

Asian Development Bank

and

the People's Republic of China:

Working Together to Reduce Poverty

Achievements in Poverty Reduction

Since economic reforms began in 1978, PRC has been successful in reducing the number of absolute poor in rural areas and has already achieved the Millennium target of halving poverty from the 1990 level. The poverty reduction performance has also been good based on social development indicators such as increasing life expectancy, decreasing infant mortality rates and improving literacy rates. This success in poverty reduction reflects the strong government commitment to equitable and inclusive development; the mainstreamed efforts of a wide variety of actors, programs and funding channels; and significant budget allocations for initiating self-help among the poor. PRC's poverty reduction approach is area-focused, with a strong emphasis on social and economic infrastructure provision, creation of employment opportunities for the poor, and group-based income generation and microfinance through township and village existing and development.

Challenges in Poverty Reduction

The Government recognizes a continuing need to address existing and emerging poverty reduction challenges such as (i) targeting the core poor living in areas with a degraded environment; (ii) addressing the non-income dimensions of poverty related to health, education and the environment; (iii) rising urban poverty associated with enterprise reform and labor retrenchment; (iv) new challenges posed by an aging of the population and the need for social security reform; (v) rural migration to cities due to a lack of rural income opportunities; (vi) the growing inequality between the western and eastern regions of the country and between urban and rural areas; (vii) poverty issues related to minority groups, the elderly, women and children; and (viii) the need to increase poverty program effectiveness through participatory approaches involving the poor themselves and non-government entities.

PRC's Progress in Achieving the Millennium Development Goals (MDGs)

The PRC has achieved the target of halving poverty from the 1990 level. The proportion of the rural population with an income below \$1 per day was 31.3% in 1990 and declined to 11.5% in 2000. While the progress in achieving most MDGs has been good, more progress is needed to further improve some indicators such as providing safe drinking water to the rural population, reducing child mortality, controlling HIV/AIDS, and improving some environmental indicators. Also, more attention should be put on addressing regional disparities in achieving the MDGs.

PRC's New Poverty Reduction Strategy

In May 2001 the Government adopted a new ten-year poverty strategy featuring a "key county" system for poverty reduction and development to assist 30 million rural people with incomes

under the Government's official poverty line of Y625 per capita annual income¹. Key counties and poor villages in non-key counties are eligible for national poverty funding. The selection of these 592 key counties was based on income, social, geographic and physical conditions. Priority will be given to remote and mountainous areas, minority areas, and pockets of severe poverty. The focus of the new strategy is on poor household and village activities. Participatory approaches will be used to ensure the involvement of the poor. In addition, the western region development strategy embodied in the Tenth Five Year Plan is using geographic targeting to promote pro-poor economic growth. Inadequate infrastructure, severe ecological problems such as desertification and soil erosion, and weak human resources in the western region will be addressed. Programs are also being developed to address urban poverty through social security reform, income and job generation for laid-off workers, and creation of off farm employment opportunities in small towns. The official poverty line, at about \$0.70 per day, is a rural subsistence line. This poverty line is low compared to international practice. PRC does not have an official urban poverty line.

In the 2nd Session of the 10th National People's Congress concluded in March 2004, the Government raised pro-poor measures including (i) reducing the agricultural tax rate by more than 1% per year on average, and rescinding it within 5 years; (ii) ensuring basic education and eliminating adult illiteracy by 2007; (iii) making efforts to create 9 million new jobs and re-employ 5 million laid-off workers this year; (iv) establishing within three years a fully functioning system for disease prevention and control and emergency medical aid that covers both rural and urban areas in order to increase the ability to deal with serious epidemic diseases and other public health emergencies; (v) taking measures to ensure that rural worker in cities are paid on time and in full, and solving the problems of default on construction costs and wages arrears for migrant rural workers in the construction industry within three years.

ADB's Poverty Reduction Strategy

ADB's long-term strategic framework (LTSF) responds to the development challenges of the region and the requirements of the international development goals included in the Millennium Declaration of the United Nations and reflects ADB's evolving role. The Long Term Strategic Framework specifies four operating principles to ensure selectivity and focus of ADB's interventions at the country level, and to enhance the development impact and effectiveness of ADB's support: (i) ensure country leadership and ownership of the development agenda, (ii) take a long-term approach to development assistance, (iii) enhance strategic alliances and partnerships, and (iv) measure development impact. Specifically, the LTSF states: "Investments will be required for the provision of infrastructure and growth-promoting activities, for ensuring sustainable economic growth, inclusive social development, and governance. These investments will need to be accompanied by policy reforms and institution and capacity building." The strategic agenda of ADB addresses these concerns. The LTSF states the following:

¹ Poverty incidence by using four measures:

- 88 million poor (2002) as per international \$1/day income poverty line (source: China Promoting Growth Equity – Country Economic Memorandum, the World Bank, 2003)
- 161 million poor (2002) as per international \$1/day consumption poverty line (source: China Promoting Growth Equity – Country Economic Memorandum, the World Bank, 2003)
- 28.2 million poor (2002) as per the Government's Y625 per capita annual income poverty line (source: Poverty Monitoring Report of Rural China, National Bureau of Statistics, 2003)
- 86.5 million poor (2002) as per the Government's Y869 per capita annual income poverty line (source: Poverty Monitoring Report of Rural China, National Bureau of Statistics, 2003)

"The agenda is divided into three core areas of intervention, consonant with the poverty reduction strategy:

- sustainable economic growth, which covers broad-based growth-promoting activities, including investments in both physical and social infrastructure, and an environment program that promotes environmentally sound development;
- inclusive social development, which will include investments in social support programs and a policy and reform agenda that will promote equity and empowerment, especially for women and disadvantaged groups; and
- governance for effective policies and institutions, which will include support for public sector management at all levels; legal and judicial reform; and improving public accountability. Governance must also promote processes and procedures for more effective participation in decision making to promote equitable and inclusive growth, especially by civil society.

The three core areas will be complemented by three crosscutting themes that will both broaden and deepen the impact of the core areas of intervention:

- Promoting the role of the private sector in development builds on the private sector development strategy, recognizes the central role of the private sector and of markets in the development process, and responds to the challenges of mobilizing private sector resources to address the region's increasingly complex development agenda.
- Supporting regional cooperation and integration for development reflects the need to support the development of DMCs through cooperation, to provide wider development options through greater access to resources and markets, to address shared problems that stretch across borders, and to take advantage of opportunities for sharing knowledge and information.
- Addressing environmental sustainability includes putting environmental considerations in the forefront of all development decision making and planning in the DMCs and in all ADB initiatives, and not only stopping but reversing the enormous and costly degradation and damage to the environment that have already occurred.

A Poverty Partnership Agreement between ADB and the PRC Government was signed in 2003. The agreement includes specific measures each side will undertake to reduce poverty together.

ADB's Assistance to PRC and Poverty Reduction

ADB support to poverty reduction is premised on the three pillars and cross-cutting themes described above. For example, pro-poor economic growth is supported by moving lending to the poor interior projects and designing infrastructure projects to spread the benefits to the poor. In response to the growing income disparities between urban and rural areas and between inland provinces and coastal areas, ADB will assist the Government in promoting economic growth to reduce poverty in the inland provinces. ADB will shift the focus of its lending operations to the less-developed inland provinces where most of the country's poor live. About three quarters of

the projects in ADB's operational program (1997–2003) were located in central and western provinces, compared with 40% during the 1987–1996 period.

ADB also supports regional cooperation because many of PRC's poor live in minority areas in border regions. It is important to improve the enabling environment for the private sector because the private sector will create most of the jobs that are necessary to move people out of poverty. ADB addresses environmental problems because the poor suffer most from a bad environment. Good governance is important because the poor suffer most from development management that is not sound.

ADB will help to reduce poverty by designing physical infrastructure development to distribute project benefits to poor areas, targeting agriculture and rural development projects toward the poor, addressing land degradation and natural resource management, supporting the urban poor through social security reform, and developing the social safety net to offset the social costs related to state-owned enterprise reform. The strategy aims to identify appropriate projects and provide technical assistance to strengthen the policies and institutions in these sectors.

Strategic Priorities of ADB in Poverty Reduction

Pro-poor Economic Growth through Infrastructure Provision. Public investment in physical infrastructure (*e.g.*, roads, railways, energy, water supply, and sanitation) is important for raising productivity and realizing long-term economic growth. Good infrastructure is also necessary to create the conditions for the private sector to thrive and enable markets to operate efficiently. In PRC (i) 3.2 poor people are lifted out of poverty for every CNY10,000 invested in roads; (ii) for every 1% increase in the number of kilometers of road per capita, household consumption increases by 0.08%; (iii) every 1% increase in irrigation expenditures is associated with a 0.41% increase in agricultural output per worker and leads to a 1.13% decrease in poverty incidence; and (iv) 2.3 poor people are lifted out of poverty for every CNY10,000 invested in power. ADB infrastructure interventions will largely be located in poor inland areas and designed to spread the benefits of such investments to the poor. Some examples would be including local roads, rural electricity, or rural water supply (financed, depending on local capacity, by Government, ADB, or both) in the overall design of ADB-financed infrastructure projects. Most of ADB-financed lending will be targeted to the poorer western and central areas.

Supporting Private Sector Development: PRC needs to create 15 to 20 million jobs annually to absorb new labor market entrants, absorb the remaining workers made redundant by the reform of State Owned Enterprises who have not been re-employed and employ some of the 150 million surplus rural workers. International experience shows that creating a pro-business environment helps to increase wealth and jobs. ADB will work in partnership with the PRC to develop the private sector. Examples of such activities could include (i) promoting the rule of law by strengthening the legal and regulatory framework and judicial system; (ii) revising the taxation system to convert legitimate fees and charges into taxes and abolishing illegal and arbitrary fees; (iii) removing infrastructure bottlenecks; (iv) revising the administrative laws and regulations to increase transparency and reduce the red tape faced by businesses; (v) removing barriers to inter-provincial trade; (vi) improving corporate governance, accounting and auditing standards and practices; and (vii) increasing the access of the private sector, particularly small and medium enterprises, to credit and other key resources.

Environment and Poverty Reduction: Addressing desertification, water shortages and water pollution, air pollution, soil erosion, forestry and wetlands are particularly pro-poor environmental

initiatives. PRC and ADB will continue to cooperate on a broad range of activities related to legal, policy and regulatory reform and capacity building in the environment sector and support selected projects to address environment problems. Projects will be designed so that the poor capture some of the environmental benefits. To sharpen the poverty focus of environmental work, PRC and ADB will begin to address land degradation and better target poor areas by supporting the implementation of the 10-year (\$150 million, grant-financed) PRC-GEF Partnership for OP12 to address policy, institutional, technical and financing issues related to land degradation. The PRC-GEF Partnership aims to reduce poverty, arrest land degradation, and restore dry land ecosystems in the western region.

As urbanization accelerates the demand for urban infrastructure and services will increase. To enhance the development impact, future lending program should explore the possibility of undertaking an integrated approach to support the urban development programs and projects. ADB will help PRC develop a set of urban-oriented environment improvement projects in selected cities, including water supply, wastewater and solid waste treatment, air quality improvements, urban transport and city environmental rehabilitation projects.

Regional Cooperation: PRC and ADB will enhance regional cooperation as a means to help promote economic growth and reduce poverty. This will be done, with ADB support, by (i) facilitating cooperation and policy dialogue among the countries to improve the policy environment and stimulate economic activity and cross-border trade; (ii) advancing implementation of priority subregional projects to stimulate growth in border areas; (iii) encouraging partnerships in public-private sector project finance; and (iv) building local capacity to manage regional cooperation programs. Many of PRC's poorest minority groups live in border areas. Promoting trade and stimulating economic growth and private sector development in these areas will help provide employment opportunities for the poor communities.

Pro-Poor Policy Analysis: PRC will strengthen governance in the areas of predictability, accountability, participation and transparency with ADB assistance through both operational and analytical work. Examples of areas where ADB will cooperate with PRC include legal/regulatory reform, accounting and auditing, fiscal reform, corporate governance, and promoting an enabling environment for the private sector. The poor will benefit from these initiatives. To sharpen the poverty focus of such efforts, PRC and ADB will look for ways to help in such areas as reforming the delivery and planning system for poverty reduction, improving local level planning for service delivery to the poor, developing poverty reduction-focused provincial development plans, strengthening the fiscal position of poor counties, strengthening legal assistance to the poor, reducing inequalities between eastern and western/central and rural and urban areas, creating an enabling environment for small and medium enterprise development to increase employment opportunities, developing social safety nets (social security and pension reform), enhancing flood control and integrated river basin management, and promoting participation of the poor in designing and implementing development projects.

Future Priorities. Unless poverty and inequality are addressed, broad based public support for the reform program will be undermined. The PRC Government is committed to reduce and eradicate remnant and relatively inextricable rural poverty and the more recent blight of urban poverty. Relevant strategies and targets are contained in the *Tenth Five Year Plan (2001-2005)* and the *Outline for Poverty Alleviation and Development of China's Rural Areas (2001-2010)*. In the new strategy, the Government designated key working counties for poverty reduction development work. Selection of these counties is based not just on income, but also on social conditions, geography, and other physical conditions. Priority will be given to remote and mountainous areas, minority areas, and severe poverty areas. The criteria for selecting poor villages was defined by assessing each village's situation through a participatory process

whereby villagers described the key effects of poverty in their village and county. A system of weighting the indicators was developed to create an integrated village poverty index.

The mix of strategies tightens focus, attacks underlying causes like environmental degradation, seizes on employment generation, supports upgrading of education levels, capitalizes on the motive force of the poor themselves, allocates considerably more resources, and strengthens and extends welfare safety nets. While the Government is mobilizing its own resources in a focused fight against poverty, it is also reaching out for support from NGOs. The Government welcomes an expansion in the role of NGOs and associated participatory approaches in the area of poverty reduction. The Government is also seeking enhanced cooperation with international donors, both official and non-government, to add value to the nation's poverty reduction program, not only by supplying financial and expert resources, but also by proposing and testing innovative methodologies.

ADB prepared a Poverty Profile for PRC². See Appendix 1 for Executive Summary.

Using ADB Loan Projects to Help the Poor

Transport and Poverty Reduction. The poor have limited mobility beyond their immediate communities because of geographical isolation and the high cost of motorized transport. As a result, they generally view roads as a key infrastructure investment priority. Benefits for poor rural areas include lower transport costs, lower cost of inputs, expanded agricultural support services and therefore improved farming practices, greater access to employment opportunities in urban areas and better access to health, education or social services. Better roads promote the transition from a subsistence farming rural economy to a cash crop and more diversified economy with a higher and more stable income flow to rural households leading to poverty reduction.

Transport infrastructure is necessary to create the conditions for economic growth, and growth is necessary to reduce poverty. Good infrastructure is part of the enabling environment for the private sector to flourish. In one ADB survey, when the domestic private sector was asked to identify infrastructure constraints, 21% responded poor roads. The road network is particularly underdeveloped in the poor central and western provinces. Poor infrastructure was also cited in another ADB survey as a major reason that foreign companies do not expand their operations into the poor interior provinces.

Railway development in less-developed inland provinces helps to promote growth and reduce poverty. Improved railway transport results in the growth of industry, which increases employment opportunities. The shift in employment from agriculture to agro processing, light industry, and services increases employment opportunities for women whose incomes and social status then improve. The tourism industry also develops rapidly. Railway development may contribute to increasing local area per capita GDP, thus helping to raise living standards and reduce poverty.

Energy and Poverty Reduction. Poor people are often disproportionately exposed to the negative environmental impacts of energy use. The supply of cleaner energy and energy conservation efforts are expected to result in significant welfare gains for the poor. Electricity can dramatically improve the quality of life. For example, small businesses can be set up that use machines with electric motors, children can study at night, and the poor can broaden their horizons through access to a wider world through television and radio. A reliable supply of

² http://www.adb.org/Documents/Reports/Poverty_Profile_PRC/PRC.pdf

energy is needed to operate medical equipment in rural areas. As three quarters of the PRC's population live in the countryside, providing a reliable supply of electricity in rural areas is important. Specific poverty-related project components can include rural electrification, provision of energy efficient lighting for the poor, and design of special electricity tariffs targeted on the poor so that they can afford the electricity provided by such projects.

Water and Poverty Reduction. Assistance for wastewater, water supply, and water resources management sectors benefits people who are adversely affected by polluted water. These people are often the poor. Improving sanitation and public health benefits from improved access to safe drinking water, wastewater treatment and better sanitation can strengthen poverty reduction impacts. Tariffs can be structured to ensure the poor can access these services and to implement improved environmental and water quality management.

Environment and Poverty Reduction. The poor are most vulnerable to environment-induced diseases and are least capable of paying for adequate medical attention for the associated illnesses. About 90% of the officially-designated rural poor live on moderately to severely degraded land and in remote areas along PRC's borders. Addressing environmental problems is critical for sustainable development and reducing the adverse impact of the environment on the poor.

Private Sector and Poverty Reduction. The private sector will be the engine for economic growth, productivity increases, job creation, and increased incomes that are necessary to lift people out of poverty. There are links between growth and private investment and between job creation in the private sector and poverty reduction. International experience shows that higher growth rates are associated with a higher ratio of private investment to GDP and that private firms create four to eighty times more jobs than public sector firms, depending on the country. In PRC, for every 1% increase in the share of private employment, there is an estimated increase of CNY164 (\$20) in per capita GDP. Developing an enabling environment so the private sector can grow and prosper will contribute to poverty reduction.

Protecting Families and Vulnerable Groups While Reducing Poverty: Whenever an ADB project results in involuntary resettlement, the ADB ensures that those resettled will at least be able to maintain the same living standard as was the case before the resettlement. ADB helped to improve the legal framework for resettlement by supporting the drafting of amendments to the Land Administration Law that were adopted in 1998. According to sample surveys of families to be resettled under ADB-financed projects, most households welcome the opportunity and view resettlement as a means to improve the family's standard of living, especially in terms of better housing and access to water and electricity. ADB also analyzes the likely effects of project activities on women and minorities. Projects with serious adverse impacts will not be supported unless they were redesigned to mitigate the negative impacts.

Examples of ADB Projects with Poverty-Related Impacts

Loan No.	Project	Loan Amount (US\$ million)	Approval Date	Type of Poverty Intervention To Promote Increased Employment and Income
1087	Yaogu-Maoming Railway	67.50	20-Jun-91	Transportation Access in/through Poor Counties
1304	Yunnan-Simao Forestation	77.00	30-Jun-94	Rural Industry in a Poor Area
1328	Qitaihe Thermal Energy	165.00	27-Oct-94	Access to Electricity in a Poor Area
1347	Agricultural Bank of China (ABC II)	100.00	12-Jan-95	Rural Credit in Poor Provinces

Loan No.	Project	Loan Amount (US\$ million)	Approval Date	Type of Poverty Intervention To Promote Increased Employment and Income
1386	Fujian Agriculture	65.00	28-Sep-95	Income Opportunities for the Poor
1400	Henan Power	200.00	7-Nov-95	Access to Electricity by Poor Villagers
1439	Daxian-Wanxian Railway	100.00	4-Jun-96	Transportation Access in/through Poor Counties
1484	Jiangxi Expressway	150.00	19-Nov-96	Transportation Access by Poor Townships
1553	Shenmu-Yan'an Railway	200.00	29-Sep-97	Transportation Access in/through Poor Counties
1617	Hebei Roads Development	180.00	18-Jun-98	Transportation Access by Poor Townships
1626	Guizhou-Shuibai Railway	140.00	18-Aug-98	Transportation Access by Poor Counties
1638	Chengdu-Nanchong Expressway	250.00	10-Nov-98	Transportation Access by Poor Townships and Villages
1644	Yunnan Power Transmission	100.00	27-Nov-98	Access to Electricity by Poor Villagers
1691	Southern Yunnan Road Development	250.00	24-Jun-99	Local Feeder Roads in Poor Counties and Townships
1701	Shanxi Road Development	250.00	30-Sep-99	Local Feeder Roads in Poor Counties and Townships
1783/1784	Chongqing Guizhou Road Project	320.00	21-Nov-00	Local Feeder Roads in Poor Counties and Townships
1748	Hefei Xi'an Railway Project	300.00	17-Aug-00	Transportation Access by Poor Townships
1814	West Henan Agriculture	64.30	19-Dec-00	Income Opportunities for the Poor
1838	Shaanxi Roads Development	250.00	30-Aug-01	Transportation Access by Poor Counties and Townships
1850	Ganzhou-Longyan Railway Project	200.00	30-Oct-01	Transportation Access in/through Poor Counties
1851	Guangxi Roads Development	150.00	30-Oct-01	Transportation Access by Poor Villages
1901	Shenda Grid Rehabilitation and Transformation	100.00	20-Dec-01	Rural Electrification
1918	Southern Sichuan Roads Development	300	20-Sep-02	Local Roads in Poor Counties and Townships
1924	Efficient Utilization of Agricultural Wastes Project	33.12	22-Oct-02	Income Opportunities for the Poor
1967	Shanxi Road Development II	124.00	12-Dec-02	Local Feeder Roads in Poor Counties and Townships
2004	Ningxia Roads Development	250.00	11-Sep-03	Local Feeder Roads in Poor Counties and Townships
2014	Western Yunnan Roads Development	250.00	28-Oct-03	Local Feeder Roads in Poor and Ethnic Minority Areas
2032	Gansu Clean Energy Development Project	35.00	05-Dec-03	Rural Electrification
2051	Yichang-Wanzhou Railway	500.00	15-Dec-03	Transportation Access in/through Poor Counties

Policy Dialogue on Poverty Reduction

Since the end of 1998 ADB has supported poverty strategy implementation through TAs (see Appendix 2). These TAs provided the policy inputs for exploring ways to reduce rural poverty, improve poverty planning methodologies, address urban poverty as an emerging problem, and promote the participation of poor stakeholders in policy planning and implementation.

A poverty reduction methodology for counties and villages, developed under a technical assistance grant for Preparing a Methodology for Development Planning in Poverty Blocks under the New Poverty Strategy of the PRC, was adopted as a national policy in 2001, implemented in 2002-2003, and will be applied to minority areas in 2004.

ADB is helping the Government to develop the framework for the policy and institutional directions of the Government's poverty reduction strategy for the next two decades. The TA supported a workshop on PRC's poverty reduction strategy and policies in April 2004. Key issues included (i) the Government should use the international poverty standard based on \$1-per-day; (ii) the poverty reduction strategy should have broader-based goals such as human resource development and employment creation (in particular, support to vocational training of poor farmers and migrants), reform of institutional arrangements for poverty reduction fund management and access of the poor to credit, and reform of the poverty reduction subsidy system; and (iii) increased attention should be paid to policy making, planning and coordination

of poverty reduction funds, and monitoring and evaluation of poverty reduction projects. The Government drew on the outputs of the TA to help formulate its country report presented at the Global Poverty Reduction Conference in Shanghai in May 2004.

ADB conducted two studies related to strengthening the social safety net in the rural areas: the old-age pension and the health protection system. The "Old-age Pensions for the Rural Areas: From Land Reform to Globalization" listed the key issues in rural pension system reform, and proposed action plans for filling the social security gap for the rural elderly in areas according to different income levels. The plans cover legal framework, institutional set-up, transitional period, and monitoring and evaluation of the pension reform. This work complements ADB's extensive involvement in social security and pension reform for urban areas. A good pension system is essential to ensure that senior citizens do not fall into poverty during their golden years.

The study "Toward Establishing a Rural Health Protection System" recommended five areas of policy actions to develop a rural health protection system that is imbedded in the overall health and economic system. These include (i) stabilizing and legalizing funding sources, (ii) enlarging risk pool, (iii) strengthening the purchasing function of the health protection system, (iv) strengthening community participation and control, and (v) strengthening the government role in policy guidance, technical assistance, and organizational supervision. The study also proposed a stepwise and coordinated approach in implementing the policy actions given PRC's large rural areas and geographical imbalance. By adopting these recommendations, the Government has determined to set up an effective welfare system to offer medicare to 900 million farmers, and the system is scheduled to be expanded to cover all farmers by 2010.

In addition, ADB also suggested establishing a Rural Minimum Living Standard Protection System to help solve the problem of absolute poverty in rural areas through its Observations and Suggestions. To establish this new rural minimum living standards system, the Government would need to: (i) set up a special account in the budget for management and monitoring purposes; (ii) assign the Ministry of Civil Affairs as the agency to implement the system with assistance from the Leading Group of Poverty Reduction of the State Council and other ministries; (iii) use the poverty-mapping method developed by the World Bank to estimate the number of absolute poor at the township level; and (iv) use a participatory approach that involves villagers to improve transparency, efficiency, and accountability. If the budget allowed for it, the Government should consider gradually increasing the rural minimum living standard such that it moves closer to the \$1-a-day international norm.

Urban poverty is an emerging issue. ADB's urban poverty study suggested that poverty alleviation measures should not be confined only to those living below the poverty line. It should also extend to the population with a high risk of falling into poverty. The Government is using the study results to formulate policies for urban poverty issues. Steps have been taken to increase the urban minimum living allowance and to broaden its coverage.

NGOs now are active in the areas of environment, poverty reduction, education, gender, health, rural development, and social services. In order to helping create a sound environment for NGO operations, ADB assisted drafting the Regulations on Foundation Management, which will take effect as of 1 June 2004. This work will help to strengthen the legal/regulatory framework for NGOs. ADB also supported the drafting of the legal aid regulations. This will help to improve that access of the poor to the legal system.

ADB's ongoing work includes helping the Government Strengthening National Public Nutrition Planning, addressing the issues of Safe Drinking Water and Sanitation for the Rural Poor and introducing Participatory Poverty Reduction Planning for Small Minorities. These are pro-poor initiatives.

Mobilizing Other Sources for Poverty Reduction

A strategic partnership with DFID of the United Kingdom was approved in 2002 with DFID providing funding through the Poverty Reduction Cooperation Fund to help strengthen the poverty orientation of ADB operations in the PRC. Cooperation with DFID will focus on rural development assistance to better promote rural income generation through projects targeting poorer farmers and small entrepreneurs. To address emerging urban poverty issues, which are often related to economic restructuring and rural migration, DFID and ADB will cooperate to better target the urban poor and widen project design to include areas such as urban income generation, microfinance, and social protection for both urban poor and rural migrants. DFID and ADB will support efforts to help reform the delivery and planning system for poverty reduction, improve local-level planning for service delivery to the poor, strengthen the fiscal position of poor counties, strengthen legal assistance to the poor, and improve participation of the poor and NGOs in designing and implementing development projects.

ADB will work with the Government and DFID to explore the possibility of designing project activities and pilot testing a provincial partnership agreement. The provincial partnership agreement will be designed to test applications to address both rural and urban poverty to deepen the poverty reduction impact of ADB operations in the selected poor province. The pilot projects financed under the provincial partnership agreement will test approaches that could be replicated and scaled up if they prove to be successful.

Examples of TAs/Knowledge Products with Linkage to Poverty Reduction

Category/TA Project (or other Knowledge Products)	Amount (\$'000)	Approval Date
TAs/Knowledge Products with Direct Linkage to Poverty Reduction		
I. <u>Poverty Reduction Strategy and Development Planning</u>		
1 TA3610-PRC: Preparing a Methodology for Development Planning in Poverty Blocks under the New Poverty Strategy of PRC	150	21-Dec-00
2 TA3468-PRC: Policy Support for PRC 2020 Project (Phase III)	900	14-Jul-00
3 TA4158-PRC: Participatory Poverty Reduction Planning for Small Minorities	840	12-Aug-03
4 TA4200-PRC: Fund for Strategic Policy Conferences and Studies for Poverty Reduction	400	21-Oct-03
5 TA4222-PRC: Policy Study on Poverty Reduction Strategy-Trends, Challenges	150	20-Nov-03
II. <u>Rural</u>		
6 TA3150-PRC: Study on Ways to Support Rural Poverty Reduction Projects	985	31-Dec-98
7 TA3607-PRC: Policy Support for Social Security Reform under Tenth Five-Year Plan	150	21-Dec-00
8 TA4142-PRC: Fighting Poverty through HIV/AIDS Prevention Program	800	14-Jul-03
9 TA4215-PRC: Safe Drinking Water and Sanitation for the Rural Poor	400	12-Nov-03
10 TA4307-PRC: Poverty Reduction in Key Forestry Conservation Programs	400	19-Dec-03
11 TA4308-PRC: Poverty Reduction In Grasslands Improvement Programs	400	19-Dec-03
12 Staff Consultancy: Analysis on PRC's Rural Poverty		
13 University Intern Study: Rural Migrant Poverty in Beijing		
III. <u>Urban</u>		
14 TA3148-PRC: Pension Reform	2,400	28-Dec-98
15 TA3377-PRC: Urban Poverty Study	410	27-Dec-99
16 TA3733-PRC: Policy and Institutional Support for the Social Security Reform Pilot Program	1,000	02-Oct-01
17 Staff Consultancy: Analysis on PRC's Urban Poverty		
IV. <u>Infrastructure</u>		
<i>General</i>		
18 TA5947-REG: Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction	800	25-Oct-00
<i>Transport</i>		
19 TA3900-PRC: Socioeconomic Assessment of Road Projects	250	12-Aug-02
20 TA4322-PRC: Poverty Impact of Area Wide Road Networks	1000	26-Mar-04
<i>Energy</i>		
20 TA3369-PRC: Rural Electricity Supply Study	700	26-Dec-99
21 TA3673-PRC: Pro-poor Heating Tariff Reforms	850	19-Jun-01
22 TA4309-PRC: Renewable Energy for Poverty Reduction	600	19-Dec-03
V. <u>Monitoring and Evaluation</u>		
<i>General</i>		
23 TA3441-PRC: Capacity Building for Social Assessments	781	18-May-00
24 TA6073-REG: Development Tools for Assessing the Effectiveness of ADB Operations in Reducing Poverty	600	16-Dec-02
25 <i>Poverty Statistics</i>		

Category/TA Project (or other Knowledge Products)		Amount (\$'000)	Approval Date
26	TA5917-REG: Building a Poverty Database	600	25-May-00
27	TA6088-REG: Strengthening and Collection of Purchasing Power Parity Data in Selected DMCs	400	19-Dec-02
VI. Civil Society and Participation			
28	TA3279-PRC: Development of Economic Laws	1,400	19-Oct-99
29	TA5894-REG: Facilitating Capacity Building and Participatory Activities II (Voices of the Poor)	400	28-Dec-99
30	TA6109-REG: NGO Partnerships for Poverty Reduction	500	27-May-03
31	University Intern Study: NGOs Role in Development and Their Legal Framework in the PRC		
TAs with Other Strategic Objectives and Linkage to Poverty Reduction			
I. Environment Protection			
1	TA3497-PRC: Global Environmental Facility Partnership on Land Degradation	100	05-Sep-00
2	TA3548-PRC: Preparing National Strategies for Soil and Water Conservation	800	20-Nov-00
3	TA3657-PRC: PRC-GEF Partnership on Land Degradation in Dryland Ecosystems	800	25-May-01
4	TA3663-PRC: Optimizing Initiatives to Combat Desertification in Gansu Province	610	05-Jun-01
II. Western Region/Social Development			
5	TA3799-PRC: Western Area Human Resource Development	1,000	14-Dec-01
6	TA3806-PRC: Study on Foreign Capital Utilization for Western Region	550	18-Dec-01
7	TA3958-PRC: Improving Basic Education In Underdeveloped Areas through ICT	500	25-Sep-02
8	TA 3992-PRC: Strengthening National Public Nutrition Planning	500	20-Nov-02
9	TA4118-PRC: Combating Severe Acute Respiratory Syndrome in the Western Region	2,000	23-May-03

What are ADB's plans for future assistance in poverty reduction?

Future loans will continue be designed to have direct or indirect linkages to poverty reduction. The following loans will likely have significant linkages:

No.	Proposed Loan Project	Loan Amount (\$ million)	Expected Approval Year
1	Fujian Soil Conservation and Rural Development	80.00	2004
2	Guangxi Roads Development II	200.00	2004
3	Hunan Roads Development II	312.50	2004
4	Sanjiang Plains Wetland Protection Project	20.00	2005
5	Gansu Road Development (Fengxiang-Chankou)	300.00	2005
6	Hunan Road Development III (Jishou-Huayuan)	200.00	2005
7	Sichuan Road Development III (Ya'an-Shimian)	300.00	2005
8	Sichuan Road Development IV(Shimian-Lugu)	300.00	2005
9	Renewable Energy	100.00	2006
10	Sichuan Road Development V (Dazhou-Wanyuan)	200.00	2006
11	Chongqing Road Development	300.00	2006
12	Gansu Roads Development II (Lintao-Guanzikou)	200.00	2006
13	Taiyuan-Zhongwei Railway	250.00	2006

No.	Proposed Loan Project	Loan Amount (\$ million)	Expected Approval Year
14	Dryland Farming in Northern Region	100.00	2007
15	Rural Electrification Development Project	80.00	2007
16	Inland Road Development	200.00	2007
17	Railway Development Project	300.00	2007

In addition, ADB will continue to provide TAs related to poverty reduction. The following provides some examples of the proposed studies:

No.	Proposed TA	TA Amount (\$'000)	Expected Approval Year
1	Poverty Reduction in Coal Mine Areas	500	2004
2	Rural Credit Cooperation Development	1,000	2004
3	Support For Reforms in Compulsory Education Financing	500	2004
4	National Food Safety Regulatory and Strategic Framework	400	2004
5	Empowerment of the Poor on the Road Development in Shaanxi Province	500	2004
6	Developing Poverty Impact Indicators and Assessment Methodology	300	2004
7	Pilot Village Poverty Alleviation Plan Involving NGO's Participation	1,000	2004
8	Alternative Energy Supply for Rural Poor in Remote Areas	500	2005
9	Impact of Closure Coal Mines in Poverty Areas and Options for Job Creation	300	2005
10	Rural Pension System Reform	500	2005
11	Provincial SME Development for Poverty Reduction	500	2005
12	Improving Basic Education in Underdeveloped Areas Through ICT II	500	2005
13	Urban Poverty Strategy Study	300	2005
14	Housing Policy for Rural Migrants in the Process of Urbanization	500	2005
15	Rural Road Development Strategy	350	2005
16	Gansu Road Project (Poverty Reduction)	500	2005
17	Rural Development in Mountainous Areas in Southern Ningxia	500	2005
18	Advisory Support for the National Council for Social Security Fund II	500	2006
19	Rural Health Development Study	500	2006
20	Improving Nutrition Structure for Young Students	500	2006
21	Rural Transport Services Study	500	2006

POVERTY PROFILE OF PEOPLE'S REPUBLIC OF CHINA

EXECUTIVE SUMMARY

The new millennium has become a turning point in the People's Republic of China (PRC)'s war on poverty. Prior to this:

- (i) spectacular progress had been made in reducing absolute rural poverty levels to one eighth of what they were in 1978 when the economic reform process commenced – nearly all people have enough to eat and some clothing;
- (ii) urban poverty had become a serious problem, whereas previously poverty was a rural issue;
- (iii) the inequitable distribution of the benefits of rapid economic growth has contributed to the incidence of rural poverty being higher in the central and western regions than along the east coast;
- (iv) poverty had been perceived largely as “income” poverty;
- (v) the ongoing poverty reduction effort was experiencing the law of diminishing returns – it was becoming progressively more difficult to address absolute poverty;
- (vi) philanthropic resources from non-government organizations (NGOs), commercial enterprises, communities and individuals had been mobilized to complement and accelerate the Government's efforts to reduce poverty.

Looking beyond this point into the first 10 years of the 21st century, the PRC has:

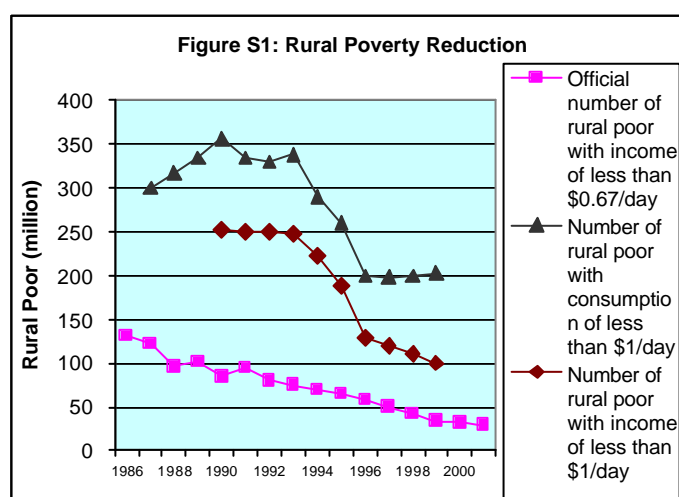
- (i) recognized that poverty is a multidimensional concept;
- (ii) accepted that for rural poverty the voices of the poor must be listened to through a participatory process by which village development plans will be prepared and monitored and NGOs will be mobilized to complement the Government's poverty reduction efforts;
- (iii) decided that those officials responsible for area development plans have to make a paradigm shift so that village development plans coming from below are integrated into the planning process that they manage;
- (iv) demonstrated a commitment to develop the Western region where most of the rural poor

live by investing heavily in infrastructure, addressing environmental problems and encouraging business investment in the region;

- (v) chosen to put more effort into retraining and re-employing many people who have lost their jobs through state owned enterprise (SOE) restructuring;
- (vi) decided to progressively allow the floating populations of cities to access urban social development services which were previously restricted to registered urban residents;
- (vii) expanded the Minimum Living Standard Guarantee to provide support to many more urban poor; and
- (viii) considered and is currently pilot testing how social welfare schemes administered at city level can be improved and made financially self-sustaining.

PROGRESS TO END 2000

No matter which indicative measure of poverty is used, the PRC has made remarkable progress in reducing rural poverty. Three trend lines are used in Figure S1 to illustrate this progress from the mid 1980s through to the end of the century, although the PRC's fight against poverty started well before 1986. The lower line records the decline in the numbers of rural poor using the rather austere official rural poverty line (625 yuan net income per capita per annum in year 2000 prices). The middle line records poverty numbers using \$1 a day income at 1993 purchasing power parity (PPP) values as per the World Bank's estimate of the yuan PPP equivalence (879 yuan net income per capita per annum in year 2002 prices).



Source: For \$1 a day, Country Assistance Strategy for PRC: World Bank, December 2002; and for Official numbers, Poverty Monitoring Report of Rural China 2002: NBS December 2002.

The poor have compelling reasons not to consume all their income, sparing some for maintenance or replacement of their few tools of production, social and past financial obligations and catastrophes. Thus consumption rather than income is often seen as a better metric for poverty. The top line in Figure S1 captures all those rural people who have not been able to achieve \$1 per day consumption (1993 PPP equivalence). While the overall trend of the top line is down, reduction in the numbers stalled from 1996 onwards to 1999 (being the last year for which an estimate is currently available).

The PRC is not making the same progress with urban poverty, however. Government figures on urban poverty trends before the 1990s are not readily available. Using one measure of urban poverty - the National Bureau of Statistics (NBS) diagnostic line which was 1,875 yuan income per capita per annum in 2000 prices - the number of poor holding official urban residency status over the 1991 to 2000 period has oscillated between 15.3 and 10 million. Such oscillations would have in large part been driven by the pattern of lay-offs from SOEs as the public sector underwent structural reform.

Actual urban poverty is higher than these figures when floating populations are included, as urban migrants are twice as likely to be poor as official urban residents.

ACHIEVEMENT OF MILLENNIUM DEVELOPMENT GOALS

The Millennium Summit in September 2000 was a major milestone in the global fight against poverty. Not only did member states of the United Nations reaffirm their commitment to tackle poverty globally but they agreed on an unambiguous set of goals and targets, the pursuit of which within developing countries with developed country assistance, would make a massive step toward eliminating poverty and achieving sustainable development. Of particular note was that participants at the Summit were able to agree to metrics for assessing progress towards each of the goals. With one exception, all metrics were benchmarked against the situation pertaining to 1990.

By 2002, the PRC had performed well against most of the Millennium Development Goals (MDG). This can be seen from Table S1.

Looking at the first goal and taking both rural and urban poverty reduction together, the PRC has the distinction of already achieving Target 1 of the MDGs. That goal is to halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day. While

debate and research continue on the appropriate conversion of a dollar at purchasing power parity (PPP) into the PRC currency, the World Bank's most recent calculation equates a dollar a day to 879 yuan in 2002 prices taking into account the 2002 rural price index. On this basis, the PRC reached this target in the mid 1990's. Poverty reduction has continued so that by 2000, the proportion of rural poor with less than a dollar a day income was cut to one third of the level in 1990.

While there were good reasons for setting a simple target for worldwide compliance, the simplification means that the \$1 a day measure is applied to both rural and urban poor. Yet most studies on poverty in the PRC find that urban poverty line is from 2-3 times more than the rural poverty line. Thus it can be expected that only a minority of the urban poor will be on net incomes below a dollar a day. The \$1 measure is 60% less austere than the PRC's official rural poverty line and 47% more austere than the NBS's diagnostic urban poverty line. It thus understates urban poverty. Furthermore, the \$1 a day concept was developed to have a working definition by which to compare poverty levels between countries rather than measuring poverty within a single country.

Looking at the other MDGs, compared to 1990 the PRC is at least half way to removing its gender disparity in primary education. By 2001, the PRC was moving steadily towards two health-related goals - the under-five mortality rate had been reduced by one quarter and the maternal mortality rate by over a half.

Nonetheless there are some goals and targets where progress has been slow. This has been the case in combating HIV/AIDS, eliminating gender disparity in secondary education, improving the proportion of the population with access to safe drinking water and reversing environmental degradation.

The commendable progress towards achieving the MDGs has in no way reduced the PRC's resolve to eradicate poverty. The PRC's new leadership under President Hu Jintao and Premier Wen Jiabao has reaffirmed the Government's priority concern with reducing poverty and reiterated that 2010 is the deadline for eradicating extreme rural poverty. A silent revolution is occurring in the way poverty is being tackled. Top down planning of poverty programs are being replaced by highly participatory processes involving the poor themselves and those that service the poor at local levels. It is now accepted that the poor are best placed to define poverty and their needs to redress poverty. The principle of listening to the voices of the poor has become policy.

Table S1: Progress Toward the Millennium Development Goals

Goals and Targets	Status in the PRC
Goal 1: Eradicate Extreme Poverty and Hunger	
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.	<ul style="list-style-type: none"> Rural population below \$1 per day: 31.3% in 1990; 11.5% in 2000a
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	<ul style="list-style-type: none"> Undernourished people: 16.0% in 1990; 9.0% in 2000
Goal 2: Achieve Universal Primary Education	
Target 3: by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.	<ul style="list-style-type: none"> Net primary enrolment ratio: 97.0% in 1990; 93.0% in 2001b Youth literacy rate: 95.3% in 1990; 97.9% in 2001
Goal 3: Promote Gender Equality and Empower Women	
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.	<ul style="list-style-type: none"> Ratio of girls to boys in primary education: 86% in 1990; 92% in 2001 Ratio of girls to boys in secondary education: 83% in 2001
Goal 4: Reduce Child Mortality	
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.	<ul style="list-style-type: none"> Under-5 mortality rate (per 1,000 live births): 49 in 1990; 39 in 2001 Infant mortality rate (per 1,000 live births): 38 in 1990; 31 in 2001
Goal 5: Improve Maternal Health	
Target 6: Reduce the maternal mortality ratio by three-quarters between 1990 and 2015.	<ul style="list-style-type: none"> Maternal mortality (per 100,000 live births): 88.9 in 1990; 39 in 2001. Proportion of births attended by skilled health workers in hospital births: 50.6% in 1990; 89.0% in 2001
Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases	
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.	<ul style="list-style-type: none"> HIV/AIDS incidence rate (age 15-49) as of 2001 is 0.11%, around 790,000 cases
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.	<ul style="list-style-type: none"> Malaria (per 100,000 people): 1 in 2000 Tuberculosis (per 100,000 people): 107 in 2001
Goal 7: Ensure Environmental Sustainability	
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.	<ul style="list-style-type: none"> Land covered by forest: 15.6% in 1990; 17.5% in 2001 Carbon dioxide emissions (per capita): 2.1 tons in 1990; 2.3 tons in 1999
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.	<ul style="list-style-type: none"> Rural population with clean water source: 60% in 1990; 66% in 2000 Urban population with clean water source: 99% in 1990; 94% in 2000
Target 11: Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers	<ul style="list-style-type: none"> Urban population with access to improved sanitation: 56% in 1990; 69% in 2000
Goal 8: Develop a global partnership for development	
Target 12: Deal comprehensively with the debt problems of developing countries through national and international measures	<ul style="list-style-type: none"> Total debt service (as % of exports of goods and services): 10.6% in 1990; 4.2% in 2001
Target 13: Provide access to affordable essential drugs in developing countries	<ul style="list-style-type: none"> Population with sustainable access to affordable essential drugs: 80-94% in 1999
Target 14: Make available the benefits of new technologies, especially information and communications	<ul style="list-style-type: none"> Telephone mainlines and cellular subscribers (per 100 people): 0.6 in 1990; 24.8 in 2001

^a Based on World Bank. 2003. *China Country Assistance Strategy 2003-2005*. Washington, DC.

^b According to the UNDP. 2003. *Human Development Report 2003*. New York, data are preliminary and subject to revision.

Source: UNDP. 2003. *Human Development Report 2003*. New York.

PRC OFFICIAL POVERTY LINES

The meaning of “rural poverty” has evolved. In the 1980s and 1990s, the PRC highlighted income poverty. As the PRC enters the 21st century, this definition is being expanded to include non-income forms of poverty and to allow villagers themselves to define who are the poor households in their midst. This expansion, approved officially after a State Council Leading Group Office of Poverty Alleviation and Development (LGOP) led study supported by the ADB, includes infrastructure factors (deprivation of access to transportation, drinking water and electricity) and health and education factors (low levels of women’s health and deprivation of education for girls). This new definition will be used to target the government’s specific poverty reduction programs at poor villages and poor households. For practical administrative reasons, however, the PRC will probably continue to use income poverty as its indicator of the total number of poor people.

Income poverty was clearly defined by the Government first in the mid-1980s, and more scientifically redefined in 1993. It was defined based on the cost of a basic minimum subsistence package of food plus a proportionate amount for essential non-food items. Annual adjustments were made using changes in the national rural retail price index.

Depending on the country, people are classified as poor if either their annual per capita net income or their annual per capita consumption expenditure is below the official poverty line. These two measures are not the same with the latter being higher than the former. This is because the poor, like everyone else, need a margin above their basic sustenance consumption to repay debt, save against livelihood shocks, invest to ensure continued household production and cover social obligations.

The PRC uses the income per head measure, which is more austere than the consumption expenditure per head approach. In 2002 prices, the official rural poverty line was 627 yuan annual net income per capita. Using this poverty line, the number of rural poor was officially estimated as 28.2 million in 2002, or about 3% of the rural population. This is a very low poverty line compared to international practice and only represents a basic level of survival.

In 2000, a research paper published in the official *Journal of China Statistics* indicated that the minimum per capita expenditure needed to assure basic consumption of rural people under current prices and living styles was 860 yuan per annum. This research led to a re-think within NBS and other relevant government agencies. The result has been that since 2002 official statements about poverty

have not only referred to the absolute poor (the 28.2 million in 2002) but also to “low income” rural dwellers. Such statements include this new category as beneficiaries in the fight to eradicate absolute poverty by 2010. The NBS definition of this category, in terms of the per capita income per annum in 2002 prices of the rural population is those below 869 yuan but above 627 yuan – the absolute poverty line.

The official count of rural people in the low income spectrum in 2002 is 60 million or 6.2% of the total rural population. Thus the combined total of absolute rural poor and low income rural dwellers in 2002 was 88.2 million representing 9.2% of the rural population.

The official 869 yuan benchmark distinguishing the rural low income and poor people from the rest of the rural population is very close to the World Bank’s calculation of a dollar a day in PPP values as being 879 yuan in year 2002 prices. With careful use of words, this near equivalence provides a basis for a shared understanding between donors and the government on the size of the problem. Admittedly the government will continue to apply the 869 yuan figure to those rural people whose income is less than that per annum, whereas the World Bank and other donors will use the comparative dollar a day figure for two different measures – those whose income is less than the benchmark and those whose expenditure is less than the benchmark.

The PRC has no official urban poverty line. Various government agencies, including NBS, have had to estimate the number of urban poor for diagnostic reasons. The National Bureau of Statistics’s (NBS’s) diagnostic urban poverty line was 1,875 yuan income per capita in year 2000 prices. This is exactly three times the official rural poverty line in the same year. Using the NBS measure, 10.5 million official urban residents were categorized as poor in 2000, 3.1% of urban population. If the floating population is 80 million (and there are no hard figures on the size of floating population), and if the floating population is 50% more likely to be poor than permanent urban residents as shown in an ADB urban poverty study, then the incidence of urban poverty in year 2000 using the NBS measure was 3.4% – the same as the official incidence of rural poverty in 2000.

The PRC also has a variety of other urban poverty lines set as benchmarks below which a person is entitled to poverty relief benefits. Responsibility for financial assistance to the urban poor under the Minimum Living Standard Scheme (MLSS) lies primarily with city governments. Under the MLSS, each city sets its own poverty or benefits line. Not surprisingly, poorer cities tend to use harsher definitions of poverty and richer cities more lenient definitions. For instance, in 2000, Beijing’s

benefit line was 3,360 yuan per capita per annum whereas Chongqing set its line at 2,028 yuan.

In recent official statements, the Government is abbreviating its references to those receiving MLSS as the urban poor. Given that 21 million urban residents received MLSS assistance in the first half of 2003 and given that not all those entitled to assistance have yet been covered by the MLSS, it is probable that one of the official measures of urban poverty puts the number of urban poor in excess of 21 million. This number, like the MLSS itself, would exclude migrant workers and their dependents living in urban areas.

PILLARS UNDERLYING POVERTY REDUCTION

The process of making the fight against poverty in the PRC more effective benefits from assessing what worked and what did not work in the past. From 1986 through to the end of 2000, the Government pursued a geographically-targeted approach to rural poverty reduction. Poor counties were eligible for subsidized loans, food-for-work programs, and special development funds. These counties were called the national poverty counties and renamed in 2001 as key counties for national poverty reduction and development work. For most of the 1990s and onwards, 592 out of a total of 2,074 counties were eligible recipients of this targeted assistance. With some minor variations, these 592 counties were re-designated in 2001 as key counties for national poverty reduction and development work. Geographical targeting remained but this was now overlaid with finer targeting criteria focused on poor villages and poor households that were developed because of the lessons learned from the past.

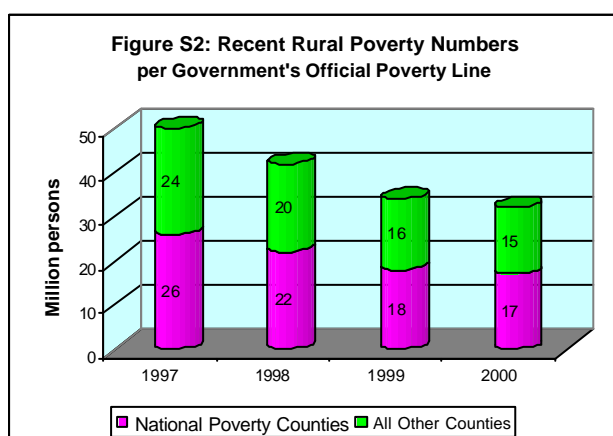
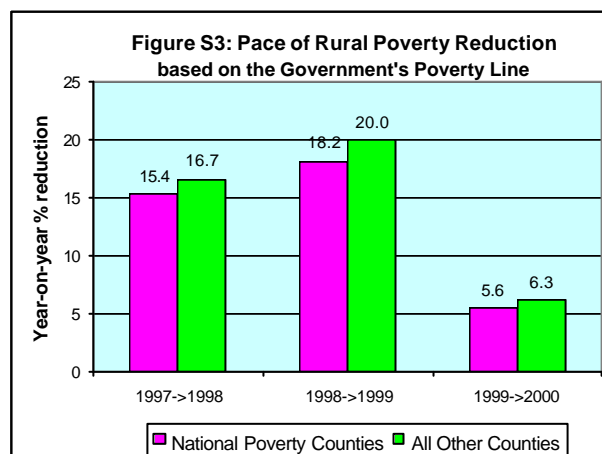


Figure S2 and Figure S3 show the trend in rural poverty reduction according to the official poverty line for national poverty counties and other counties between 1997 and 2000. A key finding is that the poverty reduction rate in national poverty counties was lower than for the other counties. There are lessons that can be learned or postulated from this which include:

- (i) economic growth has had a major impact on poverty reduction irrespective of targeting;
- (ii) rural poverty in the national poverty counties is concentrated spatially and is more inextricable relative to rural poverty in other counties;
- (iii) there has been a weakening of the Government's targeted effort away from the rural poor within the national poverty counties;
- (iv) the prime drivers for reducing rural poverty in the short term may be upward trends in real agricultural prices and the availability of off-farm employment (targeted programs delivered directly to poor villages can only have minor impact on these drivers);
- (v) past efforts at targeting did not sufficiently emphasize the integration of the poorer communities into existing and new growing markets through improved road connections.



So how are the pillars underlying poverty reduction working and how might they be better utilized? The World Bank has calculated that for every 1% growth in the GDP in the PRC, rural poverty declines by around 0.8%. With the PRC being one of the world's fastest growing economies (GDP growth between 1995 and 2000 averaged 8.6%), poverty reduction has been considerable. Macroeconomic growth creates demand for the products and for the labor of poor people, and

enables the Government to collect more tax revenues. With increased revenues, the Government has been able to finance larger scale poverty reduction programs, improved infrastructure linking remoter areas to bustling markets, improved education and the development and dissemination of improved production technologies in agriculture and industry. Under present linkages in the economy all these public investments impact on poverty reduction. A recent research paper by the International Food Policy Research Institute (IFPRI) examining trends in the PRC in the late 1990s found that among physical infrastructure options, public investment in roads had the highest returns to poverty reduction (3.2 persons for every 10,000 yuan invested) and for social infrastructure options, education had the highest returns (8.8 persons for every 10,000 yuan invested).

The link between physical infrastructure development and poverty reduction needs to be explained. A road investment, for instance, in an area with poverty concentrations is likely to improve both agricultural and non-agricultural activity and expand off-farm employment. Poor farmers will have more produce to sell and will earn more from off-farm work. This is the direct income distribution effect. In addition, higher productivity and expanded employment contribute to economic growth. This in turn affects the supply and prices of goods which the poor consume or sell. This is the indirect growth effect. The direct and indirect effects combined allow the poor to increase their net income and raise their consumption levels, and thus move out of poverty.

Income distribution patterns, however, favor eastern over central and western provinces, city over rural populations, and non-household entities over households. Each percent of GDP growth in the eastern provinces produced considerably more rural poverty reduction than in the northwestern and southwestern provinces, for instance. The first message for policymakers is to realize the potential for accelerating poverty reduction through emphasizing pro-poor sustainable economic growth. Such growth is likely to be characterized by: (i) the increased provision of off-farm income earning opportunities for poor farmers which in part can be facilitated by lowering the barriers small and private businesses, especially their access to credit; (ii) promoting the rural economy through more favorable agricultural pricing policies; (iii) redressing the regressive nature of the taxation and fee burden on farmers; (iv) greater integration of rural areas into regional (meaning regions within the PRC) and national markets which will involve providing more physical infrastructure to poor areas (especially integrated road networks that include and link expressways to rural roads to township to

village roads) and improving their social (particularly health and education) and regulatory infrastructure; (v) expanding opportunities for the western region to trade with Central and Southeast Asia; (vi) reform of the fiscal system between levels of government on the basis of equity and adequate funding of obligations delegated to lower levels of government and (vii) ensuring greater equity in access to financial and human capital and natural resources.

Second, there is considerable scope for improvements in governance to accelerate poverty reduction. This would reduce the leakage of targeted poverty reduction funds away from the rural poor. It would induce more efficient and effective use of limited financial and human resources by the cash-strapped lower levels of government. New approaches adopted since 2001 to “listen to the voices of the poor” through participatory village development planning will contribute to the dynamics driving good governance.

The results of a study conducted under the Leading Group Office on Poverty Alleviation and Development (LGOP) and assisted by the ADB that examined what primary indicators rural poor people would themselves use to define poverty and what relative weightings they would give these indicators. The overall result from a widely dispersed sample of the rural poor was that the indicators of importance to them could be grouped into three categories – personal income and housing, physical infrastructure, and health and education. They gave nearly equal weighting to each of these categories.

For the urban poor, improvements in governance are playing, and will continue to play, a more prominent role. Progress is being made with extending the coverage, and building the sustainability, of social welfare safety nets. An example of this is the increase in coverage of the MLSS from 4 million urban poor at the beginning of 2001 to over 21 million in the first half of 2003. Regulatory barriers that impede the access of floating populations to urban commercial opportunities and social services, especially education and health services, are being lowered. More effective labor markets are being developed, and re-training of laid-off SOE employees is being increased.

Thirdly, social development has provided the poor with enhanced human capital. Research in the PRC has consistently confirmed that education status is closely correlated with the incidence of poverty. An analysis of data collected in the NBS's 1988 and 1995 rural household income surveys show a qualitative change in the impact of education on rural poverty. In 1988, the

presence in the household of at least one adult with formal education, no matter to what level, was strongly correlated with a reduced poverty incidence. In 1995,

however, lower rural poverty incidence shifted to being closely correlated with how many years an adult in the household had received education. The recent IFPRI research paper confirmed that for the PRC, public investment in education had high returns in terms of poverty reduction.

The PRC's policy on education has been to achieve universal education up to grade 9 - that is to the end of middle school. Teaching resources and enrollments have been expanding at secondary school level while remaining relatively static at the primary school level. Household socio-economic surveys conducted as part of infrastructure project preparation for ADB financing in the PRC indicate the severe burden education fees and contributions place on poor families. The high education fee barrier is often given by poor rural parents as the reason their children have dropped out of school. The same surveys show that for the poor families, girls tend to be withdrawn from school at an earlier age than boys. This exclusion of the young poor from obtaining a basic education is, in effect, condemning another generation to poverty.

Health is often both a cause and a result of poverty. Various socioeconomic studies at village level suggest that time out from the production economy because of sickness, or in order to perform care and reproduction roles, are closely correlated to the incidence of rural poverty. It is women primarily that perform these roles. Heavier physical and psychological burdens are falling on poor women largely because of the feminization of agriculture, and the additional time and effort needed in degrading environments to collect water, fuel, fodder, wild culinary plants and medicinal herbs and to graze animals. The result is a decline in women's ability to perform effectively and efficiently in the care and reproduction economy. This decline often goes unseen by macro-planners because it is not captured by GDP or similar economic aggregates. Other indicators of health, such as high Maternal Mortality Rate (MMR), Infant Mortality Rate (IMR) and Reproductive Tract Infection Rate (RTI) among poor women, reflect the difficulties of their and their families' escape from poverty.

Health sector studies have shown that the greater proportion of the PRC's infections and parasitic diseases afflict the poor. Among the rural population, the poorest quartile suffers three times the infectious disease rate of the most wealthy quartile.

The primary obstacle to improved health among the poor appears to be user fee levels. For instance, pilot schemes in national minority counties have shown that where user fees for in-hospital birthing are waived for poor women,

the rate of homebirths, MMR and IMR all dropped substantially. Considerable scope exists to escalate the war on poverty by making primary and secondary health-care services accessible to the poor in both rural and urban areas.

The revenue base of local governments, particularly in poor areas, is weak. Insufficient funds are available to pay salaries and deliver even the most basic services like health and education. Because of the mismatch between revenue sources and expenditure responsibilities, local governments respond by levying many fees and charges. This is a regressive form of taxation, driven by a limited revenue base. Pro-poor fiscal reform is required at the sub-provincial level that aligns revenues and expenditures, improves the governance and efficient use of fiscal resources and includes a targeted fiscal transfer component.

CROSS-CUTTING THEMES IN THE FIGHT AGAINST POVERTY

Three crosscutting themes have added, and will continue to add, focus and effectiveness to the three pillars underpinning poverty reduction identified above - pro-poor economic growth, social development and good governance. The first theme is the promotion of the role of the private sector. One of the primary causes of urban poverty has been loss of employment. Between 1996 and 2000, SOEs and urban collectives shed 47 million jobs. Also during that period, the net growth in the urban economically active population was at least 10 million. Conversely, one of the primary factors reducing rural poverty has been access by at least one household member to off-farm employment, in many cases meaning migrant labor to the economic powerhouse cities in the eastern region. Creating new jobs is a necessary prerequisite to reducing both urban and rural poverty.

Urban employment has been growing at an average of 2.4% per annum since 1994. Pertinent to poverty reduction is the fact that the dynamics of employment growth have changed. Over this period, the state and collective sectors have been shedding jobs, and since 1997, have been doing so at an accelerated rate. It has been the private and mixed ownership sectors that have generated new jobs, not only soaking up the majority of those displaced from the public sector, but also achieving a modest net increase in total urban employment.

The PRC's macroeconomic policies, legal frameworks and urban safety net systems have progressively placed more importance on building an enabling environment for the private sector. This theme is now part of the Government's vision for the future.

The second crosscutting theme that sharpens poverty reduction focus is the pursuit of environmental sustainability. Decelerating success rates of moving people out of poverty have characterized the history of rural poverty reduction in the PRC as simpler forms of poverty were resolved and the more inextricable forms remained. This is reflected in Figure S4.

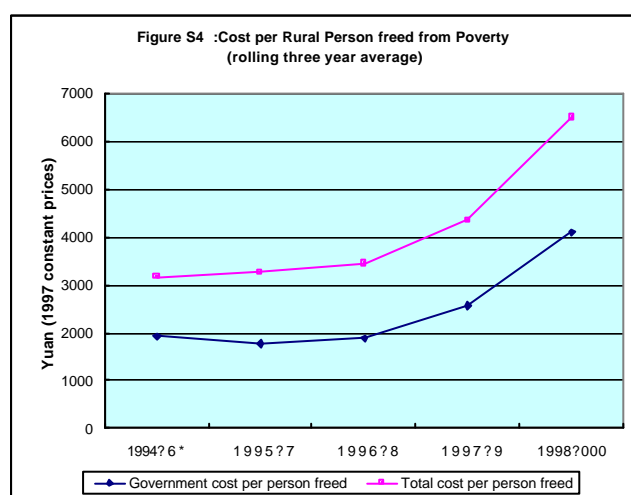


Figure S4 shows how, on a three year rolling basis, the annual outlay on targeted rural poverty reduction per rural person freed from poverty has doubled in real terms over the 8-7 program period (1994-2000). Much of the remaining rural poverty is linked to poor and often degraded environments – increased land degradation, high altitudes, steeply sloping lands, poor soils in karst and loess country, increased frequency of floods, extended periods of drought, reduced quality of water, and growing deserts.

PRC has over 2000 years of history of taming nature on a gargantuan scale. Today's leaders of the PRC are no exception. Blanket policies to ban logging and return steeply sloping lands to forest are being strictly implemented. Massive schemes are underway to reforest bare hills and loess slopes and plant special grasses that will reverse desertification. Major water control infrastructure has been built on both the Yangtze and Yellow Rivers. A scheme will divert large volumes of water from the Yangtze to the Yellow River in the north where dryness has been a major constraint on

development. Donors, on a much more modest scale, have been assisting the PRC's efforts in targeting environmental sustainability. One of the donors – the Netherlands – has sponsored a study which may help the donor community target their environmental projects/programs for greater pro-poor impact. This study quantifies the extent to which each form of environmental degradation more adversely affects the poor than the non-poor in the PRC.

The third crosscutting theme that can sharpen poverty reduction efforts is regional cooperation and integration for development. Most of the rural poor are located in the western region. Producers in the west have a locational disadvantage in terms of distance, and the limited availability and lower standards of roads and rail with consequential high transport costs, compared to the central and especially the eastern region. This makes it difficult for them to access global markets and the rich domestic markets along the eastern seaboard. For the western region, greater cooperation and integration with the markets in Southeast Asia and Central Asia and, in the longer term, South Asia provide a platform for growth. In the west, such growth will expand demand for the produce of the rural poor and generate employment opportunities for both the urban and rural poor. The Government has recognized this and through participating in multilateral forums, pursuing bilateral trade diplomacy and building physical infrastructure is putting in place a framework for enhanced regional cooperation and integration. Donors are financing projects and programs to support the establishment of this framework.

PROXY PROFILE OF RURAL PERSONS WITH CONSUMPTION LESS THAN \$1 PER DAY

The World Bank has estimated a dollar a day in PPP values to be equivalent to 879 yuan net income per capita per annum in year 2002 prices. This measure can be applied to a person's income or expenditure. Many development assistance practitioners and academics agree that consumption is the better of the two. What is the profile of those rural persons in the PRC who cannot achieve a dollar a day consumption?

No such profile has been derived from hard data. Fortunately, a proxy exists. The NBS, operating within the official framework of the "poor and the low income" rural people, re-analyzed their year 2000 rural household survey data to establish a profile of all those unable to consume 860 yuan per annum. Eight hundred and sixty yuan in year 2000 prices is close to the World Bank's 879

yuan in 2002 prices – close enough for the NBS profile results to reflect the condition of those who meet the “less than \$1 a day consumption” definition of poverty.

In relating the NBS profile, for reasons of brevity those rural persons unable to consume 860 yuan per annum in 2000 will be called the poor, and those with higher consumption will be called the non-poor. This in no way implies that the NBS agrees to classify them as poor.

According to the NBS profile, the rural poor had, on average, only 43% of the net cash income of the non-poor. This was largely due to their lower level of participation in off-farm wage labor. They also had lower returns to agriculture per unit of arable land. Poorer land quality and remoteness are probable contributing factors. The poor had one third less fixed assets to devote to production than did the non-poor. This handicap was reflected in lower grain yields, 44% less net income derived from animal husbandry and 77% less income derived from aquaculture. The latter two activities require capital investment.

Housing standards are observable indicators of welfare. The per capita access of the poor to higher quality reinforced concrete housing was only 30% of that of the non-poor. Another indicator is the percentage of living expenditure a household devotes to acquiring food, known as the Engel coefficient. For the poorer group this was 66%, compared with 44% for the non-poor.

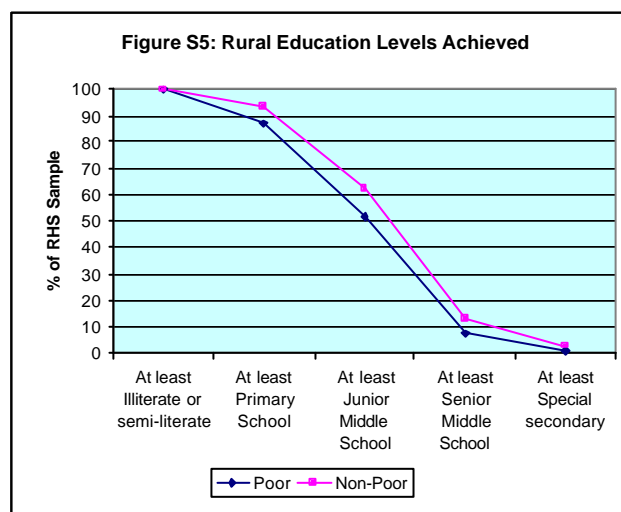
The data showed that topography, gender and ethnicity are linked to poverty. Over one third (36%) of the poor were living in mountainous areas whereas less than one quarter (22%) of the non-poor did so. Women were marginally more prevalent among the poor compared to the non-poor. This result understates the extent to which women are more likely to be poor than men because the household survey methodology does not analyze intra-household division of wealth and income. Differences were explicit, however, with respect to ethnicity. Twenty five per cent of the poor group belonged to minority villages whereas for the non-poor only 12% did so. This suggests that poverty incidence among minorities is double that for the Han majority.

Policies over the last two five-year plan periods that aimed at enlarging domestic demand, and the “8-7” poverty reduction program, have almost removed any distinction between the poorer group and the non-poor in respect of road connections and electricity supply to their villages. While connections and supply are in place, there is wide variation in standards that flows through to differentiated transport and production costs. Nonetheless, supply of these two types of infrastructure is

approaching total coverage. Ninety three per cent of the poor and 96% of the non-poor lived in villages connected to a highway. There was also little difference between the two groups in respect of proximity to primary schools, with the poor half a per cent better off than the non-poor. Thirteen to 14% of the sampled rural population were more than 2 kms from the nearest such school.

The profiles of the poor and the non-poor differed significantly in terms of other infrastructure. The proportions of poor households: (i) able to drink safe water (58%), (ii) located within 2 kms of the nearest health clinic (57%); and (iii) with access to a telephone in the same village (77%) were 8.3, 10.5 and 12.8% lower respectively than for the non-poor.

Levels of education achieved, as a proxy measure of human resource skills, showed that the poor were at a considerable disadvantage to the non-poor. Compared to the better-off majority, the poor had almost double the incidence of illiteracy or semi-literacy. Figure S5 highlights the educational gap at various levels of completed schooling. Nine percent of the children of the poor aged between 7 and 15 were not enrolled at schools. This was double that for the same age non-poor children.



Source: Year 2000 NBS Rural Household Survey

Consistent with data on sources of income, the predominance of agricultural employment among the poor was 12% higher than for the non-poor. The proportion of poor engaged in industry and tertiary services was half that of the non-poor. It is clear that greater access to off-farm employment is associated with a reduced incidence of poverty.

PROXY PROFILE OF URBAN RESIDENTS WITH CONSUMPTION BELOW THE AVERAGE MLSS LINE

Each city determines at what level of income deprivation it will step in and support its registered residents under the MLSS. From the PRC perspective, these determinations can be seen as pragmatic, benefits-based urban poverty lines. They vary markedly between cities. In 2000, the average of these minimum living standard lines in the PRC's 31 provincial capitals plus 4 other major cities was 2,365 yuan (year 2000 prices). This average is about two and a half times the World Bank's dollar a day benchmark. It is consistent with a number of research conclusions that urban absolute poverty lines are generally two to three times higher than those for rural communities.

Benefits under the MLSS are payable when an urban resident's income falls below the declared minimum living standard line. Conceptually, however, MLSS assistance is meant to enable the urban poor to purchase absolute basic living necessities. Thus a profile of urban residents whose consumption cannot exceed the average MLSS line may be a more accurate representation of the urban poor than one of those with incomes less than the line.

While a profile of urban residents who could not achieve 2,365 yuan consumption is not apparently available, one capturing those who could not reach a consumption level of 2,310 yuan (in 1998 prices) is. These cut off levels are so close that one can serve as a proxy for the other.

NBS analyzed the 1998 urban household survey data to compile a detailed profile of those registered urban residents below and those above a benchmark of 2,310 yuan per-capita expenditure per annum. In the following description, those below the consumption line are referred to as the urban poor, and those above as the non-poor.

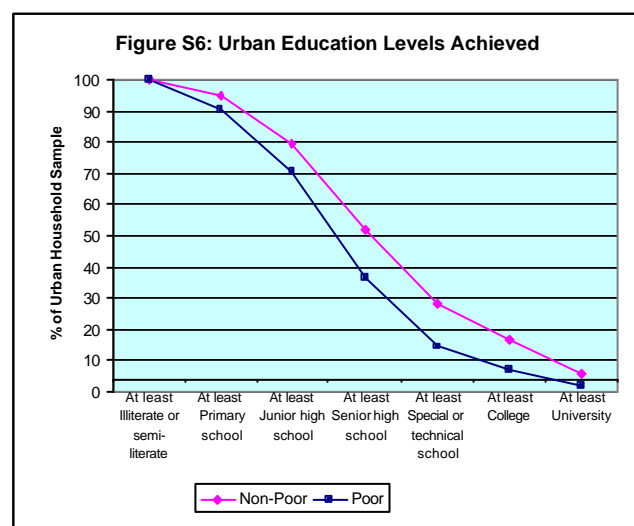
Economic profiling has shown sharp distinctions between the urban poor and the non-poor. This in part reflects widening gaps in wealth within urban communities. The average disposable income of the urban poor was only 44% of that of the non-poor. The poor only spent one third of what the non-poor spent on consumption. The data show that despite meager incomes, the poor had twice the propensity to save out of their disposable incomes (0.36) than the non-poor. Expenditure on food as a proportion of total living expenditures - that is the Engel coefficient - was much higher for the urban poor (at 57%) than for the urban non-poor (at 44%).

Most of the urban poor were in the eastern region (43.4%), whereas less than half that proportion (19.1%)

were in the western region. It was the central region that had the highest incidence of urban poverty (14.3%). Poor households were confronted with greater difficulty in making ends meet partly because their dependency ratios were 17% higher than for the non-poor. Probably related to this household structure, the poverty incidence among urban children (0-14 years old) was higher than for older age groups.

There was a marginally higher incidence of poverty among females (12.1%) than for males (11.7%). Like the gender data for rural households, these figures probably understate the incidence of poverty affecting women. This is because of the method of data collection which focuses on the household, averaging behavioral indicators among all household members, without delving into intra-household differences.

An analysis of skill levels as reflected in education attainment levels showed that the urban poor were considerably less educated than the non-poor. Figure S6 shows that the gap between the education achievement levels of the poor and non-poor was widest at for those who have at least completed senior high school. The average gap at identical achievement levels between junior high and university for the poor and non-poor was 10.4%. The proportion of the poor who had at least completed senior high school was 70% of that for the non-poor. The proportions for the poor lessened progressively at higher levels of education. The proportion of the poor with at least university qualifications was only 29% of that for the non-poor.



Source: Year 1998 NBS Urban Household Survey

Sector of employment was an important explanatory variable for poverty. The proportion of the non-poor

with household members serving the Government, the Party, official social organizations, or health, cultural, educational and scientific agencies was generally double or more than that for the poor. In contrast, the proportion of the urban poor waiting for employment or disabled was three times more than for the non-poor. The able-bodied urban poor lucky enough to have a job were more prevalent than the non poor in relatively unskilled occupations such as general laboring, baby-sitting and domestic service.

THE WAY FORWARD

The PRC Government is committed to reduce and eradicate remnant and relatively inextricable rural poverty and the more recent blight of urban poverty. Relevant strategies and targets are contained in the *Tenth Five Year Plan (2001-2005)* and the *Outline for Poverty Alleviation and Development of China's Rural Areas (2001-2010)*. The mix of strategies tightens the focus, attacks underlying causes like environmental degradation, seizes on employment generation as a primary and immediate poverty reduction weapon, supports upgrading of education levels as a further weapon, capitalizes on the motive force of the poor themselves, allocates considerably more resources into poverty reduction, and strengthens and extends welfare safety nets to help those who cannot, temporarily or permanently, help themselves.

Between 2001 and 2005, 16.5 million hectares of grassland will be resuscitated to prevent desertification and soil erosion will be brought under control in over 25 million hectares of degraded land. Priority will be given to reducing poverty in remote and mountainous areas, minority areas and old revolutionary base areas. Five hundred and ninety two counties have been designated by the national government as key counties for poverty reduction development work. Official area planning and resource allocation will be integrated with the new participatory poor village development planning process. Off-farm income opportunities for the rural poor will be expanded through the development of small towns. Demand for the produce of the poor will be increased by promoting industries which process, store and transport agricultural products. Access to markets will be improved by constructing infrastructure, particularly in the West. This overall thrust will be underwritten with greater Government grants and credits.

In its fight against urban poverty, the Government has set itself ambitious targets to be achieved by 2005 in generating sufficient new urban employment opportunities to limit unemployment. Private sector, labor-intensive businesses will be promoted, especially in

the tertiary sector. Barriers will be lowered, and incentives offered, to people wishing to start their own businesses. The present system of skills retraining of displaced workers and re-employment centers will be expanded. Urban living standards will be augmented in terms of access to housing, education and health. Particular efforts will be directed at creating a sound and sustainable social security system that can support those with unemployment, medical, pension, old-age and disability needs.

While the Government is mobilizing its own resources in a focused fight against poverty, it is also reaching out for support from NGOs. The Government welcomes an expansion in the role of NGOs in the area of poverty reduction. The Government is also seeking enhanced cooperation with international development partners, both official and non-government, to add value to the nation's poverty reduction program, not only by supplying financial and expert resources, but also by proposing and testing innovative methodologies.

ADB Activities in Poverty Reduction in the PRC

Since the end of 1998, ADB has supported poverty strategy implementation through the following knowledge products:

TECHNICAL ASSISTANCE ACTIVITIES

Poverty Reduction Strategy and Development Planning

TA 3610-PRC: Preparing a Methodology for Development Planning in Poverty Blocks under the New Poverty Strategy of PRC: The main objective of the TA was to develop a multidimensional poverty planning methodology for county poverty reduction planning and develop guidelines on how to make such poverty plans. The TA included developing recommendations for a poverty reduction planning methodology, including (i) planning techniques; (ii) needs analysis; (iii) working with local governments; (iv) monitoring indicators; and (v) financial and institutional implications. The TA was also to provide training to national and local poverty reduction officials on the methodologies and guidelines for poverty reduction planning. The resulting methodology was adopted as official government policy in 2001. The methodology contains three major parts: poor village identification, poor village development planning, and county-based poverty reduction planning. For the new 592 key counties (which replace the previous 592 poverty counties), the most challenging issue is how to target the poor areas within each county. To avoid previous problem of flawed targeting within the county, the criteria for selecting poor villages was defined by assessing each village's situation through a participatory process whereby villagers described the key effects of poverty in their village and county. A system of weighting the indicators was developed to create an integrated village poverty index. Each county is free to choose eight indicators (within the required three types, i.e., income and quality of life; access to infrastructure; and social development) and the weights according to its own situation. All villages within the county must use the same indicators and weights to determine poorest villages in the county.

TA 4158-PRC: Participatory Poverty Reduction Planning for Small Minorities: The purpose of the TA

is to apply the multidimensional and participatory poverty planning methodology developed under TA 3610-PRC (and other best international practices in participatory planning) to the PRC's 22 smallest minority groups and develop a plan (including minority-specific policies) to reduce their poverty and to protect their cultures that is realistic and achievable, given government budget commitments and constraints. The main output, the final report, will be the consolidated plan with policy recommendations.

TA4200-PRC: A Fund for Strategic Policy Conferences and Studies for Poverty Reduction

The goal of the TA is to increase effectiveness, sustainability, and quality of poverty reduction policies in the PRC. The purpose is to encourage strategic policy dialogue and research in the area of poverty reduction and related fields (e.g., unemployment and social security) among the government agencies, civil society, academics, and the funding community.

The TA will set up a fund so that ADB can react quickly to requests to sponsor or cosponsor poverty-related conferences, workshops, seminars, and related studies. Studies and meetings must be related to poverty and include government agencies at national and local levels, funding agencies, academia, and civil society including the private sector, NGOs, and poor people. Meetings may be held in Beijing or in the provinces.

TA 3468-PRC: Policy Support for PRC 2020 Project (Phase III):

The objective of the TA was to help formulate a long-term development strategy for the Western region that provided policy directions for development planners at the national and local levels. In 2000, the NPC endorsed the proactive "Great Western Development" strategy to promote economic growth and sustainable development in the Western region. The TA was the third phase of ADB's assistance for the PRC 2020 Project, designed to review and investigate long-term development issues and prospects of the PRC in the year 2020. ADB's assistance identified several challenges to be tackled during the period up to 2020. Among the issues, those relating to growing regional income disparities, unbalanced regional development and deteriorating/depleting natural resources were of particular concern to the Government.

Recommendations for social and rural development included: (i) Central Government funds for health welfare programs should work within strict criteria to ensure that they benefit the neediest sections of the community; (ii) since the incidence of rural poverty has fallen, the Government should progressively move from targeting poor areas (poverty counties), a policy appropriate for dealing with mass poverty, to targeting poor households; (iii) western region villages have very inferior infrastructure. Local governments should assess which villages have a long-term future and which do not. Resettlement programs that are carefully planned with significant beneficiary consultation are then needed; (iv) apart from village infrastructure, rural development programs should give priority to agricultural research and extension, education, and health services; (v) lower priority should be given to infrastructure investments in irrigation and transport other than village connections; and (vi) government lump-sum transfer payments should play the leading role in poverty alleviation in the Western Region. The study will help to give substance to the "Great Western Development" strategy and some of the key results are being reflected in the PRC's Eleventh Five Year Plan.

TA 3279-PRC: Development of Economic Laws: In the wider context of establishing a legal system that reinforces a market economy, the ADB provided TA to help the PRC draft a number of economic laws, including the Trust Law. The Trust Law took effect on 1 June 2001. Trusts emerged from the requirements of commerce and property management in common law countries. A trust provides an arrangement by which a person (individual or legal) can let another person manage her/his/its property for the benefit of designated persons. As well as meeting a range of common needs in commerce, trusts provide a legal basis for entrepreneurs and others to set up charitable foundations. Chapter V of the Trust Law defines the purpose of trusts for charity and public interests as including poverty relief, emergency relief, assistance to the disabled, development of education, science and technology, culture and sports, development of medical and health welfare, and protection of the environment. As in common law market economies, it can be expected that the Trust Law will provide the private sector with a vehicle for mobilizing resources and directing them at social development, including poverty reduction. To

help improve the poverty dimensions of the legal/regulatory framework, this TA supported the formulation of regulations governing private foundations and legal aid which were adopted by the Government. This work helped to provide the legal/regulatory framework to mobilize private sector resources to fight poverty.

TA4222-PRC: Policy Study on Poverty Reduction Strategy-Trends, Challenges and Future Directions: The goal of the TA is to develop a poverty reduction strategy that will address the emerging challenges in the PRC over the next two decades. The purpose of the TA is to assist the Government in conducting a policy study that will provide the framework for the policy and institutional directions of the PRC's poverty reduction strategy for the next two decades. The outputs of the TA are an analytical study and the presentation of the findings of the policy paper in the World Bank-sponsored international conference on poverty reduction that will be held in Shanghai in May 2004. The study will comprise of an integrated paper and six poverty focused reports.

Rural

TA 3150-PRC: Study on Ways to Support Rural Poverty Reduction Projects: The rural poverty study financed under this TA examined microfinance, agro-industry, rural infrastructure, and voluntarily resettlement as poverty reduction tools that could be supported by international donors. It concluded that ADB's comparative advantages go beyond the provision of regular lending. ADB can engage the Government in policy dialogue to assist with the development of more effective poverty reduction programs; supplement budgetary allocations; "crowd in" and "leverage in" domestic and foreign resources from government, other donors and the private sector; and provide TA. ADB's projects can also be used as the arena for testing policy and implementation mechanisms, support more difficult policy changes such as the abolition of subsidized lending, and provide sufficient funding for roll-out of experience gained by bilateral donors and UNDP that is beyond the resources of most other donors.

Under the TA, a high-level international poverty conference, cosponsored by the Government, ADB, World Bank (WB), and United Nations Development Programme (UNDP), was convened

in May 2000. The main objective of the conference was for key domestic and international organizations and experts to make recommendations to LGOP on its future poverty strategy. The conference was convened by then Vice Premier (now Premier) Wen Jiabao who also headed LGOP. Twenty-two vice ministers and vice minister-level officials representing LGOP's membership attended the conference. Around 15 internationally and domestically renowned poverty experts also attended. Several recommendations of the conference, including some suggestions made by ADB, have been incorporated into LGOP's new poverty strategy. Examples include looking at poverty more broadly and increasing participation of civil society and villagers.

In November 2002, a second set of high-level talks was convened in Guangxi in which senior officials of the provincial and regional poverty and minority affairs offices (from the 12 western provinces, municipalities, and autonomous regions along with Fujian and Heilongjiang) assembled to comment on ADB's strategy for operations in PRC with special focus on poverty reduction. Local and international NGOs were also consulted on the sidelines of the workshop. All parties supported the strategy and poverty focus noting that ADB had a good command of the key strategic development and poverty reduction issues facing PRC. Loans can be used for poverty reduction if properly focused and designed, however more work needs to be done on how to integrate ADB loans into poverty reduction efforts. ADB focus on rural infrastructure is consistent with Government priorities where such focus is key to poverty reduction efforts.

A high-level International Conference on NGO Poverty Reduction Policy was convened under the TA in October 2001. It was co-sponsored by the CFPA, ADB, Ford Foundation, UNDP, WB, the Mercy Corps, IFAD, and local NGOs. In a significant policy development, the Government recognized a key role for NGOs in its Ten-Year Poverty Reduction Strategy, approved in 2001. The Government recognizes that NGOs can play an important role in the country's development by bringing specialized knowledge, technical expertise, research capacities, local contacts and community support to the process. NGO participants at the conference cited several factors limiting their effectiveness. These include a lack of funding, inadequate training, a incomplete legal

framework for NGOs, difficulties in registering international NGOs, and problems in recruiting and retaining qualified staff. To address these and other concerns, they advocated better information sharing to identify potential partnerships, direct funding from the Government and international agencies, and adoption of laws that give local NGOs clear legal standing to raise funds, cooperate with foreign organizations, and carry out their activities. They also called for giving a greater voice to the poor, more research on the requirements of the poor in different regions, and greater support from international NGOs and donors in skills transfer and development of human resources.

The TA includes conducting applied research through a small pilot project in which a poor village in Nayong County of Guizhou Province has received a small access road, electricity, water supply, and irrigation system. The pilot project involves designing and implementing a mechanism for measuring the effects of such infrastructure on reducing poverty, including the use of a carefully selected control village. The goal is to analyze the impact of providing rural infrastructure on poverty reduction. To date, farmers in the villages report increased incomes and quality of life because the new road helps them to reach markets and the electricity and water supply help them run agro-processing businesses. The pilot project is ongoing and a monitoring and evaluation (M&E) system of its impacts is being implemented with the assistance of local NGO and previously a United Nations volunteer (UNV). Such benefits will continue to be monitored and evaluated over the next several years. An important lesson learned from the pilot has been the importance of regular maintenance. Villagers realized this after some of the infrastructure began to deteriorate due to neglect and was later addressed.

The International Institute for Rural Reconstruction (IIRR), an international NGO based in the Philippines in 2000, provided training in March 2000 for senior PRC poverty reduction officials at the national and local levels in government, nongovernment, and private sector approaches to poverty. Similar training was provided in Thailand in 2002.

Domestic training was also organized under the TA. Leading poverty experts from PRC made

presentations and conducted workshops in the areas of international poverty theory and practice, integrated agriculture development, poverty reduction in the Philippines, participatory methodology and theory, participatory approaches in village planning, participatory methodology in gender development and social community development, microfinance, environment and poverty reduction, participatory planning in minority areas, NGO-supported community development, and application of participatory methodology in infrastructure works management.

TA 3607-PRC: Policy Support for Social Security Reform under Tenth Five-Year Plan: The objective of the TA was to examine options and develop strategies for introducing unified pension and medical insurance schemes in rural areas. The consultants visited several provinces in the eastern region and evaluated local pilot rural pension programs. Two separate reports for pension and medical insurance were generated and published. The report for rural medical insurance analyzed the survey of 10 rural counties conducted by the Harvard School of Public Health for UNICEF and received wide policy and media attention. A workshop for senior policy makers on rural pension and medical insurance was held.

The TA had an impact on the PRC's new policy to expand rural insurance coverage: (i) the study demonstrated (using the latest national survey data) that medical expenditures caused a 44% increase in rural poverty, which shocked PRC's top leaders regarding the extent of "medical impoverishment"; (ii) the TA proposed three types of policy recommendations for different regions of PRC which were well-received by the policy makers; (iii) the TA proposed a "matching-fund" rural health insurance system, which has been accepted; and (iv) the TA recommended improving community health service institutes and building up a two-tiered medical system to let rural residents have better access to medical assistance by joining the new, cooperative medicare system.

TA4142-PRC: Fighting Poverty Through HIV/AIDS Prevention: The overall objective of the TA is to prevent an increase in poverty incidence by reducing the risk of transmission of HIV/AIDS and STIs that may result from the Road Project. The specific objectives are to reduce the risk of transmission of HIV and STIs among

construction workers, CSWs, truck drivers, and local resident communities, particularly the vulnerable poor and minority people.

TA4215-PRC: Safe Drinking Water and Sanitation for the Rural Poor: The long-term goal of the TA is to provide safe and sustainable water supply and improved rural sanitation, health, and hygiene behavior. The purpose of the TA is to help the Government prepare pro-poor RWSS policies, and a strategic investment framework for integrated RWSS, focused on defining viable models for financing sustainable pro-poor RWSS systems, and related institutional capacity-building.

TA4307-PRC: Poverty Reduction in Key Forestry Conservation Programs: The TA purpose is to evaluate the environmental and socioeconomic impact of selected priority forestry programs (PFP) on affected people in general and the poor in particular to establish a basis for policy reforms to enhance their effectiveness. The TA will recommend the adjustments in the policy framework and program implementation arrangements to prevent adverse impacts on the livelihood of affected people, reduce poverty by promoting sustainable livelihoods, and enhance PFPs cost-effectiveness. The TA will assess the socioeconomic and fiscal aspects, cost effectiveness, implementation efficiency of PFPs, and establish a poverty-related monitoring and evaluation (M&E) system to guide stakeholders and decision makers.

TA4308-PRC: Poverty Reduction in Grasslands Improvement Programs: The purpose of the TA is to (i) assess the impact of GIP policies and implementation approaches in the Western Region, focusing on impacts on the grassland ecology and the livelihoods of grassland-dependent communities; (ii) identify systems, cost-effective models, and enabling policies to manage grass lands; reverse grasslands' continuing degradation; and benefit affected people, especially the poor, while ensuring sustainable resources and a stable environment; (iii) recommend changes in policies and programs that enhance social well-being; facilitate economic development; address the adverse fiscal situation; and ensure sustainability, implementation efficiency, and cost-effectiveness; and (iv) develop an effective monitoring and evaluation (M&E) system, linked to the provincial and national poverty reduction M&E systems. The TA will be in line with ADB's

Country Strategy and Program (2004-2006) and focuses on, among other things, the growing rural-urban and east-west inequalities and environmental sustainability. The TA will lay the foundation to improve the livelihoods of the rural poor by providing the Government with a policy framework and a base to plan investments for grassland improvement.

Urban

TA 3377-PRC: Urban Poverty Study: This study was one of the most comprehensive attempts to define urban poverty in PRC. In the study, poverty lines are reported for each of the 31 PRC provinces and the reported national poverty line is the average of provincial poverty lines each weighted by the corresponding provincial population share. The salient feature of the provincial poverty lines is their wide variation, which suggests that one poverty line for whole country would distort the regional pattern of urban poverty. The provincial pattern of urban poverty suggests that the focus of poverty alleviation for urban areas has to be different from that for rural areas. A significant percentage of the non-poor urban population remains susceptible to falling into poverty as a result of a relatively small reduction in income. The policy suggestion is that poverty alleviation measures should not be confined only to those living below the poverty line. It should also extend to the population with a high risk of falling into poverty. On average, the poverty rate among migrants to cities is 50 percent higher than that among permanent urban residents. But the gap between the two poverty rates varies widely across cities and in some cities the poverty rate for immigrants is lower than that for permanent residents. The Government is using this study to formulate policies on urban poverty.

TA 3148-PRC: Pension Reform: This is a continuation of advisory support sponsored by international pension asset management and life insurance companies, which conducted a comprehensive diagnostic study. The TA was to support the formulation of the administrative, legal, regulatory, and supervisory frameworks for the new reformed pension system started by the Government in 1995. An actuarial model developed under TA indicated that the foreseen financial difficulty in next twenty or thirty years can be avoided under the current contribution rate and benefit level and the

assumption that Government is able to continue to expand the pension coverage. Most recommendations were received favorably by the PRC Government and some were implemented as part of the pilot program in Liaoning Province.

TA 3733-PRC: Policy and Institutional Support for the Social Security Reform Pilot Program: The TA is to improve the financial and social sustainability of the social security system by helping implement the Task Force's recommendations. Selectively, the TA will support the pilot program in Liaoning Province (see TA3148-PRC above), help replicate the finding of the pilot program nationwide, and assist National Council for Social Security Fund (NCSF) to strengthen its institutional capability to manage funds raised for social security. The TA conducted actuarial analyses of the basic pension system under the pilot program in Liaoning and helped strengthen administrative and regulatory capabilities at provincial and local level. Advisory support was also given to investment of individual accounts and the management information system. The consulting team also recommended administrative and regulatory reform measures aimed at integrating the social security administration for better institutional capabilities. The TA also assessed the organizational structure and its financial and operational performances of the NCSF.

Infrastructure

(i) General

TA 5947-REG: Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction: Following an initial stage comprising literature review and identification of knowledge gaps, Shaanxi Province, PRC was selected as one of three locations for conducting retrospective country-level research into the impacts of selected transport and energy interventions on poverty reduction (research is also being conducted in the state of Gujarat, India, and in Thailand). Past interventions being examined include provision of rural and provincial roads, bus service improvements, new railway development and upgrading of rural electricity supply. Field work is underway, with country-level findings and a national workshop planned. In the final stage of the regional TA (RETA), drawing upon the country-level research, an overall report of findings will be prepared, and a workshop will be held in Manila.

(ii) Transport

TA 3900-PRC: Socioeconomic Assessment of Road

Projects: The primary objectives of the TA are to (i) develop analytical tools to assist in predicting the direct and indirect effects of roads, (ii) identify the effective linkages between the expressway investment and the flow of benefits to the poor, and (iii) strengthen a baseline socioeconomic assessment framework to effectively monitor these linkages. Toward this end, the TA has (i) quantified the macroeconomic effects of road projects in PRC over the past two decades; (ii) developed a monitoring framework to evaluate and determine the extent to which expressway investments contribute to bigger access to opportunity for the rural poor; and (iii) designed indicators that can be monitored for the impacts. The preliminary final report was submitted in April 2003. A case study is being organized to field test the proposed indicators and hypothetical monitoring framework. The study team has already identified an ADB-financed project, Chu-Da Expressway in Yunnan, as the case project for fieldwork. The fieldwork will be started upon MOF's endorsement. An internal workshop will be held in Manila to disseminate the outcome of the TA when findings of the fieldwork are incorporated into the draft final report.

The main findings of the TA include: (i) Good roads promote economic growth in both the farm and nonfarm sectors, generating opportunities for the rural population, including the poor; (ii) while many studies confirm the importance of roads to poverty reduction, the size and nature of the poverty effects and the distribution of the benefits among the poor and non-poor remain unclear because of a lack of well structured case studies; (iii) targeting interventions to local conditions and involving the participation of local communities increases the likelihood of success of road projects; (iv) PRC road development, together with investments in agriculture research, education, electricity and telecommunications, contribute to economic growth and poverty reduction; (v) given the significantly lower cost per km of constructing secondary roads, their marginal impact per dollar of investment on poverty reduction is greater than that of first class roads. These findings confirm that it is important that ADB look at a package of feeder roads to compliment the expressways. The TA developed a monitoring framework with designed indicators to

evaluate the poverty impacts on the rural poor from expressway construction.

TA4322-PRC: Poverty Impact of Area Wide Road

Networks: The TA aims to improve planning of road network investments and operations in the PRC, which will benefit the poor and increase overall economic benefits from road network investments through better linkage between local roads and NTHS. The TA will help the Government prepare a road network strategy that promotes, in an integrated manner, expressways and local roads to meet communities' needs and support economic growth. The TA will provide road agencies with the cross-disciplinary skills and tools to incorporate poverty- and stakeholder-related issues in various stages of road project planning, implementation, and operation.

(iii) Energy

TA 3369-PRC: Rural Electricity Supply Study:

The aim of rural electricity supply reforms is to ensure that rural consumers benefit from increased and reliable electricity supply, efficiency gains, and downward pressure on electricity prices through improvements at all levels in the rural power system. The TA will recommend a package of reform measures and a plan for their implementation. The recommended reforms will benefit the rural poor by providing an efficient, sustainable rural electricity supply that will provide the incremental electricity needed for rural development and reduce line losses and rural tariffs. Rural tariffs are significantly higher than urban tariffs. An international seminar was held.

TA 3673-PRC: Pro-poor Heating Tariff Reforms:

The TA will help the Government reform the urban heating sector and promote sustainable urban heating supply by (i) formulating pro-poor national heating tariff guidelines, and (ii) establishing an effective heating tariff collection mechanism. A growing concern is urban poverty due to the growing urban unemployment brought about by enterprise reforms and government downsizing. An increasing number of the urban poor depend on unemployment benefits to meet their basic needs. The tariff reforms required to sustain urban heating supply will raise the level of heating tariffs and change the collection mechanism that requires urban residents to pay according to their consumption. Although the changes from enterprise-based to individual-based

payment will be reflected in wage increases, the urban poor could find it difficult to afford the rising heating costs and survive the cold winter in northern PRC. A pro-poor heating tariff structure is required to ensure sufficient heat for the urban poor and to support the Government efforts in urban poverty reduction and social stability.

TA4309-PRC: Renewable Energy for Poverty Reduction: Consistent with ADB energy, environment, and poverty reduction policies, the TA's development goal is to improve economic and social welfare of poor and rural areas by improving energy and electric service delivery in a sustainable manner. The TA objectives are to (i) assess least-cost options for supplying energy in underserved areas of Zhangye; (ii) assess willingness to pay for, and affordability of, energy in poor and rural areas; and (iii) develop a corresponding business plan that will optimize financial and economic benefits to poor and rural customers.

Monitoring and Evaluation

(i) General

TA 3441-PRC: Capacity Building for Social Assessments: The TA is designed to build capacity of design and research agencies at national and provincial levels to conduct social assessments for development investments. This TA had an in-country core team of specialists in social assessments, for planning, M&E covering involuntary resettlement, poverty, and gender. The core team, together with associated specialists, was intended to provide advice to local government agencies, EAs and project sponsors for development projects, focusing initially on those financed by ADB; and to make recommendations on strengthening social assessments. The Government approved the publication "Guidelines for Feasibility Studies of Investment Projects" in March 2002, which incorporates social assessments into feasibility studies for investment projects. A national workshop cosponsored by MOF, the former SDPC, ADB, and the WB was held in April 2002. The Manual on Social Assessment developed under the TA is being finalized and edited.

TA 6073-REG: Development Tools for Assessing the Effectiveness of ADB Operations in Reducing Poverty: The goal of the TA is to enhance ADB's contribution to poverty reduction in Developing

Member Countries (DMCs). The purpose of the TA is to improve existing approaches and pilot test customized poverty monitoring and analytical tools to enable better understanding and measurement of the underlying factors and mechanisms driving changes in the incidence and severity of poverty in selected DMCs. The TA will develop these tools within the framework of the PRPAs, CSPs, and ongoing ADB projects or programs in selected sectors and countries. The TA will focus on some of the major ADB borrowing countries (although tools will be designed with a view to general applicability). The tools and approaches developed through the TA will foster better identification, design, and monitoring of poverty reduction programs and projects, and thereby improve in the effectiveness of ADB-financed poverty reduction efforts throughout DMCs. The implications of lessons learned regarding the process, structure, and resource requirements for carrying out poverty impact assessment will be reviewed in the final TA report.

(ii) Poverty Statistics

TA 5917-REG: Building a Poverty Database: The TA aims to support ADB's commitment to an accelerated program to strengthen its statistical database on poverty. The specific objective is to build a poverty database system in ADB based, initially, on available data collected from ADB's poverty assessment activities, and from the borrowing countries and other international agencies. A poverty database was developed under the RETA which includes poverty and poverty-related indicators from 18 countries and other statistical information pertaining to living standards. Data cleaning as well as the database refinement are ongoing. The final database will be organized systematically as a computerized system that can be easily accessed by ADB staff and external users through the Internet. The final draft of the monograph was entitled "Asian Drama: Revisited." The concluding workshop was held in Beijing.

TA 6088-REG: Strengthening and Collection of Purchasing Power Parity Data in Selected Developing Member Countries (DMCs): The objective of the TA is to strengthen and build sustainable capabilities of National Statistical Offices (NSOs) of the participating DMCs for collecting the data necessary to compile PPP-based comparisons for

GDP and its main aggregates. The TA will cover 23 DMCs. The DMCs will be divided into two groups: Group 1 DMCs will be invited to participate in the full round International Comparison Program (ICP) and Group 2 DMCs will be included in the harmonized ICP-CPI (Consumer Price Index) program based on a limited coverage approach. PRC has confirmed its participation as one of the Group 2 DMCs.

Civil Society and Participation

TA 5894-REG: Facilitating Capacity Building and Participatory Activities II (Voices of the Poor): Participatory rural and urban poverty assessments were undertaken. For the rural assessment, discussions were held with the poor in Nayong County in Guizhou Province where ADB has a pilot project for rural infrastructure. The participatory assessment revealed that the poor and the local government agencies mandated to assist them have different perceptions on how poverty should be measured, the causes of poverty, the constraints to reducing poverty, what makes a successful poverty reduction project, and what constitutes effective M&E. The main recommendations flowing from these different perceptions relate to the need to (i) broaden the definition of poverty to be multidimensional; (ii) make transparent the process and the people qualified to receive poverty reduction assistance; (iii) revise government extension training for farmers to better address their needs; (iv) include education and health measures as key poverty reduction tools; and (v) allow NGOs to help implement and monitor poverty reduction activities.

For the urban assessment, discussions were held with the poor in Beijing Municipality. The participatory assessment revealed that the poor and the local government agencies mandated to assist them have no official poverty line to transparently identify the poor, need to address both physical and psychological difficulties, little reliance on NGOs and private sector support, and concentrate more on food and shelter needs than on quality of life and employment needs. In addition, the needs of migrants from rural areas and divorced and widowed women with children are largely neglected. The main recommendations stemming from these conclusions relate to the need to (i) define urban

poverty to include housing, education, and health needs; (ii) increase attention to helping the poor find employment and/or acquire the skills to do so; (iii) expand the social insurance system; (iv) provide specific services to migrants; and (v) provide training to urban officials on how to incorporate participatory approaches in their work.

TA 6109-REG: NGO Partnerships for Poverty Reduction: The overall goal of the TA is the enhanced development of long-term strategic partnerships with NGOs and governments to achieve poverty reduction in the Asia and Pacific region. The specific purpose of the project is the provision of funding support to a limited number of NGOs in DMCs so that they might undertake innovative poverty reduction or other activities in key ADB sectors. The RETA will provide direct financial support to NGOs for: (i) effective implementation of demonstration or pilot poverty reduction activities in key ADB sectors as identified through approved ADB CSP documents; (ii) NGO capacity building efforts such as the establishment of NGO Information Centers; (iii) NGO-Government-ADB discussions on national and regional poverty reduction strategies; and (v) efforts/activities leading to the design, approval, and establishment of an ADB direct funding mechanism in support of NGO activities.

TAs with Other Strategic Objectives and Linkage to Poverty Reduction

TA3497-PRC: Global Environmental Facility Partnership on Land Degradation: The overall objective of the TA is to formulate a broad policy and strategy framework as the basis for a GEF/PRC Partnership on Land Degradation in Dryland Ecosystems. The TA supported MOF in the development of a coordinated and integrated response to land degradation and desertification in the arid, semi-arid, and dry sub-humid ecosystems of western PRC. The TA reviewed the Five-Year Plans of the Ministry of Agriculture (MOA), Ministry of Water Resources (MWR), State Environmental Protection Administration (SEPA), and State Forestry Administration (SFA) and prepared a broad policy and strategy framework to guide the formulation of the Partnership prepared.

TA 3548-PRC: Preparing National Strategies for Soil and Water Conservation. The TA's objective is to assist the Government in developing national strategies for soil and water conservation. The TA aims to help to improve land and water resources management, and contribute to poverty reduction and economic development. The TA conducted assessment of losses due to all forms of land degradation; assessment of best practices for soil and water conservation; feasible alternative strategies, their costs, and probable impacts; stakeholder consensus on preferred strategies; preparation of strategy plan and short-term action plan; institutional reform model; monitoring and evaluation network; and commissioned papers on priority issues. The final report drew attention to the main barriers preventing the development of a sustainable countrywide program to address land degradation. A strategic planning framework was recommended to address these issues. Three workshops were conducted to discuss aspects of the study, exchange views and obtain feedback from the experienced resource persons. A major output of the TA resulted from a detailed examination of the water and soil conservation legislative regime and eight associated primary environmental laws.

TA 3657-PRC:PRC-GEF Partnership on Land Degradation in Dryland Ecosystems. The PRC/GEF Partnership Program seeks to (i) combat land degradation and reduce poverty in selected ecoregions of national and global significance; (ii) achieve global environmental benefits through conservation of biodiversity and carbon sequestration; and (iii) generate lessons on policies, institutional arrangements, and approaches for integrated ecosystem management for widespread replication. The TA recommended revisions to strategy plans, policies, laws, and programs for integrated ecosystem management in dryland areas of western PRC; a institutional structure for land degradation management in western PRC; a Country Programming Framework (CPF) for OP12 for GEF consideration; a tentative 10-year public investment package, consolidating all relevant priority projects; a consolidated register of projects from external sources and pipeline projects and aid agency coordination mechanism; and high-priority projects ready for consideration as part of the 10th Five-Year Plan period or later. The CPF was approved by GEF in October 2002.

TA 3663-PRC: Optimizing Initiatives to Combat Desertification in Gansu Province. This TA helped the Gansu provincial government develop policies and supporting strategies and projects to improve natural resource management and foster sustainable development by controlling and preventing desertification and enhancing oasis ecosystem in the Hexi Corridor. The TA aims to ensure that such policies and strategies will encompass the range of conditions in desertified areas as to generally apply to the entire Hexi Corridor. The TA conducted a survey of the three river basins in the Hexi Corridor which has lead to a number of opportunities for project and program interventions to combat desertification. The detailed study of the priority river basin was then completed and assessed the impacts of various policies and development approaches on the environment and on the well-being of rural communities. The TA was completed in late 2002.

TA 3799-PRC: Western Area Human Resource Development. PRC's exceptionally rapid economic growth since the end of the 1970s has not equally benefited all regions. The March 2000 session of the National People's Congress endorsed the "go west" policy, a proactive strategy to promote economic growth and social development of the Western Region, and to narrow the gap between the western and eastern areas of the country. The TA will focus on Western Region capacity building and human resource development in the fields of development planning and financial management of project activities. It will cover: (i) needs assessment and analysis, (ii) development of detailed strategy for institutional capacity building and human resource development, and (iii) assistance in initiating the implementation of relevant programs, including a broad core pilot and a focused pilot on education management on innovation. The TA will cover: (i) needs assessment and analysis, (ii) development of a detailed strategy for institutional capacity building and human resource development, (iii) advisory services to initiate the implementation of relevant programs. ADB and the ADB Institute in Tokyo will work jointly to develop a human resource development program designed for key government agencies.

TA 3806-PRC: Study on Foreign Capital Utilization for Western Region. To create an environment that will solicit more private investment to the western

region by assessing the investment potential, identifying current bottlenecks in attracting investments and determining the changes required in the existing policies and regulations. The TA will also support training activities to improve the capacity of local government officials who are responsible for managing foreign capital in the western region. One training seminar has been organized for local government officials. An international study tour will be organized before finalization of the project.

TA 3958-PRC: Improving Basic Education In Underdeveloped Areas through ICT: The TA aims to advance policy dialogue on targeted and viable applications of distance education and ICT in the Western Region to improve quality and equity in basic education, emphasizing advances within the 9-year compulsory education system, literacy interventions, and related programs. The two objectives of the TA are to (i) undertake a broad assessment of and identify promising innovations and strategies for the applications of distance education and ICT in education with a particular focus on supporting access to quality UCE among disadvantaged populations including minorities, women, and remote communities; and (ii) support a very modest and targeted pilot testing of promising approaches and technologies with a tight pro-equity focus.

TA 4118-PRC: Combating Severe Acute Respiratory Syndrome in the Western Region: The TA's goal is to effectively contain SARS in the Western Region, preventing cross border transmission and developing capacity for rapid epidemic detection and response. Toward this goal, the TA seeks to help contain the outbreak of SARS in the target provinces by strengthening local capacities for SARS prevention, surveillance, management, and mitigation, with a particular emphasis on quick action to protect front-line medical workers, the poor, and other at-risk groups. This will be accomplished within a framework of close collaboration with other domestic and international partners. Lessons collected will be shared widely, to contribute to dialogue on measures to address public health system challenges, and present new models. The TA will build capacities of provincial and local governments and health units to plan and implement comprehensive programs to combat SARS, and will provide urgently needed equipment and supplies, focusing on identification

and prevention efforts. In addition to training for front-line health staff (vital to containing SARS), information, education, and communication (IEC) campaigns will raise public awareness of SARS and key prevention measures. Support will be linked to efforts combining relevant ministries, NGOs, community groups, the private sector, and international organizations, and will be provided through services and related facilities required to implement the TA and achieve capacity building objectives.

OTHER KNOWLEDGE PRODUCTS

Staff Consultancy: Analysis on PRC's Urban Poverty: ADB and the Development Research Center of the State Council of PRC conducted a study on PRC's urban poverty in 2000 – 2001 which estimated that the urban poverty line of urban residents in terms of per capita expenditure was Y2,310 in 1998. Urban poverty incidence rate was 11.9% under this expenditure-based poverty line. Though it is a common practice by using expenditure figure instead of income figure to measure poverty line, it's not in accordance with the official statistical practice in PRC where expenditure figure is hard to find in local area. This study calculated an income-based poverty line which is equivalent to Y2,310 expenditure in urban PRC. The study also provided some primary analysis on the basic characteristics of the urban people with consumption expenditure less than Y2,310.

Staff Consultancy: Analysis on PRC's Rural Poverty: Given the ADB goal of targeting the rural population with annual per capita expenditure less than Y860 the study was commissioned as expenditure data is not in accordance with the official statistical practice of PRC where poverty statistics are given in terms of income. However, PRC conducts income and consumption surveys. The main task of the study was to transfer the poverty line of Y860 expenditure into equivalent value in income and to give some primary analysis on the basic characteristics of the people with expenditure less than Y860.

University Intern Study: Rural Migrant Poverty in Beijing: The 2001 Fafo Institute survey of labor mobility calculated the poverty rate for Beijing residents at 8% compared to that of rural migrants

to Beijing at a large 25%. However, these figures only reflect differences in income poverty; disparities between the two groups are greater when non-income poverty indicators such as differential access to urban benefits as well as legal, economic and social marginalization are factored in. The study proposed that these poverty differentials reflect not only differences in human capital endowments, but also institutional barriers that impose additional social mobility constraints on Beijing migrants.

University Intern Study: NGOs Role in Development and their Legal Framework in the PRC: The PRC is experiencing social and economic reform, within which NGOs, as one of critical components of civil society, could play a important role in terms of representing civil rights and designing and implementing projects in innovative ways. The Government has recognized the role of NGOs in mobilizing resources for development and already founded many mass organizations and social organizations to play this function. Some of them have had made some achievements, especially in poverty reduction, which has been recognized by the Government and some scholars. The study focused on the situation of coexistence of top-down and grassroots NGOs and how the current legal framework favors the former and constrains the latter. The study discussed why PRC needs NGOs, their legal framework, and suggestions for international support.

Observations and Suggestions: Establishing a System to Protect Rural Minimum Living Standards: ADB conducted a study on the rural poor and the main conclusions and recommendations included the following: (i) The remaining 28 million absolute rural poor with incomes below the official poverty line of RMB627 are mainly those lacking the ability to produce a livelihood from the land or live on degraded land that does not have the capacity to produce a minimum livelihood. The ongoing poverty reduction program is based on improving the production conditions of the poor. While this was a good strategy when poverty was widespread, it is not a viable strategy to help many of the remaining absolute rural poor. A different, more targeted approach is needed to help that group of people; (ii) The Government has sufficient fiscal resources and the ability to establish a Rural Minimum Living Standard

Protection System to help solve the problem of absolute poverty in rural areas. Such a system is already available to protect the absolute poor living in urban areas; and (iii) Using a Minimum Living Standard Protection System to address the needs of the absolute rural poor is a major adjustment to the strategic objective and concept of the PRC's rural poverty reduction program. The current rural poverty reduction program could be restructured to focus on people with income below the \$1 per-day international poverty line but higher than the official poverty line.