities. Finally, a major innovation during the latter years of the project, led by the Guangxi PMO, was to improve natural village access roads and tracks. Typically only passable by animal-drawn carts, these roads were built with labor volunteered by the villagers with materials and technical assistance provided through the project.

The small irrigation subcomponent is estimated to have a rate of return of around 20 percent. This ERR can also be treated as the lower bound of the ERR for the whole infrastructure component. For example, when asked to rank the sub-component of infrastructure component, farmers always give the first priorities to the road construction and electrification. Therefore, it is likely that ERR for roads and electrification should be higher than that of small irrigation.

**Land and Farmer Development** At least 80 percent of project households received assistance for a wide variety of field crops, tree crops, and livestock activities. Some of these activities were effective means of improving household food security and increasing incomes. The component supported an environmentally friendly integrated land use system, and proved that a farming population can sustain itself over the long term in the Karst region of Southwest China.

Several factors constrained the land and farmer development component from achieving its full potential. First, the outreach of the Project to the very poorest and most remote households was delayed and never reached the levels attained by less poor households closer in to the road system. It is understandable that local leaders and project staff could not reach the poorest and most remote project villages in the first two years of the project, but a sustained push in the latter years of the Project did extend benefits to most households and to the extremely remote areas.

Ethnic minorities reside in the most remote villages of the project areas, and some minority families did not receive a fair share of the benefits of the project. The benefits from
heavy investments in a number of tree crops in the early years of the Project were not realized because (a) the quality of the planting material was unsatisfactory, and (b) the markets for most of these tree crops were in decline due to regional or national overproduction.

**TVE Development** This component was not a success. The inadequate infrastructure base (including poor transport and telecommunications) and paucity of technical and management skills in the project's poorest townships and villages hampered the development of township and village enterprises in most of the SWPRP area. For this reason, the total scale of the TVE development component was substantially reduced during project design and preparation, and then further reduced during the later years of implementation.

Most of the medium and larger TVEs supported by the Project were eventually found to be not financially viable or with no significant poverty reduction impacts. Small scale enterprises and small scale farmers' markets were typically far more successful. These were often privately owned, provided goods and services for the local market and relied on simple technology. Most of these enterprises were found to be financially viable, with favorable poverty reduction and local financial impacts.

### 3.2 Adjustments in the Project Components

The adjustment of project plans was mainly in following areas:

- **Basic Education** The subsidies for student food were stopped and replaced with an increase in teaching equipments and school buildings.
- **Basic Health Service** The monitoring of nutrition was stopped while the supply of medical equipment was increased. In addition, foreign technical assistance was replaced by domestic technical assistance.
- **Labor Mobility** The plan for labor mobility outside of the region was increased owing to the lack of employment opportunities within the region.
- **Rural Infrastructure** Rural energy was cancelled while power supply and village access roads were increased.
- **Land and Farmer Development** Livestock, fodder, economic forest and field crops were increased and the development of dry land farming, technical training, and agricultural research were cut.
- **TVE Development** Processing industries were cut and the components for improving employment, environmental protection, and technical training of farmers were increased. The foreign technical assistance was replaced by domestic technical assistance.
3.3 Project Costs

**Comparison of Appraisal and Actual Costs (US$ million)**

<table>
<thead>
<tr>
<th>Component</th>
<th>Appraisal Estimate</th>
<th>Actual</th>
<th>Actual as percent of appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Education</td>
<td>24.93</td>
<td>29.71</td>
<td>119.19</td>
</tr>
<tr>
<td>Basic Health Services</td>
<td>20.49</td>
<td>20.71</td>
<td>101.04</td>
</tr>
<tr>
<td>Labor Mobility</td>
<td>112.71</td>
<td>133.33</td>
<td>118.3</td>
</tr>
<tr>
<td>Rural Infrastructure</td>
<td>39.04</td>
<td>63.99</td>
<td>163.91</td>
</tr>
<tr>
<td>Land and Farmer Development</td>
<td>111.94</td>
<td>160.30</td>
<td>143.19</td>
</tr>
<tr>
<td>TVE Development</td>
<td>53.95</td>
<td>42.31</td>
<td>78.42</td>
</tr>
<tr>
<td>Institution Building</td>
<td>6.30</td>
<td>6.05</td>
<td>96.01</td>
</tr>
<tr>
<td>Poverty Monitoring</td>
<td>5.52</td>
<td>7.05</td>
<td>129.65</td>
</tr>
<tr>
<td>Total Baseline Cost</td>
<td>374.88</td>
<td>463.55</td>
<td></td>
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<tr>
<td>Physical Contingencies</td>
<td>20.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price Contingencies</td>
<td>91.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Project Costs</td>
<td>486.38</td>
<td>463.55</td>
<td>95.31</td>
</tr>
<tr>
<td>Total Financing</td>
<td>486.38</td>
<td>463.55</td>
<td></td>
</tr>
</tbody>
</table>


3.4 Poverty Reduction Effectiveness

The 35 counties involved in the Project outperformed the 149 nationally designated poor counties in the three provinces of Yunnan, Guizhou and Guangxi as shown in the following table

**SWPRP Counties Compared to All Poor Counties in the three Provinces from 1993 to 2000**

<table>
<thead>
<tr>
<th></th>
<th>Per Capita Grain Output (kg)</th>
<th>Per Capita Net Income of Farmers (yuan)</th>
<th>Per Capita Value-added of Industry (yuan)</th>
<th>Per Capita Local Revenue (yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average of Poor Counties in the 3 Provinces</td>
<td>241 364</td>
<td>378 1204</td>
<td>451 1000</td>
<td>68 118</td>
</tr>
<tr>
<td>SWPRP Counties</td>
<td>204 310</td>
<td>351 1211</td>
<td>371 846</td>
<td>50 98</td>
</tr>
</tbody>
</table>

**Food Security** SWPRP area has been one of the most poverty-stricken areas in China. However, the land and farm development component—the largest investment component under the SWPRP—helped beneficiaries in the project area to boost their grain output, thus improving their food security. By 2000, per capita grain consumption in the project area rose 11 percent to 209 kg. The people in the project area having insufficient grain consumption (less than 150 kg per capita) dropped to 4.4 percent in 2000.
Poverty Incidence  In 1995 before the Project was implemented, the poverty incidence of the villages averaged 31 percent, 24 percent higher than the national average. Under the Project, the poverty incidence of poor villages dropped to 17.7 percent in 2000. As shown below compared, the poverty incidence of project villages fell by a larger margin and faster than non-project villages.

Changes in Poverty Index in the SWPRP Areas

<table>
<thead>
<tr>
<th>Poverty indices</th>
<th>Project Villages</th>
<th>Comparative Villages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty Incidence</td>
<td>31.5</td>
<td>17.7</td>
</tr>
<tr>
<td>Poverty Depth Index</td>
<td>5.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Poverty Intensity Index</td>
<td>1.23</td>
<td>1.11</td>
</tr>
</tbody>
</table>


Access to Facilities  The Project greatly improved the accessibility of farmers to infrastructure. Since the start of the Project, 827,000 people and 300,000 head of livestock in the project villages have gained access to safe drinking water. The population with safe water drinking rose from the pre-project 30 percent to 68 percent. The proportion of villages having accessed to motorable roads in the project areas reached 96 percent, 10 percent higher than the non-project villages. The proportion of villages having access to power supply among the project villages reached 98 percent, up by 23 percent since the start of the Project, and 17 percent higher than non-project villages.

Access to Education  In 2000, primary school attendance in project villages hit 91 percent compared to 85 percent before the project implementation. The primary school completion rate of 15-year old children in the project villages went up to 70 percent compared to 50 percent in 1995, and 2 percentage points higher than non-project villages.

Access to Health Services  In 2000, the project villages with clinics and the villages with qualified staff reached 84 percent and 89 percent respectively, up from 27 percent and 45 percent in 1995, and 9 and 16 percentage points higher than non-project villages.

3.5 Impact on Women

In the design of SWPRP, full consideration was given to the benefits of women. For example, before the implementation of the rural drinking water project, the local women had to go a long way, often more than 3 km to carry water. After the implementation of the Project, access to water in the villages freed women from carrying water. Efforts were made to give women more opportunities for education. The school subsidy was mainly given to girls, and teachers accepted for training were mainly women. Female midwives were trained for each village, and prenatal care and education was provided to women. The Project ensured that most of the school-age girls can go to schools. Thirdly, as many of the men worked outside the villages, the main participators and beneficiaries of the agriculture activities were women.
3.6 Environmental Impacts

The Project was designed to achieve ecological restoration and to reduce stress on the environment. Economic forests and orchards were constructed, and hillsides were closed to allow afforestation; this conserved water and reduced soil erosion. Biogas pits were built to change the habit of the local people to cut firewood. Many drinking water projects and mini-scale irrigation projects constructed in the project areas, promoted agricultural restructuring and had a favorable impact on the agricultural ecology. The implementation of labor mobility projects relieved the pressures on land. At the same time, efforts were made to meet the State requirements on environmental protection when developing TVEs.

3.7 Sustainable Development

First, sustainability was reflected in the design of the project components. Second, sustainability was embodied in the organizational structure in project preparation, evaluation, implementation and monitoring. Third, sustainability was embodied in the fund rotation mechanism. With the long repayment period for the Loan /Credit, the project design allowed for setting up a revolving fund. Fourth, sustainability was embodied in the follow-up project management. Upon completion of each project, follow-up management systems and specific methods for implementation of the systems were worked out to ensure the sustainability of the components.

4. Driving Factors

4.1 Commitment and Political Economy for Change

Since the reforms of 1978 the Government of China has been committed to the reduction of absolute poverty. China’s population in absolute poverty, dropped from 250 million to 125 million between 1978 and 1985. But this was accompanied by a trend to income inequality between the areas with a favorable resource endowment and those less favored in the remote mountainous areas. The Government, therefore, started a large-scale program to target poverty reduction through development of the poorer rural areas after 1986. The implementation of the program combined with the growth of China’s economy contributed to reduction of the poor rural population further to 80 million by 1993. In order to assist the remaining 80 million poor rural population to escape from poverty, the Chinese government in 1994 set up the State Seven-Year Plan to Help 80 Million People Get out of Poverty; this was known as the 8-7 Plan.

In order to realize the 8-7 Plan and to develop new approaches to poverty reduction, the Government and the World Bank started to prepare the China Southwest Poverty Reduction Project (SWPRP) in 1993.

The SWPRP can claim three “firsts” in the history of World Bank’s projects in China: First, the then Chinese President Jiang Zemin wrote to the Working Conference on World Bank SWPRP in May, 1995, speaking highly of the significance of the Project, “It can provide a stable and adequate supply of food and clothing to the 3.5 million people in the country’s top 35 impoverished counties in Guangxi, Yunnan and Guizhou, and promote socioeconomic
development of the project areas. More importantly, this cooperation changes the traditional way of pure reliance on domestic funds in poverty reduction, and opens up a new pattern of combining domestic poverty reduction organizations with international organizations, and domestic poverty reduction funds with international aid.” Second, the then State Councilor Chen Junsheng wrote three letters to the president of the World Bank, and organized special discussions on preparation of the Project. Third, the State Council held two special meetings in 1995 and 1998 on the SWPRP, at which Chen Junsheng delivered speeches of importance and presided over the meetings. The above “three firsts” created an unprecedented political atmosphere for the smooth operation of the Project, and aroused the great concern of Party committees at various levels that was a crucial precondition for successful implementation.

4.2 Public Participation

Extensive participation of poor households was a fundamental characteristic of the Project. The household participation system has the following elements: First, project selection was based on opinions first “from top to bottom” and then “from bottom to top.” Second, efforts were made to ensure that poor households participated in project implementation. Third, farmers were motivated to participate in social service projects and infrastructure construction by providing labor, and to participate in agriculture and labor mobility activities by providing a small amount of matching funds. Fourth, efforts were made to improve the transparency of project implementation. All Village Development Plans were illustrated in basic information leaflets showing project investment, scale of implementation, annual completion schedule, maps of project activities, and profile of projects. These were posted in villages to let farmers have an insight into the projects. Lists of persons who accepted school subsidies and nutrition subsidies, and lists of persons who were allowed an exemption or reduction of medical fees were publicized. Fifth, efforts were made to improve the level of farmers’ participation in project implementation and decision-making, and to formulate the work plans for farmers’ participation in projects: these clearly defined the conditions, rights and responsibilities of the farmers. Sixth, intensified efforts were made to strengthen technical training and farmer training, and improve farmers’ ability to participate in and benefit from the project.

4.3 Institutional Innovations

Multisectoral Approach  In terms of design and execution, the Project stressed the combination of infrastructure construction, field crops and tree crops, livestock, education, health and employment promotion. This approach aims to raise production and improve living conditions and community development in poor areas. It is also conducive to the fostering of poor farmers’ long-term development capacity.

Planning and Scheduling  All projects under the SWPRP were finalized during preparation for the Project, and were executed according to annual plans. Project planning was based on village-level planning, and project execution was based on annual plans. Each sub-component had a clear implementation plan. In that way, random establishment of project components was avoided, and the sustainability of project implementation and execution was
maintained. Each sub-project and each administration had clear goals, demands and work contents. Strict work standards included technical standards for construction of each sub-project, cost estimates, and average household investment standards. Importance was attached to project monitoring, and a reporting system provided timely information on project progress and problems.

**Counterpart Funds** The Central Government pledged that domestic matching funds would be supplied. The Leading Group for Poverty Reduction under the State Council held meetings with the relevant agencies of the Government to coordinate and secure matching funds, and the three provincial governments formulated annual plans for matching funds. The matching funds put in place served as a material foundation for the successful implementation of the Project.

**Capacity Building** The SWPRP placed emphasis on capacity building in the following three aspects. First, the capacity building of management organizations included improvement of office conditions, training, and standardized management work. Second, the development capacity of communities was based on coordinated development in economy, society and environment, to improve their capacity to manage construction and maintain public works. Third, the participation and training improved farmers’ agricultural production skills and other abilities. Fourth, labor mobility played a positive role in helping farmers to acquire knowledge about social communications and broaden their horizon. In 1994, when the project design was conducted, planning at the village level was a new thing in poverty reduction and development in China. In the process of learning and experiment, the concepts and operating procedures of comprehensive planning and design of village-level projects were put into practice in implementation of the SWPRP.

**Monitoring** In 1995, with the support of the World Bank, the National Bureau of Statistics (NBS) and the Office of Poverty Reduction under the State Council joined hands with the Bank to set up a poverty monitoring and project impact evaluation system in the SWPRP Area. From 1995 to 2001, the Rural Social and Economic Survey Team of the NBS, the survey teams of project provinces and the survey teams of project counties conducted annual surveys on each sample village, household and individuals. The organizational structure of the project monitoring was composed of the project organizations and personnel at the levels of district, county, township and village. A computer-based Farmers Monitor and Management System for Comprehensive Poverty Reduction Projects to manage the projects was developed to track and evaluate project benefits. Based on sampling surveys, overall independent evaluations were made on the poverty reduction performance in 35 project counties in Guangxi, Guizhou and Yunnan.

The SWPRP Monitoring Component had an impact that goes far beyond the project itself. Since 1997, China has conducted a national poverty survey that covers all nationally designated poor counties. This national poverty monitoring system was modeled on and drew heavily on the experience of the SWPRP. Questionnaire design, sampling and data collection build on methods developed under the SWPRP. Staff of the national poverty monitoring offices at the central and provincial levels have also been drawn from the SWPRP personnel. Since 2000, the NBS has published an annual *Poverty Monitoring Report of Rural China.*
4.4 Learning and Experimentation

Comprehensive Development  The comprehensive development measures were based on (1) the basic unit of administrative villages and centered on the multiple causes of poverty; (2) the interaction between sub-components and the different elements of subcomponents; and (3) the development of human resources.

Flexibility in Adjustment of Components  The procedures and methods for project adjustment were put in place when implementing the SWPRP. (1) Publicizing the project plans for all project villages, basing the annual project plans on the village-level planning, working out the annual project plans based on opinions from top to bottom, and including the projects under the village-level planning into the annual plans; (2) Strict procedures and standards were imposed on project adjustment, which was made once at the mid term review; (3) Project adjustment was based on the selection of poor farmers and the market demand; (4) Project adjustment was backed by multiple means including procurement, payment, inspection and monitoring.

Policy Adjustments  In the first two years of the project execution, the credit fund for poverty reduction was managed by the Agricultural Development Bank of China in light of policy loans. In 1998, the credit fund for poverty reduction was managed and operated by the Agricultural Bank of China in accordance with commercial rules, and was mortgaged with properties. As the poor counties were weak in financial strength and had no property to mortgage for loans, the matching credit fund approved by the Province was not put in place.

4.5 External Catalysts

The smooth and successful implementation of the SWPRP benefited a lot from China’s sustained macro economic growth during the period of project implementation. For example, the objective of the labor mobility component could not have been achieved without the increased demand for employment created by the economic growth.

5. Lessons Learned

5.1 Multisectoral Poverty Reduction

Poverty is generally due to the impact of various elements. A single measure for poverty reduction is, despite easy implementation and management, not enough to remove the many elements of poverty. The SWPRP is based on administrative villages as the basic unit, and a comprehensive poverty reduction and development plan is tailored for the causes of poverty such as poor natural resources, lack of roads, water supply, schools and clinics, and poor access to markets. This practice not only relieves to a great extent the poverty of the farmers in the project areas, and improves access of the communities and farmers to assets, but also lays a solid foundation for the future sustainable development of the project area. The "Southwest Project" approach to the poverty reduction program has been scaled up throughout China's poor counties and has become a national approach for poverty reduction.
5.2 Support from the Central Government and Other Departments

Perhaps the most important lesson learned from the SWPRP is that, with strong support from the central and local governments, this multisectoral poverty reduction model can be made to work even in the poorest and most disadvantaged areas. The Central Government at the highest levels and the State Council’s LGPR provided strong support and leadership for the project. The successful implementation of the SWPRP is, to a great extent, a result of vigorous support and mutual coordination from and among governments at various levels. Without this, the Project would not have been implemented and completed so smoothly.

5.3 More Flexible World Bank Procurement and Disbursement Procedures.

Bulk procurement of some materials and goods through public bidding is not conducive to the implementation of a project with multiple project sites, different construction times and seasonal requirements. It also causes additional costs as well as delays. The Bank disburse against competed works, but this poses problems for poor areas that lack funds for starting the project works. The World Bank’s procedure for project adjustments takes a long time for approval and is not adaptable to market changes.

5.4 Project Fund Management

The operation system of poverty projects in China separates rights from responsibilities. However, poverty reduction agencies are responsible for poverty reduction but have no rights to allocate funds. In implementation of the SWPRP, the fund utilization mechanism made project offices at country level responsible for centralized allocation of funds, that were then injected based on the needs of the projects.

5.5 Increased Farmer Participation

While the SWPRP encouraged and practiced public participation there is room for improvement. (1) More effort is needed to ensure that the project design represent the wishes of the farmers; (2) Project publicity a must ensure that farmers know the procedures and conditions for application for project implementation and are active in project implementation; (3) Cost recovery should be strengthened and guarantee or joint guarantee set on loans; (4) Farmers are sometimes not willing to participate in the follow-up project management. Some public works are not repaired until they are out of commission. (5) The participatory mechanism for farmers’ management and monitoring of project achievements has not yet been put in place.

5.6 Need to Promote Village Medical Cooperatives

The attempt to set up village medical cooperatives failed. Farmers in poor communities have a hard life and it is not possible for them to bear all medical costs, nor is it possible for the State and collectives to be solely responsible for providing them basic medical services. The only possible way is to create cooperative medical service based on mutual assistance.
5.7 Government Organization Reform and Reappointment of Cadres

Project management needs a relatively stable team of personnel. But as the county government and the township governments have an office term of 5 year and 3 year respectively. Personnel in some counties and township workstations are frequently changed causing negative impacts on the continuity of project management.
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