

POVERTY PROFILE
of the
PEOPLE'S REPUBLIC OF CHINA

Asian Development Bank

May 2004

ABBREVIATIONS

ACCYL	All-China Communist Youth League
ABC	Agriculture Bank of China
ACWF	All-China Women's Federation
ADB	Asian Development Bank
ADBC	Agriculture Development Bank of China
ADTA	Advisory Technical Assistance provided by the ADB
AusAID	Australian Agency for International Development
CANGO	China Association for NGO Cooperation
CASS	Chinese Academy of Social Sciences
CBC	Construction Bank of China
CCP	Chinese Communist Party
CFPA	China Foundation for Poverty Alleviation
CFamPA	China Family Planning Association
CGAP	Consultative Group to Assist the Poorest
CICETE	China International Center for Economic and Technical Exchanges
CIDA	Canadian International Development Agency
CNC	China National Charities
CPD	China Population Daily
CPWF	China Population Welfare Foundation
DAC	Development Assistance Committee of the OECD
DFID	Department for International Development of the United Kingdom,
FFW	Food-for-work program (may include cash payments instead of food)
FPC	Funding of Poor Cooperatives projects
GB	Grameen Bank
GDP	gross domestic product
GNP	gross national product
GONGO	Government Organized Non-Government Organization
GTZ	German Agency for Technical Co-operation
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
ICBC	Industrial and Commercial Bank of China
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
INGO	International Non-Government Organization
JICA	Japan International Co-operation Agency
LGOP	State Council Leading Group Office of Poverty Alleviation and Development
LGP	State Council Leading Group of Poverty Alleviation and Development
MCA	Ministry of Civil Affairs
MDG	Millennium Development Goal
MII	Ministry of Information Industry
MLSS	Minimum Living Standard Scheme
MOA	Ministry of Agriculture
MOC	Ministry of Communications
MOE	Ministry of Education
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
MOPH	Ministry of Public Health
MOLSS	Ministry of Labor and Social Services
MOR	Ministry of Railways
MST	Ministry of Science and Technology

MWR	Ministry of Water Resources
NDRC	National Development and Reform Commission
NBS	National Bureau of Statistics
NFB	National Forestry Bureau
NGO	non government organization
OCR	Ordinary Capital Resources
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
PADO	Poor Areas Development Office
PEOC	People's Bank of China
PRC	People's Republic of China
RCC	Rural Credit Cooperative
RHS	Rural Household Survey
ROSCA	Rotational Savings and Credit Association
SAIC	State Administration of Industry and Commerce
SDPC	State Planning and Development Commission, subsumed into the NDRC in March 2003
SFPC	State Family Planning Commission
SOE	State-Owned Enterprise
SETC	State Economic and Trade Commission, subsumed into the NDRC and MOFCOM in March 2003
TVE	Township and Village Enterprise
UI	Unemployment Insurance Scheme
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Fund
Western PRC	The group of ten contiguous provinces and autonomous regions in the west of the PRC and three autonomous prefectures in Hunan, Hubei and Jilin covered by the Government's Western Development Strategy ¹
Western 12 PRC	The Western PRC plus the two autonomous regions of Guangxi Zhuang and Inner Mongolia
WTO	World Trade Organization
YJDF	Youth and Juvenile Development Foundation

CURRENCY EQUIVALENTS

Currency Unit - Yuan (CNY)	
CNY1.00	= \$0.121
\$1.00	= CNY8.27

NOTES

- (i) In this publication, "\$" refers to US dollars
- (ii) 'mu' refers to a measure of land area, equal to one fifteenth of a hectare

¹ The ten provinces and autonomous regions are Chongqing, Gansu, Guizhou, Ningxia, Qinghai, Shaanxi, Sichuan, Tibet, Xinjiang, and Yunnan.

TABLE OF CONTENTS

Abbreviations	i
List of Tables	v
List of Figures	vi
List of Text Boxes	vii
Foreword	ix
Executive Summary	1
Progress To End 2000.....	1
Achievement Of Millennium Development Goals	2
PRC Official Poverty Lines.....	4
Pillars Underlying Poverty Reduction.....	5
Cross-Cutting Themes In The Fight Against Poverty	7
Proxy Profile Of Rural Persons With Consumption Less Than \$1 Per Day.....	8
Proxy Profile Of Urban Residents With Consumption Below The Average MLSS Line	10
The Way Forward	11
Understanding Rural Poverty In The PRC	13
Developing An Operational Definition Of Poverty	13
Definition Of Rural Poverty - 1986 Onwards	13
Definition Of Rural Poverty By Provincial And Local Governments	19
The Government's 21st Century Definition Of Rural Poverty	20
Reduction in the Incidence of Rural Poverty	22
Rural Poverty Reduction in the Three Stages Defined in the Government's White Paper Of 2001	22
Progress Toward The Millennium Development Goal On Poverty	26
Issue Of Consistency Of Official Data On Rural Poverty	29
Alternative Views On The Extent Of Rural Poverty Reduction	29
Location Of The Rural Poor	32
Concentration Of Rural Poverty In Western PRC	32
Types Of Rural Poor	34
A Classification Of Types Based On The Causes Of Rural Poverty	34
A Classification Of Types Based On The Relative Depth Of Rural Poverty.....	36
Profiles Of Rural Poverty	37
Those Under The PRC's Official Poverty Line	37
Characteristics Of The Rural Poor By Region.....	39
Proxy Profile Of Rural Persons With Consumption Less Than \$1 Per Day	39
The Fight Against Rural Poverty	43
Macroeconomic Impacts	43
Overview	43
Pro-Poor Economic Growth	44
A Contrary View	50
Institutional Responsibility For Rural Poverty Reduction	50
Coordinating Poverty Reduction Work	50
Implementing Rural Relief Programs (The Five Guarantees Program).....	53
Implementing Other Rural Social Security Schemes	53
Role Of The Ministry Of Finance and The National Development and Reform Commission and Other Ministries/Agencies	53
Rural Financial Institutions	53
Government Rural Poverty Alleviation Strategies	56

Government Poverty Alleviation	56
The Government's 2001-2005 Targets And Strategies For Poverty Reduction	67
Civil Society-Based Poverty Reduction	69
Informal Networks	70
Private Sector Support For Poverty Reduction.....	70
NGO-Supported Activities	71
Research Institutes	75
International NGOs	76
Assistance From International Donors.....	77
Asian Development Bank	78
World Bank	79
United Nations Development Programme (UNDP)	80
Other UN And Regional Agencies	81
Bilateral Donor Assistance	81
Rising Total Cost Per Unit Of Rural Poverty Reduction.....	83
Understanding Urban Poverty	85
Urban Poverty As A Recently Perceived Problem	85
Defining The Urban Poor	85
Trends In The Incidence Of Urban Poverty	88
Numbers And Location Of The Urban Poor	90
The Floating Migrant Population And Poverty	92
Types Of Urban Poor	94
Profiles Of Urban Poverty	94
The Fight Against Urban Poverty	97
Macroeconomic Background	97
Structural Unemployment As A Cause Of Urban Poverty	97
General Overview	100
Institutional Responsibility For Urban Poverty.....	102
The Responsibilities Of The Cities	102
Ministry Of Civil Affairs	102
Ministry Of Labor And Social Security	103
Urban Poverty Alleviation Mechanisms.....	103
Funding For Urban Poverty Reduction.....	104
Civil Society-Based Programs For Poverty Alleviation.....	105
Assistance From International Donors.....	106
Vulnerable Groups In Rural And Urban Areas	109
Women And Girls	109
Minority Nationalities.....	112
The Disabled Poor	112
Conclusions and Recommendations	115
2000 – Before And After.....	115
Pillars Underlying Poverty Reduction.....	116
Cross-Cutting Themes In The Fight Against Poverty	118
The Way Forward	119
Appendixes	121
Appendix 1: Regional Characteristics From Year 2000 NBS Rural Household Survey	121
Appendix 2: Detailed Profile Of Urban Residents With Per Capita Annual Consumption Expenditure Less Than 2,310 Yuan And Urban Non-Poor With Annual Expenditure Greater Than 2,310 Yuan.....	127
Appendix 3: ADB Activities In Poverty Reduction In The PRC	131
Bibliography	139
Index	145

LIST OF TABLES

Table S1: Progress Toward the Millennium Development Goals	3
Table 1: Food Bundles Of Households At Different Levels Of Income (Household Income Less Than 800 CNY Per Year)	18
Table 2: Suggested Criteria Of Poverty Assessment For Village Targeting	21
Table 3: Example Of Weighting The Criteria By Participatory Processes	21
Table 4: Assigning Values Across The Range For Each Criterion	21
Table 5: Increase In Government Expenditure On Poverty Reduction Between 1994 And 2000	25
Table 6: Progress Toward Millennium Development Goal 1 Target 1	27
Table 7: Progress Toward The Millennium Development Goals	28
Table 8: Variation In Official Data On Poverty Reduction.....	29
Table 9: Khan And Riskin Poverty Lines (RMB).....	30
Table 10: Official Figures Compared To Khan And Riskin Estimates	30
Table 11: Rural Poverty Numbers Under Official And NBS Diagnostic Lines Compared	31
Table 12: Regional Concentration Of Rural Poverty	33
Table 13: Environment And Poverty Summary Table	35
Table 14: Hypothetical Model For Basing Rural Poverty Categories On Depth Of Poverty	36
Table 15: Characteristics Of Rural Poor And Non-Poor By Region (Rural Household Survey 1998)	38
Table 16: Income And Livelihood Levels Per Year 2000 Rural Household Survey	40
Table 17: Topography And Access To Infrastructure Per Year 2000 Rural Household Survey.....	41
Table 18: Composition Of Gender, Education Attainment, And Employment (%)	42
Table 19: Changes Of Annual Per Capita Net Income In Rural And Urban Areas	45
Table 20: Change Of Per Capita Net Income Of Rural Residents And Poor Counties	46
Table 21: Total Poverty Reduction Inputs Over The “8-7” Program Period	57
Table 22: Extent Of Subsidized Loans Channeled To Farmers – Huangping County, Guizhou 1987-1991	58
Table 23: Poverty Alleviation Subsidized Credit Loan Repayment Rates.	58
Table 24: Main Poverty Reduction Loan Programs.....	60
Table 25: Impact Of Rural Infrastructure On Poverty	63
Table 26: Returns Of Public Investment To Poverty Reduction, 1997	63
Table 27: Rural Infrastructure Trends In The 1980s And 90s.....	64
Table 28: Government Poverty-Related Targets In Tenth Five Year Plan (2001-2005)	68
Table 29: Government Strategies To Achieve Poverty-Related Targets (2001-2005)	69
Table 30: Total Poverty Inputs 8-7 Program - Constant 1997 Prices. (Unit Billion Yuan).....	70
Table 31: Comparative Advantages And Disadvantages Of NGOs And The Government In Poverty Reduction	72
Table 32: Correlation Between Environmental, Structural And Behavioral Variables Of 20 NGOs	73
Table 33: ODA Flows To PRC (Disbursement Basis)	77
Table 34: Net ODA to PRC from Major Bilateral Donors	81
Table 35: Benefit Lines As A Proxy For Poverty Lines In 35 Key Cities (CNY Per Month Per Person, 1998 Data)	86
Table 36: Diagnostic Urban Poverty Lines (Per Capita Per Annum, Yuan In Current Prices)	87

Table 37: Urban Poverty Trend As Compiled By NBS	89
Table 38: Urban Poverty Rates.....	89
Table 39: Urban Poverty Patterns, 1998, As Per Analysis Of Professor A Hussain and Others.....	91
Table 40: Sensitivity Of The Urban Poverty Rate.....	92
Table 41: Comparative Urban Poverty Rates - Migrants And Locals 1999	93
Table 42: Labor Market Trends 1995-2001	98
Table 43: Distribution Of Urban Employment By Ownership 1994-2001.....	98
Table 44: Urban Income Distribution Pattern 1995.....	101
Table 45: Output Elasticity Of Employment In Urban Industries, 1988-1995	101
Table 46: Year-On-Year Change In Urban Employment (%).....	101
Table 47: Distribution By Gender Of Educational Levels Of Migrant Workers In The Pearl River Delta Triangle (%).....	110

LIST OF FIGURES

Figure S1 Rural Poverty Reduction	1
Figure S2 Recent Rural Poverty Numbers.....	5
Figure S3 Pace of Rural Poverty Reduction	5
Figure S4 Cost per Rural Person Freed from Poverty	8
Figure S5 Rural Education Levels Achieved	9
Figure S6 Urban Education Levels Achieved	10
Figure 1 Three Stages of Poverty Reduction.....	22
Figure 2 Reduction per Annum per Stage.....	23
Figure 3 Second Stage Annual Reduction in Rural Poverty	24
Figure 4 Third Stage Annual Reduction in Poverty	25
Figure 5 Distribution of Rural Poor by County Type	26
Figure 6 Pace of Rural Poverty Reduction by County Type.....	26
Figure 7 1999 National Poverty Counties – Rural Net Income Distribution.....	31
Figure 8 Indicators of Regional Disparity	32
Figure 9 Poverty Reduction Rates by Region.....	34
Figure 10 Income Composition of the Poor	37
Figure 11 National Average Rural Income Composition for 2001	39
Figure 12 Education Attainment	42
Figure 13 Annual GDP Growth by Sector (1995-2002)	44
Figure 14 Rural and Urban Per Capita Income Growth	44
Figure 15 Rural and Urban Population Income Changes	45
Figure 16 Annual Change Rates of Rural Poverty Reduction and Rural Income Compared	45
Figure 17 Rural and Urban Income Distribution.....	47
Figure 18 Decomposition of Income Inequality in Terms of the Gini Co-efficient	47
Figure 19 Institutional Framework for Poverty Reduction Policy-Making and Program Implementation.....	51
Figure 20 Composition of the LGP	52
Figure 21 Government Poverty Alleviation Funding	57
Figure 22 Government Poverty Funding Composition	59
Figure 23 Trends in Government Poverty Funding and Poverty Reduction	67
Figure 24 Government Cost per Rural Person Freed from Poverty	67
Figure 25 Composition of Rural Poverty Reduction Expenditure	69
Figure 26 Trends in Total Poverty Funding and Poverty Reduction.....	83
Figure 27 Cost per Rural Person Freed from Poverty	83

Figure 28	1988 and 1995 Urban Poverty Rates	88
Figure 29	Regional Variation in Urban Poverty Reduction	90
Figure 30	Urban and Rural Poverty Reduction trends.....	90
Figure 31	Regional Distribution of Urban and Rural Poor	92
Figure 32	Education Levels of Poor and Non-Poor	94
Figure 33	Estimated Distribution of Urban Employment by Sector	99
Figure 34	Minimum Living Standard Scheme Trends	104
Figure 35	Gender Comparison of Higher Education Levels Achieved by Working-Age Farmers	109
Figure 36	Cost per Rural Person Freed from Poverty	115
Figure 37	Pace of Rural Poverty Reduction by County	116

LIST OF TEXT BOXES

Box 1	Technical Calculation of Poverty Line by NBS	16
Box 2	Rural Poverty Definitions Applied by Local Governments in Shaanxi Province in 1998	19
Box 3	The Roles of Ministries and Government Agencies in Poverty Reduction.....	54
Box 4	Institutional Issues of Trickle Down and Regional Development	58
Box 5	Explanation of the “Funding of Poor Cooperatives” Projects.....	61
Box 6	Poverty Alleviation Office Microcredit Experiments	62
Box 7	Globalization and Increasing Unemployment in the Textile Industry	97
Box 8	Public-Private Sector Initiatives to Combat Urban Poverty: The Case of Shanxi	105

FOREWORD

Poverty Profile of the People's Republic of China discusses the characteristics of poverty and the history of the fight against it in the People's Republic of China (PRC) from 1978 to current times. Exciting developments have taken place in diagnosing, measuring and reducing poverty, but these have been largely the preserve of a narrow band of professionals – specialized public servants, aid practitioners, economists, statisticians and sociologists. This is a background reader aimed at spreading this knowledge to a wider audience with varied interests and occupational skills. The increased awareness of poverty and its dynamics that this *Profile* offers can serve as additional filter for decision makers whose actions add to the economic and social development and foster pro-poor growth in the PRC.

As a compendium on PRC poverty, this *Profile* has drawn on a wide range of information sources. The information has come mainly from donor agency publications (Asian Development Bank (ADB), World Bank, United Nations Development Programme, International Food Policy Research Institute, Department for International Development of the United Kingdom, the Netherlands Ministry of Foreign Affairs and others), PRC agencies (notably the National Bureau of Statistics, the State Council Leading Group Office of Poverty Alleviation and Development and the China Foundation for Poverty Alleviation), and academics. In addition to international academics, the *Profile* has benefited from the growing number of research publications written by PRC nationals. Particular mention should be made of the *Poverty Monitoring Report of Rural China* produced annually by the National Bureau of Statistics.

The *Profile* was compiled during a dynamic period of domestic policy development in the PRC under which the leadership placed more emphasis on fighting poverty and extended the official view of poverty to the urban poor.

Unquestionably, as soon as this *Profile* is published there will be more to add, both in terms of detail but also in terms of fundamental analysis.

This *Profile* has benefited extensively from initial drafting and periodic commenting from a range of ADB staff. Advice from the ADB's Economics and Research Department helped to fine tune the coverage of poverty lines and its Policy Briefs informed the discussion on the causal relationship between types of public sector investment and poverty reduction.

David Sobel, Senior Country Programs Specialist at the ADB's Resident Mission in the PRC, took responsibility for authoring substantive parts of the initial drafts and for the overall management of the development of the final version of this *Profile*. He provided hands-on guidance and editorial comment under the direction of Bruce Murray, ADB Country Director for the PRC.

The ADB's consultant, Tony Voutas, and his support staff at Asia Pacific Access, Beijing, undertook the core work in finalizing this publication.

Although the *Profile* was the result of an extensive participatory effort, it should be noted that the views reflected within this publication do not necessarily reflect those of the Asian Development Bank.

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:

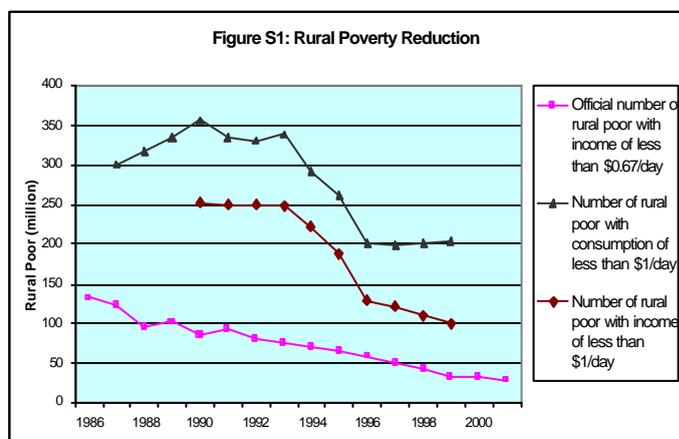
- (i) recognized that poverty is a multidimensional concept;
- (ii) accepted that for rural poverty the voices of the poor must be listened to through a participatory process by which village development plans will be prepared and monitored and NGOs will be mobilized to complement the Government's poverty 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 World Bank. 2003. *China Country Assistance Strategy 2003-2005*. Washington, DC.

^b 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.

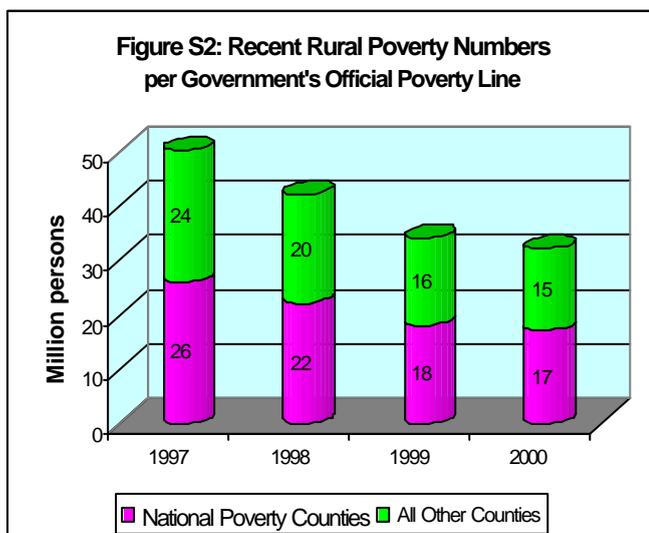
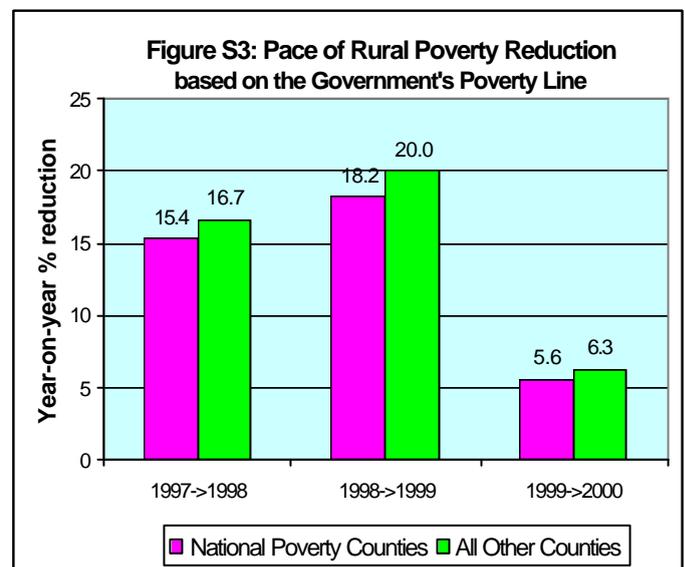


Figure S2 and Figure S3 show the trend in rural poverty reduction according to the official poverty line for

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 pre-requisite 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.

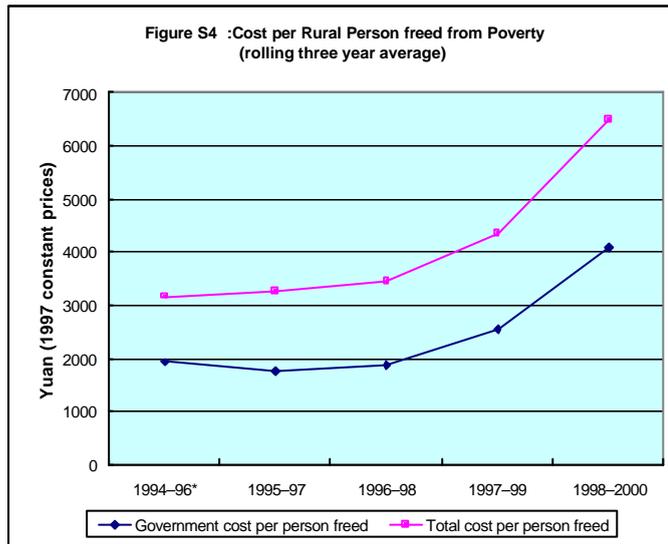


Figure S4 shows how, on a three year rolling basis, the annual outlay on targeted rural poverty reduction per rural person freed from poverty has doubled in real terms over the 8-7 program period (1994-2000). Much of the remaining rural poverty is linked to poor and often degraded environments – increased 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.

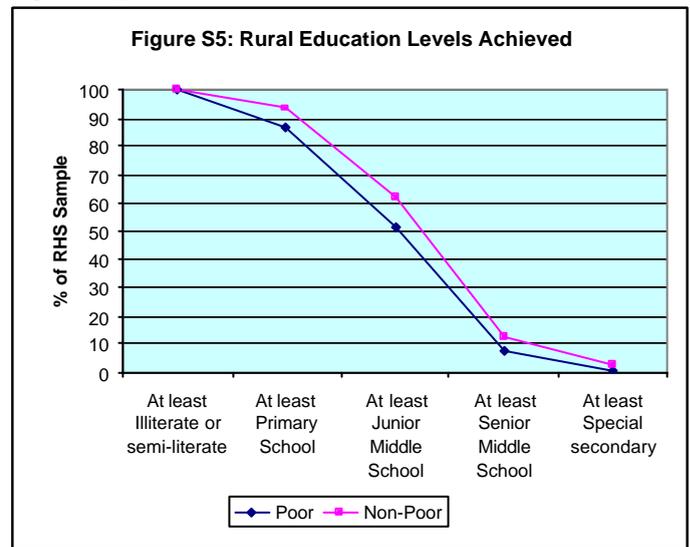
The data showed that topography, gender and ethnicity are linked to poverty. Over one third (36%) of the poor were living in mountainous areas whereas less than one quarter (22%) of the non-poor did so. Women were marginally more prevalent among the poor compared to the non-poor. This result understates 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.

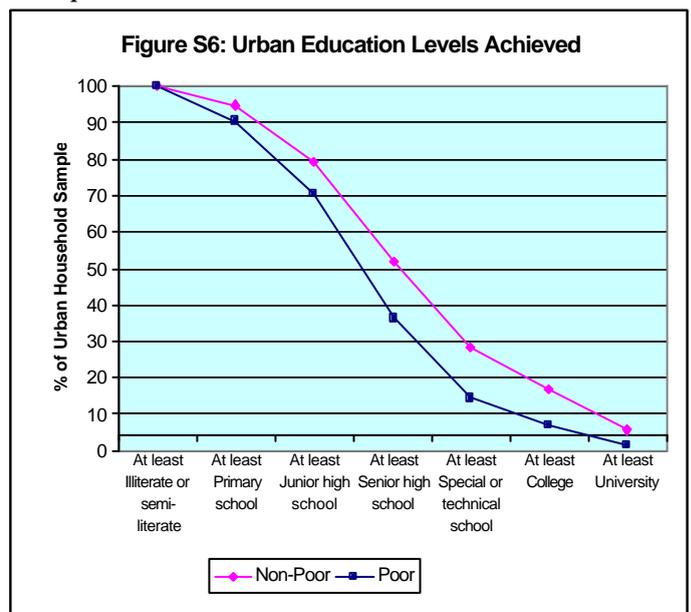
Economic profiling has shown sharp distinctions between the urban poor and the non-poor. This in part reflects widening gaps in wealth within urban communities. The average disposable income of the urban poor was only 44% of that of the non-poor. The poor only spent one third of what the non-poor spent 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 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.

UNDERSTANDING RURAL POVERTY IN THE PRC

DEVELOPING AN OPERATIONAL DEFINITION OF POVERTY

When the People's Republic of China (PRC) was established on 1 October 1949, it inherited an impoverished populace torn by years of international and civil war. Poverty predominated throughout the land. For the next half century, the Government led the country through reconstruction and then development phases with the result that only patches of poverty remained at the end of 2000. As stated by the PRC's cabinet - the State Council - on 18 June 2001, these patches are intolerable to society, the Chinese Communist Party (CCP) and the Government. The year 2001 marked the launch of a new, sharply focused ten-year strategy to continue the task of poverty reduction.

"Poverty" is a word with an evolving meaning. In the 1980s and 1990s, it was seen as not having enough income to provide for the bare minimum of food, clothing and shelter needed for survival. This aspect is "income poverty". Now it is generally agreed that poverty has many dimensions. The central element is deprivation - deprivation of the opportunities and choices necessary to enable persons to achieve and enjoy a basic level of welfare in terms of human development. This deprivation is characterized by material shortage, inadequate education and health, weak social support networks, insecurity and vulnerability, low self-confidence, and powerlessness.² Clearly, deprivation is a matter of degree. Poverty can range from what can be termed "absolute poverty" to various degrees of relative poverty.

For the 21st Century, the PRC is moving towards the use of multi-dimensional definitions of poverty, indeed one that is largely defined by the poor themselves. In the mid-1980s, poverty reduction efforts were focused on "income poverty". At that time, when the Government formulated its poverty reduction program, rationing scarce resources to the program had to be linked to the Government's definition of poverty. It is a norm of institutional behavior in the PRC that when the Government classifies the populace into groups, that classification carries benefits and/or obligations. There is no point in the Government making a classification for classification's sake. The necessary rationing of scarce Government resources was achieved by adopting an austere definition of poverty and then constraining the number of counties that would qualify for poverty program support.

In the mid-1980s, poverty was a rural phenomenon. At that time, mobility between rural and urban areas was very limited and citizens holding urban residency permits were guaranteed a job, housing, access to health, education and social services and a basic subsistence in food and clothing through a subsidy system when necessary.

Definition of Rural Poverty - 1986 onwards

The income approach to defining Rural Poverty

The basic unit in society suffering from poverty is the individual or the household. Definitions of rural poverty logically start by assessing what level of physical and non-physical resources need to be placed under the command of a farmer or a household for her/him/it to access a bare-survival standard of living on a sustainable basis. The income approach is to identify and price a basic survival consumption package comprising a food component and a non-food component (clothing, shelter and essential goods and services). The resulting monetary figure becomes the poverty line and is expressed in per capita terms. In the 1980s and 1990s, the PRC was one of a number of developing countries that followed this approach.

While this calculation method sounds simple enough, different institutions and individuals have applied the same standard approach to defining the poverty line in the PRC and have arrived at different answers. This remains an area of debate between the key agencies involved in addressing poverty, multilateral and bilateral donors, and academics.

² Wu, Guobao. 2001. *The Tenth-Five Poverty Reduction Development Strategy Study of Rural China*. Beijing: China Academy of Social Science; and World Bank. 2001. *World Development Report 2000/2001*. Washington, DC.

Should a Poverty Line be measured by net income or consumption?

After deriving the monetary value of a basic survival package, the next logical question is whether field observations of the poverty line should measure net income of rural individuals or their consumption. These two measures are not the same. The net annual income of individuals can vary significantly year on year because of factors such as weather change, shifts in agricultural prices, and degree of insect damage of crops. Consumption tends to be more stable over time as individuals and families attempt to maintain the standard of living to which they have become accustomed. The individual or household finances his/her/its regular standard of consumption expenditure from net income, savings, borrowings and/or social support. He/she/it will also want to direct part of net income into productive investment. In normal years, the individual or household will try to save part of the income so as to lower vulnerability to livelihood shocks or reduce debt incurred in managing past shocks. This is especially true for poor households. Thus the income needed to sustain expenditure on a survival consumption package is likely to be higher than the monetary cost of that package. This likelihood is supported by several field surveys in poor counties that report a higher headcount of the poor using the consumption expenditure interpretation of the poverty line when compared to using the net income interpretation.

The PRC has opted for the net income interpretation. This is a practical approach as the data regularly collected from all its counties, townships and villages enables readings on net rural incomes per capita. Rural household consumption surveys, on the other hand, are conducted on very small samples. The year 2001 rural household survey conducted by the NBS covered 67,340 households representing a 0.028% coverage of all rural households.

Notwithstanding small sample size, the rural household surveys are a resource from which an estimate can be made of the per capita net income a poor household needs to earn before its consumption expenditure is able to encompass the minimum basic survival package.

Targeting the Government's Poverty Reduction Efforts

Once an income line for individual poverty is determined, a Government has to decide how it will target its direct interventions to help the poor. The main target choices are: individual; household; functional unit or social organization to which individual belongs; or functional

administrative/geographic unit in which the individual lives. Excepting for the level of individual, all other choices cover units encompassing several to multitudes of individuals. The PRC, with its long established hierarchy of the center, provinces, prefectures, counties and townships, decided in the mid 1980s that the target unit for its poverty reduction programs would be the counties in which a comparatively high number of rural poor lived.

Having chosen the county as the target level, the next question for policy makers was how to define a poverty county. The PRC chose to apply the poverty line derived for the rural individual to the county as a whole by averaging the net income of all rural inhabitants of the county. If the average was below the individual poverty line, then the county was eligible to be classified as a poverty county.

Mathematically, this approach would capture most of the PRC's rural poor if rural incomes were fairly equally distributed within each county. This was the case under the rural commune system operating until the early 1980s, with its fixed prices for produce and pre-determined commune member incomes calibrated only slightly by a work point system. Policy makers in 1985 were operating against the very recent backdrop of the commune era. However with the end of the commune system and the advent of new opportunities to pursue income from produce sales in free markets, rural income disparities within counties emerged. Farmers in former communes located on fertile river valleys within easy access of major cities were able to improve their income rapidly, while those living in mountainous areas or arid zones had more limited ability to seize these new opportunities.

Under conditions of rural income inequality within a county, applying the individual poverty line to the average for a whole county becomes a less accurate means of targeting the poor. For example, per capita net income over the large geographic areas that make up counties might disguise intense poverty in high altitude, karst, dry or flood-prone locations when these are interspersed by rich river valleys. Also, the number of absolute poor in two counties can be large and identical, yet the differences in rural income distribution between the two counties can make one eligible for poverty county status and the other ineligible. Several such cases have been identified in various research papers.

The First Set of Definitions and Selection of National Poverty Counties

In the mid-1980s a mixed set of poverty lines was adopted to choose nationally designated poor counties that would be eligible for financial support under the

Central Government's poverty reduction program. The basic eligibility standard was set at 150 yuan, or less, net income per capita of the rural population in 1985 prices. Eligibility standards were relaxed for special categories of counties. The PRC leadership has long felt a strong obligation to assist development in those inaccessible mountain areas where the Red Army took refuge in the 1930s and 1940s. The leadership has also had an ideological and pragmatic commitment to improving the livelihoods of national minorities. Thus the eligibility level for the national poverty reduction program was lifted to 200 yuan net income per capita for counties in old revolutionary base areas and counties with large minority populations. An even more lenient eligibility standard of 300 yuan net income per capita was extended to some counties in very important revolutionary base areas and for a few minority counties with severe difficulties in Inner Mongolia, Xinjiang, and Qinghai. Poor counties were chosen from among those that met the criteria. Proof of the criteria relied on per capita net income data for 1985 collected by the NBS³.

Because of the scarcity of otherwise unallocated budget funds, the Government was unable to designate all eligible counties as national poverty counties. According to 1985 data from the Ministry of Agriculture (MOA), of the 82 counties where the per capita net income was below 150 yuan in 1986, 24 were not designated as poor. This meant that while there were poor people in many counties, only those living in nationally-designated key counties would gain access to the geographically targeted poverty reduction programs financed by the Central Government. Furthermore, it is likely that provincial pressures were at work to ensure some balance in the distribution of national poverty fund entitlements among provinces be they in the more developed coastal regions or in the disadvantaged West, notwithstanding that the latter had the highest incidence of poverty.

In 1988, the mix of poverty lines was enlarged further. The Central Government determined poverty standards for counties in pastureland regions based on income data from 1984 to 1986. Pastureland counties where the average net income per capita was below 300 yuan and semi-pastureland counties where the average net income was below 200 yuan were eligible for official classification as national poverty counties. Also in 1989 when Hainan became a separate province, three of its counties joined the national poverty ranks. By the end of 1989, 331 of the PRC's 2,449 counties (14%) had been accorded national

poverty county status.

The number of poverty lines was made even more numerous by the socially responsible action of provincial and lower levels of government to participate directly in the fight against poverty. They set their own eligibility criteria for poverty status. For instance, between 1986 and 1988 the provinces variously defined rural poverty lines as being between 200 and 500 yuan average per capita net income. On this basis, by 1988 they had declared another 372 counties as poverty stricken and eligible for special development programs financed by the provincial governments.

A More Rigorous Definition and Selection of National Poverty Counties

Shortcomings in the targeting of poverty programs between 1986 and the early 1990s led to adjustment of both the poverty lines and poor county designations in 1993. These adjustments followed from new, more rigorous poverty calculations made by NBS (see Box 1).

The NBS calculations outlined in Box 1 set the national poverty line in 1993 prices at 400 yuan net income per capita of the rural population. This is equivalent to 625 yuan in 2000 prices. In 1993, this line was used to redefine eligibility as a national poverty county. In the same year the Government began gearing up for a major assault on poverty under the new "8-7" program. Approximately eighty million rural poor remained and they were to be freed from poverty over the seven year period 1994-2000. Hence the name "8-7". While the NBS calculations set the eligibility criterion for new candidates for national poverty county status, the Government was faced with deciding the continued eligibility of the 331 counties accorded this status between 1986 and 1989. Partly on political considerations, the Government opted for a "4-in, 7-out" formula - that is 400 yuan net income per capita for new candidates and 700 yuan net income per capita as a ceiling for continued eligibility on counties already granted national poverty status. Counties whose development had lifted net income per capita of the rural population above 700 yuan in 1993 were expected to graduate from national poverty status.

Under a strict application of the "4-in, 7-out" formula, 326 counties qualified for national poverty county status. Counties that were meant to graduate were reluctant to do so, and political expediency eventually allowed many to postpone their graduation. Other factors entered the decision making such as grain production, other

³ The NBS samples 60-100 households per county in about one third of the nation's counties. Income data for other counties are based on adjusted data from the Ministry of Agriculture.

Box 1: Technical Calculation of Poverty Line by NBS

In order to determine the poverty line in a more scientific manner, NBS divided necessary living expenditures into two parts: food expenditure and non-food expenditure (clothing, housing, communication, fuel, medicine, education, entertainment, and others). The minimum income necessary for food expenditure was calculated based on a fixed food bundle that was considered enough to maintain a minimum daily caloric intake necessary for subsistence. Non-food expenditures, which are harder to measure, were calculated as a fixed percentage of food expenditures using an Engel's coefficient (ratio of food expenditures to total expenditures) of 0.6. This coefficient was chosen because it was comparable to that used in calculating poverty lines in other countries and also was equal to the average share of expenditures spent on food in the PRC by rural households in 1984, when many of the poor were just escaping from poverty.

In calculating necessary food expenditure, NBS used a minimum daily caloric intake level of 2,100 kilocalories as recommended by PRC's Center for Preventative Medicine. The food bundle contained only necessities and not items considered harmful (alcohol, cigarettes, candy) and was intended to reflect actual consumption patterns. NBS used 1984 household survey data to determine the actual shares of grain, vegetables, fruit, meat, poultry, seafood, dairy products, oil, sugar, salt, and other items to be included in the bundle.

Having determined the food bundle, NBS used the following equation to generate weighted prices to calculate minimum food expenditure:

$$P_i = P'_i \times R_i + P''_i \times (1 - R_i)$$

where P_i is the weighted price of the food item i ; P'_i is the official (planned) retail price of item i ; P''_i is the purchasing (market) price of item i ; and R_i is the proportion of consumption of item i from own production. The minimum expenditure for food can be calculated from these weighted prices and the amount of different food items in the bundle. Adding the minimum non-food expenditures from the Engel's coefficient, the poverty line in 1984 was calculated to be 199.6 yuan.

For other years, NBS adjusted the 1984 poverty line to account for inflation using the national rural retail price index. In 1990, however, the prices used to value self-consumed production in calculating incomes changed from the planned price to a weighted purchasing price, and the poverty line was readjusted accordingly. Since the early 1990s, these poverty lines have been the official poverty lines and used to estimate the poor population and to re-determine, in 1993, the nationally designated poverty counties for the Government's 1994-2000 targeted assistance program.

economic production, arable land, access to rural infrastructure, education and health demographics and recent natural disasters. The net result of the classification and reclassification process was the designation of 592 national poverty counties.

In retrospect, the "4-in, 7-out" formula could be interpreted as a Government decision that set an upper range of poverty - a line above which a county could be considered relatively safe from falling back into poverty. This upper range line of 700 yuan for net per capita income of the rural community is equivalent to 1,094 yuan in 2000 prices.

Consideration of Less Austere Poverty Lines

The national government has considered arguments for acknowledging less austere definitions of the rural poverty line. The problem of changing the definition is multi-faceted. Obviously there is the question of which line validly reflects income poverty within the PRC. Also there is the uncomfortable statistical fact that should higher poverty line be applied, the number of those officially classified as still in poverty would increase dramatically. The political presentational aspects of adopting a less austere threshold are understandably difficult. As an example of this difficulty, in 2001 the Government, proud of its "8-7" program, gave considerable publicity to proclaiming broad achievement of its objective of enabling all poverty-stricken people in rural areas to have enough to eat and wear by the end of the 20th Century. Such broad achievement could not be claimed if the official line were to be revalued upwards to, for instance, \$1 a day mark.

The "\$1 a Day" Option

One higher poverty line for the PRC that has been floated in official and academic forums has been "\$1 a day", meaning originally \$1 per day using 1985 purchasing power parity (PPP) prices rather than market or official foreign currency exchange rates. PPP theoretically enables a comparative calculation so that each country's currency can be equated by reference to how many units of the currency are required to buy a set list of goods. The \$1 per day figure does not relate to the cost of a basket of goods that are absolutely essential to sustain human livelihood. Rather the research behind the World Bank's *1990 World Development Report* found that coincidentally the national poverty lines of many of the countries studied for the report hovered around the \$1 a day mark when converted into US dollars using 1985 PPP prices. The "\$1 a day" has a distinct public relations appeal in the international press. For the 2000/2001 *World Development Report*, the poverty lines of 33 countries were converted

into \$ using 1993 PPP prices. The ten lowest poverty lines were then averaged and the result was \$1.08 cents per day. This figure was rounded to \$1 per day in 1993 PPP prices. On mathematical grounds, comparative poverty line readings using the former measure of \$1 per day in 1985 PPP prices cannot be compared with figures generated by using \$1.08 per day in 1993 PPP prices.

The World Bank in its recent *Country Assistance Strategy* for the PRC,⁴ when covering poverty reduction trends, equated \$1 per day in 1993 PPP prices to 879 yuan net income per capita per annum in 2002 prices. This is 40% less austere than the official rural poverty line. The \$1 a day line has international status and credibility. It is embedded in the Millennium Development Goals (MDGs) approved by world leaders at the Millennium Summit held at UN headquarters in September 2000. It is regularly used in the annual *World Development Indicators* published by the World Bank. This level of international status facilitates its use by donors in the PRC without donors appearing to the Government as foreign agencies foisting their own metrics on a sovereign country particularly when such metrics result in high poverty numbers. There is thus a tendency for the World Bank, the ADB and other donors to draw on the \$1 a day benchmark when poverty mapping and targeting project beneficiaries in their assistance programs to the PRC.

There are technical issues with the use of \$1 a day to define PRC rural poverty levels. It was designed for making international comparisons and derived by averaging poverty lines in a selection of low income countries. The PRC was not included in this selection. As an averaging exercise of some other countries' poverty lines, it does not reflect a verifiable absolute poverty line with respect to a basket of goods and services for adequate livelihood within a specific domestic economy.

There is another issue. Controversy abounds over the correct PPP conversion factors to use for the PRC. Applying PPP conversion factors used by three different agencies - the World Bank, UN-ESCAP and the IMF - \$1 per day converted to 1999 current prices ranged from 725 yuan per capita to 1,860 yuan per capita net rural income. An international project is currently underway to try to set standard PPP conversion factors, but an agreed outcome is not yet forthcoming. For various reasons, however, the PRC Government has decided not to participate in PPP surveys. It has, however, confirmed participation in a multi-country capacity building ADB Technical Assistance to strengthen national statistical offices in the

collection of data from which PPP comparisons can be made.

Higher Line using Same Methodology

Recently in 2001, several PRC researchers⁵ have re-calculated the poverty line using NBS's own methodology, but updating the base year for determining the content of the food bundle. (NBS used 1984). The steps in one calculation were to:

- (i) take the average food bundle consumed by rural households with less than 800 yuan per capita per year as per NBS household survey data;
- (ii) price the food bundle in 1995 prices and quantify its calorific value;
- (iii) scale the kilo-calorie per day food bundle back to 2,100 and adjust the total price of the food bundle accordingly;
- (iv) convert the price to year 2000 values by using changes in the rural consumer price index; and
- (v) apply the same Engels coefficient (ratio of food expenditures to total expenditures) used earlier by NBS to expand the total price to allow for non-food expenditures.

The results of this calculation were that the poverty line in the year 2000, expressed in terms of price of a minimum basic needs consumption package, was 858 yuan - see Table 1.

Recent research indicates that NBS has decided to complement its annual update of the official rural poverty line with a diagnostic line unrelated to benefit entitlements under official poverty reduction programs.⁶ The conceptual separation of a benefits line from a diagnostic line improves statistical analysis of poverty in part because it shows the sensitivity of poverty numbers to variations in levels of the line. The method used to calculate the diagnostic line was almost identical to that explained in the previous paragraph. The one point of difference is that NBS selected the contents of the minimum food basket with reference to the average pattern of consumption of various food items by the bottom 25% of the rural households ranked by income per capita. This slice of rural consumers encompassed both the poor and low-income households. By applying this method, the resulting NBS diagnostic line came out at 865 yuan in year 2000 prices (869 in 2002

⁴ World Bank. 2003. *People's Republic of China: Country Assistance Strategy. Fiscal Years 2003-05*. Washington, DC.

⁵ Tang, P., Laiyun Sheng and Pingping Wang. 2001. *Poverty Monitoring in Rural China*. Beijing.

⁶ Hussain, Athar. 2001. Draft Report on *Poverty Profile and Social Security in China*. London: Asia Research Centre, London School of Economics.

Table 1: Food Bundles of Households at Different Levels of Income (Household income less than 800 CNY per year)

Food type	Quantity (kg/year)	Price (yuan/kg)	Calories (K.ca/day)	Calories per Kilo (K.ca/day)	Expenditure (yuan/year)	Scaling down Quantities			New Expenditure (yuan/year)
						New Quantity (kg/year)	New Calories (K.ca/day)	New Expenditure (yuan/year)	
1. Grain									
Wheat	82.2	1.14	776.3	9.5	93.67	77.5	732.1	88.34	
Rice	56.8	1.27	538.4	9.5	72.12	53.6	507.7	68.02	
Corn	22.8	1.00	216.5	9.5	22.75	21.5	204.2	21.46	
Millet	0.9	1.00	9.1	9.6	0.94	0.9	8.5	0.89	
Potato	52.6	0.20	149.7	2.9	10.51	49.6	141.2	9.91	
Other grain	17.8	0.94	144.4	8.1	16.73	16.8	136.2	15.78	
2. Beans									
Soya	1.9	2.00	18.2	9.9	3.70	1.7	17.2	3.49	
Hybrids	0.1	1.92	0.6	9.0	0.13	0.1	0.6	0.13	
Other beans	0.1	2.10	0.6	9.3	0.13	0.1	0.5	0.12	
3. Bean products	1.7	2.06	4.6	2.7	3.56	1.6	4.3	3.36	
4. Vegetables	72.3	1.09	49.5	0.7	78.75	68.1	46.7	74.27	
5. Sauces	11.9	0.84	8.1	0.7	9.97	11.2	7.7	9.40	
6. Oil									
Oil	3.0	8.06	74.3	24.7	24.26	2.8	70.0	22.88	
Fat	1.6	8.26	38.2	24.7	12.80	1.5	36.0	12.07	
7. Meats									
Pork	7.4	9.44	80.0	10.8	69.76	7.0	75.4	65.79	
Beef	0.3	9.33	1.3	5.3	2.33	0.2	1.2	2.20	
Mutton	0.9	10.63	4.8	5.4	9.35	0.8	4.5	8.82	
Poultry	0.6	9.06	3.6	6.0	5.53	0.6	3.4	5.21	
Meat products	0.2	6.69	1.0	5.8	1.14	0.2	0.9	1.07	
8. Eggs	1.6	4.99	6.0	3.8	7.88	1.5	5.6	7.44	
9. Milk	0.8	4.94	5.7	7.5	3.75	0.7	5.4	3.54	
10. Fish	0.6	5.30	1.7	3.1	2.92	0.5	1.6	2.75	
11. Sugar/Candy	1.1	4.30	12.0	10.8	4.77	1.1	11.3	4.50	
12. Drinks/Beverages	7.8	4.61	64.3	8.2	36.05	7.4	60.6	34.00	
13. Cakes	0.9	4.33	7.5	8.8	3.68	0.8	7.0	3.47	
14. Fruit	5.8	1.55	9.6	1.7	8.99	5.5	9.1	8.48	
15. Nuts	0.1	3.85	1.0	16.8	0.23	0.1	1.0	0.22	
TOTAL			2226.7		506.43		2100.0	477.62	
						0.943105	Scale factor		

Calculation of the poverty line:

Use survey data to estimate the average expenditure share of food

Use the formula $ZL = ZF + NF$ where $NF = (1 - 0.832) * ZF$

Engel Coefficient

Inflating lines to 2000

Inflation factor¹

¹ based on rural consumer price index – PRCM, 2001

Source: Tang Ping, Sheng Laiyun, and Wang Pingping, 2001. Poverty Monitoring in Rural China. Beijing. Prices for surveyed food bundle were in 1995

prices). How to refer to this diagnostic line was, however, a sensitive matter.

As in the policy environment of any country, Government takes special care of the choice of words it uses to describe its issues, programs and objectives. Since 2002, official statements on rural poverty have made a distinction between the absolute poor (those below 629 yuan net income per annum in 2002 prices) and low income people (those below 869 yuan net income in 2002 prices). The term “low income” does not carry the same stigma as absolute poverty. Statistics on the low income spectrum will not contradict all previous policy and progress statements on rural poverty reduction. The language has provided a mechanism for both sets of figures to be released to the public domain. Government leaders now talk not only of eradicating absolute rural poverty by 2010, but also generating marked improvements in the livelihood of low income people.

There is an accidental convergence between the World Bank’s calibration of \$1 a day (879 yuan in 2002 prices) taken as an income measure and the PRC’s official cut-off point between, on the one hand, the absolute poor and low income rural population and, on the other hand, the rest of the rural community (869 yuan net income in 2002 prices). This allows scope for a shared understanding between the Government and donors on appropriate beneficiaries for targeted poverty reduction programs and pro-poor macro-economic growth.

Definition of Rural Poverty by Provincial and Local Governments

The national government’s budgetary resources for supporting poverty reduction were inadequate to cover all counties eligible for poverty county status under either the 1986 or the 1994 classifications and some form of rationing was inevitable. As a result, only a proportion of eligible candidates were officially classed as national poverty counties. The balance of eligible counties had to do without direct support under the national poverty reduction programs.

Fortunately for the rural poor in those overlooked counties, the task of poverty reduction is seen in the PRC as a responsibility of all levels of government and all units within society. Provincial, prefecture, county, and township governments have complemented national government efforts by developing and funding separate poverty reduction programs. They have developed their own criteria to establish poverty status for counties, townships, villages, and individuals living in counties

Box 2: Rural Poverty Definitions Applied by Local Governments in Shaanxi Province in 1998

A township may be considered poor if over 90% of the population has inadequate access to clothing and food. Inadequate is defined as annual net income in 1990 prices of a family being under 300 yuan per person or regular annual grain supply per person being less than 350 kg. Where families receive both income and grain (normally grain grown on their own plots is for self-consumption), a calculation is made based on net income and the grain’s value at market prices.

A county (or equivalent district) may be considered poor if its average annual per capita income is below 700 yuan per person or annual grain production is below 700 kg per person.

A county (or equivalent district), township, or village may be considered poor if, after calculating the following criteria, it receives a total score less than 85 out 100:

- (i) 2.5 mu of farmland for each poor farmer (maximum score is 15);
- (ii) adequate water for people and livestock (maximum score is 15);
- (iii) 90% of population have access to convenient transportation (maximum score is 15);
- (iv) 90% of population have access to electricity (maximum score is 15);
- (v) more than 30% of poor families have at least one source of stable income that will provide them with at least 70% of their food and clothing requirements in the two succeeding years (maximum score is 10);
- (vi) 80% poor families have one laborer who has mastered at least one practical skill (maximum score is 8);
- (vii) 85% of the families practice birth control (maximum score is 8) or less than 2% exceed the allowed number of children (maximum score is 7); and
- (viii) village leadership of groups responsible for the poor is deemed qualified after on-the-spot inspections (maximum score is 10).

other than those designated as national poverty counties.⁷ Between 1986 and 1988 the provinces designated a total

⁷ Many local criteria reflect fiscal reality at the local level and are more relaxed than national criteria to enable more people to receive benefits from poverty classification. For example in 1996, Yunnan set a standard of 300 yuan compared to the national 530 yuan poverty line. Richer provinces may set local poverty lines above the national level (Zhu, Ling, 1998).

of 372 provincial poverty counties and the eligibility measures they used varied between average annual net incomes per capita of 200 and 500 yuan. Northern Shaanxi Province provides an example of the range of levels and criteria applied within a province in 1998 for targeting their own poverty reduction programs - see Box 2.

The Government's 21st Century Definition of Rural Poverty

In May 2001, the Government adopted its new ten-year poverty strategy (2001-2010). The pockets of rural poverty that remained at the end of 2000, as defined by the on-going national poverty line adjusted for inflation (625 yuan per capita net rural income in 2000 prices) amounted to 32.1 million people. Under the new strategy, the Government has designated key counties for national poverty reduction development work. As at the end of 2002, 592 key counties had been selected, most of them were national poverty counties under the previous system but a number were new. These key counties and poor villages in non-key counties are eligible for national poverty funding. Selection of these key counties was based not just on income, but also on social conditions, geography, and other physical conditions. Priority was given to remote and mountainous areas, minority areas, and severe poverty areas.

Unlike the use made by Government of the previous national poverty county designations, the selection of key counties was only the first step in determining where Government assistance should flow. Because the national government is adamant about improving the targeting of its poverty reduction efforts, the second step is to focus on poverty villages and households within the key counties. Thus the definition of poverty villages and poverty households has become especially important.

As a result of an advisory technical assistance financed in 2001 by the ADB⁸, several steps were proposed and accepted by the Government as a framework for identifying and classifying poor villages and households to better target rural poverty reduction assistance. Those steps are:

Step 1: Developing Indicators of Poverty. Indicators should be developed through a participatory process that engages different stakeholders. The most important issue is to let those who are the poor define what constitutes being poor.

This methodology suggests eight indicators across three broad categories (See Step 2).

- **Step 2: Weighting Different Indicators.** Different indicators have different weights when measuring the degree of the poverty. This methodology introduces participatory weighting methods that allow the poor, particularly women, to share in the process. The weighting is to be done first in respect of each indicator and then in respect of each category. Field trials using participatory processes have provided the example shown in Table 3.
- **Step 3: Defining the Range of Each Criterion of Village Poverty at the County Level.** The degree of village poverty is scaled from 1 to 5. What constitutes each of the values from 1 to 5 for each of the indicators is to be determined through a participatory process at the county level. The cash income indicator, for instance, may range from 200 yuan per capita annually (which would be regarded as a scale of "1") to 1000 yuan per capita (which would be regarded as a scale of "5"). The county will then have a standardized enumeration system for calibrating the data supplied by participatory processes at village level. Table 4 shows a sample framework within which values can be assigned across the scaled range of each indicator.
- **Step 4: Collecting Village Poverty Data.** Data covering all the criteria are collected through a participatory process at the village level.
- **Step 5: Calculating the Integrated Village Poverty Index (IVPI).** Expressed in its most simple form, $IVPI = W \times B$ where:
 - W = the weight of the indicators, and
 - B = the score of the indicators using a range of 1 to 5

In practice the calculation involves several steps as weighting is first applied to each indicator within its category (living situation, or life and production conditions, or health and education) and then applied to each of the three categories.
- **Step 6: Developing a Village typology.** Villages are divided into five groups according to the level of wealth defined by their respective IVPI scores. Villages in the county can then be mapped according to their respective groupings.

⁸ ADB. 2002. *Methodology for Development Planning in Poverty Blocks under the new poverty strategy in PRC*. Manila.

Table 2: Suggested Criteria of Poverty Assessment for Village Targeting

Category of indicators	Indicators
Living situation	Possession of grain crops /year/person
	Net cash income/year/person
	Quality of housing
Life and production conditions	Drinking water supply
	Electricity supply
	Transportation
Health and education	Women's health
	School drop out rate of girls

Table 3: Example of Weighting the Criteria by Participatory Processes

Indicator Category	Weight	Indicators	Weight
Living situation	35%	Possession of grain crops /year/person	37%
		Net cash income/year/person	39%
		Quality of housing	24%
Life and production conditions	33%	Drinking water supply	41%
		Electricity supply	24%
		Transportation	35%
Health and education	32%	Women's health	50%
		School drop out rate of girls	50%

Table 4: Assigning Values across the Range for Each Criterion

Indicators	Unit	Values across a range of 1 to 5				
		1	2	3	4	5
Grain possession	Kg					
Cash income	Yuan					
Housing	%					
Drinking water	%					
Electricity	%					
Transportation	%					
Women' health	%					
School drop out rate of girls	%					

- **Step 7: Selecting Villages.** Based on the typology and the resources available for poverty reduction from all levels of government, a selection can be made of the villages to be supported by poverty reduction activities. This methodology is designed to ensure that the villages covered by government assistance programs represent the poorest villages in the county.
- **Step 8: Identifying and Classifying Poverty Households.** Village committees in the selected poorest villages are to arrange a highly participatory process through which the village residents prepare a matrix profiling poverty in their village. Those suffering from poverty should be divided into four groups (relief receivers, poorest, normal poor and the relatively poor). Each category could be profiled in terms of per capita income, grain or food consumption, the number of able working age persons in the household, and their potential for further development. The residents may then prepare a complete name list of households that fit under each category. This name list, having been transparently determined, facilitates accurate targeting of poverty reduction programs at poor households.

REDUCTION IN THE INCIDENCE OF RURAL POVERTY

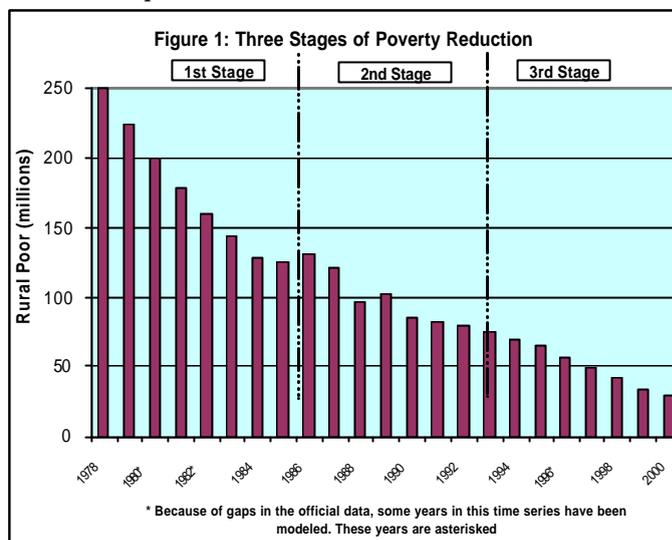
Rural Poverty Reduction in the Three Stages Defined in the Government's White Paper of 2001

The end of the century on 31 December 2000 marked the culmination of twenty three years of deliberate and highly focused effort by the central and local governments to relieve rural poverty. In October, 2001 the Government issued a white paper reviewing the content and achievements of its past rural poverty reduction programs and outlining a broad framework for removing the remaining remnants of rural poverty in the early years of the 21st Century.

The Government categorized recent rural poverty reduction into three stages: (i) 1978-1985; (ii) 1986-1993; and (iii) 1994-2000 - see Figure 1.

The first stage (1978-1985), during which 125 million poor rural people were lifted out of poverty, was largely driven by structural reform of rural industry and changes in agricultural pricing policies that provided better terms of trade for farmers. This provided new market opportunities for the poor. To understand the immensity

of these reform measures, it helps to reflect on the system that was in place before the reforms.



Since 1958, agriculture had been operating under the commune system. The rural domain of today's "township" (*xiang*) was the area covered by a commune. The commune comprised production brigades that are now transformed into "administrative villages". Natural villages were organized into production teams. The communes were expected to achieve a high level of self-sufficiency. Each commune established a range of agro-industrial plants to support its own agricultural production. Under command planning, many industrial factories were decentralized to the countryside. Except for private plots usually confined to a small area around each farmer's house, private ownership of agricultural land had been replaced by collective ownership. Land-owning collectives equated to a production team (natural village) or a subgroup thereof. Except for the private plots, all agricultural work was done communally. Commune members were guaranteed an equitable share of the commune's grain production. Net revenue from sales both to meet the Government's quota and of surplus produce were divided among commune members on the basis of labor points which measured each household's labor input to the commune each year.

The commune system had both advantages and disadvantages. The primary disadvantage was the lack of market-based incentives to use communal land and resources diligently so as to maximize production. Several among the Government's leadership noted that farmers devoted much of their energy to their very small private plots. Experiments were authorized in Sichuan in 1976 to allow up to 15% of commune land to be farmed privately and the produce from them to be sold in private markets at non-controlled prices. As a result, grain

production in Sichuan jumped by 24% between 1976 and 1979.⁹ The process of diluting and eventually dismantling the commune system was officially begun in December 1978 at the Third Plenum of the 11th Central Committee of the CCP, but change was gradual, taking until 1983 to complete it in broad terms.

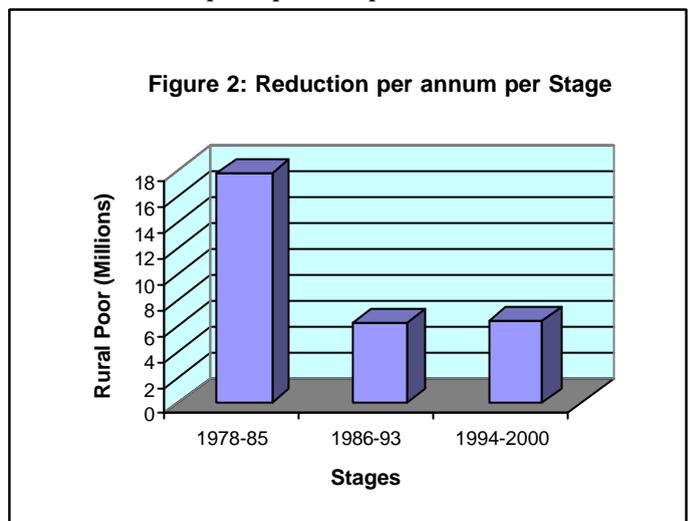
The same Third Plenum made a milestone decision on agricultural prices that had a massive positive impact on reducing the level of rural poverty. The Plenum decided that the state prices for: (i) quota grain produced in the 1979 harvest would be raised by 20%; and (ii) the price of grain produced in excess of the quota would increase by 50%. Furthermore, it decided that the prices of major farm inputs produced by State Owned Enterprises were to be cut by 15%. The application of this pricing policy occurred against a background of expanding village fairs and free markets that provided farmers with alternatives to selling their produce at the State controlled prices.

Following on the Sichuan experience and the outcomes of the Third Plenum, the period 1978 to 1983 saw experimentation with a new agricultural production responsibility system that challenged the commune structure. Variations of the new system included:

- (i) labor contracts between the land-owning collectives (Party A) and small groups of families, individual households and even individuals (Party B) to carry out itemized farm work towards fixed targets in terms of quantity, quality and cost. Achievement and over-achievement were rewarded by higher work points which meant more cash and food;
- (ii) output contracts under which households agreed to produce a given amount of crop on a specified area. Households were allowed to keep and profit from the surplus but were liable to make up deficits if they did not meet the target; and
- (iii) net-output delivery contracts where individual households committed to meeting state quotas and providing a pre-defined additional quantity of output to the collective in return for return for control over collectively owned farm equipment and animals.

By 1984 the rural household responsibility contract system had effectively replaced the communes. Building on the experiments, households contracted with their land-owning collective (of which they were members) to meet minimum production targets in return for a 15 year

use right over an equitable share of the collective's arable land. Generally, land-owning collectives held some of their arable land in reserve for future contingencies and allocated the balance to their members on an equitable basis considering land area, quality and type (paddy versus dry land). The 15 year contracts gave security to households to make longer-term investments in farming their land. Under the reformed policy, land-owning collectives were expected to conduct interim reallocations of land during the 15 year contract period whenever changes in the village population (births, marriages, inwards and outwards migration and deaths) seriously undermined the principle of equitable distribution.



Prior to the 1978-1985 stage, more than half of the rural population was considered to be living in severe poverty. In 1977, according to Ministry of Agriculture (MOA) data, the rural net income per capita in 22.5% of the PRC's counties was below 50 yuan. In one third of these counties it was below 40 yuan. The MOA regarded 40 to 50 yuan average per capita of collectively distributed income under the commune system as a benchmark for poverty because 40 yuan was equivalent to 150 kg of wheat or 200 kg of rice in late 1970s prices. From 1978 onwards, the combination of higher prices for agricultural products, lower prices for agricultural inputs, contract production arrangements which gave households effective, while limited, proprietorship over land, and the profusion of free markets provided the dynamics for a massive reduction in rural poverty. As a result of these factors, agricultural output grew at an extraordinary pace of an annual average of 8.8% between 1978 and 1984. Per capita incomes of rural residents increased 132% over the period. The increased agricultural output

⁹ Spence, Jonathon D. 1991. *The Search for Modern China*. New York. W.W. Norton and Company.

accounted for 15.5% of total increased income generated.¹⁰

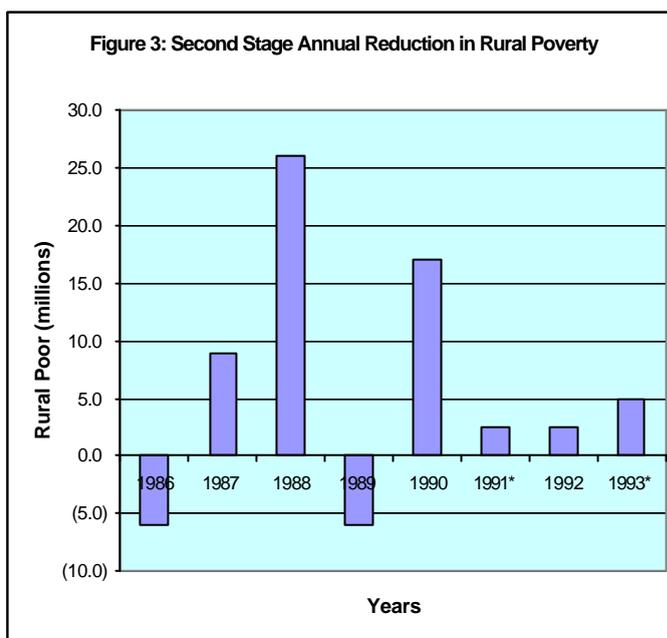
During this first stage (1978-1985), the number of rural poor, as measured by the official poverty line, dropped from 250 million in 1978 to 125 million in 1985, or by 17.86 million on average annually. As Figure 2 shows, this average annual reduction was the highest of the three stages - and was almost three times greater than each of the other stages. During the same period the average per capita calorie intake improved from 2,300 per day to 2,454.¹¹

The second stage, 1986-1993, commenced with the shock of an increase in the number of rural poor by 6 million according to the Government's official count (see Figure 3). This heralded a plateauing of the immediate pro-poor benefits of the agricultural production reforms and the new market opportunities that superceded the commune. This was also a time of unusual macro-economic dynamics. Driven in large part by the Government's sectoral policies, rapid economic growth was occurring in the coastal provinces while investment in agriculture was declining. The result was an acceleration of the disparities between the eastern coastal areas and the central and western regions. Such rapid growth under conditions of a dual pricing system heightened demand for that scarce portion of construction goods available for sale on the free market. Marked expansion of money supply fanned inflationary pressures with one outcome being an increase in farm input prices. Agricultural processing and other ancillary enterprises, formerly embedded within the commune structure, were now fledgling town and village enterprises (TVEs) seeking to become efficient and profitable - many in search of new capital and improved technology. The township governments that replaced commune administrations were keen, for reasons of modernity and the prospect of increased tax revenues, to facilitate the growth of their TVEs.

Against the backdrop of growing disparities, the Government recognized that specific poverty interventions were necessary to reinforce the impact on pro-poor economic growth on poverty reduction. To accomplish this, the Government embarked on a bold poverty reduction strategy to focus national poverty reduction funding and investment on 331 specially designated "national poverty counties" with the intent of accelerating overall regional development in these areas.

With the launch of this initiative in 1986, three primary modalities for driving poverty reduction in the key counties were regularly financed by the Central Government: (i) subsidized credit; (ii) food for work; and (iii) development funds. They are described later in the text.

This program needed institutional over-sight so in 1986 the Government established a Leading Group of the State Council for the Economic Development of Poverty-stricken Areas. (In 1993, it was renamed as the State Council Leading Group for Poverty Alleviation and Development, referred to by the acronym LGOP). The LGOP is chaired by a Vice-Premier and comprises vice-ministers from relevant ministries, presidents from relevant national government bureaus and commissions, and directors of relevant agencies and Government-organized Non-government Organizations (GONGOs).



As reflected in the statistics on year-on-year changes in the rural poor head count (see Figure 3), the second stage had mixed results. For two years (1986 and 1989), the number of people living in poverty increased by six million. This represented a year-on-year reversal of poverty reduction by 4.8 and 6.3% respectively. Also, the pace of poverty reduction slowed in 1991 and 1992, achieving only 2.9 and 3.0% improvement year-on-year. There are several reasons for the years with low or negative progress. In 1988, LGOP adjusted its program priorities from households to local economic entities because it assumed that assistance to the latter would expand employment for the rural poor and increase local demand for their produce. In practice, however, this change of policy diverted poverty reduction resources and consequential new opportunities away from

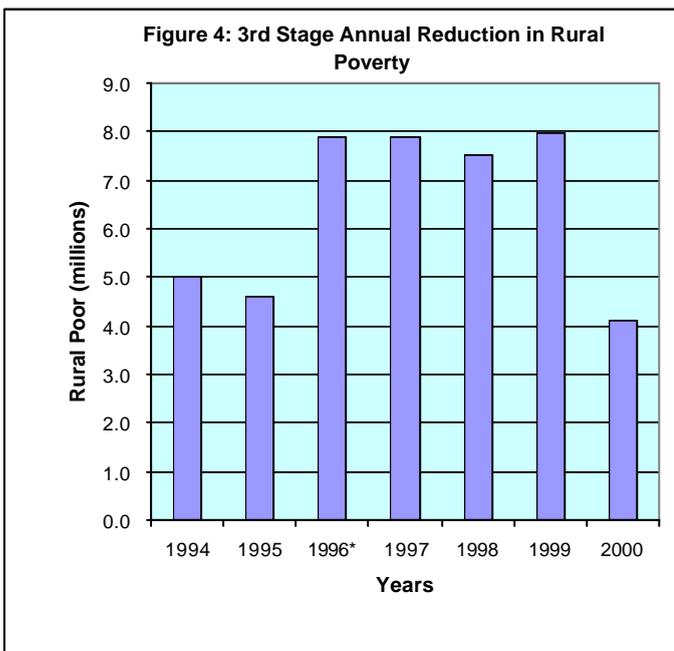
¹⁰ Xie, G. 1988. Comments on Price Change of Agricultural Products. *Rural Economy Sketch* No 1.

¹¹ NBS Rural Socio-economic Investigation Team. 2000. *China's Rural Poverty Monitoring and Evaluation Report*. Beijing: China Statistics Press.

poor households to enterprises and relatively rich farmers. The direct effects of the programs on reducing poor households were diluted rather than strengthened. Also contributing to the slow down was the fall in real terms of the amount of poverty funding between 1988 and 1991.

Between 1988 and 1991 in particular, macroeconomic factors were at work which made poverty reduction more difficult. Inflation was running at the highest levels ever since the formation of the PRC. Monetary policy was subject to an unresolved tension between serving contradictory objectives of full employment and price stability. Fiscal policy was confronted with a growing budget deficit that Government was trying to prune by tightening up on expenditure. The rural consumer price index was rising faster than the prices paid for agricultural products. Rural net income per capita fell between 1988 and 1989. There was only marginal year-on-year growth in rural net income per capita in 1990 and 1991. Overall during these four years, the macroeconomic environment was more unsettled and less conducive to rural poverty reduction.

Despite the year-on-year swings, however, significant progress was made over the eight years during the second phase with the number of rural poor dropping from 125 million to 75 million¹², representing an average annual decrease of 6.25 million persons. Compared to the previous period, the average annual pace of poverty reduction slowed from 9.4% to 6.2% as now more difficult poverty conditions were being addressed.



¹² The White Paper quotes 80 million as the rural poverty headcount in 1993. NBS figures show poverty down to 80 million by 1992. Most recent figures quoted by the Executive Director of the China Foundation for Poverty Alleviation show the 1993 figure as 75 million, and this figure is used here.

In the third stage, 1994-2000, the geographic focus of the poverty relief program was tightened by using a more rigorous definition of the poverty line and using it to identify eligible counties for “national poverty county” status. Poverty reduction modalities were refined and diversified to tackle even more difficult typologies of poverty. Aware of the dilution of the poverty reduction effort through the flow of funds to TVEs and better off farmers, the Government, after 1996, shifted its program target from poor regions to poor villages and households. This stage was called the “8-7” program because its objective was to alleviate poverty from the remaining approximately 80 million rural poor over a 7 year period - that is by the end of 2000. Considerably more resources were deployed by the Government compared to the second stage. Between 1994 and 2000, the Central Government’s poverty reduction inputs doubled in real terms - see: Table 5.

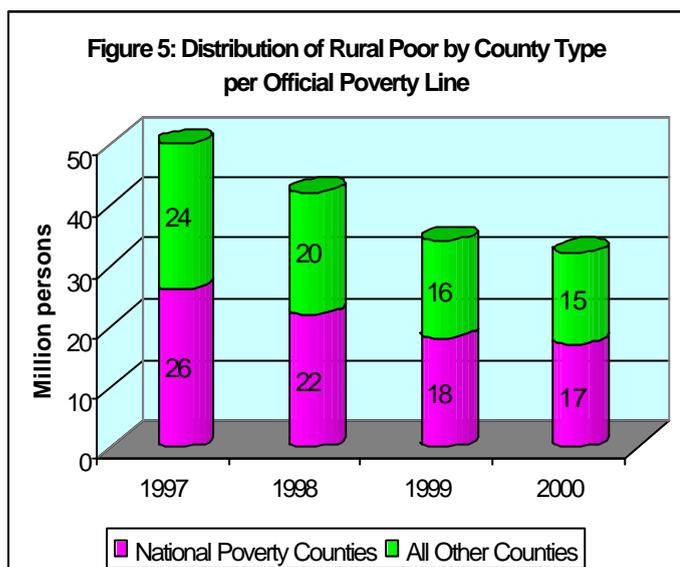
Over the same period, international donors, and NGOs - both international and domestic - had added annually between 26 and 56% over and above the national and provincial governments’ inputs. At the macro-policy level, the Government gave more priority to the development of the central and western regions where the rural poor are concentrated.

Table 5: Increase in Government Expenditure on Poverty Reduction between 1994 and 2000

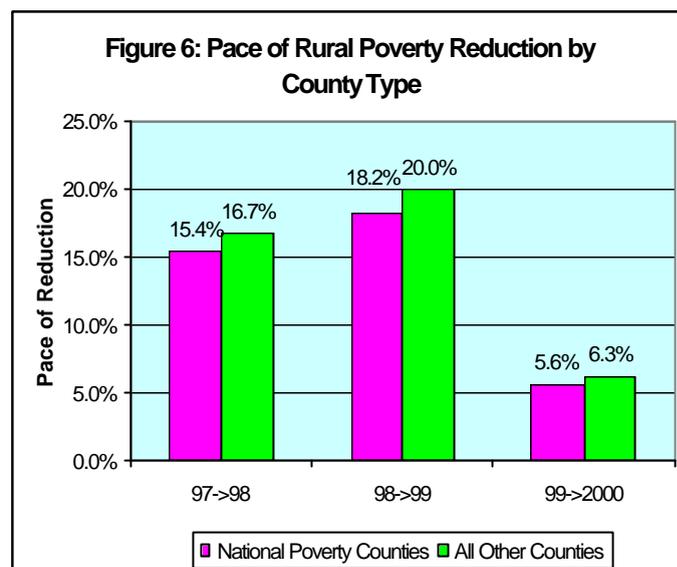
Year	Yuan - million (current)	Yuan - million (constant 1997 prices)	USD Million (current)	Per cent of GDP	Per cent of Government Expenditure
1994	9,790	12,722	1,180	0.21-	1.69%
2000	26,500	27,180	3,193	0.30-	1.67%
				%	%

* Government expenditure is taken from the NBS China Statistical Year Book

As shown in Figure 4, the increased effort and sharpened policies in Stage 3 resulted in a more regular and impressive annual reduction in the number of rural poor, when compared to Stage 2. In several of the Stage 3 years, annual reductions were around 8 million. The annual reduction in the final year was disappointing, however. Unlike the previous stage, there was no year-on-year absolute increase in the number of rural poverty. By the end of 2000 the number of rural poor had dropped to 32.1 million. This represents an average annual decline in rural poverty of 6.1 million and a marked increase in the pace of poverty reduction to an average lessening of 11.4% per annum compound.



Source: NBS. 2001. *Poverty Monitoring Report of Rural China*. Beijing: China Statistics Press.



Source: NBS. 2001. *Poverty Monitoring Report of Rural China*. Beijing: China Statistics Press.

Throughout this third stage, the Government's special poverty programs and preferential policies have, in the main, been targeted at designated "national poverty counties" and the rural poor living therein. The figures reported in the Government's White Paper and in this section cover the reduction of poverty in national poverty counties and all other counties. Figure 5 shows official rural poverty numbers by county type from 1997 through to 2000 – earlier figures were not readily available. Just under half of the rural poor live in counties that have not been classified as national poverty counties. The numbers given for poverty reduction in these two categories of counties raise an important analytical question. For 1997 to 2000, progress with poverty reduction was about the same in rate and absolute number in both categories (see Figure 5 and Figure 6). Yet it was "national poverty counties" that received the bulk of the support provided under the Government's poverty program. Why was poverty reduction equally successful in the non-national poverty counties when they were not specifically targeted by this program? The volume of resources deployed by provinces and lower levels of local government to other counties that they classified as poor does not sufficiently answer this question.

Several factors would have brought this about. Robust economic growth had a major impact on poverty reduction generally, notwithstanding targeting. Probably the targeted effort was subject to evaporation away from the poor in national poverty counties. The poverty afflicting these groups may be more inextricable than that confronted by the poor in non-poverty counties. Furthermore the targeted effort may not have given sufficient emphasis to integrating the poor into existing and new growing markets through improved road networks linking to their villages.

Irrespective of how the official statistics are interpreted, the PRC's overall achievements in reducing poverty have been sustained and dramatic. On the basis of the Government's poverty line, from 1978 to the year 2000, the incidence of poverty amongst the rural population dropped from 30.7% to around 3.4%. This is an exceptionally good performance. During this period macroeconomic performance was also exceptional with the economy growing at 9% per year. The combination of sustained, rapid economic growth, political leadership that gave priority to poverty reduction and targeted poverty reduction programs all contributed to this good performance.

Progress Toward the Millennium Development Goal on Poverty

At the Millennium Summit in September 2000, the world's leaders set eight Millennium Development Goals (MDGs). These eight MDGs represent a specific mission agreed between developed and developing countries to create, in the words of the Millennium Declaration, "an environment at the national and global levels alike which is conducive to development and the elimination of poverty". Together, the MDGs represent a wholesale attack on poverty, its causes and manifestations.

The first MDG is to eradicate extreme poverty and hunger. This generalized statement is reformulated as two specific targets. These are to:

- (i) halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day; and
- (ii) halve, between 1990 and 2015, the proportion of people who suffer from hunger.

There are two indicators that enable an assessment of the PRC's progress to the first MDG, target 1. The first is to extract a headcount over time of the number of rural residents with per capita incomes below US dollar per day, in PPP values. The resulting headcount provides a measure of the PRC's rural poverty compared to that of other nations. As mentioned earlier, the measure is not a substitute for a country's own benchmark for domestic poverty based on actual domestic conditions. It has, however, become an internationally accepted operational measure of poverty. The second indicator is the Government's official poverty line which comprises of the income (cash and kind) necessary to overcome hunger - referred to as the "food poverty line" and an allowance for non-food essential for daily living. This line is about two thirds of the US dollar per day international comparison line.

Table 6 sets out both these indicators for the PRC for the period 1990 to 2000. It is clear that by 1996, the proportion of rural people with incomes less than \$1 a day in 1990 had been halved.

By 1998, the proportion of people suffering from hunger, as measured by the Government's official poverty line which encompasses the cost of a minimum food basket, had dropped to half or less of that observed in 1990. Supporting this reading, the prevalence of underweight children under 5 years of age had, by 1998, been halved from its 1990 level of 21%. However another measure - that of the rural population unable to consume the minimum dietary energy needs - suggests that by 2000 the 1990 incidence of hunger had been cut by one third.

While the PRC can rightly claim very early achievement of the first MDG, what is cause for continued effort on the Government's part is the stalling, after 1997, in the reduction of the proportion of rural people with incomes less than \$1 a day. The same stalling is not evident with progress measured by the domestic poverty line. The reason for this may be that the PRC's success in reducing poverty has helped large numbers of people cross the domestic poverty line which has not flowed through to lifting a similar number of people across the higher international comparison line of \$1 a day.

Table 6: Progress toward Millennium Development Goal 1 Target 1

Year	Rural population (million)	International Measure of Poverty (\$ a day in PPP per capita net rural income)		Domestic Measure of Absolute Poverty (400 CNY in 1993 prices per capita net rural income)		
		Number of rural poor (million)	Incidence of poverty (percent of rural population)	Poverty Line (CNY)	Number of rural poor (million)	Incidence of poverty (percent of rural population)
1990	896	280	31.3	300	89	9.9
1991	905	250	27.6	304	94	10.4
1995	917	188	20.5	530	65	7.1
1996	919	128	13.9	580	58	6.3
1997	915	120	13.1	640	50	5.5
1998	920	110	12.0	635	42	4.6
1999	922	100	10.8	635	34	3.7
2000	928	105	11.3	625	32	3.4

Source: ADB staff compilation from PRC and World Bank statistics.

Looking at the other MDGs (see Table 7), 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

Table 7: 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.	• 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.	• 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.	• 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.	• 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.	• 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.	• 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.	• 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.	• 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.	• 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.	• 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	• 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	• 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	• 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	• 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

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.

Issue of Consistency of Official Data on Rural Poverty

The official figures quoted in the section above on the extent and pace of rural poverty reduction are drawn from two main sources: (i) the Information Office of the State Council of the PRC's White Paper on *The Development-Oriented Poverty Reduction Program for Rural China, 2001*; and (ii) recent annual editions of NBS's *Poverty Monitoring Report of Rural China*. For the years before 1994, these figures differ from the figures from another official source quoted in a major research report prepared under the auspices of IFPRI by Fan Shenggen, Zhang Linxiu and Zhang Xiaobo on *Growth, Inequality and Poverty in Rural China: The Role of Public Investment, 2002*. These researchers took their data from various annual reports of the *China Agricultural Development Report*. They developed a sophisticated model for quantifying the effect of different development inputs on poverty reduction and other key indicators of progress. They built the poverty reduction part of their model on data disaggregated to provincial level for the seven years 1985-1989, 1991 and 1996. The official figures they quote for total rural poverty numbers in each of those seven years are compared in Table 8 with the White Paper and NBS data.

In three of the seven years shown in Table 8 there is approximately a 15% difference in the rate of year-on-year poverty reduction between the two sets of figures. Fan, Zhang and Zhang were acutely aware of the problem of variations in data and so they cross-checked their conclusions using yet another set of alternate poverty figures derived by A. R. Khan. Their conclusions were sustained, but they note that the trends in Khan's figures reflected those of the figures they were using. The same may not be true of the two sets of figures in Table 8. Such data differences raise a reliability risk when deriving econometric models to analyze poverty reduction sensitivities.

Table 8: Variation in Official Data on Poverty Reduction

Year	Number below Official Rural Poverty Line			
	China Agriculture Development Reports		White Paper and NBS China Rural Poverty Monitoring and Evaluation Reports	
	Million Rural Persons	% Decrease over Previous Year or Previous Entry in Table	Million Rural Persons	% Decrease over Previous Year or Previous Entry in Table
1985	96	-12.9	125	2.3
1986	97	-1.0	131	-4.8
1987	91	6.2	122	6.9
1988	86	5.5	96	21.3
1989	103	-19.8	102	-6.3
▼	▼		▼	
1991	95	7.8	83	18.6
▼	▼		▼	
1996	58	38.9	58	30.1
1985 to 1996		39.6		53.6

Alternative Views on the Extent of Rural Poverty Reduction

Several donors and researchers consider the official figures understate poverty because the national poverty line is too severe. For instance, Khan and Riskin take issue with the NBS over the appropriate components of net income of rural households.¹³ They also argue that the CPI used by NBS to adjust the real value of the poverty line over time tends to overestimate poverty reduction. In calculating their poverty line, Khan and Riskin closely mirrored the NBS methodology with two refinements. The value of the minimum food package was calculated using the estimated actual cost of food energy consumed by the observed rural income group closest to the poverty threshold. This allowed for consumer preference. The proportion allowed for non-food expenditure was also based on the consumption pattern of the observed rural income group closest to the poverty threshold, although

¹³ Khan, R. Azizur, and Carl Riskin. 2001. *Inequality and Poverty in China in the Age of Globalization*. New York. Oxford University Press. Part of this research was funded by the ADB.

judgments had to be made about which assumptions to apply. One set of assumptions produced a figure that they regard as the threshold for extreme poverty. Another produced a higher figure that, for them, set the threshold for broad poverty. They also set an intermediate threshold marking what they called deep poverty.

Table 9: Khan and Riskin Poverty Lines (RMB)

Type of Poverty Line (all income-based)	1988 RMB	1995 RMB	2000 RMB
Official Poverty Line	250	530	625
Extreme Unadjusted	368	810	955
Deep Unadjusted	412	926	1,092
Broad Unadjusted	526	1,157	1,364

Note the 1988 figure for the monetary value of the Official Poverty Line has been read approximately from a NBS graph.

Table 9 sets out the Khan and Riskin calculations for 1988 and 1995. Unadjusted means that they have used the same CPI deflator as NBS. To add a contemporary perspective to the Table, the calculations have been extrapolated forward to 2000 values by using the same CPI deflator as NBS.

The application of their poverty lines both unadjusted and adjusted by what Khan and Riskin conclude to be a more appropriate CPI deflator for the years 1988 and 1995 produces the figures shown in Table 10.

Even taking Khan and Riskin's lowest poverty threshold - that is for what they term as extreme poverty - their estimate of poverty numbers in 1995 is 70% higher than the official figure. More challenging than this is their estimates of progress in rural poverty reduction between 1988 and 1995. The official statistics show a reduction of 32% over this period. However Khan and Riskin, after adjusting for their alternative CPI deflator, find that the rural poverty reduction between 1988 and 1995 was only 17% - a little more than half of the official NBS figure.

As mentioned earlier, NBS has recently derived a second rural poverty line that it uses solely for diagnostic purpose. The official description of this line is that it encompasses both the rural absolute poor and the low income people. NBS did this as an exercise totally separate from its responsibility of updating the original poverty line each year so as to maintain its real value in current prices. The NBS calculation of a separate diagnostic rural "poverty and low income" line took a similar approach to Khan and Riskin by allowing for more current consumer preferences in the composition of the minimum food basket, on the basis of consumption patterns of the bottom 25% (by income) of rural households. This diagnostic line equals 865 yuan per capita net income in year 2000 prices (869 yuan in year 2002 prices). The results of applying this diagnostic line for 1998, 1999 and 2000 are set out in Table 11.

Table 10: Official Figures compared to Khan and Riskin Estimates

Item	Official Figures	Khan and Riskin Estimates and Extrapolations therefrom*					
		Extreme unadjusted	Extreme adjusted for CPI	Deep unadjusted	Deep adjusted for CPI	Broad unadjusted	Broad adjusted for CPI
1. Rural Poverty Incidence %							
1988	11.1	16.9	15.5	22.6	20.9	35.1	32.7
1995	7.1	12.1	12.1	17.4	17.4	28.6	28.6
2. Numbers in Poverty (million)							
1988	96.0	146.2	134.1	195.5	180.8	303.6	282.8
1995	65.4	111.5	111.5	160.3	160.3	263.4	263.4
3. Percent Poverty Reduction							
Between 1988 and 1995	31.9%	23.7%	16.9%	18.0%	11.3%	13.2%	6.8%

Source: Khan, R. Azizur, and Carl Riskin. 2001. *Inequality and Poverty in China in the Age of Globalization*. New York. Oxford University Press.

Note *: The conversion to numbers in poverty has been extrapolated from Khan and Riskin's estimates of incidence (which they term as the "head count index").

Table 11: Rural Poverty Numbers under Official and NBS Diagnostic Lines Compared

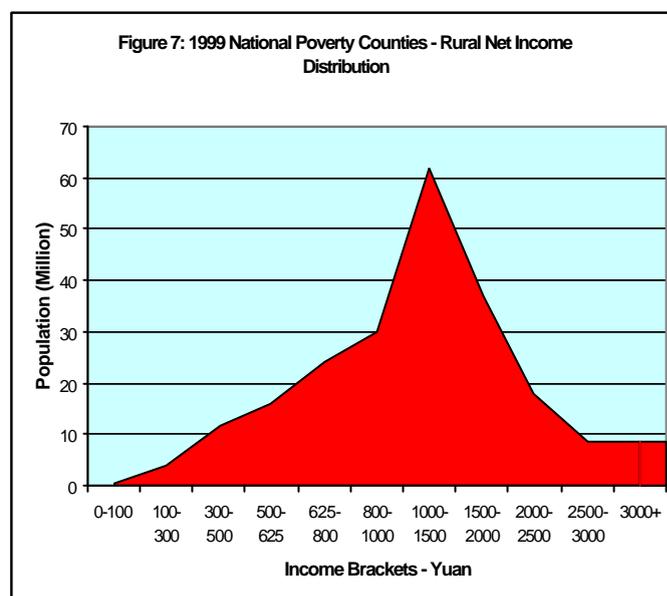
	Item	1998	1999	2000
Poverty Line (RMB)	Official	635	635	625
	Diagnostic (% of Official line)*	880 (138%)	865 (136%)	865 (136%)
Poor Headcount (millions)	Official	42.1	34.0	32.1
	Diagnostic (% Official count)*	86.6 (201%)	90.0 (265%)	93.2 (311%)
Rural Poverty Incidence	Official	4.6	3.7	3.4
	Diagnostic (% Official rate)*	9.5 (207%)	9.8 (265%)	10.1 (289%)

Source: Hussain, Athar. 2001. *Poverty Profile and Social Security in China*. Draft Report. London. Asia Research Center, London School of Economics
 Note: * The official description of this line is that those rural people below it are either absolutely poor or suffer low incomes.

Table 11 not only adds weight to the view that the official head count of rural poverty may be understated, but shows clearly that a small upward change in the poverty line results in massive increases in the poverty headcount and the incidence of poverty. For instance, the diagnostic line for the period 1998-2000 results in poverty incidences between double and triple that reported under the official poverty line. This fact results from the pattern of income distribution among the not so rich, the low income poor and the absolute poor in rural PRC. Figure 7, taken from the NBS monitoring report on rural poverty, depicts the pattern of net income distribution among the rural population in national poverty counties in 1999 - see Footnote 12. As can be seen in Figure 7, immediately above the official poverty line of 625 yuan, the numbers in the next three income brackets (625-800, 800-1000, and 1000-1500 yuan per capita) rise at an accelerating rate, before dropping off in the 1500-2000 yuan bracket.

While there is considerable debate about where to set an absolute poverty line for the PRC, a separate debate is occurring between officials, practitioners and academics on counting the number of persons who fall below set poverty lines. Martin Ravallion of the World Bank, who specializes in poverty counts, has noted that the measure of per capita welfare using national accounts is considerably higher than that using household income surveys whereas both figures should be broadly equal.¹⁴ He has also noted that the growth rate over time in per capita private consumption derived from national accounts is higher than that reflected in household surveys, therefore widening the gap between the two. As the definition of poverty is based on access to a survival consumption package, the question arises whether

household surveys understate consumption, and therefore possibly overstate the numbers in poverty subject to income distribution patterns, or whether national accounts overstate consumption. Reality may be a mix of both.



Source: NBS. 2000. *Poverty Monitoring Report of Rural China*. Beijing: China Statistics Press.

Angus Deaton of Princeton University, another regular contributor to the poverty count debate, is also concerned that the divergence between private consumption measured in national accounts and household surveys raises doubts about statistics on poverty. His own research, and that of others, gives cause for caution in deriving poverty counts from household surveys.¹⁵

¹⁴ Ravallion, Martin. 2001. *Measuring Aggregate Welfare in Developing Countries. How Well Do National Accounts and Surveys Agree?* Washington, DC.: World Bank.

¹⁵ Deaton, Angus. 2000. *Counting the world's poor: problems and possible solutions*. Paper of the Research Program in Development Studies, Princeton University, New Jersey.

Coverage, reporting periods, and the relative variability of consumption versus income data all impact the analysis of poverty. For instance, there is considerable evidence that respondents recall higher levels of personal expenditure if asked to report on the last seven days, as compared to reporting on the last month, or the whole year. Thus if household surveys were to reduce the reporting period, the numbers of households below the set poverty line would most likely drop simply because of a change in survey methodology.

LOCATION OF THE RURAL POOR

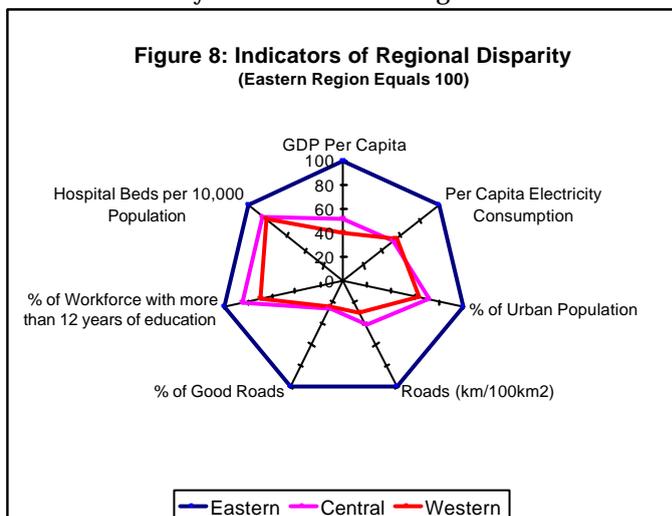
Over the period under review, rural poverty has become more concentrated in the remote, minority, and border areas especially in the central and western regions. Many of these areas suffer from difficult environmental conditions, either through high altitude, poor soils (as in Karst country), degraded grasslands, desertification and terrain given to landslides and large-scale erosion. In 1999, the incidence of poverty (official definition) among the rural population was 7.3% in the western region (16 million people), 3.9% in the central region (13 million people), and only 1.3% in the eastern coastal region (5 million people). The areas most affected by environmental degradation and consequential rural poverty are the north western and south western provinces, followed by the central mountainous regions. As well as environmental disadvantages, these remaining poverty areas suffer from infrastructure deficiencies, particularly a shortage of roads and water storage facilities, poor health and education services, low agricultural productivity, rudimentary agricultural markets, and under-developed non-agricultural industries. The fact that many of the remaining poor live in border areas suggests that enhanced regional co-operation with neighboring countries would be an effective weapon in the PRC's ongoing war against poverty. The poor living in the border areas should be able to capitalize on some of the economic opportunities created by increased cross border trade and economic cooperation.

Concentration of Rural Poverty in Western PRC

Growing Disparities in Regional Living Standards:

Within the PRC, not all regions have benefited equally from the exceptionally rapid economic growth of the last two decades - see Figure 8. The coastal region grew faster than the rest of the country. Also, the central parts of the country grew more rapidly than the western regions. As a result, there have been growing disparities in regional living standards. Per capita GDP in western PRC is about two-thirds of the national average and only one-third of that in the coastal region. In a particularly striking

contrast, the average per capita income in Guizhou province in 1999 was only 8% of that of Shanghai.



Source: ADB. 2003. *Country Strategy and Program (2004-2006). The People's Republic of China*. Manila.

The regional disparities are also reflected in other socio-economic indicators. There is a wide gap in the development of physical infrastructure - roads; rail; power; telecommunications and water supply - between the western regions and the rest of the country. Primary school enrollment is close to 100% in coastal and central PRC, but is only 95% in the western provinces. The number of medical personnel per capita is lower in the western PRC than in the rest of the country. There are major ecological problems in the interior provinces such as desertification, erosion and a chronic lack of water in some areas. Several of these disparities and more are captured in Figure 8.

Rural Poverty is Concentrated in Western PRC:

Although rural poverty has declined in all provinces, the reduction of the poor has been uneven across regions (see Figure 9). The number of rural poor for the country as a whole decreased by an average annual compound rate of 9.3% from 1992 to 1997 and by 13.5% per annum compound from 1997 to 2000. On a regional basis, the fastest rate of decline occurred in the east - 16.9% per annum compound between 1992 and 1999. The slowest rate of decline for the same period was found in the central provinces - 8.9% per annum. The number of rural poor in the western region declined at an intermediate rate of 11.3% per annum for 1992-1999 (see Figure 9). As the result of the differential rates of change, the regional distribution of the poor rural population also changed. The proportion of poor people living in the eastern region decreased from 23.2% to 15% from 1992 to 1999 while the proportion of central and western regions increased from 31.1%

Table 12: Regional Concentration of Rural Poverty

Province	Counties and Prefectures	Poverty Counties			1995 HDI Rank	1999 GDP Per Capita Yuan	1999 Rural H/hold Consumption per capita ^a Yuan	1999 Rural Household per capita net income ^b Yuan	1996 Rural Population		1999 Rural Population		1990 Rural Poverty Incidence	1993 Rural Poverty Incidence	1996 Rural Poverty Incidence	1999 Rural Poverty Incidence
		National	% to Total	Others					Million	Million	Million	Million				
National	2,477	592	100	251	6,534	1,864	2,210	99.4	580	922	34	11.6	8.2	6.3	3.7	
Eastern PRC	775	105	18	95	19,846	2,290	2,994	374.5	7.3	375	5	0.2	0.6	-	1.3	
Beijing	8	0	0	0	10,797	3,092	4,227	3.7	-	4	-	1.8	0.6	-	-	
Fujian	70	8	1	4	11,728	3,425	3,091	26.4	0.1	27	-	0.9	1.1	0.4	-	
Guangdong	100	3	1	25	4,148	2,443	3,629	57.5	0.1	58	-	15.4	7.8	0.2	-	
Guangxi	96	28	5	21	6,383	1,422	2,048	39.0	2.5	40	-	3.3	4.7	6.4	-	
Hainan	19	5	1	5	6,932	2,302	2,087	4.8	0.4	5	-	13.0	4.7	8.3	-	
Hebei	149	39	7	7	6,341	1,697	2,442	53.2	2.1	53	-	3.4	13.8	3.9	-	
Jiangsu	77	0	0	13	10,086	2,557	3,495	53.1	0.1	52	-	8.0	2.4	0.2	-	
Liaoning	58	9	2	7	8,673	2,125	2,501	22.2	0.6	23	-	6.8	3.9	2.7	-	
Shandong	112	10	2	8	30,805	2,033	2,550	71.0	1.4	70	-	0.0	5.8	2.0	-	
Shanghai	6	0	0	0	15,976	5,486	5,409	3.8	-	4	-	0.4	0.2	-	-	
Tianjin	5	0	0	0	2,779	3,044	3,411	3.9	-	4	-	2.0	0.1	-	-	
Zhejiang	75	3	1	5	12,037	2,779	3,948	35.9	-	36	-	3.5	3.5	-	-	
Central PRC	834	180	30	87	4,707	1,655	2,068	322.6	11.7	323	13	7.7	8.6	2.8	3.9	
Anhui	83	17	3	5	7,660	1,926	1,900	49.8	1.4	50	-	18.3	5.2	6.5	-	
Heilongjiang	80	11	2	3	4,894	1,761	2,166	18.4	1.2	19	-	16.5	12.6	4.3	-	
Henan	133	28	5	6	6,514	1,353	1,948	77.5	3.3	77	-	6.0	6.2	2.7	-	
Hubei	80	25	4	14	5,105	1,836	2,217	40.3	1.1	40	-	6.2	3.1	1.5	-	
Hunan	104	10	2	20	4,661	1,908	2,127	53.2	0.8	54	-	5.0	3.2	0.6	-	
Jiangxi	95	18	3	0	6,341	1,673	2,129	32.0	0.2	32	-	12.2	6.2	4.9	-	
Jilin	50	5	1	5	1,112	1,564	2,261	14.4	0.7	14	-	17.4	11.9	7.5	-	
Shanxi	112	35	6	15	3,668	1,122	1,773	22.8	1.7	23	-	34.2	26.2	22.8	-	
Western PRC	868	307	52	69	2,475	1,452	1,580	222.3	31.2	225	16	17.8	21.9	12.8	7.3	
Chongqing	90	41	7	12	5,350	969	1,357	19.7	4.5	20	-	23.5	10.8	9.2	-	
Guizhou	89	48	8	0	4,473	1,118	1,363	29.8	3.8	31	-	18.9	16.8	18.4	-	
Inner Mongolia	97	31	5	19	4,662	1,686	2,003	14.2	1.3	14	-	20.3	19.2	17.4	-	
Ningxia	23	8	1	0	4,101	1,314	1,754	3.7	0.7	4	-	11.2	10.1	6.9	-	
Qinghai	47	14	2	0	4,466	1,304	1,467	3.3	0.6	3	-	-	6.0	9.6	-	
Shaanxi	100	50	8	0	1,879	1,225	1,456	27.5	4.8	28	-	18.7	14.1	27.4	-	
Sichuan (old) ^c	195	43	7	35	4,262	1,527	1,816	93.9	6.5	94	-	19.0	23.8	23.0	-	
Tibet	84	5	1	0	6,470	997	1,309	2.1	0.2	2	-	-	-	-	-	
Xinjiang	100	25	4	5	4,452	1,879	1,473	8.8	2.4	9	-	18.7	14.1	27.4	-	
Yunnan	140	73	12	17	1,961	1,961	1,438	33.5	7.7	34	-	19.0	23.8	23.0	-	

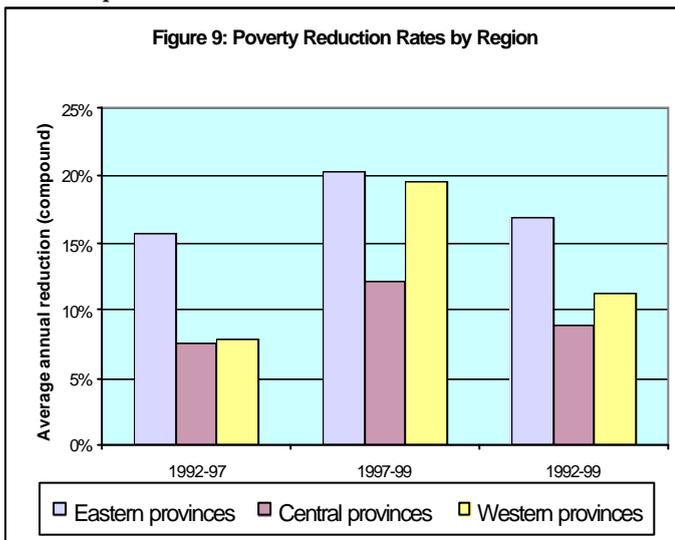
^a Derived from the PRC's National Accounts reported in the China Statistical Yearbooks.

^b Derived from Rural Household Surveys.

^c In 1997, Chongqing was separated from Sichuan. Ten national and 8 municipal poverty counties are currently located in Chongqing Municipality.

Sources: ADB staff compilation, UNDP, 1997. China Human Development Report, New York, and NBS.

to 38.3% and from 45.7 to 46.6% respectively. As of 1999 just under half of the PRC's absolute poor lived in the western region. Recent information suggests that this may now be over half due to the devastating effect of drought in those provinces during 2000. Overall, the incidence of rural poverty remains highest in the western provinces, followed by central provinces and is the lowest in the eastern provinces.



Sources: NBS. 1998. *Marked Achievement Made in Poverty Reduction in Rural China. Market and Demographic Analysis* Vol.4, No.6; and Wang Pinpin. 1999. *Can China Escape Poverty by the End of the Century?* Beijing. Also NBS. 2000. op. cit.

The Rural Poor in the Mountains: While there is a clear regional pattern in the distribution of rural poverty, within the regions, about 51% of the poor live in mountainous areas. Specific mention should be made of: the Luliang Mountains of the drought-stricken Loess Plateau of Shanxi; the Taihang Mountains of Hebei and Shanxi; the Qinling Daba Mountains of Shaanxi, Hubei, Sichuan, and Guizhou; the Wuling Mountains of Hunan, Hubei, Sichuan, and Guizhou; the Yimeng Mountains of Shandong; the Dabie Mountains of Anhui, Hubei, and Henan; the southwest Karst areas of the Jinggang Mountains of Jiangxi, the Wumen Mountains of Yunnan, Guizhou, and Sichuan, the Hengduan Mountains of Yunnan, and the Jiuwan Mountains of Guizhou and Guangxi; and the mountains of Tibet. The elements of livelihood are particularly severe in these high lands.

TYPES OF RURAL POOR

A Classification of Types Based on the Causes of Rural Poverty

At a broad conceptual level and at the risk of oversimplification, people are poor because the quantity and

mix of their livelihood assets are so inadequate that it is very difficult for them to use the structures and processes available in the wider society to improve their lot. Livelihood assets comprise five types of capital: financial, natural, human, physical and social. "Financial" covers income, savings and credit, "natural" covers the natural environment, "human" relates to skill levels and mastery over information, "physical" covers infrastructure, and "social" refers to the networks of people with influence, creative ideas and social resources that can be called on to help the poor. The various patterns of livelihood asset inadequacy in the PRC determine different types of rural poverty. Little systematic work has been done to identify a full range of types or categories of rural poverty in the PRC. However, a number of types are fairly obvious.

A major category of rural poverty in the PRC is where natural capital is inadequate. This occurs when the environment severely limits the human livelihood options of the rural population. This can take several forms. One form is where the resource base available to a community is particularly limited. This could be because of high altitude, steeply sloping land, erosion, desertification, high population pressure on arable land and lack of water for humans, crops and animals. A related type would involve poor quality of available resources. Aspects of this typology include poor quality water, low soil fertility and unfavorable microclimates.

Another category related to environment is where human habitation and natural conditions have launched a vicious cycle of environmental degradation. Common forms of this are removal of forests leading to high soil erosion and poor water retention, desertification, falling of water tables and decline in ground water resources, over grazing, and a progressive increase in the frequency of natural disasters. A separate typology is where access to resources is difficult. This may result from the physical distance between housing and water supplies and also from sustainable supplies of fuel. It may also result from a land tenure system that increases resource inequities between households. Where access to resources depends on traveling considerable distances and carrying heavy loads and conducting heavy agricultural labor, the dependency ratios within households will impact on the distribution of poverty.

The types of poverty listed above primarily relate to natural capital, specifically the environment. The reason for the multitude of such typologies is because the PRC is confronting a major environmental crisis. Much of PRC's arable land is affected by ecological disasters and soil degradation. Droughts affect about 20 million

hectares annually (1.51% of arable land), and cause about one-half of all economic losses attributed to climate. The impacts of climate-induced drought are exacerbated by poor agricultural practices such as excessive grazing. Major floods affect about 6.7 million hectares of farmland each year and periodically cause catastrophic losses of human life and property.

Table 13: Environment and Poverty Summary Table

Type of Environmental Issue	Number of PRC's poor * affected	Impact on the poor as share of total impact	Severity of the impact on affected poor
	Millions	%	% of affected poor's income
Land Degradation			
(i) Aggregated	260	39.2	24.5
(ii) Disaggregated			
Desertification	15	22.6	42.4
Forests	60	56.3	24
Erosion	150	41.2	21
Grasslands	15	55.6	15.8
Salinization	28	55.6	15
Agrochemicals	240	25	2.21
Water resources		30	
(i) Aggregated	260		32.8
(ii) Disaggregated			
Water scarcity	85		55
Water pollution	210		18
Air Pollution			
(i) Aggregated	248	25.8	44
Biodiversity			
(i) Aggregated	270	8.0	5.5
(ii) Disaggregated			
Wetlands	30	16	20
Agro-biodiversity	117	25.4	4.71
Others	270	2.7	1.3
Waste management			
(i) Aggregated	162	25.6	10
Total	270	25	107

* In this Table the rural poor are defined as those with net income per capita less than \$1.25 PPP/day, and the urban poor are based on calculations made in the ADB's report on *Urban Poverty in PRC*.

Source: Van der Tak C.M. 2002. *Study on Poverty and Environment in China*. Report for the Royal Netherlands Embassy in Beijing.

A Study on Poverty and Environment in China completed by Dr. Casper Van der Tak in February 2002 for the Royal Netherlands Embassy in Beijing has contributed to the understanding of these types of poverty by estimating the extent of impact on the poor – both rural and urban – from a variety of natural capital deficiencies. His estimates are set out in Table 13.

In Table 13 Van der Tak uses \$1.25 PPP per day per capita net income as the definition of rural poverty,

which is less severe than the PRC's official poverty line. He examines three dimensions to compare each environmental factor's impact on the poor: (i) severity of impact measured by the per cent of the affected poor's income repressed or lost; the number of poor affected; and the extent to which the impact is concentrated on the poor as opposed to being diluted through other strata of society within the affected geographic area. He concludes that that desertification and water scarcity, where they occur in the PRC, have the most damaging effect on the poor while being highly concentrated on the poor compared to other groups. He ranks erosion, forest degradation, wetlands and water pollution as the next most anti-poor environmental factors. Grassland fragility and soil salinization are ranked next. Biodiversity is ranked low on the anti-poor scale.

Moving back to the general discussion of rural poverty types, another type is that which has resulted from, or is exacerbated by, a change in government policy or by poor governance. The PRC is such a large country that certain macro decisions need to be made to enhance or protect the welfare of the majority of the people. Some of these macro policies may, however, have unintended impoverishing effects on marginal rural communities. The most obvious of these were the ban on logging in the Yangtze headwaters and the conversion of sloping agricultural land back to forests. These policies were adopted in the wake of the disastrous 1998 floods. Various communities at higher altitudes, which were generating above poverty line incomes before these policies were introduced, have experienced a significant drop in income without obvious sustainable income generating substitutes.

Types of rural poverty related to deficiencies in natural capital and also physical capital (lack of physical infrastructure particularly roads) tend to impact whole communities. Other types of rural poverty relate to family-level factors which fall into two broad categories: structural and catastrophic. A common example of family-level structural poverty is that caused by the composition of the household. Here, family size, number of children for whom school fees have to be paid, number of women who have married into the family as opposed to marrying out of the family, and the dependency ratio, are important. By way of explanation, a woman from another village marrying into the family becomes an extra person needing support from the family's right to farm the often small fixed area of land allocated to it by the community. This increase in pressure at the family level is only ameliorated if and when the community decides to redistribute land use

rights to re-establish equitable holdings as between households. Under the new Land Contract Law that came into force in early 2003, however, periodic redistributions will no longer be an option.

Family-level catastrophic poverty is caused by an event that suddenly and sharply drops the cash and non-cash income earning capability of the family. Severe illness, accident followed by permanent disability, death, loss of off-farm employment, and natural disaster can each send and keep a family in poverty.

A further type of rural poverty is that directly related to the disabled. Disability at or post birth is a random phenomenon with no causal connection to the

environment in which the household lives. If the household with a disabled member was not well-off before experiencing disablement, then that household may well have plunged into poverty.

A Classification of Types Based on the Relative Depth of Rural Poverty

The classification discussion so far has focused on the causes of poverty. An alternative approach is to make classifications according to the depth of poverty and low income status. A hypothetical model of what might result from this approach to classifying rural poverty is summarized in Table 14.

Table 14: Hypothetical Model for basing Rural Poverty Categories on Depth of Poverty

Category		Estimated share of the rural population (%)	Estimated number of rural persons in category in 2000 (million)	Appropriate assistance program
Absolute poor (cut-off point Official poverty line)		3%	32	Welfare programs for those who cannot help themselves due to disability, age, or remote location; voluntary resettlement programs.
Relative Poor (cut-off point \$1 a day income based)	a) Vulnerable Poor	5%	45	Preventative health programs, income generating activities, emergency assistance as required from welfare agencies.
	b) Disadvantaged poor	3%	29	Self-help programs especially in the areas of education, health, and housing, and microfinance; rural infrastructure; agro-industry and agricultural programs to stimulate local economies and viable employment; catastrophic health insurance.
\$1 a day consumption based	c) Relative Low income households	11%	100	Similar programs to disadvantaged poor plus small business development, entrepreneurial schemes, increased access to alternative forms of credit including commercial credit; pro-poor growth policies.
Non-Poor		78%	722	Regular equitable development programs of the national and local governments; stable macro-economic environment.

Source: ADB staff and staff consultant drawing on World Bank estimates of \$1 a day.

This approach to classification produces the following types of rural poverty:

- (i) those who are so poor that Government welfare programs will be necessary in the long-term to meet their needs (absolute poor);
- (ii) those whose basic food and clothing needs have been barely met but who are in danger of falling back into poverty were there a medical emergency in the family, natural disaster, or some other unexpected event (the vulnerable poor);
- (iii) those whose basic food and clothing needs have been met but who lack adequate education, health, and housing to ensure quality of life gains (disadvantaged poor);
- (iv) those whose basic food and clothing needs have been met and who have made progress in terms of education, health, and housing to ensure quality of life gains but who continue to struggle to gain access to capital and credit to reach a new level of income and non-income security for their family (low income households); and
- (v) those who have attained new levels of income and non-income security for their family through establishment of sustainable businesses, provision of hitherto unavailable educational opportunities for their children, provision of preventative medical care for family members to ensure that medical emergencies can be weathered, and/or accumulation of savings to tide over emergency situations (formerly poor).

One of the advantages of analyzing and developing categories is that they provide clues on how that particular type of poverty might be addressed. Table 14 includes a column outlining possible approaches to each category of poverty.

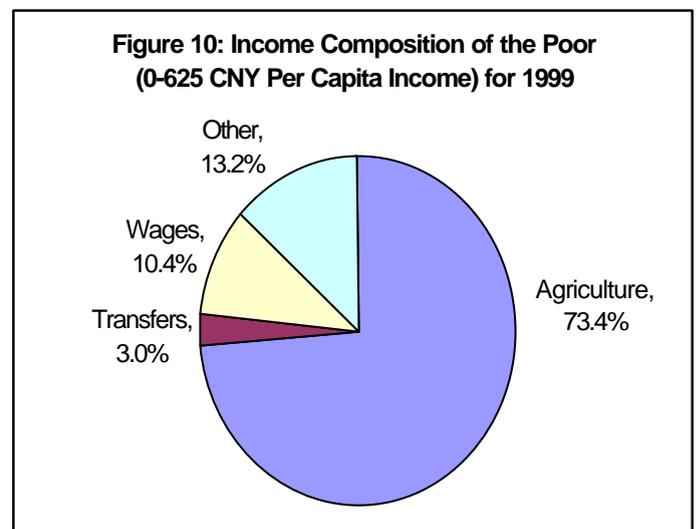
PROFILES OF RURAL POVERTY

Those under the PRC's Official Poverty Line

There are notable differences between poor and non-poor families in the rural areas. Compared to the rural population, the absolute rural poor:

- (i) mostly live in mountainous areas (51.1% of the poor, compared to 24.8% of the non-poor);
- (ii) have more children (69.9% of poor households have more than 5 family members, compared to 36.5% for the non-poor);

- (iii) have less people in the working age (often due to migration and child and other care obligations of the women);
- (iv) are less educated (31.3% of the poor have only primary education level, compared to 16.4% for the non-poor), more illiterate (22.1% of the poor workers are illiterate, compared to 8.9% of the non-poor), have children less likely to be enrolled in school (88.7% compared to 96.9% for the non-poor), and have high school drop-out rates;
- (v) have less diversified agricultural production, and often no additional jobs in village industries or public administration;



Source: NBS, 2000. *China's Rural Poverty Monitoring and Evaluation Report*. Beijing.

- (vi) are much more dependent on agriculture when compared with the average rural household (73.4% of their income is derived from agriculture compared to a national average of 47.6% (see Figure 10 and Figure 11));
- (vii) are 23% more likely to be farm laborers (1.23:1);
- (viii) have 35% less productive assets such as irrigation facilities, rural transport means, electricity for water pumping assets,
- (ix) have 64% less housing space;
- (x) are often disabled or handicapped;
- (xi) are 2.7 times more likely to be ethnic minorities;¹⁶

¹⁶ PRC has 55 minority groups, comprising (in 1990 when the previous population census was held) only 9% of the total population. However, minorities are over-represented among the poor and are the majority in many poverty counties.

Table 15: Characteristics of Rural Poor and Non-Poor by Region (Rural Household Survey 1998)

Characteristic	Non-poor (national average)	Poor* People in:			
		Region 1	Region 2	Region 3	Region 4
Economic Conditions of Rural Households					
Per capita productive fixed asset value (Yuan)	940	412	601	446	1426
Per capita grain production (Kg)	714	266	353	295	865.2
Housing (Sq. meters)	24.2	20.4	16.6	12.3	14.2
Color TV sets (no./100 households)	33.3	39.2	16.5	6.9	25.7
Per capita household productive expenditure (Yuan)	668	259.4	316	274	572
Share of income from family business (%)	76.3	73.5	86.3	87.5	93.2
Of which: share of income from primary industry (%)	65.0	67.3	81.2	79.8	91
Of which: share of income from crop farming (%)	45.0	47.0	57.5	60.0	78.3
Share of labor involved in non-family business (%)	14.9	15.9	8.8	5.1	3.1
Infrastructure					
Villages with access to roads (%)	95.6	90.4	94.2	92.6	88.8
Villages with school (%)	91	72.6	93.2	95.2	90.5
Villages with telephones (%)	79.4	90.2	65	52.4	74.3
Villages with health clinics (%)	85.6	82.4	79.8	65.9	74.3
Villages covered by TV broadcasting (%)	97.4	100	94.8	91.4	96.7
Households accessing to electricity (%)	98.4	100	95.8	91.2	97.2
Households accessing to safe drinking water (%)	73.6	80.2	60.9	40.7	82.7
Demographic structure and quality					
Share of families with over 5 members (%)	36.5	54.9	64.1	70.7	50.8
Share of labor with education level < primary school (%)	16.4	5.9	23.1	41.9	11.7
Labor dependency ratio	1.5	1.42	1.63	1.74	1.52
Share of illiterate labor force (%)	8.9	13.1	13.4	29.5	5.2
Share of in-school children aged 6-11 (%)	88.5	83.3	84.1	80.1	75.4
Share of in-school children aged 12-14 (%)	96.9	90.4	90.9	87.4	92.1
Share of in-school children aged 15-17 (%)	92.1	85.2	82.9	80	86.1
Share of households with insufficient human resources (%)**	2.5	31.4	14.2	14.7	8.9
Natural conditions and natural resources					
% of households living in mountainous areas	24.8	29.9	37.7	69.9	7.5
Per capita land availability (Mu)	2.1	0.66	1.32	1.62	5.89
Grain output per Mu (Kg/Mu)	347	400	268	181	147
% of households with insufficient natural resources(%)***	7.3	66.7	38.5	33.6	3.9

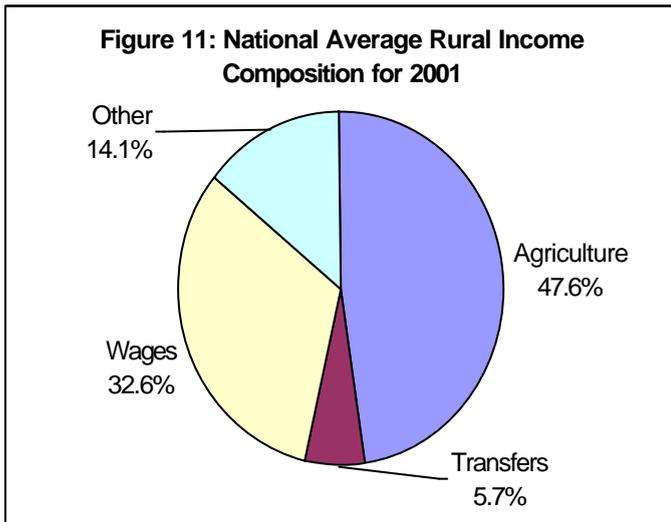
***Region 1:** Beijing, Tianjin, Shanghai, Zhejiang, Jiangsu, Guangdong, Fujian; **Region 2:** Hebei, Shanxi, Liaoning, Anhui, Jiangxi, Shandong, Henan, Hubei, Hunan, Guangxi, Hainan, Chongqing, Sichuan; **Region 3:** Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang; **Region 4:** Inner Mongolia, Jilin, and Heilongjiang. Tibet is excluded.

**Households with insufficient human resources refer to those that have one or more than one of following characteristics: households that have labor-aged members but the members are disabled-bodied; no labor force; female-headed households with no other able-bodied labor; and/or a labor-dependency ratio exceeding 4.

***Households with insufficient natural resources refer to those having following characteristic: per capita sown area less than 1 *mu* in mountainous areas, or less than 0.5 *mu* in plains, or production per *mu* less than 100 Kg.

Source: Wang et al (January 2000).

- (xii) have no remittances from migrant family workers;
- (xiii) carry more debt; and
- (xiv) have less land (1.8 mu compared to 2.1 for the non-poor families) and less good land. As a result, the poor produce less grain (406 kg per capita per year) than the non-poor (714 kg).¹⁷



Source: NBS, 2002. *op. cit.*

In contrast, the rural non-poor are 5.1 times more likely to receive wage and pension income, carry more debt, and work more off-farm.

Characteristics of the Rural Poor by Region

Table 15 provides a comparison of the characteristics of the rural poor, as per the official poverty line, with the rural non-poor based on the 1998 NBS survey of 68,300 rural households. In this Table the provinces are grouped into four, rather than three, regions which are coastal, central, west, and northern. The analysis confirms by sharp distinction with the non-poor, that poverty is often related to environmentally affected areas with lack of infrastructure, to low health and education standards, and to insufficient human resources within the household. The data also cast light on residual poverty. By 1998, progress with poverty reduction in the coastal region was well in advance of the other regions. The profile of the remaining poor in the coastal region with respect to productive expenditure, land availability, sufficiency of human and natural resources, and access to a school in the same village, suggests that Government efforts there are confronting more inextricable poverty than in the other regions.

Because of major infrastructure investments all over the country, poor villages in the same province do not differ much from richer ones in their access to Government-funded infrastructure. Primary education is nearly universal, demonstrating, in part, the success of education programs targeted towards poor areas. About 92.3% of the poor and 95.6% of the non-poor live in villages with road connections. Between 1986 and 1998, the proportion of villages with access to rural roads and rural electricity increased from 83.9% to 97.6% and from 77.8% to 97% respectively.

The progressively more equitable access to infrastructure has not meant that poor rural people make as much use of it as richer households. There are clearly reasons for this difference in behavioral response to available infrastructure. One important reason is variability in the quality of the infrastructure and the services supporting it. Where rural road networks are upgraded and all-weather roads link poor administrative villages to townships, considerable benefits flow to the poor through increased agricultural productivity and off-farm employment generated by the expansion in non-agricultural productivity. Another reason for different responses may relate to policies and practices in imposing fees for the use of this infrastructure – particularly social infrastructure (health and education).

Proxy Profile of Rural Persons with Consumption less than \$1 per day

The World Bank has estimated \$1 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 \$1 a day consumption?

No such profile has been derived from hard data. Fortunately, a proxy exists. The NSB, 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.

¹⁷ Wang, Pinpin. 1999. *Can China Escape Poverty by the End of the Century?* From UNDP. 1998. *op. cit.* citing Khan. 1997. Based on 1995 data.

Table 16: Income and Livelihood Levels per Year 2000 Rural Household Survey

Items	People with Per Capita Living Consumption Expenditure Less than 860 yuan in Year 2000	All Sampled Households In Year 2000	(3)=(1)/(2)
	(1)	(2)	
1. Net Income (Yuan)	1327	2253	0.59
(1) Wage Income	329	702	0.47
From Local Enterprise	67	209	0.32
From Working Outside	136	240	0.56
Others	127	113	1.12
(2) Net Income from Household Business	951	1427	0.67
Planting	596	784	0.76
Animal Husbandry	130	207	0.63
Fishery	7	27	0.28
Others	218	409	0.53
(3) Transfer Income	30	79	0.39
Gifts from Non-Permanent Residents	18	40	0.45
Income from Relief Fund or Subsidies	0.5	0.9	0.55
Others	12	38	0.32
(4) Property Income	17	45	0.38
2. Net Cash Income (Yuan)	814	1649	0.49
3. Grain Yield (Kg)	575	683	0.84
4. Assets (Yuan)			
(1) Per Capita Area of Cultivated Land (Mu)	1.97	1.98	0.99
(2) Per Capita Original Value of Productive Fixed Assets at Year-end (Yuan)	802	1113	0.72
5. Housing Quality			
Per Capita Floor Space of Houses (Sq.m)	17.9	24.8	0.72
Reinforced Concrete Structure	2.2	6.2	0.36
Brick and Wood Structure	9.8	13.6	0.72
Others	5.9	5.0	1.18
6. Engel Coefficient (%)	0.66	0.49	

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.

Table 16 compares a number of livelihood aspects of this wider group of rural poor with the average of all rural households surveyed. The Table shows that the poorer people derived on average half of the net cash income of all sampled households. This was largely due to a much lower level of participation by the poorer group in off-farm wage labor. Also contributing to this difference was the lower returns to agriculture off almost the same size

average holdings of arable land. Poorer quality land and remoteness are probable factors. The data demonstrate that the poorer group commanded only 72% of the productive fixed assets held on average by all households. This can be linked to other data for the poorer group: lower grain yields; 37% less net income derived from animal husbandry; and 72% less income derived from aquaculture, the latter two requiring investment in stock and fixtures. Housing standards are one of the easiest to observe indicators of household welfare. The poorer group was occupying only 36% of the higher quality housing space as the average for all sampled households. Another indicator of the extent of basic survival is the percentage of living expenditure a

Table 17: Topography and Access to Infrastructure Based on Year 2000 NBS Rural Household Survey

Items	People with Per Capita Living Consumption Expenditure Less than 860 yuan (1)	All Sampled Households (2)	Ratio of Item for Category (1) Households to Category (2) Households (1)/(2)
	1. Geographic Characteristics		
(1) Proportion in Villages in Mountainous Area (%)	36	26	1.41
(2) Proportion in Villages in Hilly area (%)	21	30	0.70
(3) Proportion in Villages in Plain area (%)	43	45	0.97
2. Proportion in Minority Villages (%)	25	15	1.70
3. Infrastructure			
(1) Proportion of Villages Connecting to Highway	93	95	0.98
(2) Proportion of villages with Phone	77	87	0.89
(3) Proportion of villages less than 2 Kms Away from the Nearest Primary School	87	86	1.00
(4) Proportion of villages less than 2 Kms Away from the Nearest Clinic	57	65	0.88
(5) Proportion of Households Able to Drink Safe Water	58	65	0.90
(6) Proportion of Villages using electricity	97	98	0.99

household devotes to acquiring food. This indicator is called the Engel coefficient and for the poorer group was 66%, 17 percentage points higher than that of the whole sample.

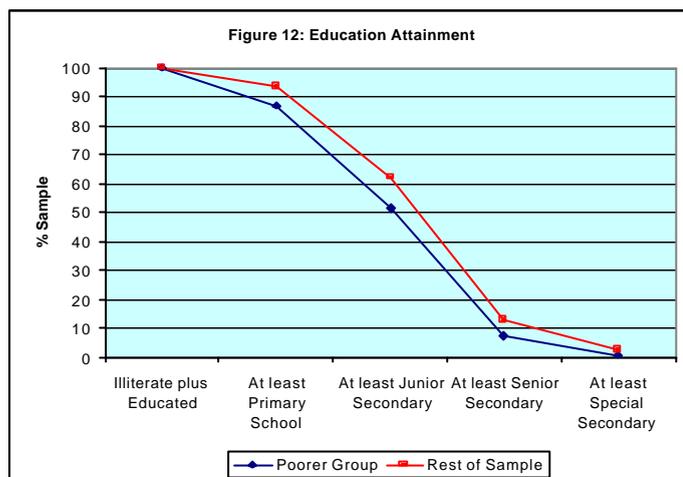
Table 17 provides data indicating that topography and ethnicity are linked to poverty. Over one third (36%) of the poorer group live in mountainous areas whereas only one quarter (26%) of the total sample do so. Similarly one quarter (25%) of the poorer group belong to minority villages whereas for the whole sample only one seventh (15%) do so. Another measure of this ethnicity bias is that the proportion of the poorer group coming from minority villages is double that for the remainder of the respondents in the sample - that is the better-off respondents.

Table 17 also profiles the poorer group with less than 860 yuan per capita consumption expenditure compared with the total sample with respect to access to infrastructure. Policies over the last two five-year plan periods aimed at enlarging domestic demand, and the "8-7" poverty reduction program, have almost removed any distinction between the poorer group and total sample in respect of road connections and electricity supply to their villages. Supply of these two types of infrastructure is approaching total coverage. While there is also very little difference between the two groups in respect of proximity to primary schools, 13 to 14% of the sampled rural population remain more than 2 kms from the nearest such school.

The profiles of the poorer group and the total sample differ

significantly in terms of access to other forms of infrastructure. The proportions of poorer households: (i) able to drink safe water, (ii) located within 2 kms of the nearest health clinic; and (iii) with access to a telephone in the same village are 7, 8 and 10 percentage points lower respectively than those for the whole sample. While the proportion of the poorer group with access to safe drinking water and nearby clinics is relatively low, it is also absolutely low - being only 58 and 57% respectively.

Table 18 profiles social and employment dimensions of the poorer group compared with the whole sample. The proportion of females in the poorer group is marginally higher (0.7 percentage points) than evident in the total sample suggesting a gender bias in the impact of poverty. A more prominent difference is the level of education attained by respondents. Figure 12 highlights this difference by comparing the poorer group with the rest of the sample - the better-off rural people. In Figure 12, the distribution curve of educational achievement for the better-off group is consistently higher than that for the poorer group. Compared to the better-off majority, the poorer group suffers from almost double the incidence of illiteracy or semi-literacy, has little more than half the proportion of people who have completed senior high school and only one third the proportion of those who have completed special secondary schools and/or above. Furthermore, 9% of the children of the poorer group aged between 7 and 15 are not enrolled at schools.



Source: Derived from Year 2000 Rural Household Survey

This is almost double the same age non-enrollees from the better-off group. Table 18 also profiles the employment patterns of the poorer group compared to

the whole sample. Consistent with data on sources of income, the predominance of agricultural employment among the poorer group is almost 10% higher than for the whole sample. The whole sample, compared to the poorer group, has double the proportion of persons engaged in industry and 64% more proportionately engaged in services. From the Year 2000 rural household survey, it is clear that greater access to off-farm employment is associated with reduced incidence of poverty.

The additional interrogation of the Year 2000 rural household survey sponsored by the ADB has also resulted in detailed data for each province on the income, access to infrastructure and social development characteristics of the poorer group compared to the total sample. These are set out in Appendix 1 at the end of this book. In general, these data show that differences between the poorer group and the whole sample are more marked in the western region.

Table 18: Composition of Gender, Education Attainment, and Employment (%) per Year 2000 Rural Household Survey

Items	People with Per Capita Living Consumption Expenditure Less than 860 yuan (1)	All Sampled Households (2)	(3)=(1)/(2)
1. Gender			
(1) Male	51	52	0.99
(2) Female	49	48	1.01
2. Education Attainment			
(1) Special Secondary School & Above	1	2	0.46
(2) Senior Middle School	6	9	0.67
(3) Junior Middle School	44	48	0.92
(4) Primary School	35	32	1.09
(5) Illiterate or Semi-illiterate	13	8	1.61
Enrollment rate of Children Aged 7-15	91	94	0.96
3. Employment			
(1) Agriculture	85	76	1.12
(2) Industry	4	8	0.52
(3) Construction	3	3	0.85
(4) Tertiary Industry	8	13	0.64

THE FIGHT AGAINST RURAL POVERTY

MACROECONOMIC IMPACTS

OVERVIEW

The pace and pattern of macro economic growth determine: (i) how much of that growth is passed on to households as increased personal income, and (ii) how the increase in personal income is distributed. It is changes in the level of personal income and its distribution that impact the incidence of poverty. High rates of economic growth do not automatically guarantee high rates of poverty reduction. There are complex chains of relationships and variables that translate economic growth into personal income increase and its distribution. What economic growth does do is provide the fundamental resource or opportunity for a country to reduce its poverty.

Given the PRC's recent growth rates and its pattern of intricate linkages between sectors/subsectors of the economy and the spatial pattern of development in each sector, the World Bank has calculated that for every 1% growth in gross domestic product (GDP) rural poverty declines by around 0.8%. The question that Khan and Riskin raise is how much greater could this decline be if there is a change in the share of economic growth going to personal incomes as opposed to capital accumulation.¹⁸ Both the World Bank and Khan and Riskin agree that the mechanisms linking poverty reduction and growth require deeper analysis. Areas for such analysis include: (i) the regional dimensions of growth; (ii) the sectoral composition of growth; (iii) the sources of growth and the type of household beneficiaries; and (iv) the implications of growth for income distribution.

What is particularly positive in the PRC is the commitment of the Government up to the very highest level to reduce poverty. This commitment translates into the disciplined effort and policy analysis that has gone into assessing the nature of poverty and the dynamics of its reduction. It translates also into the extent of Government resources allocated to fighting poverty. This Governmental drive has been supported by a culture of self-help in society at large. The rural poor have responded actively and creatively to new market opportunities. Gone are the days of travel permits. Gradually increasing labor mobility has provided many rural poor households with the chance to access higher levels of income through migrant labor. Informal social safety nets based on the family and village committee provide some protection against the risks associated with poverty.

In the last two decades the PRC was the fastest growing economy in the world. The average annual growth rate of GDP between 1995 and 2000 was 8.6%. In 2001

real GDP increased by 7.3% over the previous year and 2002 has posted an increase of 8%. The outlook for the medium term (2003-2005) is similarly positive with expected robust economic growth of around 7% per annum. This rapid economic growth has been skewed towards the eastern and coastal regions. The high pace of growth between 1978 and 2000 in the eastern provinces was accompanied by a 31.1% reduction in poverty therein, whereas relatively high growth rates of 10.8 and 8.7% in the PRC's northwestern and southwestern provinces were complemented by poverty reductions of only 4.5 and 1.2% respectively.

Rural-urban income disparity has increased over time. The ratio of rural per capita annual income to urban per capita disposable income was 53.8% in 1985, dropping to 37.8% in 1999. The rural-urban disparity has been a major source of regional income inequality since 1978 and has contributed more than half of the momentum to regional income inequality. Income distribution within rural areas is more unequal than within urban areas. The income of farmers is mainly decided by their own production supplemented by off-farm income whereas urban residents have incomes distributed according to a set hierarchy of salaries in industry. Recent growth in the urban private sector is modulating this set salary hierarchy, however.

While farmers' incomes depend largely on their own production, the real price of agricultural products is a major factor affecting the ease with which lower income rural families can escape poverty. Real farm prices began falling in 1993 and in the period 1996 to 2000 agricultural product prices fell by more than 25%. As the bulk of rural income for poor farmers derives from agricultural activity (73.4% in 1999), a decline in relative agricultural prices has had a negative impact on poverty reduction. This general point has been confirmed by specific case study research. Downward pressure on commodity prices will continue with the PRC's accession

¹⁸ Khan, A.R., and C. Riskin. 2001. *op. cit.*

to the World Trade Organization. The prices of some commodities in the PRC exceed the corresponding price on the world market. Increased imports and the dismantling of trade barriers will tend to reduce these prices, and thus also reduce farm incomes.

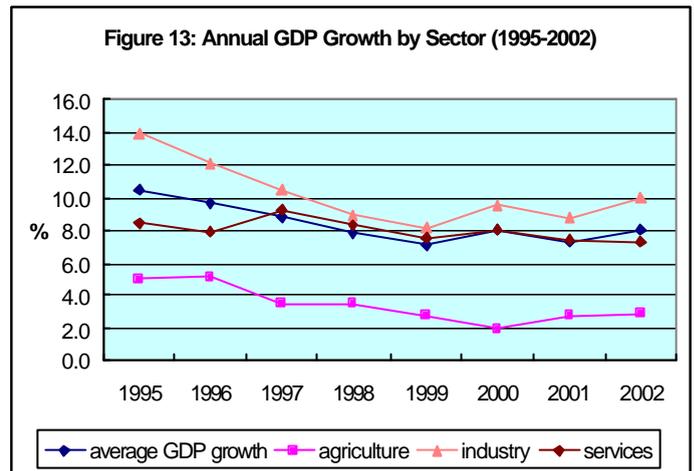
Official data on unemployment published by the NBS do not cover rural areas, which account for 70% of the labor force. However, there is substantial underemployment in rural areas. Unofficial sources estimate that about 100 million, about a quarter of the rural labor force, are underemployed. With the deepening of market-oriented reforms, income growth in rural areas will increasingly depend on an increase of employment in non-agricultural sectors. Non-farm employment incomes accounted for about a quarter of all farmers' income in poor areas. Changes in employment patterns, especially in the availability of nonagricultural jobs to farmers, significantly influenced the rate of poverty reduction.

**PRO-POOR ECONOMIC GROWTH
SUSTAINABLE AND RAPID GROWTH
INCREASED PER CAPITA INCOME**

Economic growth in the PRC has been broad based among all sectors, with the industrial sector, both in the cities and in the rural areas, taking the lead. Between 1995 and 2000, the growth of industrial output averaged 10.5% per annum. Growth in the services sector averaged 8.2%. The agriculture sector, in which more than half the workforce are employed, grew at a lower rate - at an average of 3.7% annually - see Figure 13.

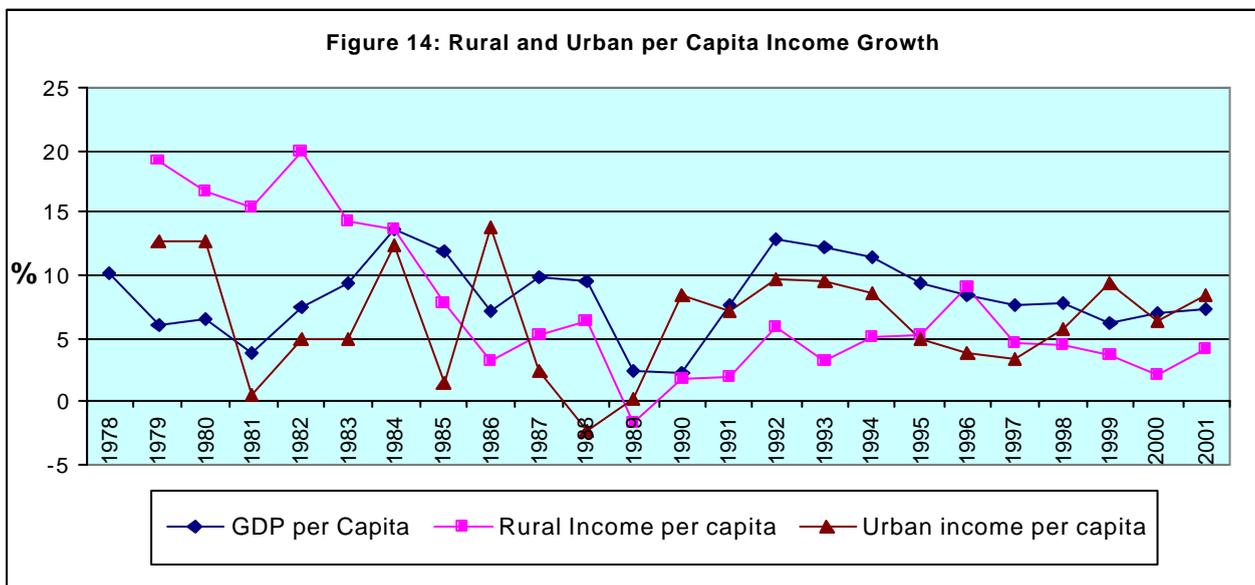
Taking a longer view, GDP growth averaged 8.3% between 1978 and 2000. Real GDP per capita in constant 2000 values increased from 1,267 yuan in 1978 to 7,078 yuan

in 2000. That means that, in real terms, GDP per capita increased between five and six times over this 22 year period. This enormous growth generated additional national income to be apportioned to various segments of society. Government, entities with corporate identity, rural communities and urban populations are the main claimants on national income.

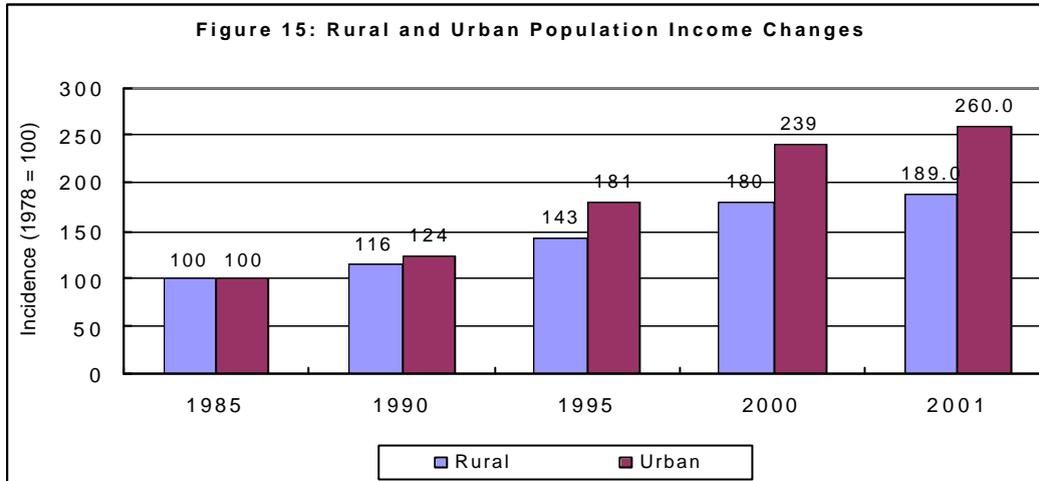


Source: ADB. 2000. *Country Economic Review*. Manila and NBS data for 2002

Figure 14 draws on NBS data to compare the year-on-year rate of growth of rural per capita income and urban per capita income and relate that to GDP growth over the same 22 year period plus 2001. It is realistic to divide the comparison of rural and urban income growth into two time slices. The first is from 1975 to 1985 which marks the time when the communes were progressively dismantled. Here the trend line for rural per capita income growth stays consistently above that of urban per capita income growth. From 1986 to 2001 with brief exceptions, the rural trend line is generally several percentage points below its urban counterpart.



Source: NBS 2002 data and *China Development Report 1998*.



Source: NBS, 2001 and 2002. *China Statistical Year Book*. Beijing: China Statistics Press.

Figure 15 demonstrates the point that since the initial flow of benefits to farmers caused by the replacement of the communes with household use rights over land, the rural population has benefited less from growth than their urban brethren. When real per capita incomes of the rural and urban populations are both indexed to 100 in 1985, then it is clear that by 2001 the rural population was only 1.9 times richer, whereas the urban population was 2.6 times richer. The same point is evidenced in Table 19 where the ratio of rural to urban per capita net income has been declining over time. In other words the urban rural gap has been increasing. Broadly speaking, in 1985 rural per capita net income was half that of the urban population. By 2002, it had dropped to 28%.

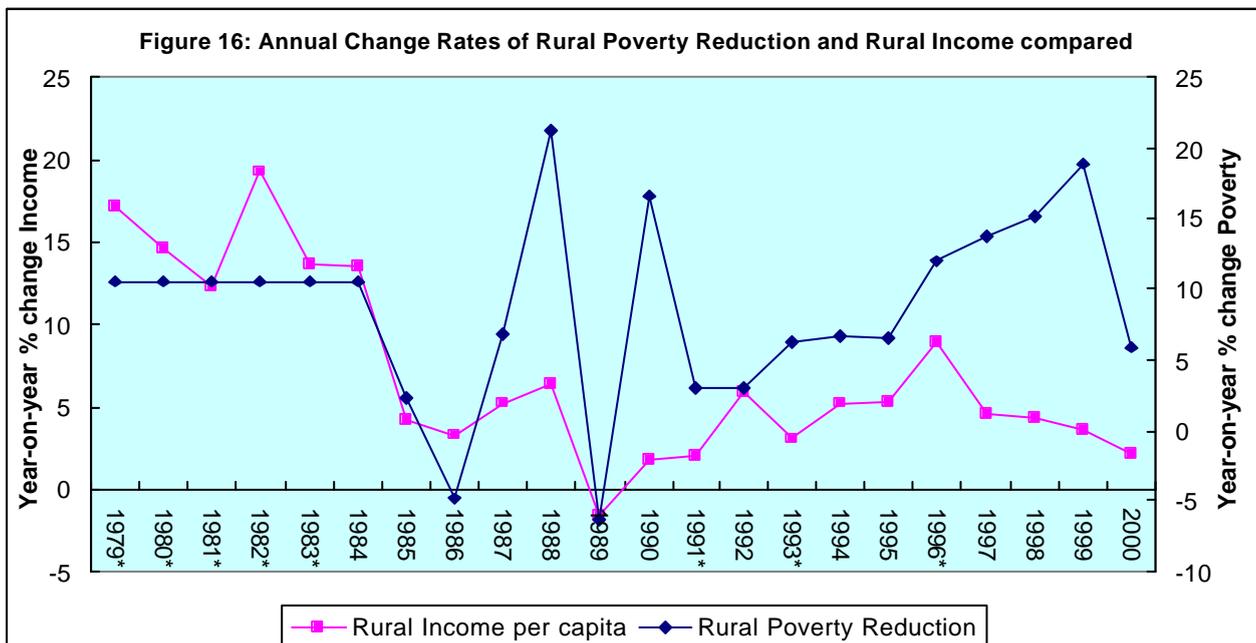
for poverty reduction from 1978 to 1983 are averaged over the period because of a lack of yearly information. This is reflected by the horizontal line. While the trend line for changes in the rate of rural poverty reduction oscillates more widely than that for rural per capita income growth, there is clearly a correlation between the two trends.

Table 19: Changes of Annual per Capita Net Income in Rural and Urban Areas

	1985	1990	1995	2000	2001	2002 1st half
Rural	397.6	686.3	1,577.7	2,253.4	2,366.0	1,123
Urban	739.1	1,510.2	4,283.0	6,280.0	6,860.0	3,942
Rural to urban	53.8%	45.4%	36.8%	35.9%	34.5%	28.5%

Source: NBS, 2001 & 2002. *op. cit.* and *Peoples Daily* 2003. 9 January.

In Figure 16, the fluctuation in the per capita income growth in rural areas is graphed against the annual rate of rural poverty reduction over the same period. The rates



Khan and Riskin have posited another dimension to what has been happening with growth and rural and urban incomes.¹⁹ They note that per capita real Gross National Product (GNP) grew at an annual average rate of 8.1% between 1988 and 1995. (GNP is the income measure of macroeconomic growth). For the same period, the growth in real per capita household income was only 4.7% for rural areas and 4.5% for urban areas. As these rates of growth are considerably lower than GNP growth, they argue that the remaining components of GNP (e.g. Government and corporate entity incomes) must have been rising at a faster rate than GNP. They conclude that macroeconomic policies in the PRC have been redistributing incremental income in favor of capital accumulation - mainly to the Government and corporate sectors. From this conclusion, Khan and Riskin see an opportunity for the Government to make a major impact on poverty levels through macroeconomic policy changes that increase the share to household incomes of future GNP growth. Such a change could accentuate pro-poor growth in the PRC.

Both pro-poor growth and targeted poverty programs reduce poverty. The difficulty is to separate the effects of these two strategies (see Park et al. 1997). Poverty reduction is related to several factors including market reform, increased urban incomes and the consequential increase in demand for rural produce, and investment in poverty programs. Table 20 summarizes per capita income of rural residents for the country and nationally designated poverty counties from 1992 to 2000. Though the ratio of per capita income in poor counties to the national average fluctuated over time, per capita income in poor counties increased faster than the national average. This suggests that the targeting of poverty reduction programs in poverty counties was successful in helping to achieve pro-poor economic growth.

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.

The complex relationship between economic growth and poverty reduction is also evident when analyzing regional changes in the incidence of poverty. Economic growth was most rapid in the east coastal region. Between 1978 and 2000 rural poverty in the eastern provinces was reduced by 31.1%. In contrast, the internationally high growth rates of 10.8 and 8.7% per annum that occurred in the poorer northwest and southwest provinces reduced rural poverty by only 4.5% and 1.2% respectively.

Table 20: Change of Per Capita Net Income of Rural Residents and Poor Counties

Year	National Average (yuan)	Poor Counties (yuan)	Ratio of Per
			Capita Income of Poor Counties to National Average (%)
	(1)	(2)	(2)/(1)
1992	784	417	53
1993	992	484	49
1994	1,221	648	53
1995	1,578	824	52
1997	2,090	1,240	59
1998	2,160	1,318	61
1999	2,210	1,347	61
2000	2,253	1,343	60

Source: NBS. 2000 and 2001. *op. cit.*

Pro-poor 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.

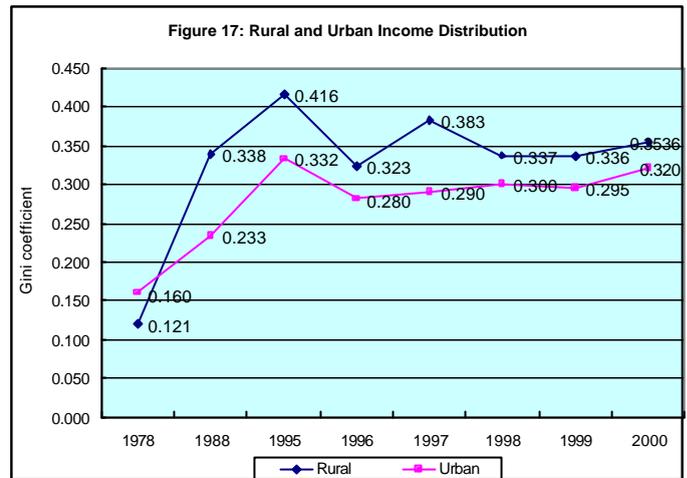
¹⁹ Khan, A.R., and C. Riskin. 2001. *op. cit.*

CHALLENGES TO WTO MEMBERSHIP

On 11 December 2001, the PRC became a member of the World Trade Organization (WTO). The PRC's obligations as a member pose a challenge for its continued war on poverty. Subsidies will have to be removed, tariffs cut, trade liberalized, and the domestic sector opened for foreign investment. In the short run, some adverse effects from WTO membership might be felt by marginal farmers who already are close to the poverty line. They may not be able to adjust to more labor-intensive agricultural subsectors such as vegetables and fruits, dairy products and meat, and processed foods, due to lack of technological and management knowledge, infrastructure, and capital. In the long-run, however, WTO membership and particularly the phasing out of the Multi-Fibre Agreement by 2005, should substantially increase PRC's exports to 6.3% of the world market - up from 4.6% currently. Major improvements in output are expected in the apparel industry (from 18% currently of the world market to 44%), textiles (from 8 to 10%), electronics (from 5 to 8%), metals (from 3.5 to 5%), and other manufactures sectors (from 8 to 10%). Several studies estimate the long-term gain to the PRC from WTO membership as a 1 to 2% addition to GDP. Little modeling has been done to anticipate the distributional and poverty impacts of this enhanced growth.

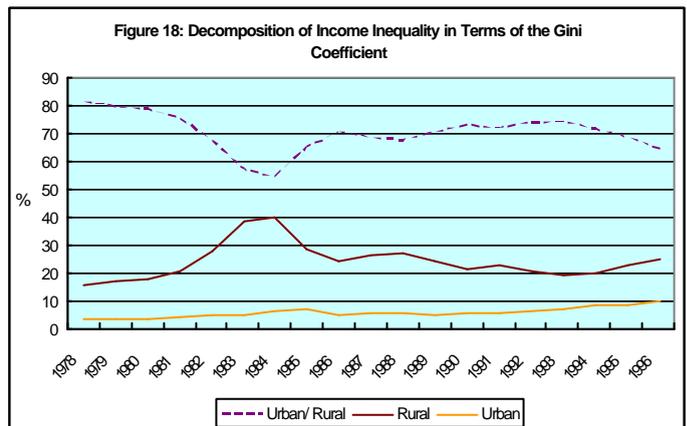
EQUITABLE ACCESS AND INCOME DISTRIBUTION

Since the 1949, PRC has been known for its equitable distribution of income. In fact, the Gini coefficient is one of the most equal in the world, and has not worsened much over the last 40 years. However, some disparities are appearing within the income classes, and income inequality has increased with the shift from a planned economy to market economy. Other transition economies have also experienced increased income inequality. The difference in the PRC, however, was that the changes in income distribution were modest during the early period of reform and increased later. This reflects the unique reform path followed by the PRC. Regional income disparity decreased in the first five years after the reforms began in 1978 and thereafter increased, although with fluctuations over the years. An ADB-financed study on income distribution found that the Gini coefficient for per capita household income increased between 1988 and



Source: ADB. 1997. *Income Distribution in PRC*. Manila; and ADB Staff 2002

1995, both in rural and urban areas - see Figure 17.²⁰ The Gini composition approach developed by Shorrocks (1982) can be used to decompose the contribution of inequality between rural and urban areas and within rural and urban areas towards the change in regional income disparity.



Source: Calculated from NBS. 1997 and 1998. *Statistical Yearbook*

The rural-urban disparity has been a major source of regional income inequality since 1978. Its contribution to regional income inequality was more than 50%, with large fluctuations over time. UNDP (1998) concluded that the rural-urban income gap has increased by 20% since 1988 despite decreasing urban subsidies.²¹ Overall, however the rural to urban income distributions have changed little since 1978 -see Figure 18. This means that the rural and the urban people both benefited from growth. However, income differences between provinces and particularly between cities have changed dramatically. A more regional approach to equitable growth and poverty reduction is therefore required.

²⁰ ADB. 1997. *Income Distribution Study in PRC*. Manila.

²¹ 2.19 to 1 up to 2.63 to 1.

IMPACT OF AGRICULTURAL AND RURAL INDUSTRIAL GROWTH

Agricultural and rural industrial growth reduced poverty in the 1990s and early 2000s. During the major rural reforms in 1978 to 1985, aggregate growth was mainly driven by increased agricultural output and improved product prices. Increased agricultural output accounted for 15.5% of the total increased income generated in this period. After 1985, agriculture became a less important factor in economic growth than the industrial and technology sectors. Nationally the agricultural share in GDP fell from 24.5% in 1991 to 15.2% in 2001, whereas the industrial share increased from 43% in 1985 to 51.1% in 2001.

Provinces making good progress in rural poverty reduction tended to have relatively high agricultural growth rates. Nonetheless, rural poverty declined during a period when the relative role of agriculture also declined. Rural poverty continued to decline during the second half of the 1990s, when farm prices declined and agricultural input prices increased after liberalization. During this period, it was the growing role of the rural industrial sector and the Government's targeted poverty programs that helped reduce the number of rural poor. This trend can be observed in all regions of PRC, even in the poorest parts.

As evidence of this trend, the proportion of net income of rural households derived from agriculture fell from 61.8% in 1985 to 47.6% in 2001. During the same period the proportion of labor income increased from 18.0 to 32.6%. The rapid expansion of TVEs had a substantial impact on rural income growth and on poverty reduction. Income from secondary and tertiary industry increased substantially between 1985 and 2001 from 18.9 to 47.8% of rural households' total productive income. Creation of off farm employment opportunities, primarily in the private sector, has been a powerful weapon in the fight against poverty.

These statistics reflect national averages and not necessarily the situation of the rural poor. For example, in Guizhou province, which is one of the poorest provinces, agriculture as a share of rural income in 1998 was 64.9% (more than 15 percentage points higher than the national average). Data from sample research among those with net per capita incomes less than 790 yuan per annum indicate that the importance of agricultural activity increases to as much as 75.8% of total household income.²² While the average share of income due to

agriculture in key counties for national poverty reduction is less than these sample based figures, it nevertheless indicates the importance of agriculture to the level of income accessed by rural poor.²³ This implies that rural poverty reduction projects which can effectively target this linkage can have a particularly strong impact in reducing poverty.

INFLATION AND PRICES

An important question in assessing macroeconomic impacts is to consider the relationship between inflation and rural poverty. After steep increases between 1987 and 1989 and 1991 and 1994, inflation has stabilized. Although deflation and falling prices were major policy concerns in 1999 and 2000, prices have now leveled out and only moderate price movements have occurred during 2001 and 2002.

As the rural poor generally have low savings and since most of their income is from their own farm production and off-farm wages, inflation did not have a negative impact on their real income. However, the fall in farm prices since 1993 worsened the terms of trade for agriculture. Since 1996 agricultural product prices have fallen by more than 25%. As a major source of rural income still comes from agriculture, many farmers – particularly with incomes around the poverty line – are affected by agricultural price changes. A case study for 500 sample households in six poor counties found the change of relative prices over 1985-1992 negatively impacted poverty reduction (Wu, 1997). Using current prices, the incidence of poverty in these six counties was 24.4% in 1992. After adjusting for price changes, the poverty incidence rose to 26%. However, agricultural price changes would not so adversely affect the rural poor if they are able to derive an increasing portion of their income through wage employment.

FISCAL CHALLENGES

Among other positive things, economic growth generates State revenue, some of which can be used to fund Government poverty programs. Sustained economic growth also enhances the Government's financial capacity to address environment, infrastructure, and social development problems in a proactive way. Shortcomings in these areas contribute to the continuance of poverty.

²² The bottom 13th percentile.

²³ Agriculture as a source of income in nationally designated poverty counties decreased during 1997-99: 1997: 68.6%; 1998: 65.4%; 1999: 59.6%. However, statistics derived among the poor in poor counties (per capita income RMB 0-625) confirms these sampled Guizhou figures with agriculture's share of income being 73.4%. Because of distributional reasons both national and county statistics do not accurately reflect the realities of the poor themselves. The poor, on average, represent only 13% of the population of national poverty counties.

From 1998 to 2001, in the aftermath of the Asian financial crisis, the Government followed an expansionary fiscal policy and stimulated large investments in infrastructure. Nevertheless, the Government's expenditure share of GDP, although it increased from 13.2% in 1995 to 19.7% in 2001, remains relatively low compared to other developing countries.

The central and many provincial governments have shown a strong commitment to fund poverty reduction. Since 1996, the annual allocations to poverty programs in the national budget have been rising in real terms. In the year 2000, poverty reduction programs reached 1.3% of public expenditures - more than the Government spends for health. Furthermore, the new poverty reduction program (2001-2010) foresees a net increase in poverty reduction funding of 5-10% per year.

Although overall there is strong fiscal commitment for poverty reduction, the weak revenue bases of poor counties provide at least seven major challenges for effective and efficient poverty reduction:

- (i) Poorer provinces and counties cannot mobilize sufficient counterpart funds, thus limiting their ability to finance infrastructure projects and encouraging these levels of government to ask the poor to provide free labor. This substantially reduces the expected income generating effects of Food for Work programs.
- (ii) County governments in poor areas often have structural budget deficits. In some poor counties poverty funds account for 20-35% of all fiscal transfers and 15 to 30% of budgetary revenues. Given this dependency, these local governments are under pressure to divert poverty funds to unavoidable expenditures, like staff salaries, or to unfunded priority projects.
- (iii) Resource-constrained local governments have a strong interest to use the poverty reduction subsidized credit schemes for projects that quickly generate taxable income. In this context, local governments and the Agriculture Bank of China (ABC) share a common interest. The non-policy banks, being now required to operate on commercial credit risk management principles, are focused on recovering and re-lending their loans as soon as possible, and reducing administration costs by lending larger amounts to fewer clients. Thus there has been a skewing of poverty loans to TVEs and the new, larger entrepreneurs. There is no

guarantee that such lending will have the desired effect on poor households.

- (iv) The poverty funds are targeted on infrastructure and income related programs only. Participatory studies show, however, that investments in human development are also very important to poverty reduction. A healthy and well-educated person is more likely to be able to find pathways out of poverty. An unhealthy poor person will not have the money to pay for catastrophic health care. Indeed, borrowing to meet that cost may prolong that household's period in poverty by many years. A better education is the surest way for today's children to break out of poverty in the next generation. The effectiveness of education as a means of poverty reduction has been demonstrated in several studies of the PRC including a recent IFPRI study which concludes that education is the most pro-poor public investment.²⁴
- (v) The weak budgetary situation of local governments, combined with national policy on cost-recovery, has meant that fees for access to education and health services are applied universally to all school children and clinic and hospital patients, irrespective of their capacity to pay. Even though the primary school or the health clinic may be built within two kilometers of poor households, the fees constrain the poor from using of these services. For instance, maternal and child health of the poor is put at high risk as mothers stave off going to the clinic or local hospital to conserve scarce household income. The necessity for local government to impose these fees is anti-poor in its impact on the community.
- (vi) Even with the diversion of poverty funds to prop up local government budgets, this grass roots level of government remains strapped for cash. In order to meet budget deficits, local governments have creatively devised fees to impose on the public. Many of these fees are not strictly legal. These fees are anti-poor as concessional rates for those on very low incomes are not generally allowed. The fees act as a regressive tax. Recognizing this problem, the national government commenced an experiment in Anhui Province in 2000 to substitute a transparent and regular tax system on farmers for the multitude of fees. The new leadership of the

²⁴ Fan, S., Linxiu Zhang and Xiaobo Zhang. 2002. *Growth, Inequality, and Poverty in Rural China: The Role of Public Investments*. Research Report 125. Washington, DC.: International Food Policy Research Institute.

PRC announced in January 2003 that they would spread the “fees-to-tax” reform more widely through rural areas and complement this with increased investment in education, health and culture for the rural population.²⁵

- (vii) As seen from the above challenges, the weak financial situation of the poor counties generates a range of distortions often contrary to poverty reduction, as they seize each opportunity to capture financial resources. In order to mitigate these distortions, a fiscal transfer system needs to be devised that adequately underpins social equity.

A CONTRARY VIEW

In their book, *Inequality and Poverty in China in the Age of Globalization*, Azizur Rahman Khan and Carl Riskin have derived from their research a different set of conclusions about macroeconomic policies and poverty reduction in PRC. They view the major shortcoming as being a segregation of the poverty reduction policies from the rest of the economic policies. These scholars note that as a result of this segregation, many of the Government’s targeted actions for poverty reduction were muted by the adverse distributional effects of overall economic policies. Consequently they recommend a comprehensive package of developmental policies, covering for instance regional balance in growth, the relative emphasis on capital accumulation as opposed to income distribution and efficient use of resources, the sectoral terms of trade, and public finance. They argue that comprehensive adjustments in these policies can improve poor household welfare far more than the targeted county and below level interventions financed under the 8-7 program.

Recommendations on each element of a comprehensive set of pro-poor economic policies are made in their book. Not all of these make comfortable reading for those dedicated people who have worked so hard on designing and implementing the targeted programs. For instance they point that if the funds made available for poverty reduction in 1995 by the national and local governments and by NGOs and international donors had been perfectly targeted as an income transfer program to the rural poor, then rural poverty, as officially defined, would have been eliminated. This comment should encourage a review of the PRC’s rejection of the relief approach as a tool in poverty reduction.

INSTITUTIONAL RESPONSIBILITY FOR RURAL POVERTY REDUCTION

COORDINATING POVERTY REDUCTION WORK

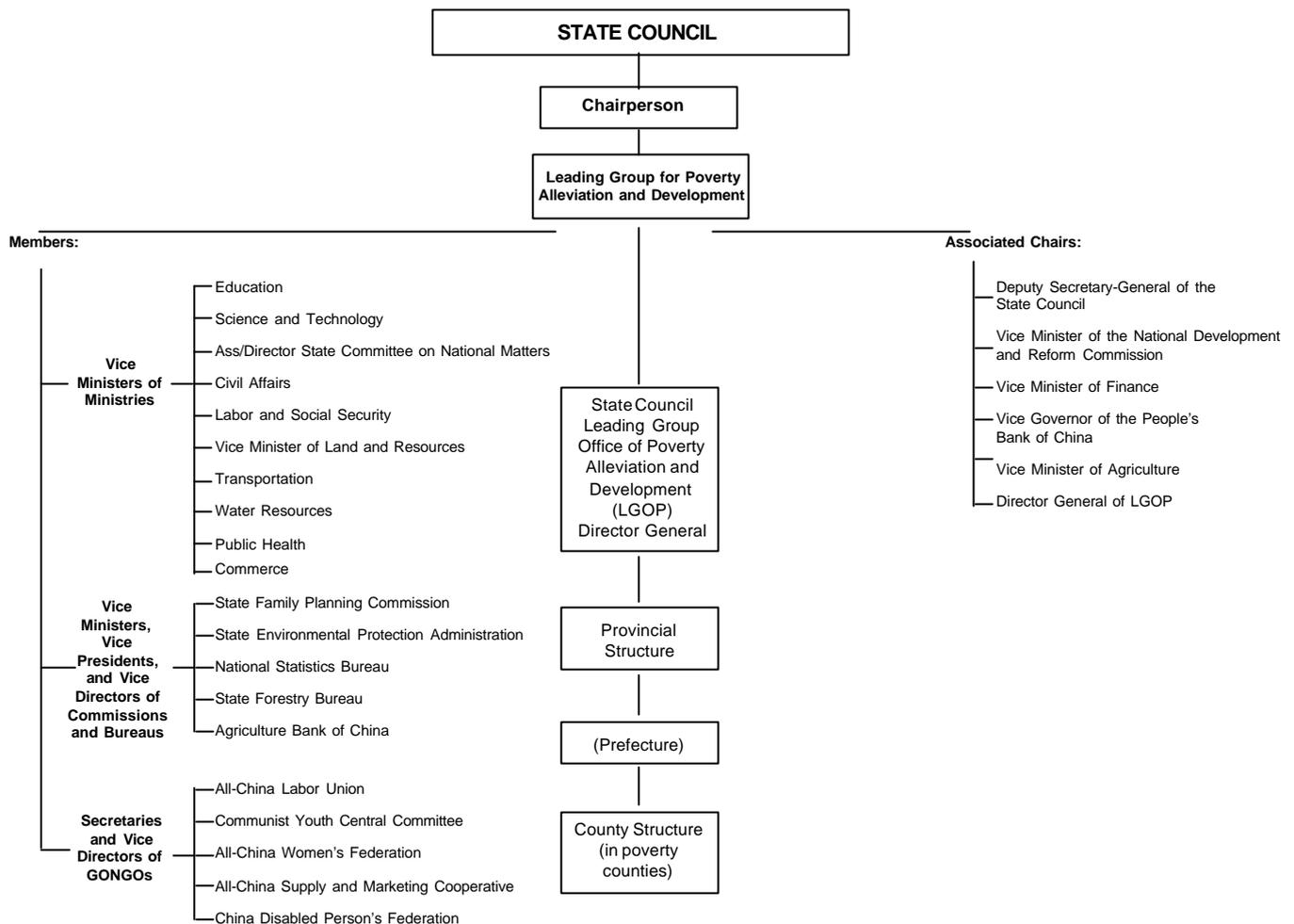
The organization of poverty reduction reflects the structure of the Government and includes those ministries and agencies that primarily undertake the task of poverty reduction and rural development. Together, a tiered hierarchy of leading groups, government departments and various financial institutions throughout the country form three distinct but interrelated organizational cones. NGOs (domestic and international) and private enterprise are generally considered as supplementary actors in the war against poverty. This structure is illustrated in Figure 19.

At the apex of this structure is the State Council Leading Group for Poverty Alleviation and Development (LGP). This was established in 1986 directly under the State Council to organize, research, draft policies and programs, coordinate and monitor efforts to solve the major issues in development-oriented poverty reduction efforts among various relevant government ministries. The LGOP reports to a Vice Premier as chairperson. There are six associated or deputy chairpersons. These are a Deputy Secretary-General of the State Council, Vice Ministers for the National Development and Reform Commission (NDRC), Finance, and Agriculture, a Vice Governor of the People’s Bank of China (PBOC) and the Director-General of the State Council Leading Group Office of Poverty Alleviation and Development (LGOP). In addition, there are 23 other members comprising vice ministers from a range of ministries, presidents of national government bureaus and commissions, and directors of agencies and GONGOs. The LGP usually meets three to four times a year. The membership structure of the LGP as of 2002 is shown in Figure 20.

The LGP has the LGOP as its permanent administrative support agency. LGOP is charged with: day-to-day workload; policy research on development-oriented poverty alleviation; planning and organizing implementation; coordinating poverty reduction efforts from all segments of society including help from eastern developed areas to support poverty reduction in the western region; coordinating and organizing government and Party Central Committee departments to reduce poverty in designated areas; determining the support criteria for the rural poor and State-targeted counties;

²⁵ *China Daily*, 2003. Nation to narrow gap between city and countryside. 9 January.

Figure 20: Composition of the LGP



deliberating on categorization and graduation of targeted counties; organizing and guiding statistical monitoring of poverty reduction; coordinating planning efforts to allocate central government poverty reduction funds; checking and supervising the application of these funds; guiding priorities for anti-poverty projects that cut across provinces; promoting public awareness of poverty reduction; interaction and cooperation with international donors assisting with poverty reduction; hosting the training of cadres from the PRC's poor areas in the implementation of development-oriented poverty reduction; and handling and other matters referred to it by the LGP.

LGOP is headed by a Director General who directly reports to the LGP chairperson, and thus the State Council, on programming and strategy issues. In 2001, staffing at the national level was around 120 personnel.

The national LGP and LGOP structure is replicated at the local government level, particularly in the provinces and poverty counties (see Figure 19). At the township level, usually one or two staff are designated to be responsible for activities relating to poverty reduction.

Guizhou province can be taken as an example of staff resources. In that province in 2001, there were 29 full time PADO staff at the provincial level, 106 at the prefecture level, 420 at the county level (key counties for national poverty reduction and development), and 810 at the township level. Guizhou's PADO resources were supplemented by 1,124 part time workers.

The county PADOs are responsible for preparing and approving projects that apply to use central government poverty reduction funds. The provincial PADOs work closely with the Provincial Planning Commissions and the Bureaus of Finance.

IMPLEMENTING RURAL RELIEF PROGRAMS (THE FIVE GUARANTEES PROGRAM)

The PRC's rural relief program is implemented by the Ministry of Civil Affairs (MCA), and is independent from the Government's poverty reduction program. Under the program, food, clothing, housing, medical care, burial assistance, and education for the orphans are provided to the destitute and to victims of natural disasters such as floods, droughts, and earthquakes. Due to rising frequency of natural disasters in the 1990s, rural relief funding substantially increased. In Yunnan, for example, provincial funding increased from 46 million yuan in 1990 to 132 million yuan in 1998. However, the increased provision of funds is not sufficient to cope with the rising costs of providing a minimum safety net for the poor affected by natural disasters.

IMPLEMENTING OTHER RURAL SOCIAL SECURITY SCHEMES

Other forms of social security in rural PRC are either few in number or have low coverage. Mostly they are managed by the provincial and lower levels of MCA, often in conjunction with village committees. These social security schemes are either non-contributory safety nets or provide pre-determined support to contributors. The five guarantees program has the widest coverage of the non-contributory safety nets. Some rural areas have instituted a safety net which parallels the Minimum Living Standards Scheme (MLSS) now found in all PRC cities. Under MLSS, benefits are means tested, filling the gap between a poor household's per capita net income and a minimum standard set locally. There are also a number of local rural support schemes for poor households which are financed by villages and townships and by donations. Geographical coverage is limited and the nature of the schemes varies widely between localities. There are generally means tested. County Civil Affairs Bureaus and Village Committees administer these highly localized schemes.

There are two types of contributory social security schemes that can be found in a number of rural areas. Little is known about the extent to which these schemes have prevented households falling into poverty, or assisted them to rise above poverty. One is the rural pension schemes which were instituted in 1991 and now subject to

a major redesign with a new system expected to be announced in 2003. While Government recommends these schemes to rural residents, they are not mandatory. These schemes cover 60 million rural people (6.4% of the total).²⁶ The level of pension paid relates to contributions made and are set to cover only a proportion of basic subsistence needs. These schemes are administered by the County Civil Affairs Bureaus and the Village Committees under the supervision of the Provincial Civil Affairs Bureaus and MCA. The second scheme is rural cooperative medical insurance which dates back to the 1970s but has also been promoted by Government in recent years. Like rural pension schemes, this insurance is not mandatory. Around 20% of the rural population contribute to this scheme and generally it covers them for basic medical treatment only. Institutional responsibility for this scheme is shared between the County Civil Affairs and Public Health Bureaus and the Village Committees. The Provincial Civil Affairs Bureaus and MCA have supervisory roles.

ROLE OF THE MINISTRY OF FINANCE AND THE NATIONAL DEVELOPMENT AND REFORM COMMISSION AND OTHER MINISTRIES/AGENCIES

NDRC, MOF, ABC and LGOP prepare initial distribution plans for the FFW programs and the interest subsidies for credit funds. After assessment, LGOP submits the distribution plans to the LGP for approval. This procedure is mirrored at provincial and county government levels.

As poverty reduction is seen as a responsibility of all elements and levels of government, there is a wide range of involvement by ministries, agencies and associated GONGOs in poverty reduction activities. Their involvement is summarized in Box 3.

RURAL FINANCIAL INSTITUTIONS

The main rural financial institutions providing loans to rural households are the Agricultural Bank of China (ABC, or Nongye Yinhang), the PBOC-supervised Rural Credit Cooperatives (RCCs, or Nongcun Xinyong She) and networks of informal lending. The ABC and the RCCs, under PBOC supervision, distribute and supervise the largest single poverty reduction resource - the subsidized credit.

²⁶ *China Daily*. 2002. Farmers' pension in pipeline. 15 October.

Box 3: The Roles of Ministries and Government Agencies in Poverty Reduction

The Ministry of Finance (MOF) makes regulations regarding the management and use of development funds, plans the allocation of the funds and, after LGP approval, supervises its use.

The National Development and Reform Commission (NDRC) is responsible for macroeconomic and development policies for poor areas and assessing and planning the allocation of support for the Food-for-Work (FFW) Program, subject to LGP approval.

Ministry of Commerce (MOFCOM) helps poor areas determine commodity production bases, build commercial facilities, and promote cross-border trade.

Ministry of Agriculture (MOA) promotes agriculture production in poor areas and technological improvements and oversees rural power enhancements.

The National Forestry Bureau (NFB) helps poor areas achieve sustainable economic forestry production with attention to ecological protection.

The Ministry of Water Resources (MWR) oversees programs for potable water for people and livestock in poor areas, small-scale hydropower in mountainous areas, small river basin development, and water conservancy.

The Ministry of Science and Technology (MST) has adopted special policies to enhance the application of new technologies in poor areas.

The Ministry of Education (MOE) ensures that science curricula are implemented in poor areas as well as ensuring primary, vocational, and literacy education.

The Ministry of Communications (MOC) constructs roads to poor counties and townships.

The Ministry of Railways (MOR) provides freight transportation for the commodities and goods for poor areas.

China Power requires power companies to bring power to all poor counties to help develop industrial and agricultural production.

The Ministry of Information Industry (MII) is expanding telephone and mail service to poor townships and villages. The State bureaus responsible for mining, coal, and chemicals help poor areas develop resources in a sustainable manner and expand the supply of chemical fertilizer.

The Ministry of Labor and Social Security (MOLSS) helps people in poor areas find employment elsewhere.

The Ministry of Civil Affairs (MCA) is responsible for helping the poor who are disabled, victims of disaster, and family members of military servicemen and revolutionary heroes.

The Ministry of Culture and broadcast agencies bring film, radio, and television facilities to poor areas.

The Ministry of Public Health (MOPH) develops treatment, prevention, and health care facilities and programs in poor areas. Medical universities are required to enroll students from poor areas.

The State Family Planning Commission (SFPC) brings information campaigns and contraceptive devices to the poor.

The Ministry of Personnel has programs for low-income civil servants.

Nation Bureau of Statistics (NBS) is responsible for conducting household surveys to assess the poverty situation and provides a confidential, internal annual analysis of poverty reduction progress in terms of funding input, infrastructure and agriculture development, agricultural and industrial production, farmer income, and county finance.

The National Audit Office is responsible for assessing each year if poverty reduction funds were allocated on time and in full solely to poor households and villages and for identifying any corruption.

Note: Government bureaus and departments at the provincial and county levels play similar roles as their national counterpart government departments. Provincial PADOs, Development and Reform Commissions, Commerce Bureaus, Science and Technology Bureaus, Finance Bureaus, and banks determine their aspects of the poverty reduction plans. Trade Unions, the All-China Communist Youth League (ACCYL), All-China Women's Federation (ACWF), and the Chinese Association for the Disabled carry out their own functions in close collaboration with government agencies. LGOP's Training Center for Cadres and Officials in Poor Areas helps to ensure that local poverty reduction officials are aware of the latest policies and methodologies to carry out their jobs.

Agriculture Bank of China (**ABC**): The ABC is a large State-owned bank with branches in all counties and most townships nation-wide. ABC's clients are mainly TVEs, other collective enterprises and SOEs. It also serves individual farmers and private enterprises. In the banking reforms of the mid 1990s, ABC was clearly tasked to perform as a commercial, and not a policy bank. In 1996, the ABC accounted for 14% of lending in the PRC. In terms of volume, most of its credit resources were extended as working capital loans to State commercial enterprises, 14% went to TVEs and 16% to agriculture (including some households).²⁷

The ABC has been associated with poverty lending through its earlier involvement in managing directed credit of various types. Since 1998, the ABC has been primarily responsible for funds dispersal under the government's subsidized lending program for poverty reduction. Initially officials from local PADOs continued to control the lending, but in 1999 control was passed to ABC. The persistence of historically poor credit discipline in the program has led to problems for ABC management and staff because of the ABC's commercial orientation and strong internal accountability for lending performance. As a result, the general trend within ABC is a disinclination to lend to the rural poor.

Agriculture Development Bank of China (ADBC): With branches at the county level, the ADBC was established in 1994 as a policy bank primarily to deliver the Government's subsidized poverty lending program as well as other subsidized credit schemes and financing SOEs for the purchase and storage of grain, cotton, and edible oil. In 1996, the ADBC accounted for 10% of national lending. Ninety percent of ADBC's loans were for agricultural procurement, mainly grain. A recent investigation found 40% of outstanding lending to be unrecoverable.²⁸ Due to this poor loan performance, subsidized credit operations were transferred back to the ABC in 1998. ADBC's operations are now primarily confined to acting as a conduit for Government lending to agriculturally related SOEs. It does not take deposits from the public and lends in accordance with State policy.

RCCs: In the 1950s when RCCs were initially formed, they were structured as cooperatives, owned and run by the members to provide credit to the membership. They became cooperatives in name and were essentially small scale rural credit institutions subordinated to supervision first by PBOC, and later the ABC until 1996, and then

again by PBOC when the RCCs were separated from the ABC.

RCCs cover most townships and are the only financial institutions with branch outlets extending to most villages (usually the village accountant or village head act as the agents for RCC lending and are employed on a part time basis to deliver financial services at the grass roots). RCC clients are generally farmers, TVEs or rural private enterprises. The RCC mandate from the State Council is to achieve an allocation of more than 50% of credit to individual households. In practice, this has proven difficult to achieve. Due to high transaction costs in supplying credit to farmers, RCCs prefer to extend loans of larger scale to wealthier farmers or enterprises that are considered less of a credit risk. By the end of 1998, the balance of RCC lending to farmers was 184 billion yuan, representing 25% of the total RCC loan portfolio. About 80% of farmers have deposits in RCCs and nearly half have been granted loans from the RCCs in the past.

RCCs are now exploring new ways to deliver service to farmers both through experimental linkages with microfinance projects and new lending mechanisms such as the use of joint liability groups. Like all formal credit administered in the PRC, RCC interest rates are State controlled. RCC management is weak, and the use of joint liability groups among relatively better-off farmers, though agriculture-related, will not bring them closer to the poor.

"Hui"s: "Hui"s (Rotational Savings and Credit Associations or ROSCAs) exist as informal financial institutions for farmers' mutual lending. They are closer to the relative and absolute poor than the banks and the RCCs. The "Hui" have a long history among PRC coastal areas. Following the establishment of the new republic in 1949, "Hui"s remained in operation and survived by going underground. Following reform and opening up in the late 1970s, "Hui"s expanded as an important part of the rural credit system.

In essence, "Hui"s comprise a small number of people (often having some family ties with one another) who form a group that meets at regular intervals, pooling a sum of money for one member at each meeting. The interest rate on loans is usually about 20% per annum. The number of "Hui" members vary (though some Hui have fixed members) and the interval between meetings is usually flexible.

There are three main "Hui" models depending on how members pool funds and administer loans:

²⁷ Park, A., and Q. Chang. 2001. Microfinance with Chinese Characteristics. *World Development* Vol 29 (1): 39-62.

²⁸ *Chinabrief*. 1999. Vol 2 #2. May. Beijing.

- “Lun Hui” (“Lun” means credit allocation by scheduled order);
- “Biao Hui” (“Biao” means credit allocation by bidding); and
- “Yao Hui” (“Yao” means credit allocation by throwing dice).

These Hui provide some evidence of what makes a viable small scale lending organization. These positive features are:

- variety in form, duration, members, amount of funds and ways in which the order of extending loans is determined to meet various financial demands;
- members within the same “Hui” are usually familiar with each other, and the overall number of members is small;
- “Hui”s with a modest volume of pooled funds lent out at modest interest rates tend to operate with stability and sustainability.

PBOC has put in place regulations to curb informal rural finance activities, including those of the “Hui”s. Despite this, “Hui”s have continued to flourish.²⁹

GOVERNMENT RURAL POVERTY ALLEVIATION STRATEGIES

The PRC has employed various mechanisms and linkages forcefully and sustainably to reduce poverty. These have included combinations of policy reform, direct investment and regulation to establish mechanisms for facilitating broad-based economic growth. There has also been strong and sustained political commitment to the distribution of income, investment into human resources and encouragement of labor intensive growth.

Beginning in 1986, the PRC has generally pursued an area development poverty reduction strategy. The limited success of attempts prior to 1978 to reduce poverty via targeting the poor with direct financial assistance partially explains the adoption of this strategy. The earlier direct assistance had fostered unhealthy dependence on Government handouts.

The area development poverty reduction strategy embodied five primary characteristics:

- i) poverty targeting was determined according to regional and administrative boundaries (the 331

designated national poverty counties);³⁰

- ii) a policy focus on activities that promote regional economic development to achieve poverty reduction;
- iii) emphasis on exploiting natural resources within these poor regions as the means to developing the county's economy;
- iv) improving the well-being of the poor through capacity building, infrastructure development and technical training; and
- v) encouraging resettlement and off-farm labor migration for the rural poor suffering severe constraints to basic subsistence.

The PRC has primarily pursued a two-pronged approach to reducing the absolute number of the poor, namely “Government Poverty Alleviation” (Zhengfu Fupin) and “Society-based Poverty Alleviation” (Shehui Fupin. Table 21 sets the scene for the discussion on these two approaches. This table itemizes, in current values, all poverty reduction inputs from 1994 through to 2000. This data shows the relative size of the Zhengfu Fupin and Shehui Fupin components as well as the international donor-financed component.

GOVERNMENT POVERTY ALLEVIATION

The Government poverty alleviation strategy has comprised three main elements: (i) Subsidized Loans, (ii) Food For Work (FFW), and (iii) Development Funds.

SUBSIDIZED LOANS

Before 1984, poverty loans from MOF supported production activities (especially TVEs) in poor rural areas. After 1984, however, credit institutions delivered poverty loans with an increasing focus on poor households. By 1986, subsidized credit had been introduced by the national government using the ABC for loan allocation and management. Under this facility, the Government financed both a line of credit and the difference between the standard and subsidized rate of interest. Underlying this facility was the hypothesis that a major barrier preventing the poor from helping themselves was a lack of capital. The poor were unable to access formal credit through the banking system either because they lacked necessary assets as collateral, or were excluded because they could not be expected to pay standard interest rates on loan finance.

²⁹ Liu, J. 1994. Informal Finance in Rural China. In *Reform and Development of Rural Finance in China: 1978-1990*. Edited by Deng, Yingtao, et. al., Hong Kong. Oxford University Press: 109-132.

³⁰ An additional 358 Poor Counties were designated at the provincial level.

Table 21: Total Poverty Reduction Inputs over the “8-7” Program Period
(Value unit: billion yuan in current prices)

		1994	1995	1996	1997	1998	1999	2000
1	National government inputs	9.79	9.85	10.80	15.30	18.30	25.80	26.50
a.	Subsidized loans	4.55	4.55	5.59	8.50	10.00	15.00	15.00
b.	Food for work	4.00	4.00	4.00	4.00	5.00	6.50	6.90
c.	Development funds	1.24	1.30	1.30	2.82	3.30	4.30	4.70
2	Provincial and local counterpart funds	1.11	1.70	0.74	4.46	4.02	3.75	4.49
3	Foreign loan funds	1.28	1.73	2.27	1.26	1.26	1.36	1.44
4	Foreign funds (multilateral, bilateral, NGOs)	1.04	1.41	1.86	1.03	1.03	1.12	1.17
5	Donations (NGOs)	0.25	0.30	0.35	3.34	5.40	3.35	3.69
6	Funds from other sources	0.30	2.22	2.00	3.49	2.70	3.54	2.41
a.	Central ministries and enterprises	0.30	0.95	0.92	0.56	0.59	1.15	1.00
b.	Provincial and local governments and enterprises		1.27	1.08	2.23	1.77	1.80	1.80
c.	East-west cooperation				0.70	0.34	0.59	0.61
Total		13.74	17.20	18.00	28.87	32.70	38.90	39.70

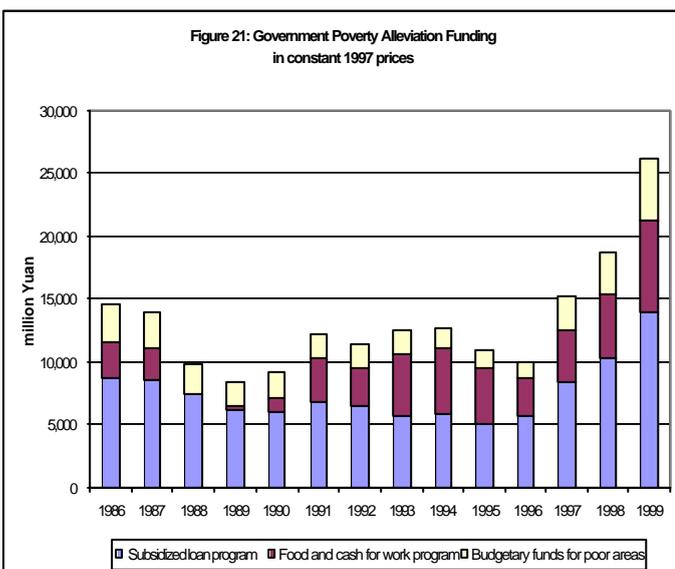
Source: China Foundation for Poverty Alleviation. 2001. Paper presented at the Conference on NGOs., Beijing, November.

From 1986 to 1989 priority was given to extending subsidized loans to rural households in the then national poverty counties for agricultural crops, livestock, and agricultural processing. Interest rates were set at 2.88% and the repayment period was 3-5 years. Of the three elements of the Government poverty alleviation program, subsidized loans consistently received most of the funds. On average between 1986 and 2000, subsidized loans were allocated 58% of the annual provision for the program

(see Table 21 for current values and Figure 21 for constant values).

Official reports at the end of 1987 indicated that the targeting of subsidized loans was on track. During the first year of implementation, 92% of such loans were distributed directly or indirectly to farm households, rather than to county, township, or village enterprises. Despite this focus, the pace of poverty reduction during the period 1986 to 1989 slowed. According to official statistics, between the end of 1985 and the end of 1989, the number of rural poor declined by 23 million or 5.75 million per year. This was approximately only one third of the average annual reduction between 1978 and 1985.

This paradox between a policy of lending directly to the poor and poor results in poverty reduction reflects the following factors. Firstly, there was mistargeting because poor counties' regional economic development priorities did not cover the majority of poor areas or poor households.³¹ Secondly, it is probable that by about 1988 subsidized loans intended for poor rural households were being diverted to enterprises, a trend that was not adequately reported. Table 22 shows that for Huangping county in Guizhou Province direct credit targeting of



Source: Information presented by Executive Director of the China Foundation for Poverty Alleviation to the International NGO Conference held in Beijing in late October 2001. Values have been converted to 1997 constant prices.

³¹ Riskin, C. 1994. Chinese Rural Poverty: Marginalized or Dispersed? *American Economic Review*, Papers and Proceedings 84(2): 281-284. Jalan and Ravallion comment that statistics from four southern provinces (Guangdong, Guangxi, Yunnan and Guizhou) reflect that even by the late 1980's, as little as half of the poor of the region are accounted for among nationally designated poverty counties.

poor households accounted for only 1.5% of the total subsidized credit made available in the 1987 to 1991 period. The other 98.5% was lent to TVEs and other rural enterprises. Thirdly, the macroeconomic policies supported faster economic growth in coastal regions but provided no special mechanisms to help poor regions and poor farmers to participate in the benefits of economic growth. These policies worsened the terms of trade for poor regions. They now had to compete with the lower agricultural procurement prices that resulted from preferential development policies instituted among wealthier and more fertile agricultural regions. This further separated poor rural residents from the national economic growth process.³²

Box 4: Institutional Issues of Trickle Down and Regional Development

According to a sociological analysis on the delivery system, institutional weakness has been one of the major factors detracting from effective targeting.³³ Local governments are empowered by the LGOP to be responsible for distributing and supervising poverty reduction program funding at the local level. Competing with this, however, is that almost all local governments in poor areas are faced with multiple agendas often including: poverty reduction, economic growth and budgetary solvency.³⁴ Budgetary solvency issues, together with regional economic development priorities, have often worked against a poverty reduction agenda as local governments have more incentive to use poverty reduction funds for industrial enterprises to generate higher tax revenue instead of for those enterprises which contribute to poverty reduction but pay lower tax rates. Given the responsibility for utilization of poverty reduction funds, some local governments replaced the target group of the poor with the non-poor.

Table 22: Extent of Subsidized Loans Channeled to Farmers - Huangping County, Guizhou 1987-1991

	Farmers	Farmer Co-operatives	Rural Enterprises	County and Township Enterprises	Total
% of Projects	3.7%	4.9%	16.0%	75.4%	100%
% of Loan Funds	0.8%	0.7%	7.4%	91.1%	100%

Source: 2001. *Omnibus of Best Poverty Papers*. Beijing, China Economics Publishing House: 323

³² Jalan, J. and M. Ravallion. 1998. Are There Dynamic Gains from a Poor-Area Development Programme? *Journal of Public Economics* 67: 65-85.

³³ Shen, H. 1997. The Delivery System of Poverty Alleviation and Self-organisation. *Sociological Research*, No 5.

Changing loan targets: Households to Industrial Enterprises. At the close of the 1980s, the LGOP shifted subsidized credit priorities from lending to poor households to developing rural enterprises engaged in production or service activities that might indirectly assist poor households escape poverty.³⁵ This policy shift was in part driven by low repayment rates on the loans that were intended for poor rural households (see Table 23 for the repayment rate between 1986 and 1991). Policy makers at the time could not foresee that their policy shift would result in further deterioration of the repayment rate as demonstrated in Table 23 for the period 1991 to 1997. The high proportion of loan defaults meant that policy makers increasingly considered rural poor households to be lacking in technical and managerial skills and were consequently inefficient in achieving their own poverty reduction.

Table 23: Poverty Alleviation Subsidized Credit Loan Repayment Rates.

Year	Repayment Rate (%)	Reference
1986-1991	65	Zhou B., 1992
1991	53	State Science and Technology Commission (STC), 1995
1992	55	STC, 1995
1993	48	STC, 1995
1996	44	Agricultural Development Bank of China (ADBC), 1998
1997	62	ADBC, 1998

Source: NBS 2000a

It was felt a better use of subsidized loans was to support progressive economic entities and skilled technical personnel in poor counties that represented economies of scale. They could more extensively enhance overall regional development and were presumed to be able to make more productive use of loans and achieve higher repayment rates. To qualify for subsidized loans, rural enterprises had to ensure that at least half of their employees came from poor households.

However, this shift in policy of lending to economic entities did not directly benefit rural poor households. Part of the reason was that, notwithstanding the LGOP's stipulation, TVEs and county-based enterprises tended not to hire staff from among the absolute poor for

³⁴ Wu, G. 1994. Goal Conflicts in Poor Areas: Growth, Budget Solvency, and Poverty Alleviation. Paper presented at the Discussion Forum on China's Poverty Policies, Beijing, 26 October.

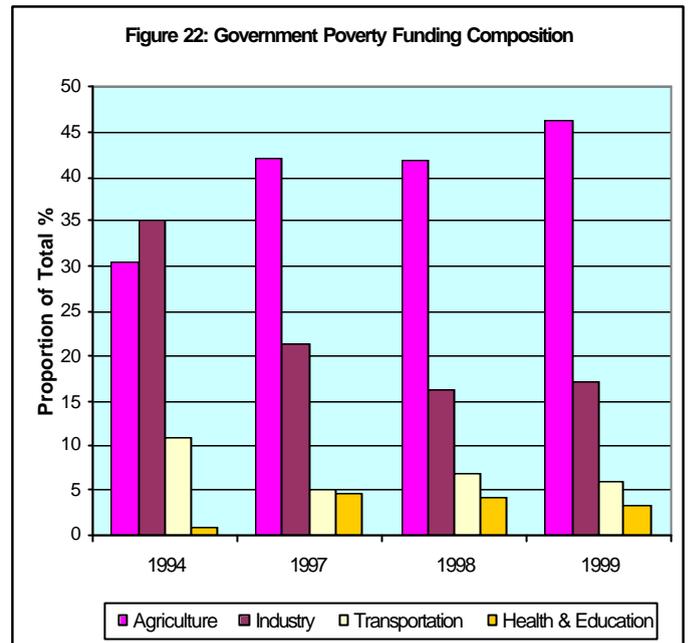
³⁵ "jingji shiti"

practical reasons related to pre-existing employment patterns and the rural poor's lack of skills, education and wider-world understanding of factory environments, and their comparative physical weakness. Another part of the reason was that many of the TVEs and other rural enterprises that benefited from the subsidized credit did not become profitable and could not expand on a sustainable basis. This is evidenced by worsening of loan repayment rates after the policy shift to enterprise lending (see Table 23). In some areas as many as 60% of poverty reduction loans to rural enterprises were not repaid on time. For the three years 1991 to 1993, the average repayment rate was only 52%. Non-performing loans continued to grow as a share of total lending.

Because of this disappointing experience, the 1996 National Poverty Reduction Conference concluded that the policy should change again. It determined that 70% of subsidized loans should reach poor households. Furthermore, 70% of the loans to poor households were to be earmarked for direct investment in agriculture. As Figure 22 demonstrates, the policy of increased lending to agriculture was applied with rigor. Between 1994 and 1999, support for agricultural investment increased from 30.5% of total Government poverty reduction funding to 46.3%. The share flowing to rural industrial enterprises dropped from 35% to 17.2%. In terms of financial volume, the swing to emphasizing investment in agriculture was even more pronounced because total poverty reduction funding was growing rapidly - see Figure 22. Between 1997 and 1999 total funding increased by 43% in real terms.

The other element of the 1996 policy shift - re-emphasizing direct lending to poor households - proved more difficult to implement. According to estimates at the provincial level, loans to poor households comprised less than 30% of agricultural lending, while most of the remaining 70% flowed to large-scale agricultural production bases.³⁶ Micro-studies suggest that the estimate of 30% to poor households may be too optimistic. Field investigations in Anhui province of 1998 lending practices in two poor counties found that the percentage of poverty loans actually reaching households was only 19% and 14% respectively (Yang, 1998).³⁷

The difficulty in implementing a policy of focusing lending on poor households results from several factors. From the point of view of local governments, they have to pursue multiple objectives that are not easily reconciled.



Source: Wu, Guobao. 2001. *The Ten-Five Poverty Reduction Development Strategy Study of Rural China*. Beijing

They seek to reach the poor directly, promote regional economic development, and strengthen their own financial solvency. In the trade off between objectives, local governments tend to select projects for poverty loans that are perceived as bringing overall higher financial benefits regardless of whether such projects directly reduce poverty in the short term.

Another factor stems from the context in which ABC officials operate. ABC executives have been under increasing pressure to improve the quality of their loan portfolios, and therefore have scrutinized more thoroughly the risk of default in loan application proposals. Because ABC officials have become primarily responsible for the dispersion of subsidized credit, they can refuse poverty reduction loan applications submitted or endorsed by local PADO offices whenever they judge the default risk as being too high. There is the potential for contradictory interests between PADO offices striving for rapid rural poverty reduction and the ABC applying sound credit risk management principles. Even when the ABC has approved a PADO-supported loan application, the ABC may stipulate conditions that significantly change the nature of the poverty reduction project. For instance, the ABC may insist on a shorter loan duration, a change in scheduling in loan disbursement, or an alteration to the design of project elements.

³⁶ Some researchers feel that 30% is optimistic and, instead, the real situation of poverty loans to rural households may be less than that - see: Kang, 1998.

³⁷ See also: Kang, X. 1998. *The Commentary on China's Poverty Alleviation*. Paper presented for the UNDP Research Center for Eco-Environmental Sciences, Chinese Academy of Sciences, Beijing.

Table 24: Main Poverty Reduction Loan Programs

Program	Target	Interest Subsidy (Subsidy Source)	Channeling Mechanism
Loans for rehabilitation of the disabled poor	Poor disabled people	Yes (MOF)	ABC
Subsidized poverty loans (subsidized credit)	Poor households	Yes (MOF and provinces)	ABC
Regular poverty reduction loans	Poverty county, minority, and border areas	None	ABC
Special loans for pastoral areas	Poor area	Yes (MOF)	ABC
Loans for old revolutionary, minority, and border areas	Poor area	Yes (PBOC)	PBOC
Special loans for county enterprises	Enterprises in poverty counties	Yes (ICBC, CBC) CBC-PBOC Construction Bank	ICBC CBC PBOC
Loans for economic development of less developed areas	Poor area	None	ABC
Special loans for state-owned farms in border areas	Poor area	Yes (MOF)	ABC
General credits to poor areas	Poor area	Yes (ABC)	ABC
Farmland construction loans	Poor area	Yes (MOF) and provinces	ABC
Loans for renovation of works destroyed by floods	Poor areas following natural disasters	Yes (MOF) and provinces	ABC

Source: Zhu, Ling. *Poverty Alleviation in the Transition of Rural China*.

The ABC's administration of poverty reduction lending was complicated by the number of loan facilities that had been created, each with their specific purpose and varying interest rates. These are summarized in Table 24.

GRADUAL ACCEPTANCE OF MICROCREDIT INTO THE GOVERNMENT'S PROGRAM

PRC first began experimenting with microfinance in the mid-1990s with pilot projects spearheaded by NGOs using versions of the Grameen Bank (GB) model.³⁸ Implementation was initially without policy or financial involvement from government. Examples of this early phase include the "Funding of Poor Cooperatives" (FPC) pilot projects implemented by the Chinese Academy of Social Sciences (CASS) which developed four GB replication projects in three provinces - for more detail see Box 5.³⁹ By the end of 1996, total capital investment in microfinance projects in the PRC had reached almost 90 million yuan.

Individual loans under NGO-sponsored microfinance

³⁸ Small-sized liability groups that emphasize peer cooperation and supervision with centre meetings, group-based lending, one-year loan periods, weekly repayment, group fees and savings requirements, complementary training activities.

³⁹ CASS was given technical and funding assistance by the Grameen Trust of Bangladesh, the Ford Foundation and private donors.

projects were generally in the range of 400 to 1,000 yuan and were extended for periods from 3 to 12 months. Repayment could be either in lump sum on maturity or by installments every one to four weeks. Interest charges ranged from 12 to 20% per annum. Most projects used the liability group guarantee system, while some provided individual loans. Repayment rates proved to be high, generally above 90%. If borrowers showed that they could honor the terms of the loan, they were often eligible for a subsequent and larger loan. The retention rate of microfinance project clients was high.

The Government ceiling on interest rates meant that projects were faced with the problem of recouping sufficient charges from borrowers to cover the high cost of delivering microfinance. Despite interest rate restrictions, and after five or so years of operation, some microfinance pilot projects have become operationally self-sustainable.⁴⁰ By the end of

⁴⁰ Operational self-sustainability is defined by the Consultative Group to Assist the Poorest (CGAP) as having cash receipts from financial-service clients at least sufficient to cover the non-financial (that is, excluding cost of funds) cash costs of providing those services. A program is defined by CGAP as reaching full financial self-sustainability when it is profitable after adjusting its financial statements for the following non-cash items: (i) loan loss provisions; (ii) depreciation; and (iii) adjustments for inflation and subsidies, treating all of its funding as if it had a commercial cost.

Box 5: Explanation of the “Funding of Poor Cooperatives” Projects

The microfinance projects of the Funding the Poor Cooperatives (FPC) was an “action-research plan” of the Rural Development Institute of CASS conceptualized in 1993 and formally launched in May 1994. FPC introduced microfinance into the PRC using the internationally-recognized Grameen Bank (GB) model to test its utility in government-funded poverty reduction programs. Three problem areas were researched: (i) difficulties that poor families have in obtaining loans; (ii) difficulties they experience in loan repayment; and (iii) difficulties related to the sustainability of microfinance organizations.

From the beginning of 1994 to November 1995 (from the first loan issued in Yixian County by the first FPC to the start-up in Nanzhao), the central task of the FPC projects was to achieve effective and efficient operations given a fixed funding supply and standard technology. At this stage, the focus was on how to make loans effectively to poor rural families and assure high loan repayment rate.

From the end of 1995 to 1996, FPC projects began to address organizational problems. Importance was placed on organizational development, formulation of regulations and development of efficient management practices. Financial independence and sustainability were also emphasized.

Since 1997, FPC projects entered a third phase that involved achieving sustainability, exploring approaches for the extension of projects and strengthening organizational capacity and effective management. By June 1999, FPCs had nearly 10,000 loan members. The total loan portfolio was by then seven million yuan and the loan repayment rate exceeded 95%. A uniform interest rate policy was adopted with the nominal interest rate set at 8 to 10% (flat rate) per annum. Compulsory deposit and liability group guarantee systems were used.

Microfinance projects of FPC were mainly operated by civil organizations. An FPC takes an independent corporate form registered with the Civil Affairs Office of the project counties. Leaders of the project counties serve as FPC Board directors. An FPC employs special officials as managers and recruits full-time staff. An FPC has a two-level hierarchy, covering a county and participating townships within the county. The FPC sub-branches at township level are responsible for: (i) establishing member groups and centers and participating in the weekly meetings of these centers; and (ii) supervising implementation, repayment and collection of loans and imposition penalties. FPCs collectively have a Beijing Head Office for general direction and supervision. County governments provide support to individual FPCs, but do not intervene in their internal affairs.

1997, the CASS FCP pilot projects in three counties were examples of financial sustainability.

In addition to interest rate constraints, microfinance projects implemented outside of formal financial institutions existed side by side with other informal financial organizations, all of which were illegal but were tolerated because of their positive contribution to poverty reduction.

Unlike the pilots implemented by NGOs, the formal financial system (ABC and PBOC supervised RCCs) was characterized by its legality, its vast outreach throughout the PRC, and its ability to offer a range of services to its clients including accepting deposits legally. The adoption of microcredit by these institutions as a means of reducing poverty commenced in the wake of the State Council’s decision of 1996 to refocus lending on poor households.⁴¹ Since then microfinance had gained steady policy support and provincial PADOs had government sanction to implement pilot projects through local bureaus using subsidized loan funding channeled through the ABC (ADBC prior to 1998). By the second half of 1998, Government subsidized microfinance projects had expanded rapidly with loans being extended at interest rates of 2.88 to 7.2% (though as of September 1999 all poverty reduction subsidized loans bore a standardized rate of 3.0%). According to LGOP statistics⁴², by August 1998, microfinance projects had issued 600 million yuan in loans in 605 counties and 22 provinces.⁴³

By the end of 1998 PBOC and ABC cast doubt on the legal basis by which PADOs managed poverty reduction subsidized loans when they were not authorized credit intermediaries. Consequently, since 1999, poverty reduction subsidized loans have been directly issued to rural families by the ABC. The ABC controlled credit

⁴¹ CCPCC and State Council Decision of 23 October 1996. Reported in State Statistical Bureau. 1997. *Chinese Agricultural Yearbook*. Beijing: China Statistics Publishing House. And later: *People’s Daily*. 1998. 28 May.

⁴² Wang, S. 1999. *Microfinance Sector in China*. Beijing: Institute of Agriculture Economy, Chinese Academy of Agriculture Science.

⁴³ Provinces and autonomous regions with large-scale governmental projects included Fujian, Guangxi, Hebei, Henan, Liaoning, Sichuan, Shanxi, Shaanxi, and Yunnan. Most programs used funds previously allocated to the subsidized loan program. The largest programs were in southern Shaanxi Province, which in its first year (1996) already reached over 50,000 households.

disbursements and the PADOs simply introduced potential borrowers to the ABC.

Despite the Government's adoption of microcredit techniques (see Box 6), it again proved difficult to provide subsidized loans directly to poor rural, households on a sustainable basis. Poor repayment rates (around 60% or less) and poor credit discipline contributed to making the program non-sustainable. Subsidized interest rates of 3% (compared to official interest rates of 8-10%) made these lines of credit attractive to wealthier households, enterprises and local leaders eager to support revenue-generating industrial projects. Furthermore, the loans are considered to have a welfare dimension that encourages delinquency.⁴⁴ A small survey of one of the model program sites in southern Shaanxi found that loans were going to the rich, small savings groups were non-existent, lending center leaders were chosen by local government rather than members, and timely weekly repayment rates were only 70% - compared to over 95% at the CASS sites.⁴⁵

Another variation of officially approved and supported microcredit schemes is where a microcredit facility is one component of a project agreed to by government. These microcredit projects are often, though not always, funded in part or whole by donors who simultaneously provide technical and advisory assistance. Examples of such microcredit projects include the AusAID-financed Qinghai Haidong project with funding of 12 million yuan (now operated by the ABC), and the RCC project of Luanping County, Hebei Province.

For microcredit, financial organizations (the ABC and RCCs) have an advantage over the PADOs and NGOs because their established accounting and financial management systems are designed specifically for lending operations. Also, ABC and the RCCs have the legal status necessary to undertake microfinance activities and, to accept deposits. Commentators generally agree that if these financial institutions could charge interest rates sufficient to cover costs, they may well be able to provide microcredit to the poor on a long-term financial self-sustaining basis.

PHYSICAL INFRASTRUCTURE DEVELOPMENT AND RURAL POVERTY REDUCTION

The Government attaches high priority to the provision of economic infrastructure. Consequently, substantial investment has been made in irrigation and drainage works, roads, and more recently, small-scale hydropower facilities, potable water supplies for people and animals,

electricity and telecommunications. Improvements in rural infrastructure have impacted positively upon poverty reduction. Table 25 summarizes some of the identified impacts of different types of infrastructure.

Box 6: Poverty Alleviation Office Microcredit Experiments

The Foreign Capital Project Management Office under the State Council's National Poverty Alleviation and Development Office has been experimenting with various World Bank funded microcredit schemes for poverty reduction.

The primary objective of these experiments was to establish a localized model and regulatory framework suitable under PRC conditions for taking credit benefits directly to the poorest households. There are several characteristics being tested as part of developing a localized model:

- (i) the models provide rural credit and emphasize technical and management training services;
- (ii) microcredit programs are professionally managed using a contractual-responsibility management approach and hiring staff by open application;
- (iii) technical assistance to borrowers by way of a specially designed training component and information in print or video format so as to improve farmers' micro-management capacity over the income generating activities being financed;
- (iv) computerized information management networks are put in place to provide timely alerts as to potential lending risks or crises; and
- (v) microcredit operations are to be subject to independent auditing.

There are two pilot project counties whose models have scaled-up to be the largest in the PRC. These models have been adopted by the World Bank for duplication within Guizhou, Guangxi, and Sichuan as an integral part of the Southwest Poverty Reduction Project.

Source: NBS, 2000a.

Poverty reduction and quality of life gains are especially important aspects of rural infrastructure provision. Labor intensive construction of infrastructure projects has an added poverty reduction impact, provided the poor are paid for their labor.⁴⁶ Rural roads allow farmers better access to agricultural inputs like fertilizer and reduce costs associated with bringing goods to market.⁴⁷ Rural roads also improve access to education and health opportunities. Health benefits in terms of reduced

⁴⁴ Park, A., and Q. Chang. 2001. *ibid.*

⁴⁵ Park, A., and Q. Chang. 2001. *ibid.*

⁴⁶ Pouliquen, L.Y. 1999. *Rural Infrastructure from a World Bank Perspective: A Knowledge Management Framework.* Washington, DC.: World Bank.

⁴⁷ Wanmali, S., and Y. Islam. 1997. Rural Infrastructure and Agricultural Development in Southern Africa: a Center-Periphery Perspective. *The Geographical Journal* 163: 259-269.

Table 25: Impact of Rural Infrastructure on Poverty

Infrastructure	Benefits and Effects
Irrigation	Increases drought-resistance and crop yields Increases multiple cropping potential Supports development of high yielding cash crops Improves farm income and food supply Improves soil and water conservation
Small rural hydropower	Uses renewable resources Provides energy for agro-processing and other industries allowing more rural value added Reduces incineration of straw and fuel wood contributing to reduction in pollution and forest conservation Creates new income opportunities Has significant other quality of life impacts
Clean water supply	Reduces disease and morbidity Reduces medical expenditure Reduces the time spent getting water which is a task performed mainly by women and children Reduces disputes over water supplies, raising social stability Improves social and living environment
Rural roads	Facilitates access to inputs and markets for agricultural produce Reduces transportation costs Facilitates labor migration Opens opportunities for new businesses and greater rural value added

mortality and morbidity are outcomes associated with the provision of safe drinking water and sanitation.⁴⁸ This is an example of a social multiplier, because better health is not simply a good in and of itself, but is also linked to higher incomes. As many authors have shown, healthier individuals have higher productivity and are more likely to be in the labor force.⁴⁹ Similarly, if infrastructure investments allow children better access to schooling, improve their attendance or allow them to study longer, this may lead to indirect, long-run benefits in terms of

⁴⁸ World Bank. 1994. *World Development Report: Infrastructure for Development*. Washington, DC.

⁴⁹ Bloom, D. E., and P. N. Malaney. 1998. Macroeconomic Consequences of the Russian Mortality Crisis. *World Development* 26; Grossman, M., and L. Benham. 1980. Health Hours and Wages. In Jacobs, P. *The Economics of Health and Medical Care: An Introduction*. Baltimore. University Park Press.

higher productivity or income. Irrigation allows farmers to cultivate their land more intensively and sometimes increase the number of planting seasons annually, which may allow them to move from subsistence to cash crop production.

A recent IFPRI research report has attempted to quantify the rural poverty reduction impacts in the PRC of different types of public investments by building and applying a socio-economic model based on a suitably-lagged time series of interrelated variables.⁵⁰ It may be that the quantitative relationships within their model still need further validation given the softness of poverty reduction statistics and the variability in poverty reduction impact as programs confront more inextricable forms of poverty. Of the public investments they tracked and related to poverty reduction in 1997, they found education to have the highest poverty reduction impact, followed by agricultural research and development, followed by roads. These impacts were most pronounced in the Western region - see Table 26.

Table 26: Returns of Public Investment to Poverty Reduction, 1997

	Coastal Central Western Average			
	<i>no. of poor reduced per 10,000 yuan expenditure</i>			
Education	2.73	5.38	28.66	8.80
Agric R&D	1.99	4.40	33.12	6.79
Roads	0.83	3.61	10.73	3.22
Electricity	0.76	1.65	6.17	2.27
Telephone	0.60	1.90	8.51	2.21
Irrigation	0.55	0.77	4.06	1.33
Poverty loans	0.88	0.75	1.49	1.13

Source: Fan, S., Linxiu Zhang, and Xiaobo Zhang. 2002. *Op.cit.*:IFPRI

Often the impact of infrastructure provision can best be seen by labor time savings and labor reallocation among men, women and children within a village. Roads, convenient access to safe drinking water and the provision of electricity are often credited with major labor savings that are reinvested into other economic activities or allow for quality of life gains.

There is unquestionably considerable variation in the relationship between specific rural infrastructure development programs and poverty reduction. The Government has many broad development strategies to pursue. It is not necessarily the dominant development needs of the poor that determine rural infrastructure creation priorities. Some infrastructure programs may

⁵⁰ Fan, S., Linxiu Zhang, and Xiaobo Zhang. 2002. *Op.cit.*: IFPRI.

even have placed unintended pressure on the rural poor. An example of this occurred in the 1980s when a strategy of infrastructure development to expand urban and industrial lands was pursued an important means to promote urban growth. As a result, the area of irrigated land fell from 7.33 million *mu* to 7.25 million *mu* (that is 0.49 million hectares to 0.48 million hectares).

In the main, however, rural infrastructure projects have direct and/or coincidental spin-off benefits for the poor. During the 15 years from 1986 to 2000, a policy focus on water supply saw more than 77.25 million people and 83.98 million draught animals in poverty-stricken areas gain adequate access to safe drinking water. Additionally, by the end of 2000, 95.5% of administrative villages within poverty-stricken areas had stable access to electricity, 89% were accessible by road, 69% had postal service, and 67.7% were connected to telecommunications services.⁵¹

Key infrastructure trends of relevance to the rural poor are summarized in Table 27.

Table 27: Rural Infrastructure Trends in the 1980s and 90s

	Water	Irrigation	Power	Roads
1980s	Access problem solved for 39 million; 160 million remain with problems	Irrigated land falls from 7.33 to 7.25 million <i>mu</i> .	Capacity increases from 12,000 to 25,000 kW. Begin construction of 110Kv local power grids	Growth of demand for roads as economic activity picks up. Construction cannot keep pace with demand
1990s	Number without access fell to 69 million	Irrigated land increase from 7.25 to 7.84 million <i>mu</i> .	Extension of local power grids, more local power stations come on line	More than 250,000 km of rural roads added to the network since 1980 (increase of 40%) but quality quite variable

THE FOOD-FOR-WORK SCHEME TO REDUCE POVERTY (YIGONG DAIZHEN)

Since 1984, the Government has used the FFW development program to assist poorer areas through road construction, small hydropower works (including electric grid renovation), land terracing and agricultural improvement (including upgrading low to medium yield

fields), irrigation projects, rural telecommunications (relay stations and lines), and drinking water supply facilities. This infrastructure has been built by coordinating surplus rural labor available during agricultural off-seasons. Labor was originally rewarded in kind by the Government drawing down its own excess stock of commodities (*e.g.*, grain, cotton, cloth and industrial goods). By 1996, there was a shift to paying FFW labor in cash and provision was made in the national budget to cover these payments. FFW projects have combined to both create a strong infrastructure foundation for economic and social development within poor regions, as well as furnishing short term paid employment opportunities for poor farmers during the agricultural off-season.

By the end of 1999, Central Government spending on FFW totaled 36.4 billion yuan (prior to 1995, the combined monetary value of all goods allocated to FFW projects was 16.9 billion yuan). In the 15 years from 1984 to 1998 FFW projects had achieved commendable additions to rural infrastructure. Three hundred thousand kms of new or improved rural roads had been built; 63 million people and 54 million livestock had been acquired access to safe drinking water; 55 million *mu* (3.67 million hectares) of farmland had been developed, 83 million *mu* (5.53 million hectares) of sloped land had been terraced; 42,000 km² of land degraded by soil erosion had been brought under control; more than 46 million *mu* (3.07 million hectares) of timber and orchards were planted; and telecommunications and rural electricity had been provided.

The county level of government is the basic implementing unit for the FFW program. County-level Development and Reform Committees, bearing in mind regional development priorities and policy objectives, formulate project proposals across various infrastructure sectors on the basis of applications from the government departments. Proposals are submitted to the National Development and Reform Committee (NDRC) at the next higher level of government which, after referring to poverty incidence and regional investment data provided by the National Bureau of Statistics (NBS), decides on FFW financial allocations. Based on these allocations, projects are finally decided by review at the county level. Factors that influence NDRC allocation of FFW funds include:

- Population of the poor throughout a region;
- Location and distribution of poor counties;
- NBS data on the poor county's per capita net income;
- NBS data on the poor county's per capita expenditure.

⁵¹ LGOP White Paper, 2001.

Often the engineering and implementation of FFW projects is subcontracted to line agencies or institutes. In larger projects, specialized bureaus from the provincial level will take responsibility from project implementation, while other departments may supervise construction quality. The relevant local department takes responsibility for maintenance upon project completion. Generally FFW project funds cease upon the completion of construction and no further funding is available for management and maintenance costs. The recruitment of manual labor and management of the specific FFW funds are undertaken by local governments (county, township and administrative village).

The SDPC carries out work inspections each year on the FFW projects throughout their respective regions. Such inspections include financial accountability, auditing, monitoring and evaluation of project completion. On occasion, such inspections are carried out cross-provincially to ensure their reliability.

According to FFW policy, FFW finance provided by the national government should be matched by counterpart funding from both provincial and county levels. Experience demonstrates, however, that due to the already impoverished nature of local financial budgets, local government counterpart funding is rarely provided. Instead what commonly happens is that central funds cover the capital equipment and materials costs of construction, while voluntary labor contributions by villagers are called on to offset the shortage in counterpart funding. This was possible because at least until the end of the 8-7 program, villages in most rural regions operated on a 'work day contribution system,' whereby each able-bodied adult villager was obliged to provide a certain amount of manual labor days annually to Village Committee determined projects.⁵² Zhu and Jiang (1996) have estimated that as much as 40% of labor used within FFW infrastructure construction projects has been uncompensated.

This free labor contribution has been criticized by some observers as an inequitable 'labor tax' under which the poor disproportionately contribute manual labor to FFW projects when compared to households with higher cash earnings. The latter can choose not to participate and instead contribute a set sum of money in lieu of their work day obligation. Admittedly, this tax may not be high since FFW projects are generally implemented in the off-season when there is limited agricultural work to be done. It is possible, however, that the program would bring higher benefits to the poor if all work was paid, even if

this reduced the total amount of infrastructure built.⁵³

Targeting issues: Because FFW projects like those funded under subsidized loans are investment oriented, local leaders invariably balance poverty reduction impact against the economic return of projects. The return to building a road to a very remote village, for example, will be low given the sparse populations served and the high cost of constructing roads in mountainous terrain. Instead, less remote villages with greater populations, and having more favorable natural conditions and surplus labor, are more likely to be selected for FFW infrastructure projects.⁵⁴ Due to a widespread lack of beneficiary participation, apart from manual labor contributions, the top-down manner of project selection and administration means that projects are often adopted on the basis of political and economic development judgments rather than villagers expressed needs.⁵⁵

Expansion of FFW project portfolios in the last decade has also led to claims that their poverty reduction impact is being increasingly undermined by fund diversion to investments with no direct relation to poverty.⁵⁶ Another targeting issue related to funds diversion is the possibility that local governments have substituted FFW funding of projects that were otherwise marked for financing in the their capital construction plans. Where this has happened, FFW funds merely displace other funds and do not greatly increase the amount of infrastructure provided.⁵⁷

Fund diversion has been officially noted and criticized by the National Investigation Commission (*Guojia Shenjiwei*). When conducting an investigation in one part of the country, it found that 32% of designated FFW funding had been siphoned away from key counties marked for national poverty reduction and development into sponsoring various activities in 5 provincial poverty counties and 29 non-poor counties (Zhu and Jiang, 1995).

DEVELOPMENT FUNDS (FAZHAN ZIJIN):

Compared with the subsidized loan and FFW programs, the PRC has a much longer history of providing

⁵² World Bank. 2000. *Overcoming Rural Poverty in China*. Washington, DC.

⁵³ Zhu, L., and Z. Jiang. 1995. Yigong-Daizhen. In *China: A New Experience with Labour-Intensive Public Works in Poor Areas*. In Joachim von Braun, ed., *Employment for Poverty Reduction and Food Security*. Washington, DC.: International Food Policy Research Institute: 75-107; also mentioned in Park, A. 1999. *ibid*.

⁵⁴ Zhu, L., and Z. Jiang. 1995. *ibid*.

⁵⁵ *Southern Weekender*. Zhu and Jiang also document a case where villagers voiced a clear preference for needing more roads, but were instead told to build terraces by county officials.

⁵⁶ Zhu and Jiang in their research mention investments in rural post offices and some afforestation projects.

⁵⁷ Kang, X. 1998. The Commentary on China's Poverty Alleviation. Paper prepared for the UNDP Research Center for Eco- Environmental Sciences, Chinese Academy of Sciences.

budgetary subsidies to poor regions. From 1949 the Government adopted a centralized financial management system in which all local revenues of provinces and counties were turned over to the Central Government and all expenditures required by regions were appropriated by the Central Government. In this system, those regions whose expenditures were more than their revenues automatically received budgetary subsidies.

Even with the fiscal decentralization reforms in the early 1980s, the central Government, through the Ministry of Finance (MOF), continued to provide budgetary subsidies and grant funding for investments in poor regions and counties. These "development funds" comprise four categories, only two of which are included in the poverty investments listed by the national PADO. They are:

- (i) Funds to cover half of the operations of local governments in poor counties;
- (ii) Targeted funds, such as (a) the Development Fund for Assisting Undeveloped Areas (also called *Poor Area Development Fund*), begun in 1980, which allocates 800 million yuan each year to poor areas, including old revolutionary base areas and autonomous counties of minority nationalities; and (b) the *sanxi* (the "three wests"; *three xi*) program begun in 1983, which allocates 200 million yuan each year to 47 counties in three north-west prefectures.⁵⁸ The amount of funding for these purposes did not increase appreciably through the late 1980s and early 1990s, shrinking in real terms. In more recent years, the amount of development funding has doubled.
- (iii) A budgetary subsidy in border areas to be invested in building industry and road improvement, communications, and education.
- (iv) A revolving fund to support enterprises in less developed areas.⁵⁹ This fund includes the following parts: a budgetary fund for assisting the poor (begun in 1988); a fund for meeting the basic needs of residents of minority nationalities regions (begun in 1990); and an additional fund for assisting the poor, (established in 1992). The revolving funds are lent to enterprises and other economic entities, which are required to repay the principal as well as a 2 to 4% management fee after one to three years. These funds in many ways resemble subsidized loans, but are

administered through the fiscal rather than the financial system. In total, there have been more than 200 million yuan in revolving funds each year since 1992. Some provinces have also contributed financing to these revolving funds.

Of the three main Government poverty reduction programs, less is known about the distribution and use of budgetary development funds. This is because of the classified nature of budgetary data. Nonetheless, a number of targeting concerns warrant mention. First, because the development fund program began before the designation of national poverty counties in 1986, portion of these funds continued to be given to counties not officially designated as poor. While this increased coverage if also increased leakage.

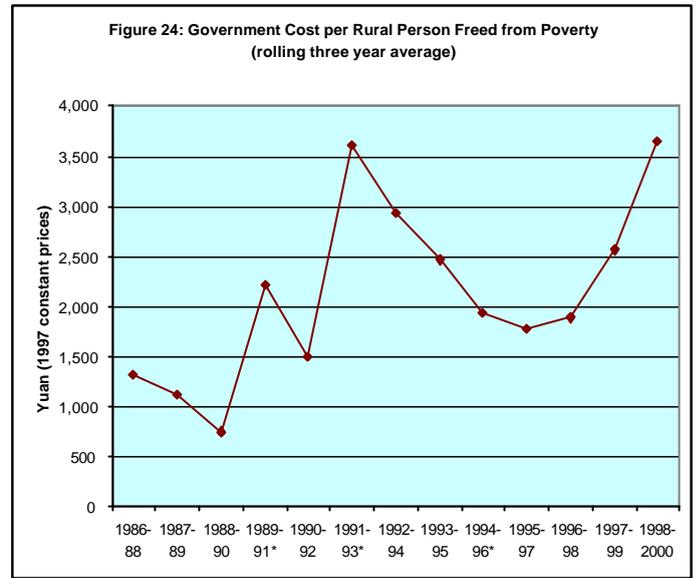
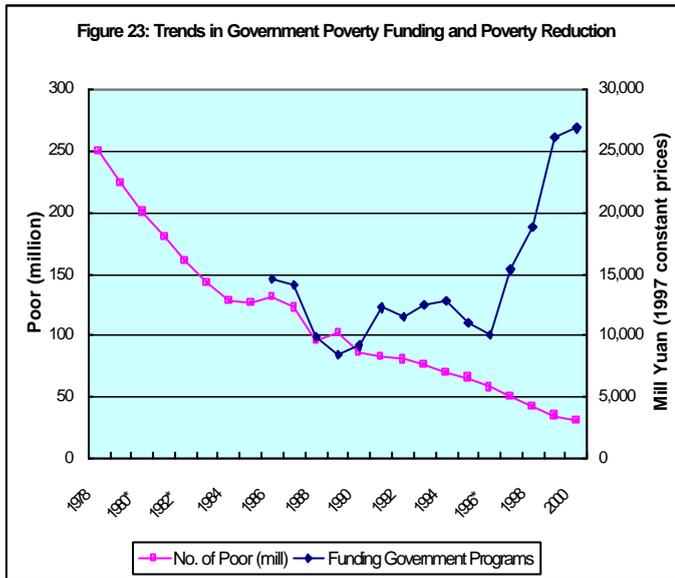
Second, just as for FFW funds, it has been possible for poor counties to substitute development funds for other budgetary resources that would have been allocated for similar purposes, reducing the impact of such funds on realized investment. Assuming perfect fungibility, development funds, at worst, act as a pure budget subsidy thus helping local governments in poor counties meet their own fiscal agendas, even if these lack the development focus that national leaders preferred. However, if the level of development fund financing also affected the subsistence transfers negotiated between levels of government, the crowding out problem could be more severe. In poor areas where budgetary crises have forced governments to delay or suspend wage payments, there is also the danger that funds would be diverted to non-productive uses.

Regulations stipulating that development funds must be used to benefit poor households by developing projects probably prevent full crowding out. However, local governments have a stronger influence on the use of these funds than on subsidized loans or FFW funds. Thus the danger of biases toward revenue-producing enterprise investments may be greater, although some projects do benefit to poor.

The Government is concerned about these targeting problems. According to a review by the National Investigation Commission (*Guojia Shenjiwei*) in one part of the PRC, approximately 14% of the Development Fund assistance was used in non-poor counties and an additional 14% was unaccounted for with the suspicion of improper or corrupt practices (Zhu and Jiang, 1995).

⁵⁸ Dingxi and Hexi in Gansu, Xihaigu in Ningxia. Each place has "xi" or "west" in its name, hence the "three wests" program. About 1 billion yuan in targeted funds are provided annually.

⁵⁹ About 200 million yuan per year.



Sources for Figures 23 and 24: Derived from figures presented by the Executive Director of the China Foundation for Poverty Alleviation to an International Conference on NGO's held in Beijing in October 2001

RISING COST OF GOVERNMENT PROGRAM PER UNIT OF POVERTY REDUCTION

As the PRC progressively reduced its poverty levels from 1978 onwards, it moved from being able to help a large number of poor impoverished because of a limited range of straight-forward factors to trying to assist a remnant body of rural poor whose condition of poverty is caused by a complex and only marginally responsive set of factors. The law of diminishing returns proves to be true for poverty reduction when viewed in the medium to long term. Figure 23 aligns the long term trend in rural poverty reduction against the expenditure, in constant prices, on the official government poverty reduction programs (*zhengfu fupin*) from 1986 to 2000. Since 1996, there has been a steep increase in real spending on the official programs. However poverty reduction continued on its gentle decline. This suggests a sharply rising unit cost in poverty reduction.

Figure 24 shows the trend of the unit cost in constant 1997 dollars to the official Government poverty reduction program of assisting rural poor escape poverty. To reduce year-on-year variations to medium term trends, Figure 24 sets out unit cost of poverty reduction on a rolling three year basis from the period 1986-88 to 1998-2000. Since 1988, the cost to the PRC Government of releasing one rural person from poverty has been rising. After fluctuating around 1,500 yuan per person (in 1997 constant prices) between 1986 and 1992, there was a significant rise in unit costs before the commencement on the 8-7 program. During the 8-7 period (1994-2000), there was a parabolic trend line rising sharply towards the end of the program. Over the last three year (1998-2000) period, the official poverty reduction programs were spending 4,086 yuan (in 1997 constant prices) per rural

person freed from poverty, more than double the level of effort at the beginning of the decade.

The national poverty line in 1997 constant prices was 640 yuan per capita per annum. Thus unit cost to the Government of freeing one rural person from poverty represented 6.4 years income at the poverty line level. Such a high figure not only underlines the diminishing returns to poverty reduction programs, but raises the question of improving the efficiency with which poverty reduction funds are used.

THE GOVERNMENT'S 2001-2005 TARGETS AND STRATEGIES FOR POVERTY REDUCTION

The new strategies and targets adopted to reduce and eradicate what remains of hard core rural poverty are set out in several key documents and policy announcements. One key document is the *Outline for Poverty Alleviation and Development of China's Rural Areas (2001-2010)* released shortly after a high-level Government meeting on poverty held in May 2001. The basic approaches are also spelt out in the final chapter of the Government's Poverty White Paper (*The Development-oriented Poverty Reduction Program for Rural China. October 2001*). There are also several components of the *Tenth Five Year Plan (2001-2005)* that are directly relevant to poverty reduction.

These strategies and targets have been given additional impetus by the adoption of the concept of *xiaokang* at the 16th Party Congress in November 2002 as the overall mission of the PRC's new leadership. *Xiaokang* is a home-grown concept rooted in China's ancient past, and refers to building a society in which all have a moderately

affluent life, both materially and socially. As the current top priority theme, it heightens the resolve of Government to narrow the growing gap between city and countryside and achieve greater equality of livelihoods between the richer Eastern region and the poorer Central and Western regions.

The Government's poverty reduction strategy from 2001 to 2010 has several strands. The small number of needy people without enough to eat or wear are to be helped to attain an acceptable minimum standard of living as soon as possible. Basic production and living conditions of the poor areas are to be further improved, and the construction of infrastructure therein will be accelerated. Focusing specifically on poverty-stricken people, their eco-environment will be improved, and their social, economic and cultural deprivation will be changed to provide them with a comfortable life.

These new strategies will emphasize listening to what

poor people themselves have to say about their problems and plans for development. Township and county governments will make a major adjustment in the traditional public administration planning process. They will be expected to integrate their planning with the new grass-roots poor village development planning, rather than determining the local development plans from above. The national government will designate key counties for national poverty reduction development work. These key counties and poor villages in non-key counties will be eligible for national poverty funding. Priority will be given to remote and mountainous areas, minority areas, old revolutionary base areas and severe poverty areas.

Table 28 and Table 29 focus on the mid-term period, 2001-2005, and summarize targets related to poverty reduction and the strategies to be adopted to achieve these targets.

Table 28: Government Poverty-Related Targets in Tenth Five Year Plan (2001-2005)

Description	Target	2000	2005
Number of poor assisted with priority to minority areas in inland provinces, and border areas (millions of poor)	30 million poor assisted	30 million	0
Rural per capita income	5% increase per year	2,253 yuan	2,880 yuan
Urban per capita income	5% increase per year	6,280 yuan	8,020 yuan
New jobs for workers from the agricultural sector	increase to 40 million	35 million	40 million
New jobs for urban workers	increase to 40 million	35.6 million	40 million
Urban unemployment	reduce to 5%	3.1%	5%
Gross junior high school enrollment	increase to 90%	85%	Greater than 90%
Gross high school enrollment	increase to 60%	44%	60%
Urban per capita housing to 22 square meters up from 20 square meters in 2000	increase by 10%	20 m ²	22 m ²
Discharge of total pollutants	reduce to 10 % below 2000 levels	20.4 billion tons	Reduce to 10% below 2000 levels
Land treated for soil erosion	25 million ha treated	NA	25 million ha treated
Grasslands treated to prevent desertification	16.5 million ha treated	NA	16.5 million ha treated

Table 29: Government Strategies to Achieve Poverty-Related Targets (2001-2005)

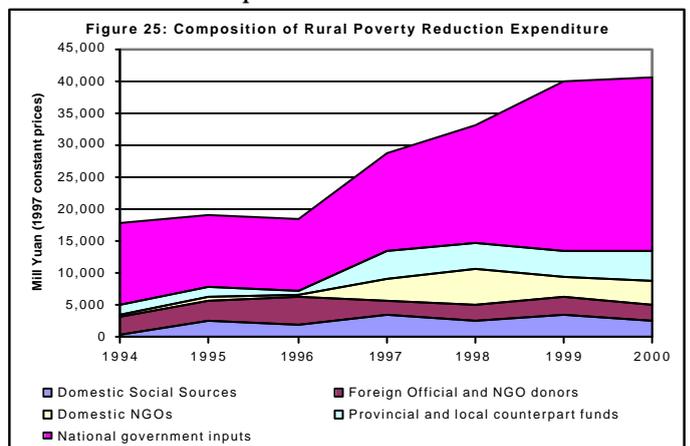
Strategy Focus	Strategy
Rural	<ul style="list-style-type: none"> • Develop industries for processing, storing, and transporting agricultural products • Foster development-oriented poverty reduction, especially in the western, remote, and minority areas. • Increase Government grants and credits for poverty reduction.
Urban	<ul style="list-style-type: none"> • Develop small towns and cities to increase off-farm income opportunities for the rural poor. • Strengthen urban infrastructure and reduce urban pollution.
Rural and Urban	<ul style="list-style-type: none"> • Deepen relations between wealthier and poorer areas under East-West cooperation. • Increase microcredit programs for the poor.
Infrastructure	<ul style="list-style-type: none"> • Construct infrastructure, particularly in the poor western region.
Social Development	<ul style="list-style-type: none"> • Increase standards of living for the urban and rural poor in terms of housing, education, health, environment, and land degradation. • Establish a sound social security system (including support to those with medical, unemployment, pension, old-age, and disability needs) to combat urban poverty.
Employment and Training	<ul style="list-style-type: none"> • Develop labor-intensive industries, especially in the service sector, to create job opportunities. • Offer incentives for people to start their own businesses. • Expand job training and skills retraining to help people adapt better to a market-oriented employment system.
Non-Government Role	<ul style="list-style-type: none"> • Expand the role of NGOs in delivering programs and services to the poor. • Enhance cooperation with international organizations for poverty reduction planning and program implementation.

CIVIL SOCIETY-BASED POVERTY REDUCTION

During the 8-7 Poverty Reduction Program period, the Government’s mainstream programs accounted for 61.7% of the total resources directed at reducing poverty within the PRC. Table 30 sets out the volume in constant prices and share of other contributors to the poverty reduction effort. Figure 25 presents the same information in graphical format. Provincial and counterpart funding supplied 10.6% of total poverty reduction resources. Foreign grant and loan funds from multilateral, bilateral and international non-government organizations (INGOs) provided 10.4% of the total. Donations through domestic NGO’s accounted for 8.6% of the total. The remaining 8.7% came from other sources.

The category in Table 30 labeled “funds from other sources” encompasses responses to the Government’s call for government units at all levels, and their personnel, and

enterprises to act in a socially responsible manner by helping in the poverty reduction effort. This category is not disaggregated between government units and staff on the one hand, and enterprises on the other.



Source: See Figures 23 and 24, p. 67.

Table 30: Total Poverty Inputs 8-7 Program - Constant 1997 Prices. (Unit billion yuan)

	Type of Support	1994	1995	1996	1997	1998	1999	2000	Total	% share
1	National government inputs	12.72	10.89	11.07	15.30	18.48	26.46	27.18	122.11	61.7
a.	Subsidized loans	5.91	5.03	5.73	8.50	10.10	15.38	15.38		
b.	Development funds	1.61	1.44	1.33	2.82	3.33	4.41	4.82		
c.	Food for work	5.20	4.42	4.10	4.00	5.05	6.67	7.08		
2	Provincial and local counterpart funds	1.44	1.88	0.76	4.46	4.06	3.85	4.61	21.06	10.6
3	Foreign loan funds	1.66	1.91	2.33	1.26	1.27	1.39	1.48	11.30	5.7
4	Foreign funds (multilateral, bilateral, INGOs)	1.36	1.56	1.91	1.03	1.04	1.15	1.20	9.24	4.7
5	Donations (NGOs)	0.32	0.33	0.36	3.34	5.45	3.44	3.78	17.03	8.6
6	Funds from other sources	0.38	2.46	2.05	3.49	2.73	3.63	2.47	17.21	8.7
a.	Central ministries and enterprises	0.38	1.05	0.94	0.56	0.60	1.18	1.03		
b.	Provincial and local governments and enterprises		1.40	1.11	2.23	1.79	1.85	1.85		
c.	East-west cooperation				0.70	0.34	0.61	0.63		
	Annual Total	17.86	19.02	18.45	28.87	33.03	39.89	40.72	197.84	100

Source: See Figure 21, p. 57.

INFORMAL NETWORKS

Informal networks are part of society's own coping strategies in a situation where safety nets provided by the state are insufficient. The importance of these networks has continued to be strong in the PRC. As Feuchtwang (1995) argues "poverty is often temporary for a household with a good network so long as the whole region is not destitute". In many cases direct borrowing from these networks is the main source of support in a case of non-expected livelihoods shocks. Keeping these networks vibrant is a form of self-insurance. Informal networks are most useful in less developed areas where options are few, but they also add to the vulnerabilities by failing when the whole network is simultaneously affected by external shocks (for example flood, epidemic and economic shocks).

Some level of organization has been evident in the area between informal networks and the non-functioning state provided support. Informal organizations have been set up for saving and lending and have helped reduce the impact of external shocks that affect the more informal forms of social support. Cook (2003) suggests that "informal safety nets, coping strategies or insurance

mechanisms cannot be viewed in isolation from the broader institutional and public policy environment". Cook gives examples including the impact of the one child policy on the capacity of families to care for elderly family members or the marketization of health services. However effective informal safety nets may be within PRC community culture, they can fail when most needed and in many cases do not include the most poor and vulnerable who lack access to the networks.

PRIVATE SECTOR SUPPORT FOR POVERTY REDUCTION

The most important contribution of the private sector in the war on poverty comes through job creation. Over the period 1995-2000, 59.5% of the jobs created in PRC's economy have been created by the non-State sector. Markets need to be made to work for the poor. To do so requires improving overall governance to create a transparent, predictable system that enables the private sector to flourish. In addition to its role as the engine for job creation, the non-State sector also contributes directly to poverty relief efforts.

Enterprise support for poverty reduction has come from

SOEs and the non-state sector that encompasses domestic private firms (*siying qiye*), small individual businesses (*getihu*), collectives, domestic share-holding ventures and foreign-invested ventures. The domestic private sector is an expanding segment of the non-state sector. It can be defined as domestic private firms, small individual businesses and those collectives that are owned privately but are registered as collectives for legal legitimacy reasons. This domestic private sector has demonstrated dynamic growth and an IFC study has estimated that by 1998, it accounted for 33% of GDP compared to the state sector's 37%.⁶⁰ The private sector has become an increasingly important force in the PRC's poverty reduction effort. From a broader economic perspective, it contributes in other ways as well as creating sustainable employment opportunities for the poor. An expanding private sector makes use of local resources in poor areas and expands local markets, thereby creating demand for the local products of poor farmers. "Fiscal space" can be created when the private sector is allowed to develop infrastructure. This makes room in the Government's budget to allocate more to social expenditure. The private sector with its focus on customer numbers and customer service is able to design creative concessional and non-concessional pricing packages to ensure wide access to basic services. The privatization of public utilities and their effective regulation by Government can lead to pro-poor outcomes. The poor are likely to have better access to these utilities at lower prices. Furthermore, as the private sector grows, so does the reservoir of responsible corporate citizens who see it as appropriate and ethical to play philanthropic as well as commercial roles.

There are many practical examples of the private sector providing direct philanthropic assistance to the poor. The Glorious Scheme or Brilliant Cause (*guangcai shiye*) is one of these. This organization was founded in 1994 by private entrepreneurs and dedicated to helping poor farmers escape poverty. Participating entrepreneurs treat the provision of assistance to the poor as a virtuous cause in line with traditional Chinese ethics that can be summed up in the maxim, "After one gets rich one should assist the poor". The Glorious Scheme combines making profits with aiding the poor. Private entrepreneurs invest for profit in poor areas and create employment and development opportunities for the poor. The concurrent profit motive has meant that the scheme's involvement in poverty reduction has been selective.

By 1998 there were 2,669 private entrepreneurs

participating in the Glorious Scheme with total investments of 7,535 million yuan in 3,598 poverty reduction-related projects. These investments provided 380,000 jobs in poor areas and helped 1.53 million poor people escape poverty. The Glorious Scheme also provided training for 329,700 farmers.

In the wider context of establishing a legal system that reinforces a market economy, the ADB provided technical assistance to help the PRC draft a law enabling trusts to be created. This assistance has borne fruit and the new 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. Indeed Chapter V of the PRC's new 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.

NGO-SUPPORTED ACTIVITIES

Domestic NGOs operating in the PRC derive their legality through registration with the Ministry of Civil Affairs (MCA). Qinghua University estimates that around 126,000 NGOs are active in poverty reduction. Added to this there are around 120 major international NGOs (INGOs) in the PRC also promoting social development. International NGOs currently operate in a legal vacuum as there is no procedure for registering them. Appropriate regulations are being developed, however.

Most domestic NGOs have some degree of linkage with the Government. Notwithstanding this linkage, they operate in a distinct structural environment and in their poverty reduction work have certain advantages, and also disadvantages, when compared to the Government. An indicative set of these advantages and disadvantages is shown in Table 31. Key advantages are the greater accuracy NGOs have in targeting their assistance to the poor, and their greater freedom to respond in diverse and innovative ways to fast-changing needs.

⁶⁰ International Finance Corporation. 2000. *China's Emerging Private Enterprises*. Washington, DC.

Table 31: Comparative Advantages and Disadvantages of NGOs and the Government in Poverty Reduction

	Indicators	Government	NGO
Means of (i) Resource mobilization and (ii) Supervision		(i) Compulsory taxation (ii) Self-regulation	(i) Voluntary donations (ii) Market competition
Comparative advantages	Scale	Large-scale mobilization of resources through compulsory taxation	Mobilize resources that the government does not access
	Efficiency		High targeting accuracy. When supervising use of government resources, facilitates an upgrade in efficiency through competition.
	Sensitivity		Responsive to diversified and fast-changing needs.
	Innovative capacity	Large-scale influence.	Strong drive for innovation.
Comparative disadvantages	Scale	Low transfer rate to poverty reduction effort	Insufficient resources.
	Efficiency	Low targeting accuracy	Narrow focus. Top-down direction (GONGOs). Amateur institutions in early stages of professional development.
	Sensitivity	Neglects needs of small groups. Unresponsive to new needs.	
	Innovative capacity	Inadequate drive for innovation.	Limited capacity for replication

Source: Kang, Xiaoguang. 2001. Research on Chinese NGO Poverty Reduction Behavior.

The Government's policy environment towards NGOs, the social environment in which NGOs operate, their corporate governance structures, and their behavior in approaching poverty reduction, have all impacted how NGOs working on poverty reduction have evolved in the PRC. The result is not a homogeneous type of NGO. Recent multi-variable analysis conducted by Kang Xiaogang suggests that PRC NGOs fall into three types (see). While not stated explicitly in , there is an implied evolutionary progression from Type 1 through to Type 3, which currently is largely the preserve of international NGOs.

The **All-China Women's Federation** (ACWF) is an example of a Type 1 NGO and might be more aptly described as a Government Organized Non-Government Organization (GONGO). Of all NGOs engaged in poverty reduction, the ACWF is the largest. The ACWF works with government departments at all levels to assist poor women. Its own organizational structure reaches from the national level down to villages throughout the country. Poverty reduction activities of ACWF have two distinct features: promoting income generation and social services

provision. These are often conceptually combined in programs. Delivering family planning and female literacy training is an example of this. Family planning education combined with microcredit is another example. The major ACWF activities directly targeted at poor women include:

- (i) training poor women to master new applied agricultural technologies and reproductive techniques. More than five million poor women in 23 poverty stricken provinces and autonomous regions received training through the ACWF in 1998;⁶¹
- (ii) using the Women's Poverty Alleviation Action Program (*jinguo fupin xingdong*) to fight poverty. The ACWF achieved its target of reducing by number of poor rural women by one million poor during the five year period 1996 to 2000 inclusive;
- (iii) promoting mutual assistance of women among regions and within regions by means of two main strategies. The first is by helping poor women to increase incomes and reduce poverty through

⁶¹ ACWF. 1999. *Basic Situation of Poverty Alleviation Activities with ACWF's Involvement*. Beijing.

Table 32: Correlation between Environmental, Structural and Behavioral Variables of 20 NGOs

	Government dimension	Social dimension	NGO dimension	NGO behavior in poverty reduction	Samples
Type 1	Restricted association; limited preferential treatment in taxation; status and operations effectively within current legal framework.	Large gap between the supply of and demand for NGO services; limited resources and operational scope.	Lack of independence; ambiguous visions.	Responsive to Government calls. Resources primarily come from Government. Combination of administrative control and mobilization. Top-down intervention to improve human welfare. Pursuing broad, unchanging objectives. Cooperation with Government authorities.	Amity Foundation Guangcai Cause Association Linju Poverty Reduction and Economic Development Association of Shandong Province Mizhi Science and Technology Association of Shaanxi Province China Association for NGO Cooperation China Youth Volunteers' Association China Occupational Education Association China Youth Development Foundation China Foundation for Poverty Alleviation
Type 2	Restricted association; limited preferential treatment in taxation; status and operations not adequately provided for in current legal framework..	Large gap between the supply of and demand for NGO services; limited resources and operational scope.	Top down direction. Poor management. Organizational vision being shaped.	Attain self-development Resources primarily come from overseas. Mobilization. Top-down intervention to improve human welfare. Comprehensive objectives. Cooperation with local governments and international NGOs.	Yixian County Poverty Reduction and Economic Cooperative of Hebei Province Rural Women Knowing All Magazine Beijing Xingxingyu Education Institute for Children and Autism Yilong Rural Development Association of Sichuan Province Yunnan Healthy Birthing Association
Type 3	Freedom of association; preferential treatment in taxation; legal options to cover status and operations.	Balanced supply and demand. Adequate resources. Considerable operational freedom.	Effective board. Good management.. Mature visions.	Poverty reduction and inclusive approach. Resources mainly from overseas. Mobilization. Participatory. Integrated objectives. Cooperation with government and local NGOs.	Ford Foundation Heifer International Development Organization of Rural Sichuan Oxfam Hong Kong, Yunnan Office Save the Children Plan International

Source: Kang, Xiaoguang. 2001. Research on Chinese NGO Poverty Reduction Behavior.

“Hand in Hand Action” (*shou la shou*). ACWF mobilizes richer and/or better-educated women to help poor women by providing technical and financial support. About 660,000 poor women received this type of assistance in 1996.⁶² The second strategy is to encourage and organize women in the east to assist poor women in the west;

- (iv) organizing poor women in small groups to launch microfinance-based income generation activities. In 1989, the ACWF in Luliang prefecture, Shanxi, started to use rotational lending as a way to help poor women out of poverty. By 1996 when microcredit was accepted by the Government as a major means on achieving poverty reduction, this kind of activity had assisted 240,000 rural women to escape from poverty in many provinces and regions; and
- (v) implementing the “Spring Bud Plan” (*chunlei jihua*) which helps girl drop-outs return to school. This plan is managed by the Children’s Fund of ACWF. The ACWF raises donations for this Fund from overseas and domestic sources. The Spring Bud Plan has collected over 200 million yuan which has helped 900,000 girls return to school.

The ACWF has made a commendable contribution to rural poverty reduction. In its poverty reduction work it has learnt much about the wide variety of rural poverty patterns and of rural community responses to poverty reduction interventions. This wealth of experience and their sensitivity to the constituency they represent (women throughout the PRC) gives ACWF insights into how poverty reduction policies and their implementation can be improved. There is a case for suggesting that the ACWF should extend its role to include policy advocacy and policy dialogue with the mainstream poverty reduction agencies (national and local levels of PADO, NDRC, MOF and ABC).

The **Youth and Juvenile Development Foundation (YJDF)**, and the **All-China Communist Youth League (ACCYL)** are also examples of Type 1 NGOs. These two NGOs launched Project Hope in 1989 and have managed its implementation. The project focuses on improving education conditions and helping school-aged drop-outs return to school. YJDF mobilizes donations from both urban and rural residents or helps donors make direct contacts with recipients. The funds are used to

construct “Hope” primary school buildings. Each school is usually named after the principal donor. Project Hope also pays the tuition for poor students.

By the end of 1998, Project Hope had raised 1.6 billion yuan and built over 7,100 Hope primary schools. Project Hope has played a significant role in developing education in poor areas. Its coverage has extended to 96.3% of all townships and 63.3% of village schools located in national poverty counties.

The **China Family Planning Association (CFamPA)**, **China Population Welfare Foundation (CPWF)**, and **China Population Daily (CPD)** jointly operate Project Happiness. This project commenced in 1995 with a mission to raise funds to help poor mothers escape poverty by improving their access to resources, eliminating their illiteracy and improving their health. The project raises donations from domestic and international sources. It uses a revolving fund technique to assist poor mothers start income-generation activities, combined with a requirement for strict family planning. Each poor mother is provided with a loan of Y2,000 to Y3,000 with a term of one or two years and an interest rate of 3-5% depending on local conditions and the capability of the borrowers. By the end of 1998, Project Happiness had raised 60 million yuan and helped over 40,000 poor mothers in twenty-four provinces and autonomous regions.

The **China Foundation for Poverty Alleviation (CFPA)** can also be categorized as a Type 1 NGO.⁶³ While associated with NLGOP, CFPA is considered a non-profit institution with the goal of promoting economic, cultural, educational, and public health projects for the poor. It receives donations and contributions from individuals, enterprises, and organizations both within PRC and abroad. Since 1989, the foundation has provided 500 million yuan to support more than 200 projects that have helped an average of 60,000 people per annum escape from poverty.

Between 1997 and 1999, over 10,000 poor people were trained in raising pigs and sheep and planting mushrooms. During the same period, 40,545 poor people in the karst areas of southwest PRC benefited from CFPA assistance in transforming mountainous areas into 31,700 mu (2,115 ha) of arable land at the cost of 800 yuan per mu.

The CFPA has also helped poor families in drought-stricken areas of northwestern PRC through the construction of small scale water storage facilities of 40

⁶² Chen, Muhua. 1997. Speech in National Conference on *Women and Poverty Alleviation Action and Double Learning and Double Competition*. Beijing.

⁶³ Formerly known as the Foundation for Underdeveloped Regions in China (FURC).

cubic meters capacity at an average of 1,500 yuan. In 1997, 3,207 storage tanks and 18 pump stations were constructed for a cost of 4.7 million yuan. Beneficiaries numbered 7,700 people. In Sichuan from 1997 to 1999, 600 new timber and brick homes with a floor area of around 65 square meters were constructed and 3,990 existing homes were renovated for poor peasant households. Each family received 12,000 yuan for construction of a new house or renovation of an existing house. In addition, each family received 1,500 yuan for construction of a separate livestock pen, a toilet, an environment-friendly kitchen (with a window), and piped drinking water. About 25,500 poor people benefited from this project.

The information released by CFPA on its achievements reflects a general tendency in the reports issued by domestic NGOs. That tendency is to focus on infrastructure built or the cost of inputs and to imply that all poor people who have access to that infrastructure or cash will be lifted out of poverty. Domestic NGOs recognize the difference between an output (e.g., schools built) and an outcome (e.g., rural people lifted out of poverty on a sustainable basis), but are still in the process of placing more emphasis on evaluating impact.

China National Charities (CNC) is an NGO that arranges funding for the Candlelight Project. This project helps poor rural schoolteachers by providing them with special subsidies and extra training. The project also selects underdeveloped areas in which to launch pilot projects that explore ways of improving living conditions and job skills of teachers, and of developing a support network to help rural schools and their teachers. The organization also sponsors corrective surgery for orphans and funds disaster relief and social welfare programs for older people.

The **China Association for NGO Cooperation (CANGO)**, a Type 1 NGO, was formerly the NGO Division of the China International Center for Economic and Technical Exchange, which is part of MOFCOM. CANGO is a network of domestic NGOs set up to address poverty reduction, environmental protection and social development in poor, remote, and minority areas. It focuses its efforts on integrated community development, primary education for mountain children, training for the rural poor women to improve literacy and working skills, microfinance for poor farmers, and sustainable agricultural development for projects in poor areas related to handicrafts, forestry, stock breeding, fruit development, and agroprocessing.

The **Song Qingling Foundation** carries the name of a maverick woman in modern PRC history. Song Qingling,

having received a quality education in Shanghai and the United States, was driven throughout her adult life by a mission to help educate poor girls and women. The foundation named in her honor is part of her legacy and it supports education for poor female children. Its activities include school construction, stipends, mobile libraries and teacher training. From 1992 to 1998, over 5 million yuan was provided to Ningxia and Hebei provinces under its Aid the Poor and Support Education Project.

This is an abbreviated coverage of NGOs active in poverty reduction. The fact is that the number of domestic NGOs is growing. Their focus is mostly on poverty, rural development, women's issues, health, education, and the environment. The Government's recent White Paper on "The Development-Oriented Poverty Reduction Program for Rural China" (2001) has recognized NGOs as one of the important means of reducing poverty in the future. The White Paper goes further by acknowledging the need to create conditions for NGOs to take part in, or implement, Government development projects in poor areas.

RESEARCH INSTITUTES

A number of research institutes have played key roles in analyzing rural poverty - its root causes, basic conditions of the poor, the behavior of various types of poor communities when interacting with Government and NGO-sponsored activities to reduce poverty and the effectiveness of poverty reduction programs. The research institutes also draw conclusions on improved approaches to poverty reduction. Some of these institutes have had access to the resources necessary to run pilot poverty reduction projects and have been able to use positive field results to influence government policy. These research institutes still receive a significant part of their funding from Government, but are now allowed to be entrepreneurial. They are officially regarded as "social" organizations (*shehui danwei*) and so it is appropriate to include them as NGOs working to reduce poverty.

The following research institutes are the leaders in undertaking poverty-related studies and/or field experimentation:

- (i) The publisher of the *Poverty and Development* newsletter, the China Poverty Research Association, focuses on rural poverty policy studies, microcredit, child nutrition, and training for poverty research methodologies.
- (ii) The Center for Integrated Agricultural Development at the China Agricultural University is a leader on participatory rural appraisal.

- (iii) The Poverty Research Center of the Institute of Agricultural Economics at the Chinese Academy of Agricultural Science undertakes research on poverty standards, policy formulation, rural credit, and agricultural techniques for poor farmers.
- (iv) A leading research institute for micro-credit is the Center for the Study of Poverty of the Chinese Academy of Social Sciences. This center receives Grameen Bank funding for practical experimentation in micro-credit schemes in areas of high rural poverty. The center is also interested in poverty fund flows and program effectiveness.
- (v) A good example of a leading provincial research center is the Yunnan Province Academy of Social Sciences whose Institute of Agricultural Economics has been a progressive force in the study of sustainable forestry management and micro-credit for the poor.
- (vi) Another example of a provincial research group is the Center for Biodiversity and Indigenous Knowledge based in Kunming which includes in its mandate the ongoing enhancement of sustainable livelihoods of poor national minorities

INTERNATIONAL NGOS

There are around 120 major international NGOs operating in the PRC. The official and legal arrangements through which they operate vary because as of 2002, the PRC does not have a standard means of registering international NGOs. Regulations are, however, being developed. Formal status is important as it confers the ability to operate bank accounts, rent office space, provide long-term foreign staff with residence permits and hire local national staff. Fortunately, the legal vacuum has not deterred the inflow of international NGO assistance. A number of international NGOs have chosen to remain offshore and work through domestic legal units (*danwei*). Others have gained legal status onshore through special sponsorship arrangements with State organizations like the Chinese Academy of Social Sciences and the State Foreign Experts Bureau. Still others have registered as "enterprises" with the State Administration of Industry and Commerce. Some have been given county-specific legality by friendly local administrations. All international NGOs will welcome the day when regulations covering their legality and operations are in place.

International NGOs fit into Type 3 of Figure 32. The coverage of these international NGOs in this text is

selective and exemplary. As with domestic NGOs, lack of inclusion of individual international NGOs in this section in no way implies that their valuable and efficient contributions to poverty reduction in the PRC should not be applauded.

The **Ford Foundation** was one of the first international NGOs to be given legal status in the PRC. It provides research grants for examining rural poverty, capacity building using participatory methods, sustainable resource management, and upland development. The Ford Foundation's poverty-related activities are participatory and community based with particular focus on women, minorities, and natural resource management. Its research interests include micro-credit, reproductive health, and migrant population. The Ford Foundation's Rural Poverty and Resources Program explores ways in which poor and disadvantaged farmers can make their voices heard, articulating their preferences, concerns and priorities for their own future.

There are several other international NGOs that concentrate on education, environment, and economic development issues with linkage to poverty reduction. The **Asia Foundation** supports the development of leaders, institutions and policies needed for: (i) effective governance and legal systems; (ii) actively engaged and responsible civil society; and (iii) successful economic reform and sustainable development. The **Worldwide Fund for Nature** has programs for environmental education in poor areas. It focuses on formal education, community education, and developing educational resources. **WWF** has been active in the PRC pursuing its global environmental conservation priorities of targeting forests, fresh water, threatened species, climate change, toxic chemicals, and oceans and coast. While well known for its efforts to safeguard the panda and the Tibetan antelope, its PRC programs cover many other areas.

The **Phelex Foundation** promotes basic education for the financially, socially and physically disadvantaged, especially in poverty stricken areas. The Sustainable Tuition Aid Program focuses on establishing self-sustainable funding sources through school operated work-study programs, educational partnerships, communal participation, and volunteerism. The **Zigen Fund** promotes educational, social and economic development in the impoverished areas. It provides financial assistance to teachers and girls in primary and secondary schools, reconstruction and maintenance of school facilities, and stocking of libraries. Other international NGOs interested in different aspects of poverty reduction include Action Aid, Care International,

Caring for Children Foundation, Development International Desjardins, Kadoorie Charitable Foundation, Medicin Sans Frontiers, Mercy Corps International, Oxfam/Hong Kong, Plan International, Red Cross, Save the Children, Voluntary Service Overseas, Voluntary Service Overseas, Winrock Foundation, and World Vision.

ASSISTANCE FROM INTERNATIONAL DONORS

International donor support to PRC is significant. OECD/DAC data show that in 1999 total Official Development Assistance (ODA) flows on a disbursement basis totaled \$2,324 million and for 2000 totaled \$1,735 (see Table 33). These amounts are roughly equivalent to 2% of the PRC Government's expenditure in the same years on economic construction and social, education, and cultural development. Also in 1999, Other Official Flows (OOF), mainly provided by the OCR window of the ADB and the IBRD window of the World Bank, reached \$2,950 million on a commitment basis. For 2000, long-term loans in the OOF category totaled \$2,976 million on a commitment basis. Of this amount, the multilaterals (primarily the ADB and the World Bank) accounted for \$2,425 million. Projects financed by ODA and/or OOF are leveraged by agreed counterpart funding and staffing.

Table 33: ODA Flows to PRC (Disbursement Basis)

Net Receipts	1997	1998	1999	2000
Total ODA (\$ million)	2,013	2,359	2,324	1,735
Multilateral share	38%	27%	21%	27%
Bilateral share	62%	73%	79%	73%

Sources: OECD-DAC, World Bank.

International donors have progressively elevated assistance to poverty reduction to be a key objective. The donors endeavor to demonstrate sustainable and replicable models for poverty reduction and to influence Government policy and practice in this area. Approaches adopted by international donors can be categorized as: (i) working with the poor to increase income and services; (ii) poverty reduction as an integral part of overall development; (iii) extension of sustainable social services to poor counties and communities; (iv) improving infrastructure and addressing environmental problems in areas where the poor are concentrated; (v) small-scale grants to the poor; and (v) support for research and experimentation.

There is no formally established donor coordination group for the PRC. Donor coordination in the case of the PRC is also complicated by institutional arrangements that have different groupings of donors processing their assistance through different PRC coordinating agencies, with MOF (for the World Bank, ADB and bilateral lending agencies) and MOFCOM (for grant agencies) being the major players. On the positive side, initial steps were taken in 2001 and further steps are underway to establish a donor coordination forum involving all donors, MOF, MOFCOM and NDRC. AusAID has recently financed a capacity building activity to strengthen MOFCOM's ability to foster rational donor coordination. This included a donor coordination workshop in 2002 on how best to rationalize donor assistance in the HIV/AIDS area to best meet the PRC's needs. There are also regular monthly donor co-ordination meetings in Beijing held on a relatively informal basis. Furthermore, the Beijing Office of UNDP publishes a periodic Development Cooperation Report and has compiled a Poverty Compendium for the PRC.

Poverty reduction is an area that has drawn a number of international donors together in cooperative action. In May 2000, ADB, World Bank, UNDP and LGOP co-sponsored an international poverty reduction conference. The main objective of the conference was to make recommendations to LGOP on its future poverty strategy covering the 2000 to 2020 period. Detailed discussions were held on defining and monitoring poverty, social development, macro-economic policies, remote area development, information technology, financing and banking system for the poor, social security, civil society organizations and participation, and the western development strategy for poor areas. This conference led to the ADB supplying policy development support to LGOP in 2001 and the UNDP packaging a complementary capacity building support program.

The following coverage of international donor activity in the PRC to reduce rural poverty is highly selective. Its aim is to give the flavor of what these donors are doing. The omission of any official donors or the sparing references to projects financed by specific donors is in no way a reflection on the valuable contribution their assistance has made, and is continuing to make, to the PRC's efforts to reduce poverty. As this is an ADB publication, the ADB is one of the donors selected for coverage. The more detailed coverage given to the ADB is to demonstrate how an International Finance Institution that lends to the PRC for mainly physical infrastructure projects can attune that lending so that it has a major pro-poor impact.

ASIAN DEVELOPMENT BANK

With the adoption of its new Poverty Reduction Strategy in November 1999, ADB refocused its work to the single, overarching goal of eliminating poverty from the region. All ADB projects address the three pillars of the poverty reduction strategy: pro-poor economic growth, social development, and sound development management for poverty reduction. Three cross-cutting themes add to the focus and effectiveness of these three pillars. They are: (i) the promotion of the private sector; (ii) the pursuit of environmental sustainability; and (iii) regional cooperation and integration for development.

The ADB's comparative advantage in assisting the PRC reduce poverty is to support the pro-poor sustainable economic growth through infrastructure and income generation projects and strengthen sound development management of income and non-income (social and environmental) poverty reduction. As part of the enhancement of poverty reduction impacts of its infrastructure interventions, the ADB will ensure that around 70% of such projects will be located in the western and central areas. In addition, the ADB will strive to increase the participation of the private sector in poverty reduction activities, and help match private businesses and villages for cooperation in sustainable pilot poverty reduction programs, technical transfer, and human resource development.

The PRC is not among the very low-income developing countries and as such does not qualify for the ADB's concessional Asian Development Fund loans. The ADB's loan assistance to the PRC is thus provided on commercial or near-commercial rates. The PRC has a strategy of using "hard" donor money for revenue generating projects, and "soft" donor money for non-revenue generating projects. Thus ADB lending has been drawn to projects in areas such as toll roads, energy, water supply, financial sector, industrial enterprises and agro-processing rather than in direct poverty reduction and basic improvements in rural health and education.

Notwithstanding this, as a matter of ADB policy and practice, through social assessment and, more recently, poverty impact analysis, project design has been deliberately adjusted to have significant poverty reduction effects. In the case of rural poverty, this has been particularly so with physical infrastructure projects and agriculture projects. Furthermore, as many of these projects need land currently occupied by poor farmers, ADB policy and practice has been to ensure that the welfare of such affected persons is re-established on a sustainable basis to at least the same level as prevailed before land acquisitions.

The ADB has also selected and designed its advisory technical assistance (ADTA) grants to promote improved knowledge, policy and practice about poverty reduction. The following points summarize the ADB's strategy to reduce rural poverty in the PRC through its loan and ADTA facilities.

- (i) **Using Physical Infrastructure to Reduce Poverty:** The focus of ADB's physical infrastructure projects has shifted to southwest and central PRC where the majority of the remaining rural poor live. Providing transport links and electricity bring significant benefits to people, especially minorities living in these poor regions. Intra-regional and inter-regional markets for rural produce and products expand, employment opportunities increase and the industrial and services sectors in the project areas grow. Since the mid-1990s, the infrastructure projects funded by ADB have been strategically located in the poor interior provinces and have been designed to simultaneously lead to improvements in the provision of social services. Improved transport links facilitate access to education facilities and health services. However, the linkages between infrastructure investment and poverty reduction can be intricate and the ADB is constantly alert to finding ways of strengthening these linkages. As part of this investigative effort, the ADB in 1999 financed an infrastructure pilot project.⁶⁴ Three poor villages are being observed periodically and change in behavior analyzed. One village has, under the project, been supplied with a simple access road, electricity, irrigation and drinking water facilities. A second village has only been supplied with electricity, and the third is a control village where no such infrastructure has been built.

A review of this pilot project in early 2002 found that the inhabitants in the village receiving a simple package of small-scale infrastructure had benefited through improved income and quality of life, particularly where there was significant participation by villagers in planning, building and operating the new facilities. Important also in realizing the gains was help from rural development experts and NGOs in showing farmers how to make best use of the new infrastructure. Local road improvement has lowered the cost of key items such as coal, fertilizer and house construction materials. Improved access

⁶⁴ ADB. 1999. *A Study on Ways to Support Rural Poverty Reduction Projects*. Manila.

to water has enabled farmers to increase their livestock holdings and significantly reduced the time devoted by women to water collection. Electricity has meant more productive use of the night by adults and children. The provision of infrastructure also increased the number of days worked in a year by able-bodied villagers. It also enabled a higher level of off-farm employment compared to other two villages.

- (ii) **Using Agriculture and Rural Finance to Reduce Poverty:** The ADB has supported agriculture projects that create sustainable, income-generating opportunities. To improve the commercial orientation of the agriculture sector, some ADB financing has been channeled through financial intermediaries for agroprocessing components that have had a significant impact on employment generation and value-added economic activities in rural areas. Emphasis has been placed on improving the policy and regulatory framework for extending credit and improving risk management at ABC. Past ADB credit lines to ABC have emphasized both the importance of investing in poor areas and allowing ABC to exercise independence in determining feasible projects.
- (iii) **Using the Private Sector to Address Poverty:** The Private Sector Group of ADB established the Liberty New World Fund in 2000 with an equity investment of \$25 million. The projects that the Fund will consider include those that have direct and indirect effect on poverty reduction. Since the Fund is invested largely by investors seeking satisfactory returns and the ADB is a minor shareholder and the Fund's primary objective is commercial viability. The Fund will therefore seek opportunities for project investments that will help combat poverty without compromising financial returns.
- (iv) **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. 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 were not to be supported unless they were redesigned to mitigate the negative impacts.

- (v) **Supplying Strategic Policy Advice on Poverty Reduction to Key Government Agencies:** The ADB has been active through its ADTAs in assisting the PRC develop policies and strategies for effective poverty reduction from 2001 onwards. A prime example of this was the ADTA to prepare a methodology for development planning in poverty blocks under the new poverty strategy. This was a joint study of the LGOP and the ADB, with results being presented directly to the LGOP. The outcome of this Study was the acceptance by the Government in 2001 of a highly participatory approach to village development planning and the classification of poverty households feeding responsibly into county-level poverty reduction plans.

Many of the ADB's past projects and TAs in the PRC have had direct and indirect impacts on poverty reduction. Without belittling those impacts, it is fair to say that the pipeline for future ADB activities in the PRC reflects the Bank's policy change in 1999 to elevate poverty reduction to be its single overarching goal.

Appendix 3 describes in more detail ADB activities in poverty reduction in the PRC.

WORLD BANK

The World Bank has rigorously focused on reducing poverty through its assistance to the PRC. Until 1st July 1999, the World Bank provided finance to the PRC through both its soft (IDA) and hard (IBRD) loan windows. The World Bank's direct poverty reduction, health and education assistance was generally financed by IDA loans. On the basis of a reassessment of the level of economic and social development achieved, the PRC graduated from access to IDA in 1999. This means that, like the ADB, the World Bank's poverty reduction efforts since that graduation have been and will continue to be financed on the near commercial IBRD terms.

One of the three key areas of the PRC's development agenda which the World Bank seeks to assist through its country strategy is to:

- address the remaining pockets of extreme poverty and reduce widening inequalities between the coastal areas and lagging interior, thereby helping to maintain social cohesion and ameliorate pressures to migrate.

In the lagging regions, the World Bank will emphasize the quality as well as the quantity of growth by, for example, promoting expanded and effective investment in human development, social protection and the environment, funding transport infrastructure to close geographical distances between lagging areas and leading regions and markets, and providing analysis and advice, when requested, to bring the lessons of international experience to the PRC.⁶⁵

The World Bank's has modulated its assistance program to be more focused on the poorer and institutionally weaker inner and western provinces. Given that the World Bank is constrained to lending to the PRC only through its IBRD window, an exploratory exercise is underway with the Government and bilateral partners to identify a suitable approach for continued financial assistance for social and direct poverty alleviation programs.

A large number of the World Bank's projects in the PRC have had either direct or indirect pro-poor impacts. From the past and on-going country program three major projects with direct poverty reduction objectives have been selected for mention here. These are: (i) the Southwest Poverty Reduction Project; (ii) the Qinba Mountains Poverty Reduction Project; and (iii) the Western Poverty Reduction Project. The Southwest Poverty Reduction Project, begun in 1995 and now completed, was targeted at 35 counties in Yunnan, Guizhou, and Guangxi. It included land development, rural infrastructure, TVE development, labor mobility, education, health, institution building, and poverty monitoring. The total investment is 4.23 billion yuan (including \$247.5 million from the World Bank) and the project was aimed at helping about 2.8 million poor people.

The Qinba Mountains Poverty Reduction Project, commenced in 1997 and now drawing to a close, will assist about 2.3 million poor people living in 26 poverty counties in Sichuan, Shaanxi, and Ningxia. The project activities have been similar to the Southwest Project with the addition of a microfinance component. The total investment of this project is 3 billion yuan including and a \$180 million World Bank loan.

The Western Poverty Reduction Project, approved in July 1999 and currently ongoing, will assist 2 million rural poor living in 20 poverty counties in Inner Mongolia, Gansu, and Qinghai through the same activities as the other two projects. The total investment is 2.7 billion

yuan, including a \$160 million World Bank loan.

There are several projects in the World Bank's pipeline that are directly targeted at poverty reduction. One of these is the proposed Poor Rural Communities Reduction Project which may be approved in 2003. The objective is to improve livelihoods security and achieve sustained participation of the poorest rural people in selected counties of four less developed provinces. Participatory approaches are to be central to all stages of the project cycle. Its components include sustainable mountain agriculture development, basic rural infrastructure, basic education and health. The indicative loan amount is \$150 million. Another is the Basic Education in Western Areas project, which also may be approved in 2003. This project aims to support the universal completion of nine years of quality compulsory education for children in Sichuan, Gansu and Yunnan Provinces and in Ningxia Hui and Guangxi Autonomous regions. As mentioned earlier, several PRC studies have concluded that improved education is one of the most effective ways to reduce poverty. Tentative World Bank financing is \$100 blended with a prospective grant from the UK Department for International Development (DFID). The proposed Gansu and Xinjiang Pastoral Development project is yet another. The targeted beneficiaries are ethnic minority semi-nomadic herders whose livelihoods are to be improved through enhancement of the livestock and marketing production systems. This project may also be approved in 2003 with an indicative loan amount of \$66 million with additional funds from the Global Environment Facility.

UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

UNDP has established an Advisory Board for Donor-Supported Poverty Alleviation Programs in the PRC. The main functions of the board are to: (i) provide advice and proposals on poverty reduction policies and strategies to senior Government officials; (ii) promote donor coordination of poverty-related activities; and (iii) promote information exchange among key stakeholders. The advisory board comprises LGOP, the China International Center for Economic and Technical Exchanges (CICETE) of the Ministry of Commerce (MOFCOM), and UNDP as co-sponsors and core members and MOFCOM, MOF, PBOC, ABC, AusAID, Canadian International Development Agency (CIDA), World Bank, World Food Program (WFP), International Fund for Agricultural Development (IFAD), United Nation's Children's Fund (UNICEF), the Ford

⁶⁵ World Bank. <http://www.worldbank.org>

Foundation, the RDI of CASS and ADB as other members. UNDP is pursuing microfinance as a major agenda item with the board.

UNDP works with the CICETE to support demonstration projects for the poor at the grassroots level. An example is a four-year \$2 million project for Poverty Alleviation and Sustainable Development in Ganzi and Aba Prefectures of northwest Sichuan Province. The project focuses on providing microcredit, mainly to women from poor households, for both on-farm and off-farm activities with attention to participatory mutual help group formation, improved technologies for sustainable agriculture, skills training, and natural resource management.

OTHER UN AND REGIONAL AGENCIES

A range of other UN agencies are active in China. These include UNICEF, the World Food Program, IFAD, FAO, UNFPA, ILO and UNESCO. Also increasingly active is the European Union. Details of their past and pipeline projects in the PRC are generally available on their respective websites.

BILATERAL DONOR ASSISTANCE

Bilateral donors have generally made assistance for poverty reduction their top, or one of their top themes in their assistance to the PRC. Table 34 sets out net ODA flows to the PRC during 1998-99 and 2000 from major bilateral donors. Because ODA represents grant and soft money, the Government agencies coordinating donor assistance are positively disposed to directing much of the funds into direct poverty reduction activities. The following paragraphs give a brief flavor of some of the poverty-related projects supported by a random selection of bilateral donors to the PRC. Those donors not included in this text are making their own valuable contribution to the PRC's fight against poverty and publishing research papers, project assessments and evaluations that assist other donors better design their projects to be effective under PRC field conditions.

Japan: Japan's provides its assistance to the PRC through two implementing agencies: the Japan International Cooperation Agency (JICA) for technical assistance; and Japan Bank for International Cooperation (JBIC) for financial assistance. Japan provides about \$20 million in grants per year to assist the poor, mainly in the education and health sectors. A unique feature of its program is the \$100,000 community grants for rural areas. The key criteria for such projects are participation of the poor, sustainability and effective monitoring. Microfinance

Table 34: Net ODA to PRC from Major Bilateral Donors

Major Bilateral Donors of net ODA	1998-99 average	2000
	\$ Million	\$ Million
Japan	1,192	769
Germany	313	213
United Kingdom	57	83
France	38	46
Spain	27	32
Australia	26	29
Canada	42	29
Netherlands	24	25

Source: DAC of the OECD.

programs for the urban poor are currently under consideration and a pilot is being tested outside of Beijing.

JICA's poverty reduction program focuses on urban and rural health, middle and primary schools in poor counties, rural production including soil and water supply technologies, social security reform, and women and development. JICA grant aid activities include support for health, education, research, agriculture, environment, communications, transportation, fisheries, and grain production.

In December 1999 JBIC formulated a *Medium-term Strategy for ODA operations in the PRC*. One focus area is food security and poverty reduction. Other foci, such as inland development; and social and economic infrastructure development are also closely interrelated with poverty reduction. JBIC has been considering how to make its assistance more explicitly pro-poor and, wishing to do so in an informed way, is compiling a PRC poverty profile report.

Germany: German assistance for poverty reduction is channeled through GTZ, KfW, and governmental grant funds. GTZ focuses on five main areas: vocational training and education; economic and structural reform; poverty reduction and food security; transport; and environment and resources protection. One of GTZ's exemplary pro-poor activities in the PRC has been the Sino-German Poverty Alleviation Program in Henan and Yunnan Provinces. GTZ has provided a DM 2.4 million

grant to support this program. Its main components are water supply, soil conservation, afforestation, terracing, and technical training. In this and other projects, GTZ stresses the participatory approach method and makes regular use of United Nations Volunteers (UNVs). Overall, GTZ provides about \$3.3 million per year for direct rural poverty reduction projects. GTZ is currently considering how to support urban poverty.

KfW focuses on environmentally sound infrastructure construction, environmental protection, and economic reform. Its activities in supporting renewable energy and environmental protection in the PRC in areas such as afforestation, forestry management, and nature conservation, improve the livelihood options of the rural poor as well as the non-poor.

United Kingdom The Department for International Development (DFID) has established poverty reduction as a central goal of its strategy in the PRC. It focuses on environmental improvement, primary education, health, and social services reform. An example of this focus is the Yunnan Environmental Development Programme (YEDP) which seeks to identify and demonstrate strategies and approaches for redressing environmentally-related rural poverty. It is a process program with activities being defined and scheduled progressively in collaboration with Yunnan's PADO, Development Planning Committee and Environmental Protection Bureau. A "Preliminary Integrated Strategy" for reducing this category of rural poverty has been completed and grass roots pilot projects are being designed so that their field results can be used to refine the strategy. DFID is providing \$9.6 million as a grant in support of this program. This is a four year program which commenced in 2001.

Australia: The objective of the Australian aid program to the PRC is to alleviate poverty and support sustainable development. The program's direct poverty reduction projects are in the health, education and rural development sectors, and include microcredit and income generation activities. The program is focused geographically in the western and central regions. Of note is the Qinghai Community Development project with its Microfinance Consolidation follow-on (A\$5.4m). Launched in 1994 with a one year inception phase to develop an optimum pro-poor design, the follow-on microcredit component will be completed by mid 2003. It focused largely on establishing income generating activities for poor households, training to improve delivery to the poor of agricultural extension, health and education services, and the provision of credit. Its main goal is to improve the living standards of poor

households in 112 villages and 28 townships. The Ningxia Child and Maternal Health project (A\$5.7m), and the Primary Health Care and Water Supply Project in Tibet (A\$3.4m) are other examples of rural poverty reduction projects with the added feature of being particularly directed towards women.

Canada: The poverty orientation of the Canadian International Development Agency (CIDA) is on income generation, social services, food security, participatory approaches, and gender issues especially in western PRC. Canada provides about \$25 million in grants per year for development activities of which 25 to 33% is used for income generation for the poor in rural areas. Priority projects are in the areas of agriculture, health, education, irrigation, fertilizer, and terracing. CIDA stresses the importance of sustainable income-generating opportunities in all of its poverty reduction activities. Recent projects specifically targeted at rural poverty reduction include, but are not limited to, the following:

- i) Xinjiang Women's Income Generating Project (C\$5m with a duration of 1996 to 2002) which improved women's access to and control over income through functional literacy, business management and skills training as well access to credit. It has targeted women in villages with primarily minority populations. Project activities included training, the identification and strengthening of existing and the establishment of new local micro-credit/savings and loan organizations and the development of viable, profitable individual and group-owned enterprises;
- ii) Integrated Rural Development Poverty Reduction Project (C\$6.2m with a duration of 1996 to 2003). The goal of the project is to increase household livelihood security in terms of food, income levels, basic health and nutrition, and social well-being of targeted poor populations in selected "poverty counties" of Ningxia, Gansu, Shanxi and Guizhou, and develop an increased PRC capacity to address poverty alleviation. Emphasis has been placed on the "soft" training and technical assistance activities rather than on physical infrastructure and equipment; and
- iii) Canada Fund for Local Initiatives Project (C\$0.8m with a duration of 2002/2003 renewable annually). This is an innovative pro-poor approach to provide a responsive small-project fund administered from the Canadian Embassy in Beijing. It is designed to finance local initiatives providing technical, economic or social development assistance to local populations, with

particular emphasis on seven of the PRC's poorest provinces and autonomous regions. While initially it is working through existing governmental organizations at the provincial level and below, it will seek to cooperate with PRC NGOs, as and when opportunities arise.

RISING TOTAL COST PER UNIT OF RURAL POVERTY REDUCTION

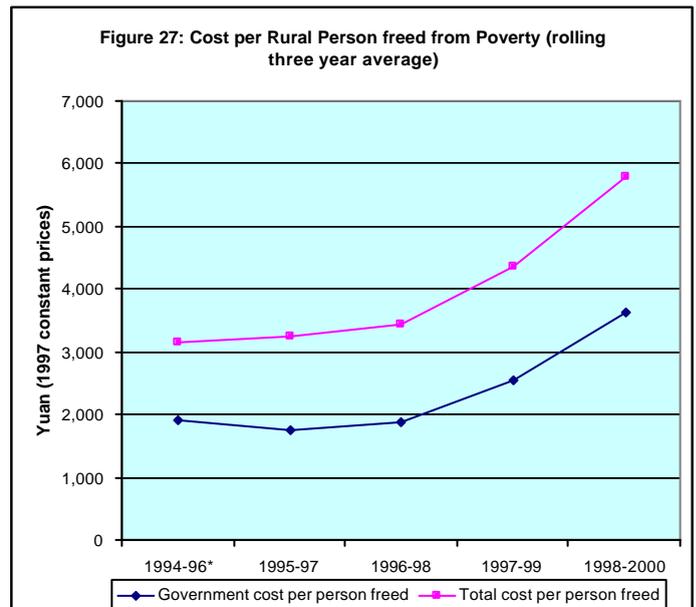
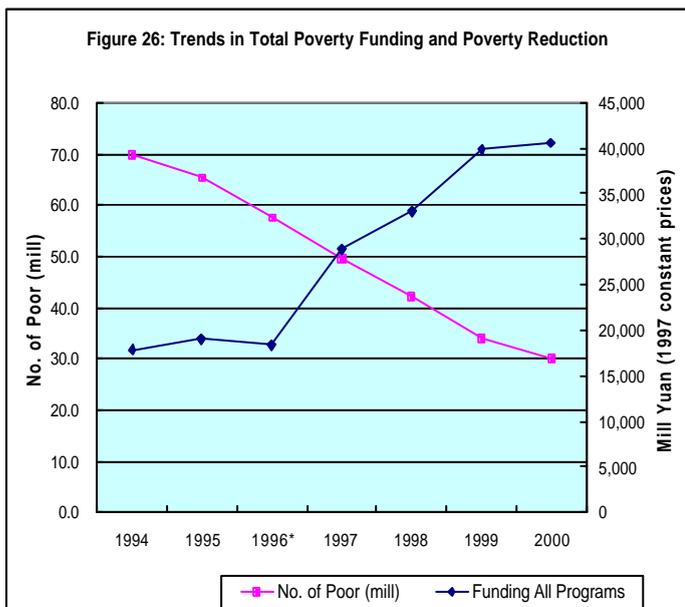
Now that all strands of the rural poverty reduction effort in the PRC have been covered in this text - that is Government, society-based and international donor assistance - it is possible to take a global overview of the unit cost of freeing people from absolute poverty as defined by the PRC's official poverty line. Figure 26 and Figure 27 not only incorporate Government expenditure specifically on rural poverty reduction (as shown earlier in Figures 23 and 24) but expand expenditure and unit costs to cover all specific funding of rural poverty reduction from all sources.

Figure 26 compares for the 8-7 Program period the trend in the numbers of rural people released from poverty with the total expenditures from all sources directed at poverty reduction, expressed in 1997 constant prices. While there has been a fairly regular trend line for achievements in poverty reduction numbers, the expenditure changes from a horizontal trend between 1994 and 1996 to a steeply rising trend thereafter reaching 40,718 million

yuan in 2000 (in constant 1997 prices). This reflects the increase in the unit cost of freeing the rural poor from poverty.

Figure 27 processes this information by one further step to present both the total cost from all sources and the mainstream Government program cost per rural person freed from poverty expressed in 1997 constant prices. The funding amounts are compounded into three year rolling averages to smooth out the effect of single year swings in expenditure and/or poverty reduction achievements. This approach is more likely to give an accurate picture of the underlying reality. Between the three year rolling periods of 1994-96 and 1998-2000 the total unit cost of rural poverty reduction has always been on the rise with a trend to a sharp rise evident in the last three period 1998 to 2000.

In the final three year period covered in Figure 26 (1998-2000) the total cost per rural person freed from poverty had risen to 6,486 yuan in 1997 constant prices. This is equivalent to 10 years per capita income set at the national poverty line. This large multiple between the national poverty line and the unit cost of poverty reduction raises very serious questions of targeting and the distributional aspects of income generated through the past poverty reduction programs. This concern stands notwithstanding the fact that as the fight against rural poverty reaches the last vestiges of more complex impoverishment, unit costs will rise.



Source for both Figures: Derived from NBS Official data and information provided by Executive Director of the China Foundation for Poverty Alleviation to an International Conference on NGOs held in Beijing in October 2001.

UNDERSTANDING URBAN POVERTY

URBAN POVERTY AS A RECENTLY PERCEIVED PROBLEM

Khan and Riskin estimate that in 1988 the deep poverty incidence among PRC urban dwellers was only 1.3%, compared to thirteen times that level for the rural population.⁶⁶ The World Bank also found urban poverty rates to be similarly low during the 1980s compared to rural poverty rates. The World Bank also found urban poverty rates to be similarly low during the 1980s compared to rural poverty rates.⁶⁷ The reasons for this stark difference stem from an institutionalized dualism between urban and rural populations. From the mid-1950s, personal identity has been tied to communes and thereafter to administrative villages and townships for the rural community or to government, social or enterprise units for the urban community. Everyone has either registered urban or rural status. Each city issues its own residence permits to its citizens. These residence permits are a prerequisite for gaining access to facilities and privileges such as public schools, urban subsidies and in earlier years urban ration tickets for purchase of rationed items at State-set prices. A quaint and very observable welfare practice in the PRC's northern cities during winter until the early 1990s was for city governments to buy enormous quantities of cabbages from farmers, place these cabbages on city corners, and sell them at highly subsidized prices to registered city residents.

Institutional arrangements sustained the welfare of urban dwellers who comprised around only 23% of the population in the 1980s. The units to which nearly all urban adults belonged paid wages according to a uniform remuneration framework, and directly or indirectly provided welfare services to their members and their children. Furthermore, where circumstances arose that made a family within the unit vulnerable to poverty, then the unit took responsibility for giving extra support to that family. An example of such circumstances would be where one the breadwinners in a family passed away leaving the remaining breadwinner with onerous care responsibilities over elderly parents and children (as in the 1970s it was still permissible to have more than one child).

It can also be argued that the PRC's development strategies and the investment and re-investment of State capital had favored urban over rural communities. With such a wide range of advantages, city life must have looked very attractive to country folk. Yet change of status from rural to urban was extremely difficult. Even change of residence from one city to another was difficult. Travel permit checks at urban railway stations and airports constricted social and labor mobility. So it was not until the late 1980s when these restrictions were eased that the cities started to experience large floating populations drifting in from and back out to the country side.

Two fundamental changes were underway in the late 1980s and early 1990s which were to jolt both Government and donors into realizing that poverty was no longer confined to the less fortunate segment of the rural population. First, hard decisions to down-size bloated SOEs were being implemented, thus generating

millions of laid-off workers who could not quickly be re-employed. Second, a relaxation of travel restrictions, combined with the needs for unskilled labor generated by a massive boom in urban construction, has meant the movement into cities of large and growing floating populations. Ineligible for urban welfare entitlements, confined to cramped living conditions with few amenities and often subject to spasmodic employment, these populations display visible examples of urban poverty.

DEFINING THE URBAN POOR

In defining urban poverty, it is essential first to understand who is "urban". At the end of 2000, approximately 36% of the PRC's population was classified as urban, of which 239 million lived in the Eastern region, 147 million in the Central region and 79 million in the Western region. The emphasis is on the phrase "classified as urban". It is difficult to establish the size of the population physically living in urban environments. This is because people classified as "non-agricultural" under the nation-wide personal registration system do not all live in urban areas. Of the 458 million individuals registered as non-agricultural (thus officially urban) in 2000, 34% (156 million) were resident in rural localities. Around 21% of long term residents of urban districts (96 million) carry an "agricultural" classification. Nearly all recently arrived migrants to the cities from rural areas do not have urban status, and thus their numbers are additional to the 96 million above. Determining a more accurate figure for the urban population therefore involves making adjustments to the official statistics.

Unlike its approach to rural poverty, the PRC has not adopted an "official" urban poverty line for the whole country. Given the wide variation in the cost of food and

⁶⁶ Khan, A.R., and C. Riskin, 2001. *op.cit.*

⁶⁷ World Bank. 1992. *China: Strategies for Reducing Poverty in the 1990s*. Washington, DC.

essential non-food items among the 663 cities, it is understandable that national policy has not done this. The manner in which the PRC conceptualizes urban poverty was analyzed in a recent ADB Study. The analysis of urban poverty in this Poverty Profile draws on that work. Broadly, various government agencies apply either a diagnostic or a benefit-entitlement poverty line. A diagnostic poverty line is purely for the purpose of identifying the urban poor. The setting of such a line is not constrained by any implication that those identified as poor will be the beneficiaries of Government poverty reduction programs. In contrast, a benefit line identifies potential recipients of poverty relief assistance and determines the magnitude of such assistance. Considerations of funding constraints and maintaining an incentive for the poor to keep seeking employment, factor heavily in determining such a line.

These benefit lines are set by city governments as it is primarily local governments that are responsible for the welfare of the urban poor and financing welfare relief. In principle, cities set their benefit line by costing 20 items of goods and services for basic subsistence (the "basic needs" approach). Methods of determining the line vary among cities. Some have designated a special group of officials to compile a detailed list of the local examples of the basic goods and services and to survey their prices. Other cities make an educated guess in setting their poverty (benefit) line. These benefit lines for major PRC cities are shown in Table 35. The average of all benefit lines in the Table equates to 2,365 yuan per capita per annum.

The rising number of urban unemployed in the early 1990s that prompted various national agencies to calculate diagnostic poverty lines as a basis for ascertaining trends and providing data to feed into national policy making. These diagnostic lines have aggregated data to arrive at either a national line or one line for inland cities and one for coastal cities. In 1997, researchers at the Development Research Center of the State Council estimated that the urban poverty threshold should be set at 1,700 yuan, being 33% of the per capita average urban annual income (5,160 yuan). Pending completion of more research, the May 2000 Poverty Conference agreed that in general urban poverty lines should be two times those of the rural poverty lines for inland cities, and three times in the coastal region. The Ministry of Civil Affairs put the urban poverty line at about 1,800 yuan per capita annual income for the whole country. The NBS has compiled a time series since 1991 that shows a diagnostic urban poverty line rising to 1,875 yuan in 2000. Each agency's diagnostic urban poverty line

Table 35: Benefit Lines as a proxy for Poverty Lines in 35 Key Cities (yuan per month/person, 1998 data)

City	Benefit Line	City	Benefit Line
Shenzhen	319	Lhasa	170
Urumqi	156	Shanghai	280
Chengdu	156	Guiyang	156
Xian	156	Wuhan	195
Kunming	182	Changsha	200
Nanjing	180	Nanchang	143
Nanning	183	Xiamen**	265-315
Qingdao	200	Taiyuan	156
Hangzhou	220	Changchun	169
Chongqing	169	Tianjin	241
Huhot	143	Haikou	221
Shijiazhuang	182	Beijing	280
Zhengzhou	169	Shenyang	195
Jinan	208	Fuzhou	200
Guangzhou	300	Xining	155
Hefei	165	Harbin	182
Ningbo	215	Lanzhou	156
Dalian	221		

is set out in Table 36.

Also shown in Table 36 is the lowest of the urban poverty lines calculated by Khan and Riskin for 1995.⁶⁸ They drew on NBS data covering the poorest decile of the urban population. This data show consumption levels and outlays by the poorest decile on 25 items of food. From their food expenditure pattern, Khan and Riskin estimated that the cost of supplying a kilocalorie per day for a year was 0.60 yuan. Taking the 2,100 kcalories as the minimum per capita food requirement then the FPL came out as 1,260 yuan. NBS data showed that for the poorest decile, food accounted for 59.5% of expenditure. Because Khan and Riskin had a different definition of urban income than the NBS, they adjusted the basic food component down to 55% of total consumption. This gave a broad urban poverty line of 2,291 yuan per capita. Khan and Riskin also developed two harsher measures of urban poverty, one at 80% of broad poverty (which they called "deep" poverty), and one at 70% of broad poverty (referred to as "extreme" poverty). Their "deep" and "extreme" urban poverty lines for 1995 were 1,833 yuan and 1,604 yuan respectively.

Just as for the rural poverty line, it makes a significant difference whether the urban poverty line is applied as a measure of per capita income or consumption. The urban

⁶⁸ Khan, A.R., and C. Riskin. 2000. *Inequality and Poverty in China in the Age of Globalization*. New York: Oxford University Press.

Table 36: Diagnostic Urban Poverty Lines (per capita per annum, yuan in current prices)

Year	May 2000 Poverty Conference		National Bureau of Statistics			Khan and Riskin
	Urban Poverty Line for inland cities (twice the rural poverty line)	Urban Poverty Line for coastal cities (triple the rural poverty line)	Line 1*	Line 2*	Development Research Center of the State Council	Low urban poverty threshold Income basis****
1990	600	900				
1991	608	912	752			
1992			837			
1993			993			
1994			1,300			
1995	1,060	1,590	1,547			1,604
1996	1,160	1,740	1,671	1,850		
1997	1,280	1,920		1,890	1,700	
1998	1,270	1,905		1,880		
1999	1,300	1,950		1,860		1,800**
2000	1,300	1,950		1,875		

Notes: * The difference in the two lines is the prices NBS used to cost basic necessities

** It is assumed that the announced MCA figure applied to 1999

*** This figure was derived by follow-on analysis conducted by the Urban Survey Organization of NBS for the ADB

**** Khan and Riskin's figures were taken from their book: *Inequality and Poverty in China*

poor need to scrape some savings together for catastrophic costs and social obligations, and they may need extra cash to pay back informal loans that have helped them survive during past bad income years. As a general rule, the level of total income needed to support basic needs consumption expenditure will be higher than the sum of the food poverty line (FPL) and the value of basic non-food expenditure. Largely because of the type of statistical data collected annually, the PRC has tended to count people as poor if their income was below the standard poverty lines. The question arises of how to count those who are unable to achieve consumption levels in excess of the average of benefit lines set by city governments (that is 2,365 yuan per capita per annum).

The Urban Survey Organization of NBS has conducted analysis to establish the normative level of household per capita income for households exhibiting per capita consumption of 2,310 yuan per annum. This figure is so close to the average of city benefit lines that it can serve as a proxy for that average. Three analytical methods were applied to achieve this aim. These were: (i) the point

estimation method where the median per capita income was calculated for those households among the total 1998 sample of 17,000 who exhibited exactly 2,310 yuan per annum in consumption expenditure; (ii) the interval estimation method where average per capita income is calculated for those households in the sample whose per capita expenditure fell within expanding bands 1 to 3% greater and less than 2,310 yuan; and (iii) log-linear regression analysis testing consumption and income relationships for the whole sample of 17,000 households. The third method found a strong functional relationship between levels of consumption and income at those consumption levels. Using the log-linear regression model, a best fit equation relating income to consumption levels was derived. According to that equation, the income level corresponding to a consumption level of 2,310 yuan per capita per annum is 3,310 yuan. The first two methods confirmed the results regression analysis returning income equivalents between 3,246 and 3,379 yuan. Given the strength of the functional relationship between income and consumption levels, the result derived by regression analysis is preferred.

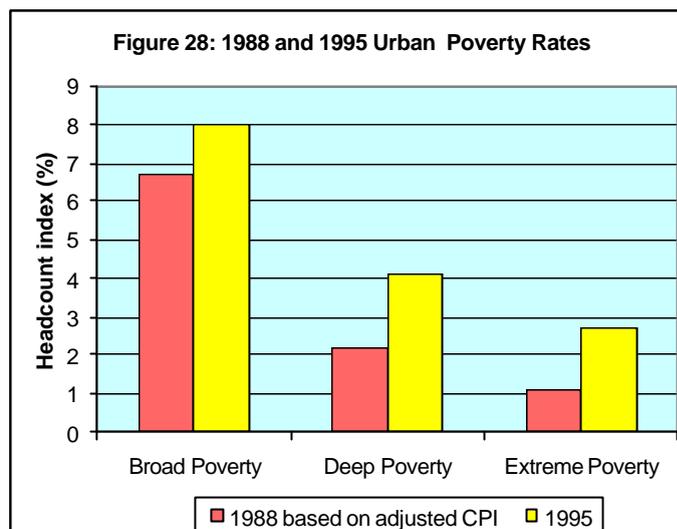
According to this analysis, an urban person needing to command the consumption package equivalent of the benefits line would, in 1998, have needed to earn 43% more than the cash value of the benefits line. While this figure seems high, it is in line with the national saving rate of 37%. Analysis of the survey data provided by poor households shows that about half of the savings is used to pay debts and the other half is for family members to meet the costs of medical treatment, education fees, wedding arrangements, etc. This income-based poverty line was 61% of the national average urban income of 5,458 yuan per capita per annum in the same year (1998).

Extrapolating from the NBS urban survey sample, the analysis concluded that total urban poor not being able to achieve annual consumption expenditure of 2,310 yuan in 1998 was 37 million.

TRENDS IN THE INCIDENCE OF URBAN POVERTY

Prior to the 1990s urban poverty was confined to a small proportion of urban residents who were suffering from one of more of the three "nos": no ability to work; no savings or other income source; and no relatives to depend on. Since the early 1990s, and particularly since the mid-1990s, urban poverty has been driven by lay-offs from SOEs combined with the dismantling of the welfare systems formerly provided by SOEs. The influx of floating populations from rural areas who not only live under sub-standard conditions, but also displace older unskilled permanent urban residents from job opportunities, also impacted the incidence of urban poverty.

Irrespective of whatever urban poverty line is applied, there are many difficulties in determining the number of urban residents living under that line. The problem of separating urban residency from the practice of classifying all citizens as either urban or rural has already been mentioned. Ascertaining incomes in the largely unreported gray, cash-only economy of the cities is virtually impossible. Allowing for the "floating" migrants requires assumptions and guesstimates. Because of these factors there are differences in professional analysis and opinion as to whether in the 1990s urban poverty had either been declining, stable or increasing.



Source: Khan, A.R., and C. Riskin. 2001. *op cit*.

Khan and Riskin compare their three measures of urban poverty (broad, deep and extreme) in the year of 1995 with that of 1988. They work off NBS data but they adjust such data to account for what in their view is a more realistic measure of the change in the consumer price index. The results of their comparisons are shown in Figure 28. They found an increase between the two observation years of 19.4% for broad poverty, 86.4% for deep poverty and 145.5% for deep poverty. Khan and Riskin believe their figures understate the real increase in urban poverty because their survey samples ignored the floating population. What is particularly disturbing about their results is that the more austere the definition of urban poverty, the greater the increase in poverty.

Contrary to the findings of Khan and Riskin, estimates of urban poverty based on official data between the late 1980s and the mid-1990s generally show a significant reduction. However, this is not always the case. Two PRC researchers, Ren Caifang and Chen Xiaojie, conducted a study of urban poverty over the years 1991 to 1995. They concluded that there was no clear trend of increase or decrease in urban poverty.⁶⁹

NBS has developed a time series for the incidence of urban poverty and the urban poor headcount for each year from 1991 to 2000 (see Table 39). The figures entered for 1991 through to 1995 are those derived by Ren Caifang and Chen Xiaojie. In the longer time context,

⁶⁹ Ren, Caifang, and Xiaojie Chen. 1996. Size, Situation and Trend of Poverty in Urban China. *Research Reference*, No.65. Beijing.

Table 37: Urban Poverty Trend as Compiled by NBS

Year	Poverty Line		Poverty Rate %	Urban Poor Headcount (Million)
	Line 1	Line 2		
1991	752		5.8	14.2
1992	837		4.5	11.3
1993	993		5.1	13.3
1994	1,300		5.7	15.3
1995	1,547		4.4	12.4
1996	1,671	1,850	4.2	11.8
1997		1,890	4.1	11.7
1998		1,880	4.1	11.9
1999		1,860	3.1	10.0
2000		1,875	3.4	10.5

The difference between the two poverty lines consists in prices used to cost basic necessities.

Source: As recorded in Hussain, A. 2001. *Poverty Profile and Social Security in China*. Draft Report. London: London School of Economics, and updated by NBS in 2002.

NBS figures for 1991 to 1994 are directionless. There is then a drop to a slightly lower plateau where poverty incidence levels remain stable for four years until 1999 when there is another drop to a slightly lower plateau. However, 2000 over 1999 does represent a modest increase in urban poverty levels measured by the NBS diagnostic line.

Athar Hussain has compared changes in the incidence of urban poverty between 1995 and 1998. His estimates, when treating the consumption-based provincial general poverty lines as measures of per capita income rather than expenditure, are shown in Table 38. Contrary to the NBS time series, he found that between 1995 and 1998 there has been a considerable reduction in the incidence in urban poverty when viewed as a national aggregate. Professor Hussain estimated that the incidence of urban poverty fell from 6.25 to 4.73 %.

Table 38 ranks the provinces from the highest reductions in the incidence of urban poverty between 1995 and 1998 to the lowest. Of the 30 provinces or province-level municipalities listed in the Table (Tibet is not included), 15 witnessed urban poverty reductions, 2 saw no change and 13 experienced increases. The aggregate trend masks a sharp divergence in the direction of urban poverty incidence changes among the provinces.

When the figures in Table 38 are separated into the PRC's three major regions, as shown in Figure 29, it is clear that between 1995 and 1998 there have been declines in the urban poverty incidence in both the eastern and central regions. In the western region, however, the elapse of four years has seen a marginal increase in urban poverty incidence. Figure 29 also demonstrates that over 1995-1998 the ranking of regions in terms of urban poverty

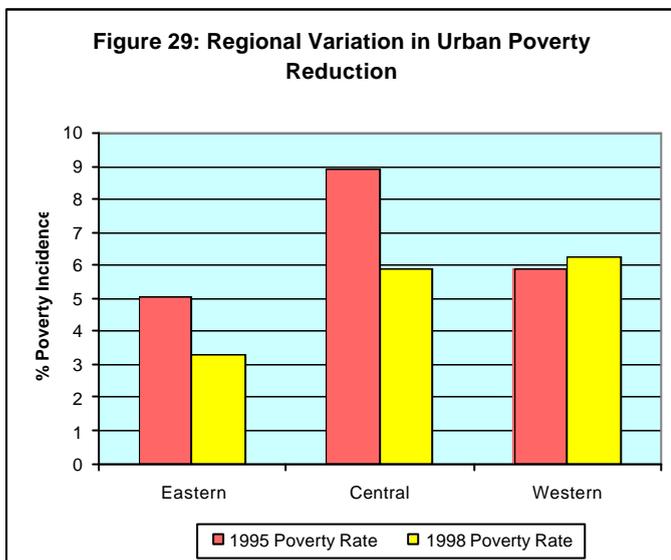
incidence changed. In 1995, urban poverty was most intense in the central region, followed by the western and eastern regions. By 1998, the western region had narrowly overtaken the central region as having the highest urban poverty incidence. Focusing on absolute values between 1995 and 1998, however, the poverty incidence remained

Table 38: Urban Poverty Rates

Location	1995 Poverty Rate, % (1)	1998 Poverty Rate, % (2)	1998 Rate/1995 Rate (2/1)
Beijing	5.2	0.7	0.1
Guangdong	3.3	0.7	0.2
Jiangsu	3.8	1.2	0.3
Jilin	18.3	7.5	0.4
Heilongjiang	17.9	6.9	0.4
Jiangxi	8.5	3.4	0.4
Hebei	10.0	5.2	0.5
Guizhou	10.2	5.	0.5
Shanxi	12.0	7.2	0.6
Hainan	12.3	7.9	0.6
Shandong	7.3	5.1	0.7
Sichuan	5.6	4.7	0.8
Tianjin	7.9	6.8	0.9
Henan	9.4	8.4	0.9
Yunnan	4.0	3.7	0.9
Liaoning	6.4	6.1	1.0
Hunan	3.6	3.6	1.0
Guangxi	2.8	3.0	1.1
Gansu	6.0	6.4	1.1
Xinjiang	5.8	6.2	1.1
Anhui	2.1	2.9	1.4
Shaanxi	8.4	12.0	1.4
Shanghai	2.1	3.2	1.5
Zhejiang	1.0	1.6	1.7
Fujian	1.3	2.2	1.7
Hubei	3.3	5.7	1.7
Chongqing	2.2	4.1	1.9
Ningxia	7.2	13.5	1.9
Inner Mongolia	1.7	6.4	3.8
Qinghai	0.7	5.6	8.5
All PRC	6.56	4.73	0.7

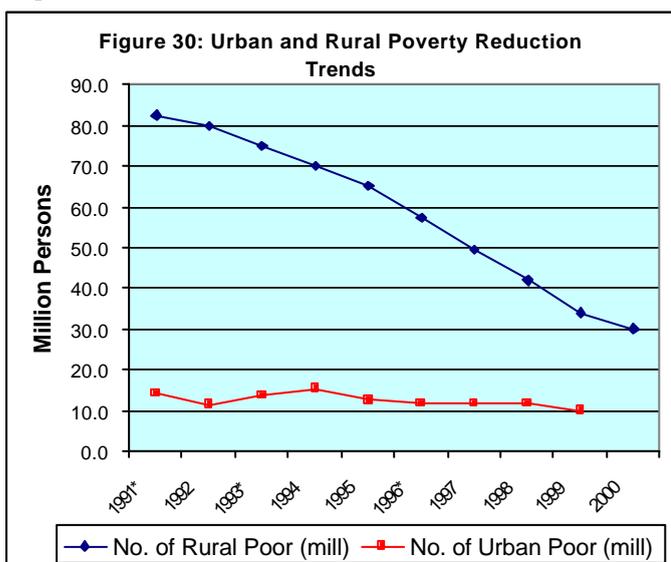
Source: Hussain A. *op cit*.

significantly higher in both the western and central regions than for the eastern region.



Source: Khan, A.R., and C. Riskin. 2001. *op cit*.

Whichever of the many trend estimates best matches the truth, all such estimates confirm that there has been greater progress in addressing rural poverty than in addressing urban poverty. The NBS time series demonstrates this. In Figure 30, both the rural and urban poverty numbers have been determined by applying the official and diagnostic consumption-based lines as if they were measures of per capita income rather than expenditure.



Source: NBS data.

NUMBERS AND LOCATION OF THE URBAN POOR

The different approaches to interpreting a diagnostic urban poverty line result in different estimations of the number of those suffering urban poverty in any particular year. 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 Scheme, 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.

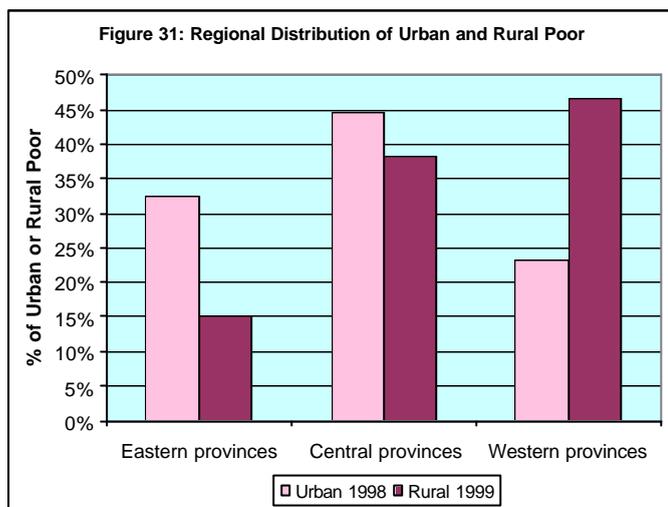
Table 39 also provides an indicative measure of the distribution of urban poverty among regions and among provinces. The provinces are grouped into the eastern, central and western regions. Within each region, the provinces are ranked according to their estimated incidence of urban poverty on the basis of the expenditure approach. What is clear is that the regional patterns of urban and rural poverty are distinctly different. Figure 31 illustrates this by comparing the 1998 urban poverty distribution with the 1999 rural poverty distribution, in this case by measuring the poverty lines against per capita income rather than consumption. The Western region has nearly half of the rural poor, and hence reducing poverty is one of the main rationales behind the Western Development Strategy. The relative shares of urban and rural poor to be found in the central region are not significantly different - 45%, compared to 38% respectively. In the eastern region, however, the share of total urban poor is double that for the rural poor. This is the result of the high concentration of the urban population in the eastern provinces (51% of the total) and the high levels of economic development therein that have provided market opportunities through which rural poverty has been reduced. This difference in regional distribution means that the sharper geographic focus on the West that will be applied to rural poverty reduction work between 2001 and 2005 should not also become a center-piece strategy for attacking urban poverty.

Table 39: Urban Poverty Patterns, 1998, as per analysis of Professor A. Hussain and Others

	Headcount of the Poor		% Ratio (2)/(1)	Poverty Rate	
	Income-based interpretation of Poverty line (1)	Expenditure-based interpretation of Poverty line (2)		Income-based interpretation of Poverty line	Expenditure-based interpretation of Poverty line
Eastern Region	4,547,000	13,799,000	303		
Guangdong	154,000	244,000	157	0.68	1.07
Fujian	145,000	319,000	219	2.18	4.78
Zhejiang	153,000	463,000	302	1.62	4.89
Beijing	54,000	422,000	773	0.73	5.64
Shanghai	314,000	584,000	186	3.24	6.02
Jiangsu	244,000	1,298,000	533	1.20	6.40
Liaoning	1,150,000	2,383,000	207	6.13	12.70
Hebei	651,000	2,010,000	308	5.20	16.04
Tianjin	360,000	969,000	269	6.77	18.23
Shandong	1,172,000	4,689,000	400	5.05	20.19
Hainan	150,000	418,000	278	7.94	22.09
Central Region	6,577,000	15,961,000	243		
Anhui	348,000	1,060,000	304	2.89	8.80
Hunan	462,000	1,336,000	289	3.61	10.44
Hubei	934,000	1,763,000	189	5.67	10.71
Jilin	853,000	1,295,000	152	7.54	11.44
Jiangxi	310,000	1,261,000	407	3.42	13.92
Heilongjiang	1,154,000	2,743,000	238	6.92	16.46
Henan	1,410,000	3,088,000	219	8.39	18.38
Shanxi	596,000	1,637,000	275	7.17	19.69
Western Region	3,646,000	7,312,000	137		
Sichuan	711,000	1,102,000	155	4.72	7.31
Chongqing	260,000	548,000	211	4.09	8.62
Yunnan	225,000	595,000	264	3.69	9.73
Qinghai	76,000	131,000	173	5.63	9.76
Inner Mongolia	510,000	1,778,000	348	6.40	22.30
Xinjiang	383,000	625,000	163	6.16	10.06
Guizhou	260,000	864,000	333	5.00	16.65
Gansu	304,000	792,000	260	6.44	16.77
Tibet	39,000	65,000	168	11.31	19.05
Shaanxi	932,000	1,567,000	168	11.95	20.08
Ningxia	210,000	403,000	192	13.51	25.91
Guangxi	246,000	620,000	252	3.01	7.59
Whole PRC	14,770,000	37,072,000	251	4.73	11.87

Source: ADB. 2001. *Urban Poverty in PRC*. Manila. In the original, Guangxi is considered an Eastern Province.

Note: Here the Western Region refers to the Western 12 provinces. The Government's Western Development Strategy, however, covers 10 provinces in the West plus three autonomous prefectures.



Source: Khan, A.R., and C. Riskin. 2001. *op cit*.

Aggregation into regions tends to hide the variations in the incidence of poverty within regions. Table 39 provides several distributional observations. Each region has four or five provinces that have high incidences of urban poverty (over 15% applying the GPL as a measure of consumption). However, the Eastern region has a high proportion of provinces with low urban poverty incidences.

Table 40: Sensitivity of the Urban Poverty Rate

Poverty Line as Multiple of the General Poverty Line (GPL)	Poverty Rate - Whole PRC
0.75 * GPL	1.89
0.85 * GPL	3.39
GPL	4.73
1.15 * GPL	8.17
1.25 * GPL	11.07
1.35 * GPL	14.40
1.50 * GPL	20.08

Note: Poverty rates are measured by applying an income-based interpretation of the GPL.
Source: ADB. 2001. *Urban Poverty in PRC*. Manila

A small upward shift in the measure of urban poverty makes an enormous difference to the number of people covered by the definition. This is a function of the pattern of income distribution. To demonstrate this high sensitivity of poverty numbers to slight increases in the poverty line, six incremental levels are modeled in Table 40 which is taken from the ADB urban poverty study. A 50% increase in the urban poverty line (expenditure-based) resulted in a 424% increase in the number of urban poor. The same phenomenon was observed earlier for rural poverty.

THE FLOATING MIGRANT POPULATION AND POVERTY

The data that agencies, donors and researchers have used to estimate the extent of urban poverty have not included poor urban migrants. Migrants are disadvantaged in urban labor markets. They are restricted to jobs that permanent residents do not want and may receive lower pay for the same job. New employment opportunities tend to flow to permanent residents, particularly those laid off and seeking re-employment, over the floating population. Migrants do not receive certain urban welfare services because they do not hold a city residence permit. Despite these many restrictions, many migrants find adequate remuneration in the cities and repatriate sums to their rural households which may often provide the bridge out of poverty for their farm-based family. The challenge is to establish empirically how well or poorly the urban migrants are doing. This is particularly so as people with permanent residency status in cities may tend to stereotype migrants as the bed-roll carrying peasant with coarse hands and a sun-burnt red face who has floated into the city to undertake dusty construction work.

Data collected in 1999 by NBS in a one-off survey provided a basis for analyzing urban migrant poverty. The data set had a number of problems in the consistency with which data were gathered and the types of questions asked. The data set covers 140,600 households living in urban areas in all 31 provinces. Five per cent of this sample was migrant households who had been resident in their new urban environment for at least 6 months. The ADB Study of Urban Poverty was able to process this data to establish an indication of relative poverty rates between permanent and floating residents of specific urban centers. The word "indication" is used because of problems with the data. The indicative result is presented in Table 41.

The cities listed in Table 41 are ranked according to the ratio of their migrant poverty rate to their local resident poverty rate in descending order. Table 41 indicates that the floating population suffers from higher incidences of poverty than locals in twice as many cities as where the reverse is the case (19 versus 10 cities). The ratio in one third of the cities is extremely harsh for migrants, with poverty rates double to quadruple that of the respective local residents. On average in 1999, the poverty rate among urban migrants was 50% higher than among permanent urban residents.

Table 41: Comparative Urban Poverty Rates - Migrants and Locals 1999

City	Assumed Poverty Line	Poverty rates		
		Locals (2)	Migrants (3)	(3/2)
Shenzhen	6,227	0	16.9	
Urumqi	3,026	14.2	54.0	3.8
Jinan	3,017	11.0	39.3	3.6
Tianjin	2,912	3.5	11.9	3.4
Shanghai	3,652	5.8	18.3	3.1
Nanjing	2,972	9.5	29.0	3.1
Shijiazhuang	2,706	5.1	13.3	2.6
Wuhan	2,428	6.3	15.1	2.4
Beijing	3,118	4.6	10.3	2.3
Yinchuan	2,547	11.4	22.7	2.0
Zhengzhou	2,504	11.2	20.5	1.8
Guangzhou	4,221	9.2	15.0	1.6
Ningbo	2,940	3.7	5.7	1.5
Nanchang	1,747	12.8	19.0	1.5
Lanzhou	1,676	8.6	12.5	1.5
Taiyuan	1,894	14.9	17.4	1.2
Huhot	2,144	23.0	28.7	1.2
Harbin	1,899	7.1	7.6	1.1
Hangzhou	3,414	7.1	7.8	1.1
Dalian	2,901	14.1	14.3	1.0
Changchun	2,048	8.3	8.1	1.0
Hefei	2,283	12.2	10.9	0.9
Shenyang	2,118	22.9	15.0	0.7
Fuzhou	2,161	3.8	2.7	0.7
Qingdao	3,209	16.8	12.1	0.7
Xian	2,644	27.5	17.9	0.7
Changsha	2,488	8.4	5.0	0.6
Chengdu	2,742	17.2	10.7	0.6
Chongqing	2,612	16.9	9.4	0.6
Xining	1,668	16.2	9.8	0.6
Xiamen	3,543	8.2	2.0	0.2
All Cities		10.3	15.2	1.5

Source: ADB. 2001. *Urban Poverty in PRC*. Manila.

According to MCA, the total number of urban migrants in 1999 was 40.4 million. This includes all types of

migrants: rural-rural, urban-urban and rural-urban. Part of the urban-urban migration and virtually all of the rural-urban migration generates temporary settlers in urban areas without the requisite residence permits. If these migrants account for half of the 40.4 million, then on the basis of Table 41, three million floating migrants would have to be added to the year's total for the urban poor.

Looking to the future, the PRC leadership recognizes that the "hukou" or residence permit system creates a dualistic divide of privilege between the permanent urbanites and the rest of the population which is contrary to the country's macroeconomic needs to (i) pursue urbanization and (ii) improve the efficient deployment of labor in a more open and competitive world market – especially since the PRC's accession to the WTO in December 2001. Reform of the "hukou" system is clearly on the Government's agenda. In 2001, the State Council eased residency requirements in more than 20,000 small and medium-sized cities as part of a plan to absorb 40 million surplus rural laborers. The then Premier Zhu Rongji in an address to the National People's Congress in February 2002, said, "Urbanization should proceed in a positive and sound manner and the rural workforce should be encouraged to shift to non-agricultural industries". In April 2002, Beijing became the first large city to open its public schools to the children of migrants. From the academic year that started in September 2002, Beijing public schools must accept these children, and at reduced school fees. For secondary school they will be charged 500 yuan compared to the standard for Beijing resident children of 1,000 yuan. Migrant children at primary schools will pay 200 yuan instead of 500 yuan. To qualify for admission to Beijing schools, the migrant family has to have lived in the city for at least six months and hold a temporary residence permit.

Shanghai has initiated its own reform of the "hukou" system from a totally different perspective. In order to attract more talent into the city Shanghai has begun issuing full-privilege residence cards with six month to five year validity to skilled people whose normal residence is elsewhere. Shanghai issued the first such residence cards in June 2002. Although this reform was not aimed at lowering the institutional barriers that confront poor migrants in Shanghai, the principle being followed may later accelerate reform that is pro-poor migrants. That principle is that access to city privileges need not be tied to a person's place of permanent residence.

Unquestionably, as the "hukou" system barriers are lowered, there will be a greater flow of rural people to the large cities. While many of these cities are economic powerhouses generating a mass of new jobs annually,

there is likely to be a period of painful transition where urban poverty grows because of the accelerated inflow of hitherto farming households before sufficient jobs are generated to gainfully employ the traditional income earners in those households.

TYPES OF URBAN POOR

The most common category of urban poor is where a significant share of the population of an urban center is displaced from their employment by closure or downsizing of state owned enterprises (SOEs), and opportunities for alternative income earning activities are limited. A severe version of the typology occurs in single company (SOE) or industry towns where that company or industry has collapsed. In downsizing, SOEs have tended to make female employees redundant in the first instance. Female single-headed households whose female members experience redundancy make up another category of the poor.

The childless elderly are another category of urban poor. Even though urban retirees with official urban residency status receive pensions, their continued adequate subsistence is in part dependent on family support and in part dependent on their former public sector or collective employer being able to contribute its share of the pension payments. Where the pensioner has no children, and especially if s/he cannot obtain her/his full pension payment, they can easily slip into poverty in their golden years.

A further category of the poor is to be found among the floating population who do not have urban residence status. Where these migrants are subject to long periods of unemployment or are paid very low wages, they may become poor under both expenditure-based and income-based definitions. Taking a broader multi-dimensional view of poverty, which includes social and living conditions, many of these migrants would be considered poor.

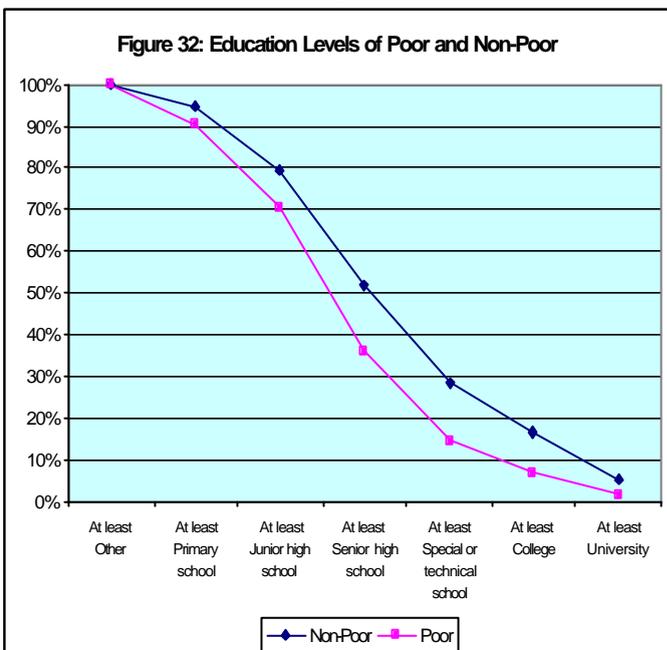
PROFILES OF URBAN POVERTY

Tianjin Survey

Survey work done in Tianjin provides an example of the urban poor and non-poor profiles. Compared to the non-poor, the urban poor: (i) are 65% less likely to be educated beyond primary school; (ii) own fewer productive, financial and housing assets; (iii) are twice as likely to be unskilled workers; (iv) are more likely to have cash wages as the major part of their total income; and (v) are less likely to have access to credit.

Beijing Survey

A recent ADB-financed study analyzing urban poverty in Beijing found by means of participatory appraisal with small groups of people that the capital city's poor permanent residents were mostly one of the following: laid-off (*xiagang*); unemployed (*shiyè*); jobless (*wuyè*); members of households in which the female spouse did not hold a Beijing residence permit; unhealthy; aged; disabled; or released prisoners.⁷⁰ The main characteristics of these urban poor were that they were: poorly educated; unhealthy; aged; at a point where they had already devoted most of their lives to work; bereft of social capital (important here was the lack of a network of relationships that could be drawn on to avoid or escape from poverty); and/or living in urban localities that are poor and distant from the bustling commercial centers of the city.



Source: Derived from Year 1998 Urban Household Survey

The migrant group is a separate category, and, because migrants do not hold Beijing residence permits they are not entitled to the city's social safety nets for the poor. The male migrants covered in the study were in, or seeking, manual labor occupations such as retail coal haulers and sellers, brick laborers, retail sand sellers, construction workers, garbage collectors, or cleaners. They were poorly educated, with no special skills and no accumulated cash for small investments (meaning to start one's own small business). When working, the migrant poor received low incomes and had no security of continued employment and therefore no security of income. They generally lived in slum conditions and often

⁷⁰ Zhou, Xuejun. 2000. *Voice of the Poor. Report on Participatory Urban Poverty Analysis in Beijing*. Beijing: ADB.

had to “live off” their migrant friends until they secured another unskilled labor assignment. The female migrants were similarly poorly educated, without special skills and lack money for even a small investment. Migrant women were also living in slum conditions and could only afford simple food. Of those poor women surveyed, most were working as garbage collectors or were jobless.

Proxy Profile of Urban Residents with Consumption below the Average MLSS 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.

The Urban Study Organization of NBS have analyzed their 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.⁷¹ In the following description, those below the consumption line are referred to as the urban poor, and those above as the non-poor. The comparisons show that:

- numerically, most of the urban poor are in the eastern region (43.4%), but the central region has the highest incidence of urban poverty (14.3%);
- dependency ratios in urban poor households are 17% higher than for the non-poor
- proportionately more urban women suffer from poverty compared to men (12.1% for females, 11.7% for males);
- the poverty incidence among urban children (0-14 years old) is higher than for older age groups;
- the highest education levels attained by the urban poor are considerably below that of the urban non-poor (see Figure 32);

- in terms of industry backgrounds the greatest differences between the urban non-poor and poor are found in service for the Government, the Party, official social organizations, and for health, cultural, educational and scientific agencies (the proportion of non-poor with these backgrounds is generally double or more that of the poor);
- the proportion of the urban poor waiting for employment or disabled is around three times more than for the non-poor;
- compared to the non-poor, proportionately more of the poor are engaged in peripheral and somewhat tenuous occupations such as baby-sitting and domestic service;
- regarding occupations, more of the urban poor work as general laborers and less as white collar staff members than the non-poor;
- the average disposable income of the urban non-poor is 2.3 times higher than the poor;
- the average living expenditures of the urban non-poor are 2.9 times higher than the poor;
- the propensity to consume of the non-poor is 0.82 of disposable income compared with 0.64 for the poor; and
- expenditure on food as a proportion of total living expenditures is much higher for the urban poor (at 57%) than for the urban non-poor (at 44%).

The complete profile details of those below (the urban poor) and above (the urban non-poor) the 2,310 yuan per capita annual consumption expenditure, as captured by the supplementary analysis of NBS's 1998 urban household survey are reported in Appendix 2.

⁷¹ Wang, Youjun. 2002. *Analysis of PRC's Urban Policy*. Background paper prepared for the ADB. Beijing.

THE FIGHT AGAINST URBAN POVERTY

MACROECONOMIC BACKGROUND

STRUCTURAL UNEMPLOYMENT AS A CAUSE OF URBAN POVERTY

With a 7 to 8% economic growth rate, PRC is generating about 10 million new jobs every year. However structural unemployment is emerging in the formal sector. Because of the mass layoffs associated with SOE reform, and the baby boom of the mid 1970s before the one-child policy was introduced, a record 30 million people were looking for work in 1999. About one third of them were new entrants in the job market. Many others were older, retrenched workers who may find it difficult to find new employment. There are an estimated 30-50 million more surplus workers in urban areas.⁷²

Registered unemployment in the urban areas is low although it has been rising since 1985 from 1.8% to 3.6% (representing 6.81 million persons) at the end of 2001.⁷³ The lack of reliable data on unemployment, coupled with the State enterprise reforms of the late 1990s, makes it difficult to assess the true extent of unemployment. Within urban areas, the official estimate covers only the people registered with the Ministry of Labor and Social Security (MLSS). Laid-off workers who do not find jobs are excluded from the unemployed statistics.⁷⁴ MLSS has stated that it estimates the number of unemployed laid-off workers from SOEs to be 5.15 million at the end of 2001. Government reform and downsizing also increased urban unemployment. In 1998, about 40% of the national government employees were retrenched. The continuation of administrative reforms by downsizing lower levels of government from 1999 onwards has contributed to increasing unemployment.

The further integration of the PRC into the global economy has resulted in increased competition and pressures on SOEs to become commercial, efficient organizations. Some traditional industrial sectors, such as textiles and traditional manufacturing, have had to reduce production and/or develop new products (see Box 7). All SOEs need to reduce the number of redundant workers to face the test of the market and compete successfully both domestically and internationally.

Clearly some cities are suffering much higher levels of unemployment and lay-offs than others. A sample survey of unemployment in four cities, conducted jointly by the Development Research Center of the State Council and the UNDP in 1997, put the unemployment rate at about 12% in these cities. Estimates of urban unemployment by other sources are higher at 17 to 18% of the urban labor force. Cities with old industrial bases, such as those developed in the late 1960s with the

“Third Front Industrialization” program face severe restructuring problems. These cities are prevalent in the northeastern part of the country. The number of laid off workers in these cities can be very high. Because of the domination of the State sector and the relatively under developed non-state sector in such cities, there is little scope for re-employment in the short term.

Box 7: Globalization and Increasing Unemployment in the Textile Industry

Between January to October 1998 the textile industry destroyed 4.8 million spindles and laid off 450,000 workers, cutting losses by 1.38 billion yuan. The target for 1999 was to destroy another 5.2 million spindles, lay off 750,000 workers, and cut losses in the textile industry by 4.62 billion yuan. Coal production was cut by 18% in 1998. The total number workers laid off from SOEs was estimated at 7.14 million people.

Major labor market trends covering all of the economically active population and movements in urban unemployment levels are summarized in Table 42. Trends in urban employment by ownership category of the employing enterprise are shown in Table 43.

The obvious antidote to urban poverty caused by unemployment is to generate more employment. Table 42 and Table 43 both have clear messages as to how to do this. Table 42 shows that over the seven years 1995-2001 employment in the services sector has grown relative to other sectors, while that in the agricultural sector has declined proportionately. Meanwhile, the industrial sector's share of total employment has remained relatively constant. Given continuing high levels of GDP growth and increased diversification of consumer needs, the service sector is likely to offer greater opportunities for employment growth than other sectors. Table 43 shows that enterprises totally or partly privately owned are significantly increasing their share of urban employment,

⁷² *The Economist*. 1998. No. job, no house, no welfare. 30 May.

⁷³ *China Daily*. 2002. Creating new jobs remains a challenge. 7 February.

⁷⁴ The Government indicated that from early 2001 onwards it would plan to reform the statistical classification of the unemployed.

Table 42: Labor Market Trends 1995-2001

	1995	1996	1997	1998	1999	2000	2001
Population (million)	1,211.2	1,223.9	1,236.3	1,248.1	1,259.1	1,265.8	1,276.-
Rural (million)	859.5	864.4	866.4	868.7	870.2	807.4	3
Urban (million)	351.7	359.5	369.9	379.4	388.9	458.4	795.6
							480.6
Economically active population (million)	687.4	696.7	705.8	714.1	719.8	N/A	744.3
Total employed (million)	679.5	688.5	696.0	699.6	705.9	711.5	730.3
by sector (percent)							
Agriculture	52.2	50.5	49.9	49.8	50.1	50.0	50.0
Industry	23.0	23.5	23.7	23.5	23.0	22.5	22.3
Services	24.8	26.0	26.4	26.7	26.9	27.5	27.7
by area (percent)							
Rural (percent)	71.9	71.2	71.0	70.4	70.2	70.1	72.3
Urban (percent)	28.1	28.8	29.0	29.6	29.8	29.9	27.7
Urban (million)	190.9	198.2	202.1	206.8	210.1	212.7	202.3
Urban unemployment (million)							
Registered as unemployed	5.2	5.5	5.7	5.7	5.8	6.0	6.81
Unemployment Rate (percent)	2.9	3.0	3.1	3.3	3.1	3.1	3.6
Laid off (xiagang) workers (million)			9.9	9.0	9.4	8.6	7.1
Laid off workers remaining unemployed (percent)			40	50	60	N/A	N/A
Laid off workers remaining unemployed (million)			4.0	5.6	6.4	N/A	N/A
Laid off workers as % of total urban employment			2.0	2.7	3.0	N/A	N/A
Adjusted unemployment rate (percent)			8.5	8.5	8.2	N/A	N/A
Rural underemployment (estimated, million)					100	N/A	N/A

Sources: NBS 2000, 2001 and 2002, and ADB staff estimates

Table 43: Distribution of Urban Employment by Ownership 1994-2001

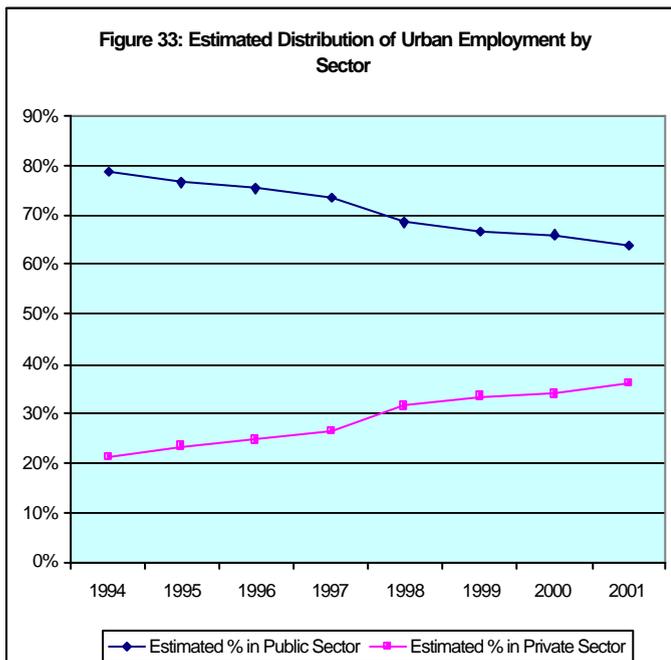
	1994	1995	1996	1997	1998	1999	2000	2001
Urban Employed Persons (million)	184.13	190.93	198.15	202.07	216.16	224.12	231.51	239.4
In the State Sector (million)	112.14	112.61	112.44	110.44	90.58	85.72	81.02	76.4
<i>% of Urban Employed Persons</i>	<i>60.9%</i>	<i>59.0%</i>	<i>56.7%</i>	<i>54.7%</i>	<i>41.9%</i>	<i>38.2%</i>	<i>35.0%</i>	<i>31.9%</i>
In Collective Units (million)	32.85	31.47	30.16	28.83	20.99	18.56	16.54	14.44
<i>% of Urban Employed Persons</i>	<i>17.8%</i>	<i>16.5%</i>	<i>15.2%</i>	<i>14.3%</i>	<i>9.7%</i>	<i>8.3%</i>	<i>7.1%</i>	<i>6.0%</i>
In Mixed Public/Private Enterprises (million)	3.44	3.70	4.12	5.11	9.42	10.69	11.86	13.69
<i>% of Urban Employed Persons</i>	<i>1.9%</i>	<i>1.9%</i>	<i>2.1%</i>	<i>2.5%</i>	<i>4.4%</i>	<i>4.8%</i>	<i>5.1%</i>	<i>5.7%</i>
PRC Domestic Private Enterprises (million)	3.32	4.85	6.20	7.50	9.73	10.53	12.68	15.27
<i>% of Urban Employed Persons</i>	<i>1.8%</i>	<i>2.5%</i>	<i>3.1%</i>	<i>3.7%</i>	<i>4.5%</i>	<i>4.7%</i>	<i>5.5%</i>	<i>6.4%</i>
Foreign/Compatriot Invested Enterprises (mill)	4.06	5.13	5.40	5.81	5.87	6.12	6.42	6.71
<i>% of Urban Employed Persons</i>	<i>2.2%</i>	<i>2.7%</i>	<i>2.7%</i>	<i>2.9%</i>	<i>2.7%</i>	<i>2.7%</i>	<i>2.8%</i>	<i>2.8%</i>
Self-employed Nationals (million)	12.25	15.60	17.09	19.19	22.59	24.14	21.36	21.31
<i>% of Urban Employed Persons</i>	<i>6.7%</i>	<i>8.2%</i>	<i>8.6%</i>	<i>9.5%</i>	<i>10.5%</i>	<i>10.8%</i>	<i>9.2%</i>	<i>8.9%</i>
Total Categorized Urban Employed (million)	168.06	173.36	175.41	176.88	159.18	155.76	149.88	147.82
<i>Total (as % of urban Employed Persons)</i>	<i>91.3%</i>	<i>90.8%</i>	<i>88.5%</i>	<i>87.5%</i>	<i>73.6%</i>	<i>69.5%</i>	<i>64.7%</i>	<i>61.7%</i>
Unaccounted for urban employed persons	16.07	17.57	22.74	25.19	56.98	68.36	81.63	91.58
<i>Unaccounted (percent)</i>	<i>8.7%</i>	<i>9.2%</i>	<i>11.5%</i>	<i>12.5%</i>	<i>26.4%</i>	<i>30.5%</i>	<i>35.3%</i>	<i>38.3%</i>

Sources: NBS 1999, 2000, 2001, 2002 and ADB. 2001. *PRC-Country Economic Report*. Manila.

Note: The total for urban employed persons is finalized with reference to sample survey data on population changes, whereas the total categorized urban employed is based on employment data collected by the State Administration of Industry and Commerce which registers all commercial entities. The totals are thus different.

while the share absorbed by state- and collectively-owned enterprises is decreasing. The obvious conclusion from these trends is that enterprises involving private investment will provide the engine for job-creation.

Analysis of the official urban labor statistics recorded in Table 43 is complicated by the difference between the totals for: (i) urban employed finalized with reference to sample survey data on population changes; and (ii) persons employed in each reported ownership-category is based on employment data collected by the State Administration of Industry and Commerce (SAIC) which registers all commercial entities. Firstly, NBS has queried its own figures for total urban employed persons and in its *China Statistical Yearbook 2002* revised upwards by 9 to 19 million its previous urban employment numbers for the years 1998 to 2000. Secondly, the absolute numbers recorded by SAIC reflect a trend that is implausible. It cannot be that urban employment has progressively dropped from 168 to 148 million over the 1994-2001 period. It may be that socio-economic dynamics promote under-reporting of urban employment, such as the motivation to reduce employer and employee social security contributions and avoid individual income tax. This under-reporting could occur in several of the ownership categories. It may also be that the grey economy is extensive. Non-reporting in this case would mean considerable under-reporting of employment for the self-employed nationals category. Thus deriving trends in employment between the public and private sectors is somewhat tentative.



Source: Compiled by ADB Staff from NBS *China Statistical Yearbooks*.

The disaggregation of employment trends into public and private sectors is made doubly difficult because a number of the reported ownership categories involve a varying mix of public and private capital. The International Finance Corporation’s study (IFC) of emerging private enterprises in the PRC wrestled with the definitional problem of distinguishing between the “official” and “true” private sectors.⁷⁵ Bold assumptions have to be made. Figure 33 has been derived on these assumptions: (i) 50% of collective unit employment is for “red hat” (that is private) units – the IFC Study made the same assumption; (ii) 40% of employment in enterprises involving a mix of public and domestic capital through various shareholding arrangements can be credited to private investment; and 60% of employment in foreign- or compatriot-invested enterprises (these are often joint ventures) is attributable to private investment. “Compatriot-invested enterprises” are those in part or whole financed by citizens or corporations from Hong Kong, Macao and Taiwan. Figure 32 demonstrates a strong upward trend in the share of employment generated by private investment, and a corresponding decline in the share resulting from public sector investment. If most of the under-reported employment is in the grey economy, then the share attributable to the private sector is considerably higher.

Both the PRC Government and donors have recognized the efficacy in terms of urban poverty reduction of facilitating expansion of the private sector. The PRC Constitution was amended in 1999 to give formal recognition to the role of the private sector. A law regulating sole proprietorships became operational in 2000. In mid-2001, the rules of the Chinese Communist Party (CCP) were relaxed to allow private entrepreneurs to become members. The ADB, as an example of donor focus in the fight against poverty, has been helping the Government to build an enabling environment for the private sector in two major areas: (i) creating a supportive legal, regulatory, policy and institutional framework that is transparent, predictable and accountable; and (ii) improving the policy framework for Small and Medium Enterprises (SMEs) and their access to financial resources such as venture capital funds, private sector investment funds, and the domestic capital markets.

The recognition that the private sector will be the engine for economic growth, and will create jobs and increase incomes necessary for lifting people out of poverty, is well founded. Recent studies have revealed strong

⁷⁵ International Finance Corporation. 2000. *China’s Emerging Private Enterprises – Prospects for the New Century*. Washington, DC.

empirical evidence of the links between: (i) growth and private investment; and (ii) job creation in the private sector and poverty reduction.⁷⁶

The study on the relationships between private and public investment, growth rates, and income levels in 50 selected developing countries from 1970 to 1998 indicates that higher growth rates are, by a wide margin, strongly associated with a higher ratio of private investment to GDP when compared to that of public investment to GDP. Also, the other study referred to here on the relationship between job creation and poverty reduction in 80 countries from 1987-1998 has proven that private firms created four to eighty times as many jobs as public sector firms, depending on the country. Moreover, one survey tracking specific poor individuals over time shows that finding a job or a family member finding a job is a major path out of poverty.⁷⁷ Most poverty escapees found jobs in private firms, not the public sector.

Admittedly, the PRC's experience is more complex due to the size of the country and the intricate institutional fabric governing all enterprise. However, the above hypothesis is applicable to PRC. Private sector development has had a significant impact on poverty reduction. A recent unpublished ADB study shows that provinces and cities that have a high share of private sector activity usually have much lower poverty.⁷⁸ The relationship between per capita GDP and the share of private sector employment in total employment in 30 provinces clearly indicates the contribution of private sector employment to the level of income. On average among provinces, for every 1% increase in the share of private employment, there is a corresponding increase of 164 yuan in per capita GDP.

Good governance is also essential for private sector development and its flow on to poverty reduction. It ensures the transparent use of public funds to which private firms contribute through taxes, and promotes the effective delivery of public services such as health and education. The poor are most vulnerable to public sector inefficiencies, corruption and waste.

GENERAL OVERVIEW

The understanding of poverty among Government officials focuses on income poverty. Consequently,

poverty reduction programs are designed to provide for income generation (such as the subsidized credit programs) or employment. However, both in rural and in urban areas, poverty is often caused by a lack of both income and of opportunities for human development. The costs of health and education are highlighted by the poor as a major problem. In urban areas, another major problem is housing and the provision of urban facilities in the areas where the new poor live. These are mostly the outskirts of the cities where the floating population migrate, and in company towns where the laid off workers reside. They also confront weaknesses in the social protection system (including health insurance, insurance against natural disasters, social assistance allowances for the urban poor, and pensions for a rapidly aging society).

SOEs continue to face increasing competition from TVEs and the private sector. Competition from imports will intensify with WTO accession. While SOE reforms are urgent, the reforms are difficult and must be implemented in a way that keeps the related social costs within tolerable limits. Two of the most difficult SOE reform issues with social implications are: (i) separating social obligations from SOEs and developing alternative methods of providing the social security services; and (ii) developing a strategy to redeploy the redundant workers. In addition to their core products or services, the SOEs have been providing an extensive range of social services, such as housing, education, health facilities, and pensions. For many enterprises the cost of providing these services amounts to about half of the wage bill. If alternative arrangements for providing these social security services are not developed, the pace of SOE reform will likely slow. The Government is currently drafting a new social security law and engaging in pension reforms.

Khan and Riskin have pointed out two pertinent aspects of urban income distribution and employment. In their analysis of the sources of income for urban populations in 1995, they found that income earned from privately and individually owned enterprises was strongly equalizing. Table 44 shows that the deciles that shared most of this income were the bottom three deciles (with the bottom decile drawing the largest share) and the top two deciles. What this suggests is that there is a strong

⁷⁶ International Finance Corporation. 2000. *Paths Out of Poverty*. Washington, DC.: 1-6. The report introduces several surveys including: Dollar, Davit, and Aart Kraay. *Growth Is Good for the Poor*.

⁷⁷ Guy Pfeffermann. 2001. *The Role of Private Enterprise in Reducing Poverty*. The Asia and Pacific Forum on Poverty. ADB.

⁷⁸ ADB. 2001. *Asian Development Outlook (ADO)*. ADB.

Table 44: Urban Income Distribution Pattern 1995

Decile Poorest = 1	All Income Decile Distribution	Income from Private Enterprise Distribution
1	3.4%	16.2%
2	4.9%	9.3%
3	5.8%	12.1%
4	6.7%	3.4%
5	7.6%	5.0%
6	8.6%	6.1%
7	9.8%	6.8%
8	11.5%	8.1%
9	14.4%	16.9%
10	27.4%	16.2%
Total	100%	100%

Source: Khan, A.R., and C. Riskin. 2001. 'opcit'.

rudimentary informal sector generating low incomes for many poor households. At the same time there are very profitable ventures providing a small number of people with high incomes. The statistics used to compile Table 44 are likely to understate the volume of income generated by small scale informal sector activity in the cities. Because of a range of barriers to micro- and small business in urban areas - licensing, compulsory proof of a lease over premises, taxation, employee registration, multiple agency reporting requirements, minimum capital thresholds for registering businesses - much commercial activity at this level takes place in the gray economy and is not recorded.

Table 45: Output Elasticity of Employment in Urban Industries, 1988-1995

All industries	0.037
State enterprises	0.032
Collective enterprises	-0.176
Private & other enterprises	0.874

Source: Khan, A.R., and C. Riskin. 2001. 'opcit'.

At the macro level, the process of transition to a market economy involves restructuring towards goods and services that make efficient use of the various factors of production given the resource endowments of the PRC. Given the abundance of labor, it was reasonable for the Government to assume that restructuring would, after a period of labor dislocation while SOEs downsized, lead to a profusion of labor-intensive industries, which through expanding employment would prevent a rise in

urban poverty. However transition and freer trade so far have not heightened the employment intensity of the PRC's growth. The output elasticity of employment for urban industries over the period reviewed by Khan and Riskin was low - see Table 45.

It was only in industries under private and new forms of ownership that output growth simultaneously generated noticeably positive employment growth. Herein lies one dynamic dimension for significant macroeconomic impacts on urban poverty. In the eight years 1994-2001 there was a dramatic rise in urban employment in non-state and non-collectively owned enterprises - see Table 43. This employment-friendly category comprising several forms of alternative ownership will, in all probability, continue to expand. Up until 2001, the growth of this category has just been enough to sustain the overall level of urban employment with minimal growth. The recent revision in 2002 by NBS for total urban employment numbers between 1998 and 2001 make it confusing to know for certain what has been the year-on-year trend. Table 46 first sets out NBS's annual growth rates in total urban employment with revised figures applying from 1998 onwards. Clearly NBS has changed the basis for calculating this figure, as it is implausible that employment would have grown by 7% between 1997 and 1998. For reliability, comment on the revised figures has to be limited to changes between 1998 and 2001. The period is too short to be confident of a trend, but a tentative conclusion would be that the rate of urban employment growth is either stable or marginally declining. Growth over the 1998-2001 as per these revised figures has averaged 3.5% per annum compounded.

Table 46 then sets out NBS's unrevised figures as per its 2001 Yearbook. Different conclusions flow from these figures. Over the 1994-2000 period overall urban employment grew at an average rate of 2.4% per annum compounded, but the general trend was a slowing of the annual rate of increase.

Table 46: Year-on-Year Change in Urban Employment (%)

	1995	1996	1997	1998	1999	2000	2001
Revised in 2002	3.7%	3.8%	2.0%	7.0%	3.7%	3.3%	3.4%
Un-revised	3.7%	3.8%	2.0%	2.3%	1.6%	1.2%	N/A

Source: Revised in 2002 figures for 1998-2001 from NBS *China Statistical Year Book 2002*; and the unrevised figures from *China Statistical Year Book 2001*.

INSTITUTIONAL RESPONSIBILITY FOR URBAN POVERTY

While Government at both the national and local levels is increasing the priority given to urban poverty reduction, there is no over-arching inter-agency group, like the LGOP, coordinating urban poverty strategies and programs. At a national policy level, the NDRC, the Ministry of Commerce (MOFCOM), MCA and the Ministry of Labor and Social Services (MOLSS) play key roles in urban poverty alleviation. At the provincial and city levels, corresponding MCA and MOLSS hierarchies have primary responsibility for programs that directly address the urban poor.

An under-resourced administrative structure is in place to carry out the Minimum Living Standard Scheme (MLSS), which assists registered urban residents whose income is lower than the local poverty line. The day-to-day operations of MLSS depend on a handful of officials at the levels of municipality, urban districts and streets. This rudimentary structure assessed and made payments to 19.9 million beneficiaries in 2002. The national government outlaid 46 billion yuan in 2002 towards assisting city governments make these payments. City and local governments contributed a further 59 billion yuan. Despite these volumes, the administrative structure has grown little since the days when urban poverty relief was restricted to persons suffering from the "three nos".

THE RESPONSIBILITIES OF THE CITIES

Principle responsibilities: The Government, both local and central, is according increasing priority to addressing urban poverty. Formal social security expenditures for pensions, unemployment and health have long been provided for workers employed in State owned enterprises and government agencies. Starting in 1993 in Shanghai, city governments have adopted minimum living standards in the range of 150 yuan to 400 yuan per capita per month to provide social assistance payments for those households with incomes below their city's poverty line. City responsibilities in terms of numbers covered under these minimum living standard support schemes and the accompanying financial outlays expanded rapidly, especially from the late 1990's onwards. For example, in 1999 Liaoning province was providing MLSS to 700,000 urban poor. By June 2002 its MLSS coverage had expanded to 1.3 million. In December 2000, the Government adopted a policy to make such minimum living standards

compulsory for every city and provide just under half of the expenditures through the national budget.

Labor administration: The employment centers of the city Labor Bureaus are important for the urban low income people, laid off workers and the unemployed. These centers find creative means to promote the re-employment of laid off people.

Housing administration and social services: In some cities, the housing administration provides rental exemptions for the absolute poor. Other programs are in place to help laid-off workers who can demonstrate their difficult financial status. These include hospital fee reductions, tuition waivers for schools, industrial and commercial tax exemptions and deductions, and exemptions and subsidies for water supply and electricity, specifically targeted to the urban poor.

Other City Administration Departments: As of March 2002, 30 cities have run training programs on starting a business. This training has been directed at those laid-off workers and unemployed who want to launch their own private business. This training has been followed-up with assistance in: (i) obtaining the necessary business registrations from relevant city authorities; and (ii) applying for small loans to underpin their business start-up. Some cities have established business incubators where fledgling new small businesses can locate with instant access to necessary physical infrastructure and some support services.

MINISTRY OF CIVIL AFFAIRS

Low social assistance funding for the urban poor: The Ministry of Civil Affairs is responsible for providing social assistance for the urban poor who cannot meet basic living expenditures whether due to unemployment, disability, or other reasons. The programs are funded from local government budgets through a special urban poverty fund. These payments are designed to meet the gap between the minimum per capita income standards and the employment benefits from re-employment centers so that people can have basic necessities. However, only a few provincial urban poverty programs have been established and social assistance payments are relatively low. By the end of 1999, 1.7 million urban laid-off and low-income people in 1,801 towns of 22 provinces had received special civil affairs benefits to cover monthly basic living expenses ranging from 70 yuan to 260 yuan per family.

Community based selection criteria: A typical local urban poverty program consists of (i) a minimum

monthly payment for the absolute urban poor for basic living expenses following the loss of a job; and (ii) a basic monthly living subsidy per person to the absolute poor whether employed or unemployed. To receive the subsidy, a household applies for assistance through a resident committee, which confirms the financial situation of the family, ensures that the family's per capita income does not exceed the minimum monthly standard, and forwards the application to the district Civil Affairs office. Upon approval, the Civil Affairs office provides the subsidy to the resident committee, which forwards the funds to the household.

MINISTRY OF LABOR AND SOCIAL SECURITY

Basic guarantee programs for the urban unemployed poor: The Provincial Labor Bureaus and the local labor departments provide assistance to the poor in urban areas. Many cities have programs for the urban unemployed and poor designed to provide a certain percentage of the former salary. The most common program for the urban unemployed is called the basic guarantee. This provides an amount per person per month for laid-off (*xiagang*) workers who still hold employment contracts with the SOEs with such funds coming from the government budget, the SOE concerned and other sources (mainly unemployment insurance funds). When someone is laid-off, he or she receives a special identification card to confirm their unemployed status. Thereafter, registration (including personal and financial information) in a re-employment center is required to receive the monthly benefits. All unemployment-related benefit funds are channeled through such centers, which provide monthly payments. These centers also ensure that each registered worker laid off from an SOE is provided once with occupational guidance, three times with employment information and once with free job training, with these support inputs all being delivered in the first six months after registration with a center. The free skills training is provided by re-employment centers, enterprises, universities, and other professional and social organizations. In some places, unions also play a role in urban poverty with programs similar to the MOLSS programs described above.

Using MOLSS as the main lead agency, the Government in 1998 launched what it called the "ten million in three years" re-employment training program. This aimed at training ten million laid off workers within three years. This program has been basically successful. From 1998 to 2000, more than 13 million

laid-off and unemployed persons received such training and the reemployment rate after training was around 60%. Re-employment training has continued intensively so that between 1998 and June 2002, 17 million laid-off workers had found new jobs.

Retraining is not always successful: However, job retraining has limited potential to help the older laid-off workers. In Shanghai, for example, only 54.7% of the 114,000 laid-off State enterprise workers retrained in 1997 found a new job. The majority of those who could not find work were 50 years or older, often too old to learn new skills, and too inflexible to cope with the requirements of the new labor market and services sector.

URBAN POVERTY ALLEVIATION MECHANISMS

There are three major safety nets designed to protect urban residents from falling into poverty. These are: (i) the living allowance for laid-off employees; (ii) unemployment insurance (UI); and (iii) MLSS. Among these three, MLSS is the safety net of last resort. Currently the laid-off employees assistance facility covers around 8 million beneficiaries. In 2001, 3.1 million people drew down UI payments and in 2002 19.9 million received the MLSS allowance.

Laid-off employees assistance: This assistance which includes help in finding new employment, is an extension of the traditional social welfare role of SOEs. Until the mid-1990s such assistance was provided indefinitely until such persons were retrained and given a new job within the enterprise or its subsidiaries. With growing financial difficulties facing many SOEs, the scheme was changed in the mid-1990s to limit the responsibility of enterprises to three years and to lower the level of payments to laid-off employees from the basic wage to a living allowance set below the local minimum wage. From 1998 onwards the State Council mandated that every SOE and urban collective enterprise with more than a benchmark incidence of laid-off workers had to establish a re-employment center. Currently there are 120,000 centers, but the quality of their support varies widely. They, and the laid-off assistance scheme itself, will be terminated by the end of 2003. Thereafter new laid-off workers will be treated as unemployed and responsibility for their income maintenance will be taken over by the city level MOLSS.

The Unemployment Insurance Scheme (UI): This was launched in 1986. It is funded by contributions from

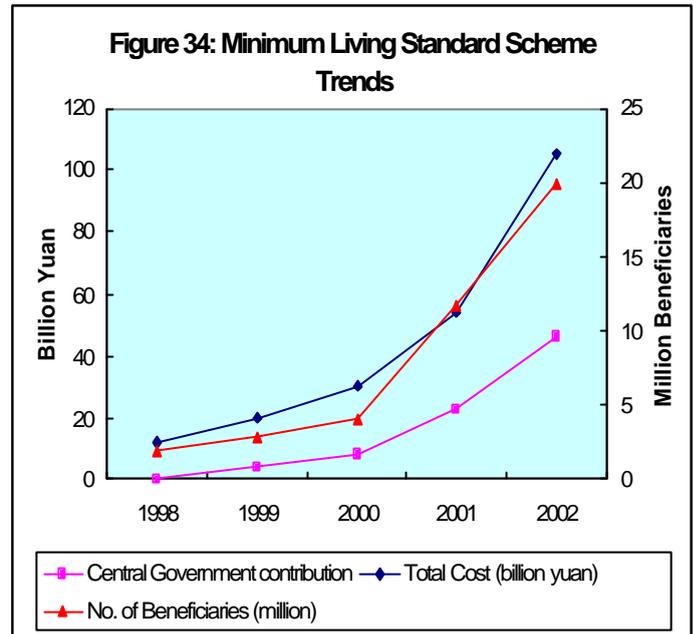
both employee and employer based on a percentage of employee's salary. Initially confined to SOEs, it was extended to collectives and foreign invested enterprises. Since January 1999, participation in UI was made compulsory for all urban employees, except rural migrants, by a regulation stipulating employer contributions as a 2% surcharge on staff salaries and employees paying in 1% of their salaries. Despite the regulation, coverage remains limited to those formally employed in enterprises. By September 2002, 101 million employees were shielded under UI but this is only half the urban workforce. There are practical problems in collecting contributions from small enterprises with non-documented employment arrangements.

Should an employee who has contributed to UI for more than one year become a "registered" unemployed person, s/he is entitled to a monthly living allowance of 60-80% of the local minimum wage. The benefit can be extended for three months for every 12 months of IU contributions made up to a maximum of 24 months support. Even with the pre-condition of "registration", the scheme's coverage is not yet comprehensive. In 2000 for instance, only 55.6% of the registered unemployed received UI assistance.

The Minimum Living Standard Scheme (MLSS): This began as a local initiative in Shanghai in 1993. After piloting in five cities, it was extended to most cities by 1998. Unlike UI and other social insurance schemes, MLSS is non-contributory and technically applies to all registered residents in the locality with an income below that particular city's poverty line.

MLSS pay outs are calculated to make up the difference between the local city poverty line and the impoverished household's per capita income. Actual MLSS benefit per recipient has been low – an average of 62 yuan per month per person in 2000. Because the scheme reduces a household's MLSS entitlement by every extra yuan it earns independently, there is a disincentive effect on recipient self-help. Furthermore MLSS does not protect the urban poor from two key vulnerabilities – the cost of healthcare in case of serious illness, and the rising financial sacrifice needed to give their children a reasonable education. There is a tendency for the urban poor to avoid necessary medical care. With education fees, poor parents either lower their living standards further, or restrict the education of their children.

MLSS's coverage of the urban poor has been expanding rapidly in recent years. Between 1999 and 2002, the numbers of beneficiaries jumped from 2.8 million to 19.8 million.



Source: Ministry of Civil Affairs. 2002. *China's Urban Poverty and the Minimum Living Standard Security Scheme*. Beijing, December (in Chinese).

In the most recent year, 2002, beneficiaries increased by 70% over the previous year (see Figure 34). Using broad numbers, MLSS in 2002 probably covered 60% of the urban poor defined as those with urban residency status who could not achieve annual per capita consumption of 2,310 yuan in 1998 prices. If the poor segment of the floating migrant population in cities is included, however, then the percentage of coverage is less. Currently, the urban migrant population is not entitled to the MLSS safety net.

FUNDING FOR URBAN POVERTY REDUCTION

Decentralized funding system: There is no consolidated urban poverty funding information available, as such programs are decentralized by nature, and are not coordinated through a national urban poverty coordinating body (for example, something similar to LGOP for rural poverty). Also, national poverty fund data is not desegregated for urban areas that lie within designated key counties for national poverty reduction and development. UNDP (1998), however, estimated that 4.2 billion yuan was required in 1997 to lift the 11.76 million urban poor above the 1,700 yuan per capita per annum level.

Detailed information has recently become available about the funding of the MLSS as a result of a publication

prepared by the Ministry of Civil Affairs for the Urban-China Anti-Poverty Forum held in Beijing 12-13 December, 2002.⁷⁹ The total (national and local governments) and the national government's outlays on MLSS from 1998 to 2002 are illustrated in Figure 33. A sharp rise in funding is evident from 2000 onwards. In 2002, a total of 105 billion yuan was expended on MLSS, with 44% of this funded by the central government. Interestingly, this is more than double the funding from all sources devoted to the "8-7" rural poverty reduction program in 2000. In 2002, MLSS beneficiaries on average received 529 yuan for the year or 44 yuan on a monthly basis, assuming that the outlays quoted by MCA do not include administrative overheads. The average in this case may be distorted by the proportion of beneficiaries who only claimed and received MLSS payments for part of the year.

The MCA publication also has provincial breakdowns of total MLSS budgets.

CIVIL SOCIETY-BASED PROGRAMS FOR POVERTY ALLEVIATION

The fight against urban poverty is not limited to Government intervention alone. Individual provinces have schemes to encourage private entrepreneurship. An example of an urban poverty private sector incentive plan in Shanxi is described in Box 8.

Box 8: Public-Private Sector Initiatives to Combat Urban Poverty: The Case of Shanxi

A program called Small Bank Loans for Helping Laid-Off Workers to Find New Jobs is operational in Shanxi Province. Under this program, commercial bank loans of 3,000 yuan are provided to laid-off workers to help them to set up a private business. The 2.5% interest rate is paid by the provincial government. Under this program, the laid-off workers may receive the loan, civil affairs department payments, and labor department benefits and insurance for six months. If the business succeeds, then the other payments end. Other incentives include a business tax exemption and income tax exemption for the first three years followed by two years of tax reductions.

Information is not readily available on urban poverty alleviation strategies and programs supported by wider society-based and NGO action. The quarterly magazine *China Development Brief* is a comprehensive source on new NGO profiles and activities.⁸⁰ While most NGOs are focusing on poverty, social and environmental and

environmental issues in rural areas, a small but growing number are working with the urban poor. On anecdotal evidence, these urban activities are concentrated on those whose poverty is related to age, incapacity or the exclusion and unfair treatment of under-privileged women.

One key buffer to growing urban poverty has been the grey economy which manages to stay beyond the reach of local government regulators of commerce and taxation. Hard data on this sector is virtually non-existent. Laid-off workers who have taken the risk to be small-scale entrepreneurs in no small part drive the sector's growth. The sector tends to operate without business licenses, labor contracts, official receipts and business and individual tax payments. While small in terms of employees per business, anecdotal evidence suggests that possibly half of all laid-off workers earn income from the grey unreported economy.

The larger Government-organized non-government organizations (GONGOS) such as the ACWF and the ACCYL have a small part of their programs directed at the urban underprivileged and poor. For instance, ACWF has programs to assist laid-off female workers re-enter urban employment or become self-employed. The GONGO (although since 2001 it may be more of a NGO) with possibly the most direct interest in urban poverty is the China Social Work Association. It was established under the auspices of the Ministry of Civil Affairs (MCA) in 1991. It is currently working with MCA, in consultation with the Ministry of Personnel and MOLSS, to develop a system of certification of social workers in the Pudong District of Shanghai which may later be applied nation-wide. In several of its programs it cooperates with international NGOs such as Focus and Half the Sky, both from the US.

International NGOs recognize the presence of growing urban poverty as a major issue but have tended to maintain their emphasis on addressing rural poverty. Health and HIV/Aids dimensions of urban poverty are areas where some local and international NGOs have active programs, for example the Red Cross. Care and adoption programs for urban orphans is another growing area supported not only by international NGOs, but the more so by foreign commercial adoption agencies whose clientele are mainly Western couples who have chosen adoption as the means for having or enlarging their family.

⁷⁹ Ministry of Civil Affairs. 2002. *China's Urban Poverty and the Minimum Living Standard Security Scheme*. Beijing. December (in Chinese).

⁸⁰ China Development Brief. <http://www.chinadevelopmentbrief.com>

ASSISTANCE FROM INTERNATIONAL DONORS

The coverage of international donors in this section in no way attempts to be comprehensive. Inclusion of some donors and only some of their pro-urban poor activities does not imply that the contributions being made under unmentioned projects funded by unmentioned donors are not equally or more worthy.

Donors for some years now have been encouraging research and investigation into the nature of urban poverty as a means of providing evidence-based arguments to influence and enhance policies and programs towards the urban poor. The ADB, for instance, has in 2000 and 2001, funded two ADTAs focused specifically on urban poverty. It plans to finance a further urban poverty study in 2004.

The Use of Social Security Reform to Address Urban Poverty: As reforms in the industrial sector continue and SOEs are restructured and rationalized, increasing numbers of redundant workers face the prospects of unemployment. This leads to increasing urban poverty if the unemployed are unable to secure new jobs and if a social safety net and new skills training are not provided during the transition period between jobs. Consequently the ADB is focusing some of its policy advice in the area of social security reform and is financing an exemplary social security reform project in Liaoning. A sound social safety net and retraining and job creation, mostly in the private sector, are needed to mitigate the possibility of increased urban poverty resulting from enterprise reform and restructuring for increased economic efficiency. The World Bank is similarly focused on social security reform. In 1999 it commenced a four year support program for pension reform directed at the Qingdao municipal and the Heilongjiang provincial pension systems and involving MOLSS and local level labor bureaus. AusAID, through its China Capacity Building Program, has enhanced policy planning capacity regarding social security reform within NDRC and MOLSS at the national level, and in mid 2002 provided advice to the Shanghai Finance Bureau on strategies for achieving sustainable management of social security funds.

The Promotion of Private Sector Development to Reduce Urban Poverty: A number of the international donors have concluded that strategies to support in addressing urban poverty are the promotion of the growth of the private sector, and capacity building

urban policy, regulatory and service agencies to enhance sound development management of urban areas.

The ADB, for instance, is helping develop a legal/regulatory framework which facilitates development of the market economy. Under a TA grant, the ADB is supporting the drafting of several key economic laws such as the Company Law, the Bankruptcy Law, the Banking Law, the Social Security Law, the Registration of Commercial and Industrial Organizations Law and the Administrative Licensing Law. The ADB recently launched a study of practical approaches to facilitating domestic private sector development. This follows an earlier study of private sector development conducted under International Finance Corporations (IFC) auspices.

The results of the IFC study have led to an IFC-AusAID experimental private sector support project in Chengdu. AusAID is currently funding a UNDP project in Tianjin to generate sustainable income for laid-off women workers through the use of a business incubator and micro-credit. AusAID is also supporting a technical education upgrading project in Chongqing to assist new labor market entrants obtain jobs.

The Canadian International Development Agency (CIDA) has a management education project which is building capacity of enterprise managers and officials to address special issues related to economic reform including the displacement of urban workers, particularly women, and their rehabilitation as self-employed entrepreneurs. CIDA also has a governance project underway to promote integrated municipal development in 9 PRC cities. This project, among other things, may well improve the pro-poor opportunities and facilities within these municipalities.

The German Agency for Technical Co-operation (GTZ), has supported training and technical education projects to reintegrate redundant workers, especially women, back into the workforce. The Japan International Co-operation Agency, (JICA) has been testing a pilot project to provide microfinance to the urban poor, with a view to making this a much larger program.

Other International Donor Interventions which assist the Urban Poor: While the private sector is seen as the main dynamic force in generating jobs for the urban poor and other urbanites, the State sector is not to be overlooked. Improved efficiency, profitability and growth in SOE operations will generate new jobs. A number of donors have contributed to supporting the restructuring process in the State sector. The World

Bank, for instance, has an on-going Enterprise Reform Project which commenced in 1999. This project also has a component for promoting employment in the non-State sector.

Both the World Bank and the ADB have financed and continue to finance a range of urban environment, water and sewerage projects. Poorer urban water supplies and sewage removal, and pollution concentrations tend to impact those in poverty more than the non-poor who can gain access to higher quality environmental conditions through buying or renting housing in cleaner better serviced sections of cities and equipping their residences with pollution reduction and water purification devices. The recent Dutch study on the Environment rates air pollution, particularly in the cities, as the second most severe factor impacting the

poor.⁸¹ Each of these city-based environment projects thus has important pro-urban poor impacts.

The World Bank and DFID are blend financing a tuberculosis (TB) control project which commenced in 2002. While the project is concerned particularly to control TB in populations that are hard to reach, controlling TB in urban areas is within the project's ambit. The project covers 19 provinces. TB tends to be more prevalent among the poor – in urban as well as rural areas - and is particularly debilitating to sufferers. Separately, DFID is supporting an urban health and poverty reduction project.

By and large, however, donor activities related to urban poverty alleviation have been modest compared to their assistance to help combat rural poverty.

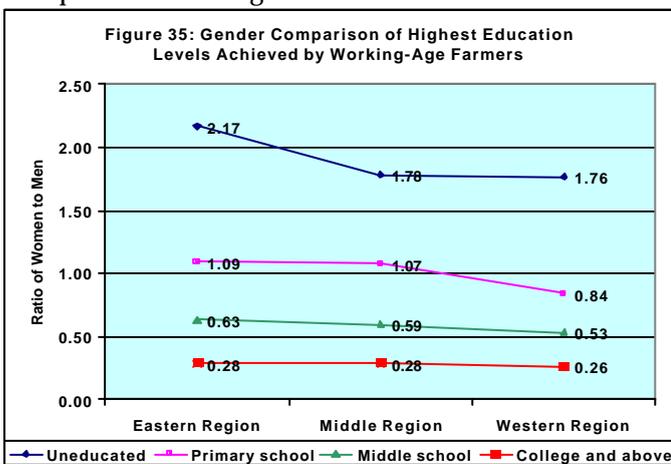
⁸¹ Van der Tak, Casper M. 2002. *'op. cit'*

VULNERABLE GROUPS IN RURAL AND URBAN AREAS

WOMEN AND GIRLS

The gender dimensions of poverty in the PRC are largely under-diagnosed in official statistics as many figures are collected on a household basis and are not gender disaggregated. Little is officially recorded on intra-household income and welfare distribution. Of those studies that have been able to disaggregate the attributes of poverty on a gender basis, the common conclusion is that there is a substantial differential in favor of males. The Department for International Development of the UK (DFID) surveys (2000) in Guangxi, Yunnan and Ningxia and an ADB social assessment (2001) in Sichuan have found clear gaps in education and health outcomes, as well as in access to agricultural extension services. An earlier UNICEF report also noted that in some poor areas almost all girls and half of the boys were not at school.

As mentioned earlier in both the rural and urban sections of this profile, the paucity of education levels achieved within the household are closely correlated with poverty. Conversely, investment in education is a highly effective means of reducing poverty. Currently the allocation of education, viewed as human capital, is biased towards males particularly in rural areas. Figure 35 records one set of research results on education levels achieved among working-age farmers by gender in each of the PRC's three regions, based on sampling. These particular results show that, with two exceptions, categorization of working age farmers by highest level of education achieved is male intensive for the three key education levels reviewed, and this male intensity increases with higher levels of education. According to this study, the two exceptions because they reflect gender balance, are those farmers in the eastern and central regions whose highest achievement was primary school. The no-formal-education category is strongly female intensive. The particularly high female intensity of this category in the eastern region may be a function of proportionately more conservatism about educating girls in a proportionately smaller uneducated segment of local population compared to other regions.



Source: Agriculture Research Office. 2000. *China Initial Agriculture Research Resources Summary*. China Statistical Press. March. Beijing (in Chinese).

Illiteracy is strongly intensive and it is likely that women and girls at least comprise 70% of these illiterates.

Because of the complexity of the Chinese language, the Ministry of Education classifies anyone who recognizes less than 1,500 characters as illiterate. While there has been praiseworthy progress in reducing illiteracy, 85 million people were identified as still illiterate in 2001. Furthermore, the number of illiterate people was now growing at 500,000 a year and most of these were school age children pulled out of school by migrant parents who could not afford the extra school fees levied by cities on migrant students.⁸² Girls would outnumber boys among these poor young urban migrants deprived of literacy. Fortunately there is a very recent move to lower barriers to schooling that confront the children of urban migrants. In mid-January 2003, the State Council issued a decree on improving the management of, and provision of services for, rural migrant workers. This decree encourages urban Government schools to open their doors to the children of migrant farmers.⁸³

Conservative social attitudes underpin the tendency of the poor to exclude their daughters from even finishing a basic education. A common conservative family view is to see a daughter's education as a wasted investment, since girls are viewed as members of their husband's family after marriage. An even more conservative family view in the countryside is that a highly educated daughter will be considered dangerous by potential husbands.

No State system is universally in place to exempt or significantly alleviate families below the official poverty lines from paying school fees and charges at local standards. For poor families, schooling costs are a large financial burden. In Sichuan in 2001, for instance, the average spent on education by rural households was equivalent to one quarter of the total income of those

⁸² Statement to the Chinese People's Political Consultative Conference by the Literacy Office of the Ministry Of Education. 4 March 2002. Beijing.

⁸³ Zhao, H. 2003. Migrant workers get better protection. *ChinaDaily*. 23 January.

households bordering on the official poverty line. The burden for the poor is increasing as primary schools are consolidated into fewer locations and thus out-of-host-village students have to board and pay associated fees. Under such highly constrained family budgets, more traditional parents are likely to scrimp on other expenditures to educate a boy than a girl.

On the positive side, as mentioned in earlier chapters, there are a number of GONGO, NGO and official donor-financed programs to give girls in poor families greater educational opportunities.

As well as education, studies have shown that obtaining off-farm employment is closely related to escaping rural poverty, and prompt re-employment of laid-off workers is a sure antidote for urban poverty. The opportunities to escape rural poverty by working off-farm are flowing mainly to males. A recent survey by the Ministry of Agriculture has concluded from the sample that 70.1% of migrant workers from rural areas in 2002 were male, and this was a slight increase in male intensity over the previous year.⁸⁴ This is part driven by the educational differential between men and women, also by the lack of vocational training opportunities for poor women and local social attitudes. Those rural women who become migrant workers generally have lower formal educational levels than their male counterparts which would suggest they tend to obtain lower-paid jobs in labor-intensive industries involving low-skill repetitive tasks - see Table 47. Results from the Ministry of Agriculture survey of urban migrant labor in 2002 indicate that 35.4% of the females worked in manufacturing and a further 27.8% in the food service industry.

Table 47: Distribution by Gender of Educational Levels of Migrant Workers in the Pearl River Delta Triangle (%)

	College	High School	Middle School	Primary School	Un-educated
Men	2.4	30.2	60.0	7.1	6.4
Women	1.2	9.0	68.3	20.4	1.1

Source: Social Studies Institute of the China Academy of Social Science. 1996. *Farmer Migration and Gender*. Zhongyuan Farmers Press. Zhengzhou (in Chinese).

Table 47 records the results of a sample survey of migrant workers in the industrial complexes in the Pearl River delta triangle, excluding Hong Kong. Thirty four per

cent of the male workers had achieved high school or college level education, whereas for females, only 10% had done so. At the other end of spectrum, 7% of the males had been educated up to primary school only, compared to 20% of the females. Interestingly there were more uneducated males than females and this presumably reflects the needs of the construction industry in the triangle for unskilled male workers. The country wide survey of migrant workers in 2002 conducted by the Ministry of Agriculture found that construction work was the second largest category of employment for migrant males, soaking up 20.5% of all migrant male workers.

The figures in Table 47 reflect the situation in the delta in the early 1990s. Recent anecdotal evidence from project-related social assessments in the central and western regions suggests that there has been a structural shift in the delta and the industrial areas in Fujian towards high-technology production and that this has generated a reverse flow of unskilled migrant labor, largely women, back to the villages.

Associate Professor Xu Min makes the interesting point that in urban areas with SOE reform, the majority of laid-off workers between 1990 and 1995 were females. It was only when a lot more males were laid-off after 1995 that the Government and the press elevated laid-off workers as a major issue.⁸⁵ Associate Professor Xu in the same article analyses what happened at a large re-employment fair solely for laid-off women held in 1997 in a major PRC city. At the fair 1,272 jobs were offered and 831 of the laid-off women who attended submitted 1,198 applications for those positions. After interviews by employers, only 225 were given jobs. Within a couple of months a significant number of the re-employed women had quit these jobs of their own volition. Associate Professor Xu argues that if, as observed in the fair and its aftermath, there is the high failure rate in structured efforts to re-employ laid-off women, then the re-employment agencies need to understand the reasons for this failure rate. Armed with this understanding, the agencies could modulate their re-employment support to better meet the needs of laid-off female workers.

An inadequate, declining or inhospitable resource base is also closely related to much of the poverty that remains in rural PRC. The DFID surveys referred to at the beginning of this chapter and field-work associated with the DFID-financed Yunnan Environment

⁸⁴ Agriculture Policy and Regulation Department. Ministry of Agriculture. 2003. Migrant Labor Survey reported in *People's Daily* 2003. 23 January.

⁸⁵ Xu, M. 2001. Inattentiveness to the Needs of those seeking Re-employment. *Collection of Women's Studies*. No.1: 12-17. Beijing.

Development Programme have pointed out how poverty related to poor and/or degrading environments impacts more harshly on women and girls. The fetching of water and firewood, and the shepherding of grazing animals tend to be mainly female responsibilities. Considerably more time and effort is required to carry out these essential activities as environmental conditions decline. With increased female exhaustion, declining quality of water and winter warmth, consequent ill-health including reproductive health, and less cash income from animal husbandry, the result is often a continuation or recurrence of household poverty with women and girls suffering more physically and emotionally than the males.

Another key resource that makes women vulnerable to poverty is rural land and the land rights system that determines its allocation. Apart from minority acreages of State land, the rest of rural land in the PRC is owned by local collectives or land-owning groups. These collectives have allocated, on an equitable basis, 30 year usufruct rights to individual households under the household responsibility system. As population in a community changes, the collective may preserve inter-household equity by small relatively frequent adjustments, or larger infrequent adjustments, or do nothing. Guizhou has been a forerunner in the do nothing response, referred to as the "two nos". The new Land Contract Law which commenced in 2003 basically entrenches the "two nos" approach.

The gender dimension to inadequacies in readjusting the allocation of usufruct rights occurs in conjunction with the traditional custom of a woman leaving her parent's household on marriage to move into the household of her husband. Many rural marriages involve women moving into the land area controlled by a different collective. In the absence of adjustment, the fixed area of land farmed by the husband's household has to support another mouth when the new bride arrives. For households in poverty or struggling to stay above the poverty line, this increased land pressure impoverishing. Furthermore, the household that the new bride leaves has fewer people to support, but fewer hands to work it and maybe a higher dependency ratio given aged parents or grandparents. Both the PRC media and a recent ADB-financed Resettlement Plan for expressway development in south Sichuan have pointed out the tendency for female farmers to be deprived of equal usufruct rights to land.

It is not just environmental degradation with more time and effort required for fetching water and fire-wood and shepherding animals that is placing more pressure on

rural women in poor and vulnerable households. A number of reports and studies have commented on the feminization of agriculture and consequential increase in women's work-loads in agricultural production given the number of able-bodied males who engage in migrant labor.

Younger women in poor and vulnerable households can easily become victims of organized and apparently growing trafficking in females. Studies in poor border areas of Yunnan have revealed the trafficking in women, often cross-border to Thailand and Laos. Apart from human rights and dignity aspects, and the obvious affront to PRC traditional community values, this trafficking exposes these women, and later their home communities to STDs and HIV/AIDS.

Economic reforms have not all been gender neutral in their impacts on the poor or vulnerable poor. Already mentioned was the tendency in the early years of SOE downsizing for female workers to be laid-off first. Also, as the reform principle of cost recovery was applied to health and education services, poor rural households rationed their use of these services. Girls tended to be withdrawn from school earlier than boys and women's reproductive health care went largely unattended.

It could be argued that while the reform process has made a major structural step in substituting the market and its needs for command economy output targets, the achievement of a sustainable "*xiaokang*" society depends on recognizing and capitalizing on the linkages between the production economy and the reproduction and care economy. The current tendency is to focus on the production economy with its very public attributes like GDP and under-estimate the importance of the reproduction and care economy which is as yet poorly profiled by quantitative measures.

Notwithstanding this tendency, in the last decade there has been a marked expansion in the range of government, society-based and NGO programs which seek to alleviate conditions of poverty of women and young girls. The ACWF has been a major force in this, having helped 3.5 million women out of poverty during the 1994-2000 "8-7" poverty alleviation program. In the late 1990s, with the Government's acceptance of microcredit models of emphasizing female borrowers, PADO took on an activity which had a deliberate bias in favor of women. NGOs and donors have long supported pro-gender equity programs, and this has performed an advocacy and demonstration role to Government.

MINORITY NATIONALITIES

There are 56 National minorities scattered throughout PRC totaling 167 million people, i.e. 13%. Minority nationalities tend to live under more difficult natural conditions compared to the Han majority. The course of history has led them to inhabit high mountainous remote regions or wide-semi arid pastoral areas or dense tropical jungle areas. Several studies have confirmed that the incidence of poverty among minority nationalities is considerably higher than the majority Han people. The National Government surveyed counties for qualification as poverty counties in 1994. The result was that 257 out of the 592 designated poverty counties (43%) were minority nationality or autonomous counties. The World Bank reports that minority counties comprise about 80% of all very poor counties with annual average per capita incomes below 300 yuan. In 1995, 28 million people in the 257 ethnic minority counties had per capita incomes less than the poverty line.

For egalitarian and political reasons, the Government has given special treatment to promote ethnic minorities. When poverty alleviation became more sharply focused in 1986, minority counties were given preference. To qualify as a poverty county, the national standard was set as less than 150 yuan rural net income per capita. For minority counties, the standard was raised to 200 yuan. Special allowance was made for those autonomous counties in semi-agricultural and semi-pastoral areas where the qualification was lifted to 300 yuan and 200 yuan per peasant and herdsman respectively.

The weighting given to national minorities in the targeting of official poverty alleviation programs is not the only mechanism the national government has used to alleviate poverty amongst the national minorities. In the Government's annual allocation of budgetary grants to the provinces, there has been a deliberate policy to weight grants in favor of Guianxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang autonomous regions and to Guizhou, Qinghai and Yunnan provinces.

There are clear signs of success in the preferential practices for targeting the poor minorities. For the five autonomous regions and three provinces mentioned previously, all of which have high minority populations, the number of those below the official poverty line declined from 21 million in 1995 to 12 million in 1999.

Because minorities tend to live in mountainous and tropical forest areas, some of the Government's macro policies have adversely affected their income. There is

evidence of the ban on cutting timber in the Yangtze headwaters, the return of sloping grassland to forests, the restriction on growing tobacco and the ban on growing hemp (which is as well as being used to make cloth can be harvested as marijuana) have reduced minority community incomes substantially notwithstanding that there has been a policy attempt to provide a transition subsidy for a period while communities develop alternative income earning activities.

It is difficult to gather detailed statistics on minority nationality welfare as the general data collection practice is to collect information on all people living within an area, including the Han people.

THE DISABLED POOR

The disabled account for around 9% of the rural absolute poor and about 40% of the urban poor. Disability is a random phenomenon so there is no reason to expect that the disabled will be more concentrated in poverty provinces. In fact around 70% of the rural disabled live outside the official poverty counties. It is difficult and challenging task to provide viable income generating opportunities for the bulk of the disabled poor. Consequently, the mainstream strategy for reducing disabled poverty has been to strengthen the safety nets. A fund for poverty loans for the disabled poor was established in 1992 and by 2000 over 2.6 billion yuan had been loaned out under this program. The Government has also strengthened the institutional structure that supports disabled persons. By the end of 2000, 80% of all counties had established a total of 2,240 county level service centers for the disabled and at a more local level, 60% of all townships had set up 28,430 service centers for the disabled.

To the extent that the poor with disabilities are able to directly participate in poverty alleviation projects, the Government's strategy is to give priority to activities that help the impoverished disabled tackle food and clothing problems. This means a preference for finding suitable activities in crop production, poultry raising, aquaculture and handicrafts. Furthermore, the Government requires all enterprises and institutions to hire a certain percentage of disabled persons, and those not doing so are required to contribute to the employment guarantee fund for the disabled. Specialized skills training is also given to the disabled to increase their opportunities for employment. Between 1996 and 2000, more than 1.1 million disabled persons received such training. The response by the wider society has been strong. By the end of 2001, 38,000

social welfare enterprises were employing 699,000 disabled people.

In rural areas, the local level of MCA continues to carry out the “5 guarantee system” which provides minimum guarantees for food, housing, healthcare and schooling. While this social safety net was weakened when the people’s commune system was dissolved, the local MCA’s provide a minimal subsidy to disabled “5 guarantee

families”. The coverage in rural areas of this minimum support to the handicapped poor is, however, only partial. The Government programs have achieved considerable success in alleviating poverty among the disabled. In 1992, there were around 20 million disabled poor. By the end of 2000 this number had dropped to 9.8 million. The work to substantially reduce this number is continuing into the Tenth Five Year Plan period.

CONCLUSIONS AND RECOMMENDATIONS

The PRC's progress in reducing poverty in the last quarter of the 20th Century has been remarkable. By 1996, the country was able to achieve the Millennium Development Goal of halving, between 1900 and 2015, the proportion of people whose income is less than \$1 a day. The war against poverty in the PRC is far from over, however. There is an official willingness to see rural poverty as covering a much wider range of people than just those under the rather austere line of 625 yuan in 2000 prices. This has involved an acceptance of the notion of the vulnerable poor, referred to officially as low income persons, as those rural households with annual per capita net incomes above the austere line but below 865 yuan in 2000 prices. Officials have recently been talking about 20 million urban poor rather than the lower publicized numbers around the 10 million mark. Much more serious thought has been given to the dynamics of poverty and the efficacy of strategies to reduce it. There is an open willingness in Government to listen to innovative analysis and proposals for fighting poverty.

2000 – BEFORE AND AFTER

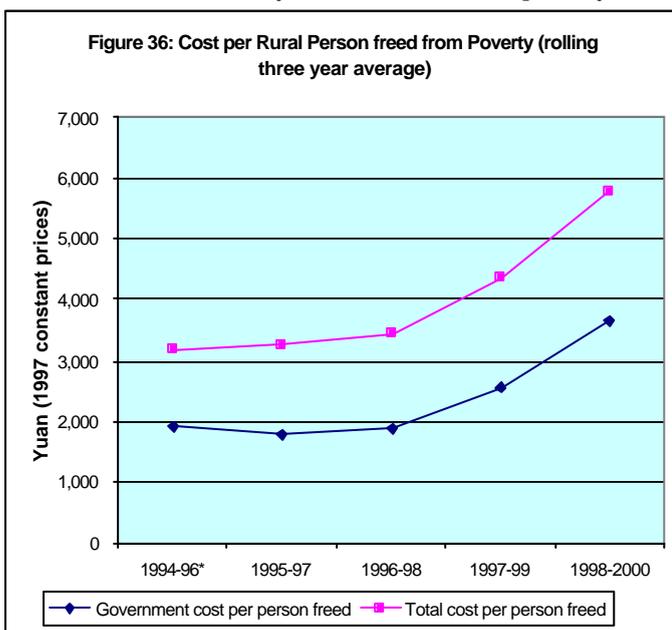
The PRC can rightly claim spectacular progress in reducing absolute rural poverty levels to one eighth of what they were in 1978 when the economic reform process commenced – nearly all people have enough to eat and some clothing. Rapid economic development has provided the basis for much of the poverty reduction. The distributional aspects of this growth, with the eastern provinces being the powerhouses for the new market economy, have contributed to the Western region being home to the highest proportion of rural poor. Furthermore, the specific rural poverty reduction program has experienced the law of diminishing returns as simpler forms of poverty vanish and more inextricable forms remain - see Figure 36. In the 1990s it was becoming progressively more difficult and costly to address absolute poverty.

Prior to the 1990s urban poverty was not a problem given that the vast majority of working age adults with urban residential status, through employment with Government agencies, institutes and SOEs, had the benefits of the “three irons”: iron (meaning guaranteed) rice bowl, iron chair (position), and iron bed (housing). With SOE reform in the 1990s and consequent lay-offs of millions of employees, it became clear that poverty was not just a rural issue.

In the case of both rural and urban reduction – although less so for urban - major society-based resources were successfully mobilized to complement and accelerate the Government's efforts to reduce poverty.

With the advent of the 21st Century, there have been a number significant changes in the Government's approach to poverty reduction aimed at greater effectiveness. For instance, in concert with a global change in thinking, the Government has recognized that poverty is a multidimensional concept. It has 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. Officials responsible for area development plans are being expected to make a paradigm shift so that village development plans coming from below are integrated into the broader planning process that they manage

Furthermore a clear political commitment has been given, backed by significantly increased budget allocations, 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.



Derived by ADB Staff from Official NBS and CFPA data.

In the case of urban poverty, the Government has recognized the efficacy of employment and had chosen to put more effort into retraining and re-employing many people who have lost their jobs through SOE restructuring. During the period when the urban poor are waiting for job opportunities and suffering from severe income loss, the Government at national and city levels has made a point of expanding the Minimum Living Standard Guarantee scheme. Also being considered and pilot tested is how social welfare schemes administered at city level can be improved and made financially self-sustaining.

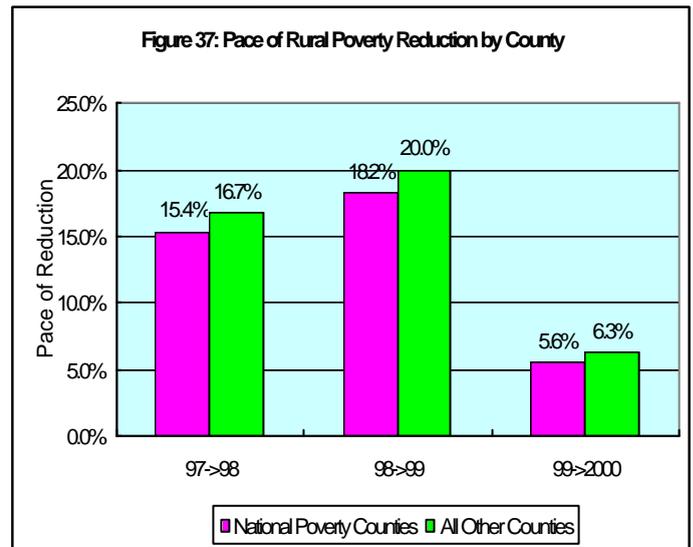
The higher incidence of poverty among the floating populations drifting into cities from rural area has been recognized. Very recently, there has been a decision to progressively allow the floating populations of cities to access urban social development services which were previously restricted to registered urban residents. Beijing will be a leader in this, giving equitable access to its Government schools to the children of migrant workers from the countryside.

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 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 37 shows 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.



Source: NBS. 2001. *Poverty Monitoring Report of Rural China*. Beijing, China Statistics Press.

The World Bank has calculated that for every 1% growth in the GDP in the PRC, rural poverty declines by around the 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.

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; (ii) greater integration of rural areas into regional (meaning regions within the PRC) and national markets; (iii) expanding opportunities for the western region to trade with Central and Southeast Asia; and (iv) ensuring greater equity in access to financial and human capital and natural resources.

Second, there is considerable scope for improvements in governance to hasten 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 moves since 2001 to “listen to the voices of the poor” through participatory village development planning will contribute to the dynamics driving good governance.

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 Minimum Living Standard Scheme (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. A recent research paper by the International Food Policy Research Institute (IFPRI) found that for the PRC, public investment in education had the highest 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 the 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 wealthiest 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.

Fourthly, enhancing the physical capital accessible by the poor opens up self-help opportunities for them to escape poverty. The same IFPRI study 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).

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.

The fifth important message to policy makers is that 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 - which were 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 growth of 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 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 36 which 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.

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 transport costs, compared to the central and especially the eastern region in accessing 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 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.

THE WAY FORWARD

The PRC Government is very 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 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 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 and 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 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.

APPENDIX 1: REGIONAL CHARACTERISTICS FROM YEAR 2000 NBS RURAL HOUSEHOLD SURVEY

Table A1.1: Per Capita Net Income by Region (all sampled households)

Region	Net cash income (CNY)	Net income (CNY)	Proportion of net cash income to total net income (%)
National Total	1,649	2,253	73
Eastern PRC			
Beijing	4,253	4,605	92
Fujian	2,810	3,230	87
Guangdong	2,923	3,654	80
Hainan	1,678	2,182	77
Hebei	1,902	2,479	77
Jiangsu	2,817	3,595	78
Liaoning	1,931	2,356	82
Shandong	2,086	2,659	78
Shanghai	5,150	5,596	92
Tianjin	2,986	3,622	82
Zhejiang	3,889	4,254	91
Central PRC			
Anhui	1,342	1,935	69
Heilongjiang	1,277	2,148	59
Henan	1,256	1,986	63
Hubei	1,467	2,269	65
Hunan	1,593	2,197	72
Jiangxi	1,438	2,135	67
Jilin	1,228	2,023	61
Shanxi	1,387	1,906	73
Western 12 PRC			
Gansu	887	1,429	62
Guangxi	1,318	1,865	71
Guizhou	765	1,374	56
Inner Mongolia	1,408	2,038	69
Ningxia	1,294	1,724	75
Qinghai	961	1,490	64
Shaanxi	1,057	1,444	73
Sichuan	1,203	1,904	63
Chongqing	1,123	1,892	59
Tibet	948	1,331	71
Xinjiang	1,081	1,618	67
Yunnan	936	1,479	63

Appendix 1 TableA1.2: Per Capita Net Income by Region

(households with per capita living consumption expenditure less than 860 yuan)

Region	Net cash income (Yuan)	Net income (Yuan)	Proportion of net cash income to total net income (%)
National Total	814	1,327	61
Eastern PRC			
Beijing	1,429	1,940	74
Fujian	1,544	1,819	85
Guangdong	1,319	1,917	69
Hainan	868	1,281	68
Hebei	1,309	1,894	69
Jiangsu	1,458	2,040	71
Liaoning	1,123	1,457	77
Shandong	1,246	1,790	70
Shanghai	1,749	2,045	86
Tianjin	1,717	2,313	74
Zhejiang	1,340	1,846	73
Central PRC			
Anhui	974	1,533	64
Heilongjiang	728	1,479	49
Henan	852	1,460	58
Hubei	1,015	1,644	62
Hunan	469	955	49
Jiangxi	825	1,302	63
Jilin	919	1,640	56
Shanxi	921	1,396	66
Western 12 PRC			
Gansu	517	985	52
Guangxi	690	1,097	63
Guizhou	473	963	49
Inner Mongolia	855	1,416	60
Ningxia	492	806	61
Qinghai	463	871	53
Shaanxi	672	1,040	65
Sichuan	575	1,147	50
Chongqing	579	1,230	47
Tibet	736	1,062	69
Xinjiang	565	982	58
Yunnan	436	861	51

Appendix 1 Table A1.3: Infrastructure Conditions by Region (%)

Region	Proportion of villages					Proportion of households able to drink safe water
	Connecting to highway	With phone	Using electricity	<2 Km away from the nearest primary school	<2 Km away from the nearest medical clinic	
National Total	95	87	98	86	65	65
Eastern PRC						
Beijing	100	100	100	83	71	98
Fujian	99	99	100	95	76	55
Guangdong	98	100	100	92	77	72
Hainan	100	60	96	96	47	68
Hebei	95	98	100	98	78	87
Jiangsu	94	100	100	86	78	83
Liaoning	99	97	100	92	74	91
Shandong	98	100	100	87	76	74
Shanghai	95	100	100	40	78	99
Tianjin	100	100	100	97	75	97
Zhejiang	100	100	100	80	72	75
Central PRC						
Anhui	95	100	100	94	74	66
Heilongjiang	94	87	100	88	67	75
Henan	93	100	100	97	74	57
Hubei	97	90	100	76	57	49
Hunan	99	96	100	87	68	52
Jiangxi	94	97	100	96	69	54
Jilin	99	91	100	88	68	84
Shanxi	96	87	100	95	68	75
Western 12 PRC						
Gansu	89	76	95	88	59	45
Guangxi	94	80	98	86	52	55
Guizhou	86	39	96	75	51	30
Inner Mongolia	84	58	86	74	39	77
Ningxia	98	93	100	95	70	67
Qinghai	89	36	89	78	41	53
Shaanxi	91	89	99	94	68	53
Sichuan	96	74	99	79	62	55
Chongqing	93	89	99	73	59	42
Tibet	94	10	58	65	40	9
Xinjiang	95	73	99	77	42	73
Yunnan	97	90	96	85	44	52

Appendix 1 Table A1.4: Infrastructure Conditions by Region (%)

(households with per capita living consumption expenditure less than 860 yuan)

Region	Proportion of villages					Proportion of households able to drink safe water
	Connecting to highway	With phone	Using electricity	<2 Km away from the nearest primary school	<2 Km away from the nearest clinic	
National Total	93	77	97	87	57	58
Eastern PRC						
Beijing	100	100	100	100	50	93
Fujian	100	100	100	50	50	53
Guangdong	100	100	100	50	0	67
Hainan	100	63	100	100	38	78
Hebei	91	97	100	98	72	85
Jiangsu	91	100	100	86	83	83
Liaoning	100	100	100	88	65	92
Shandong	98	100	100	83	63	68
Shanghai						
Tianjin	100	100	100	100	85	96
Zhejiang	100	100	100	100	50	67
Central PRC						
Anhui	94	100	100	94	81	71
Heilongjiang	94	77	100	83	60	76
Henan	92	98	99	96	71	54
Hubei	100	82	100	91	56	45
Hunan	93	87	100	80	53	32
Jiangxi	91	91	100	91	70	62
Jilin	96	89	100	86	64	89
Shanxi	96	78	99	92	62	71
Western 12 PRC						
Gansu	90	63	95	84	51	38
Guangxi	95	76	100	84	55	50
Guizhou	76	34	96	70	46	21
Inner Mongolia	89	70	93	89	39	86
Ningxia	100	73	100	100	55	53
Qinghai	92	36	90	72	38	55
Shaanxi	90	86	99	95	59	52
Sichuan	95	71	98	78	54	45
Chongqing	90	81	100	69	48	26
Tibet	98	6	50	77	50	5
Xinjiang	97	64	100	83	31	68
Yunnan	96	90	94	83	39	44

Appendix 1 Table A1.5: Education Attainment by Region
(all sampled households)

	Illiterate or semi-illiterate	Primary School	Junior middle school	Senior middle school	Special secondary school	College and above	Enrollment rate of children aged 7-15 (%)
	Person/100 labor-aged adults						
National Total	81	32.2	48.1	9.3	1.8	0.5	94
Eastern PRC							
Beijing	1.9	11.8	59.6	18.1	6.2	2.5	98
Fujian	5.8	34.9	46.4	9.7	2.5	0.6	97
Guangdong	4.3	33.1	49.0	10.0	3.1	0.6	96
Hainan	7.0	26.0	49.8	15.7	1.4	0.2	93
Hebei	2.7	25.0	58.0	12.3	1.5	0.5	98
Jiangsu	6.5	28.9	51.5	10.6	1.8	0.7	96
Liaoning	2.2	26.9	59.4	8.3	2.5	0.8	95
Shandong	5.4	26.0	52.6	12.8	2.6	0.7	97
Shanghai	4.1	24.9	48.8	12.8	7.4	2.1	96
Tianjin	1.8	29.7	55.3	10.1	2.2	0.9	95
Zhejiang	6.6	37.1	44.3	9.8	1.8	0.4	98
Central PRC							
Anhui	11.7	30.0	49.6	6.6	1.6	0.5	95
Heilongjiang	2.8	29.7	56.8	8.3	1.9	0.6	91
Henan	6.1	23.2	57.6	11.0	1.7	0.4	95
Hubei	5.8	32.7	49.3	10.0	1.8	0.3	95
Hunan	3.4	34.0	48.9	11.5	1.8	0.5	96
Jiangxi	6.8	37.0	45.0	9.3	1.7	0.3	93
Jilin	4.2	31.9	53.6	8.6	1.4	0.5	92
Shanxi	3.2	25.7	60.2	9.1	1.6	0.2	96
Western 12 PRC							
Gansu	20.9	28.7	36.9	11.7	1.3	0.5	94
Guangxi	5.4	36.0	47.4	8.9	2.1	0.2	93
Guizhou	21.4	39.7	34.0	3.3	1.4	0.2	92
Inner Mongolia	7.7	31.7	48.1	10.1	1.9	0.5	91
Ningxia	19.5	30.3	39.1	9.1	1.5	0.5	90
Qinghai	32.5	34.4	27.0	5.3	0.7	0.1	82
Shaanxi	9.6	27.4	50.2	11.1	1.1	0.7	96
Sichuan	8.4	41.4	43.2	5.8	1.1	0.2	95
Chongqing	6.2	43.4	42.9	5.7	1.5	0.3	95
Tibet	63.5	33.4	2.8	0.2	0.0		48
Xinjiang	9.1	46.2	35.9	6.5	1.7	0.6	98
Yunnan	17.6	45.3	31.4	4.6	1.0	0.1	88

Appendix 1 Table A1.6: Education Attainment by Region

(households with per capita living consumption expenditure less than 860 yuan)

	Special secondary school	Senior middle school	Junior middle school	Primary School	Illiterate or semi-illiterate	Enrollment rate of children aged 7-15 (%)
	Person/100 labor-aged adults					
National Total	13.2	35.6	44.9	6.3	1.1	91
Eastern PRC						
Beijing	11.1	13.3	57.8	17.8	0.0	100
Fujian	9.0	39.6	44.8	6.7	2.2	86
Guangdong	13.9	43.0	40.5	2.5	0.6	93
Hainan	10.7	23.4	55.3	10.7	0.6	89
Hebei	3.3	27.9	59.7	9.1	0.9	98
Jiangsu	8.5	34.0	51.5	6.0	0.8	94
Liaoning	2.5	33.9	58.7	5.0	1.7	91
Shandong	6.7	30.3	53.1	9.9	1.5	95
Shanghai	16.7	50.0	33.3	0.0	16.7	
Tianjin	2.1	35.0	56.4	6.6	1.2	85
Zhejiang	6.0	36.8	50.0	7.1	1.7	94
Central PRC						
Anhui	12.4	30.9	51.5	5.2	1.7	92
Heilongjiang	3.1	32.3	60.2	4.3	1.7	86
Henan	7.4	25.2	58.2	9.2	1.6	94
Hubei	6.3	42.7	42.9	8.1	1.2	93
Hunan	10.1	41.6	39.9	8.4	0.4	92
Jiangxi	7.2	41.7	46.0	5.1	1.1	87
Jilin	5.2	35.5	53.7	5.6	1.2	95
Shanxi	4.3	30.2	59.1	6.4	0.9	94
Western 12 PRC						
Gansu	27.6	29.5	33.9	9.1	0.7	91
Guangxi	8.4	44.3	41.4	5.9	1.7	89
Guizhou	25.2	42.1	30.2	2.5	0.7	88
Inner Mongolia	7.1	36.7	48.6	7.6	0.8	90
Ningxia	33.3	36.3	24.8	5.7	1.7	82
Qinghai	35.6	35.9	24.9	3.7	0.9	85
Shaanxi	11.1	29.0	51.1	8.7	1.2	96
Sichuan	13.1	44.7	38.3	3.9	0.9	93
Chongqing	8.6	48.6	40.2	2.7	1.4	92
Tibet	69.7	28.4	1.7	0.2	0.0	43
Xinjiang	10.2	54.6	30.8	4.4	1.3	97
Yunnan	25.1	49.0	23.2	2.8	0.3	83

APPENDIX 2: DETAILED PROFILE OF URBAN RESIDENTS WITH PER CAPITA ANNUAL CONSUMPTION EXPENDITURE LESS THAN 2,310 YUAN AND URBAN NON-POOR WITH ANNUAL EXPENDITURE GREATER THAN 2,310 YUAN

From NBS Urban Household Survey of 1998

Appendix 2 Table A2.1: Proxy for PRC Urban Poverty Distribution in 1998

	Non-Poor	Poor	Total	Poverty Rate (%)
Area				
East Area	47.4	43.4	46.9	10.00
West Area	35.5	37.5	35.8	14.33
West Area	17.1	19.1	17.3	11.96
Total	100.00	100.00	100.00	11.87
Sex				
Male	49.57	48.71	49.46	11.69
Female	50.43	51.29	50.54	12.05
Total	100.00	100.00	100.00	11.87
Age				
0-14	15.36	18.54	15.75	13.97
15-64	78.35	75.22	77.96	11.45
>64	6.29	6.24	6.29	11.78
Total	100.00	100.00	100.00	11.87
Education				
University	5.46	1.59	4.98	3.79
College	11.23	5.30	10.49	6.00
Special or Technical School	11.71	7.52	11.19	7.98
Senior High School	23.24	21.72	23.05	11.19
Junior High School	27.78	34.34	28.60	14.25
Primary School	15.24	20.01	15.83	15.00
Other	5.34	9.52	5.86	19.28
Total	100.00	100.00	100.00	11.87

Appendix 2 Table A2.2: Proxy for PRC Urban Poverty Distribution in 1998 (cont'd)

	Non-Poor	Poor	Total	Poverty Rate (%)
Industry				
Farming, Forestry, Animal Husbandry and Fishery	0.52	0.48	0.52	10.96
Mining and Quarrying	1.23	1.49	1.27	13.93
Manufacturing	18.10	18.34	18.13	12.01
Production and Supply of Electric Power, Gas and Water	1.33	0.99	1.29	9.11
Construction	1.96	1.71	1.93	10.52
Geological Prospecting and Water Conservation	0.72	0.65	0.71	10.87
Transport, Storage, Postal and Telecommunication Services	3.86	3.12	3.77	9.82
Wholesale & Retail Trade and Catering Services	6.55	8.00	6.73	14.11
Finance and Insurance	1.66	1.02	1.58	7.66
Real Estate	0.48	0.35	0.46	9.03
Social Services	3.83	4.27	3.88	13.06
Health Care, Sports and Social Welfare	3.21	1.77	3.03	6.93
Education, Culture and Arts, Radio, Film and Television	4.49	2.46	4.23	6.90
Scientific Research and Polytechnic Services	1.16	0.11	1.03	1.27
Government Agencies, Party Agencies and Social Organizations	7.70	4.32	7.28	7.04
Others	43.19	50.92	44.15	13.69
Total	100.00	100.00	100.00	11.87

Appendix 2 Table A2.3: Proxy for PRC Urban Poverty Distribution in 1998 (cont'd)

	Non-Poor	Poor	Total	Poverty Rate (%)
Employment Status				
State-Owned	45.16	35.31	43.94	9.54
Collective-Owned	6.68	9.41	7.02	15.91
Joint-Venture or Foreign Owned	1.57	0.48	1.43	3.98
Private Owned or Self-Employed	1.40	2.89	1.59	21.58
Private Owned, Employed	0.84	1.27	0.89	16.94
Retirees Re-Employed	1.70	0.47	1.55	3.60
Other Employment (e.g. babysitter)	0.28	0.76	0.34	26.53
Retirees	13.51	9.56	13.02	8.72
Disabled Workers	0.21	0.76	0.28	32.22
Household Workers	1.18	3.64	1.48	29.19
Waiting for Jobs	1.66	4.93	2.06	28.41
Waiting for Job Assignments	0.18	0.38	0.20	22.55
Students	20.20	21.02	20.30	12.29
Waiting for Entry to Higher Education	0.04	0.06	0.04	17.81
Others	5.40	9.05	5.85	18.36
Total	100.00	100.00	100.00	11.87
Occupation				
Senior Engineer	0.55	0.11	0.49	2.66
Engineer	4.31	1.23	3.93	3.72
Assistant Engineer	4.16	2.03	3.90	6.18
Technician	3.49	2.26	3.33	8.06
Above Middle - Level Cadre	0.06		0.05	0.00
Section Chief Cadre	0.84	0.23	0.77	3.55
Sub-Section Chief Cadre	3.86	1.62	3.58	5.37
Staff Members	13.54	9.87	13.08	8.96
Staff Members in Commerce	3.95	5.96	4.20	16.84
Staff Members in Services	3.56	4.59	3.69	14.77
Workers in Agriculture, Forestry, Animal Husbandry, Sideline, Fishery	0.07	0.09	0.07	15.26
Workers and Staff-Members in Production and Transportation	18.63	21.48	18.98	13.43
Workers Unclassified	42.99	50.55	43.93	13.66
Total	100.00	100.00	100.00	11.87

Appendix 2 Table A2.4: Proxy for PRC Urban Poverty in 1998 (cont'd)

Unit: Person per Household

	Non-Poor	Poor	Total
Number of Household (HH) Members	3.09	3.60	3.14
Number of Income Earners in the HH	2.20	2.19	2.20
Number of Household Members Employed	1.80	1.85	1.80
Disposable Income	6405.26	2810.43	6032.58
Wages from State Owned Enterprises	3831.70	1570.75	3597.30
Wages from Collectively-Owned Enterprises	403.44	319.72	394.76
Wages from Joint-Venture or Foreign Owned Enterprises	222.51	28.06	202.36
Net Income from Private Business	108.23	116.12	109.05
Income from Employment by Private Business	49.10	36.16	47.77
Income of Retirees Re-Employment	76.40	10.94	69.61
Income from Employment of Other Types	8.75	13.08	9.20
Income from Other jobs	170.49	157.56	169.15
Income from Property	166.43	51.74	154.54
Income from Current Transfers	1406.84	516.06	1314.49
Other Income from Family Side Products	2.48	6.17	2.86
Living Expenses	5256.48	1790.46	4897.15
Amount Spent on Food	2307.47	1026.42	2174.66
Amount Spent on Clothes	548.90	184.48	511.12
Amount Spent on Articles of Daily Use, Durable, Service	457.88	63.91	417.03
Amount Spent on Healthcare, Medical Treatment and Medicines	242.25	71.36	224.54
Amount Spent on Transportation and Telecommunication	327.00	65.11	299.85
Amount Spent on Entertainment, Education and Culture	600.35	132.73	551.87
Amount Spent on Living	522.00	193.79	487.97
Other	250.84	52.07	230.24

APPENDIX 3: 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.

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.

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 or 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 CFP, 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, an 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.

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.

(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.

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

TA 3497-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 led 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.

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INDEX

4

4 in, 7 Out Program 16

5

5 guarantee families 113
5 guarantee system 113

8

8-7 program 16, 25, 41, 50, 57, 67, 69, 70, 84, 111
8-7 Program 16

A

ABC 49, 53, 55, 56, 57, 59, 60, 61, 62, 63, 79, 81
absolute poor 14, 34, 37, 55, 58, 102, 103, 112
ACCYL 54, 74, 105
ACWF 54, 72, 74, 105, 111
ADBC 55, 61
agriculture 79
Agriculture Bank of China *See* ABC
All-China Communist Youth League *See* ACCYL

B

bilateral donor assistance 81
broad poverty 86, 87, 88

C

Candlelight Project 75
CANGO 75
CASS 60, 61, 62, 81
Center for Integrated Agricultural Development 76
Center for the Study of Poverty of the Chinese Academy of Social Sciences 76
CFamPA 74
CFPA 74, 75
China Association for NGO Cooperation *See* CANGO
China Family Planning Association *See* CFamPA
China Foundation for Poverty Alleviation *See* CFPA
China National Charities *See* CNC

China Population Daily *See* CPD
China Population Welfare Foundation *See* CPWF
China Poverty Research Association 75
Chinese Academy of Social Sciences *See* CASS
chunlei jihua *See* Spring Bud Plan
CNC 75
communes 22
county 19
County Civil Affairs 53
CPD 74
CPWF 74

D

deep poverty 85, 88
Development Research Center of the State Council 86, 97
disabled 112
disadvantaged poor 36, 37
domestic private firms 71

E

economic growth 44
education 10, 11, 49
 gender 110, 111
 migrant workers 110
employment 7, 11
 urban unemployment rates 97
environment
 gender 111
 sustainability 8, 11
ethnic minorities
 special policies 112

F

fazhan zijin *See* Development Funds
feminization of agriculture 111
FFW 53, 54, 55, 56, 57, 64, 65, 66
Finance, the State Economic and Trade Commission *See* SETC
fiscal policy 49
floating migrant population 92
formerly poor 37
FPC 60, 61
FPL 86, 87
Funding of Poor Cooperatives *See* FPC

G

- GB 60, 61
 gender 10, 11
 gender dimensions of poverty 109
getihu *See small individual businesses*
 Gini coefficient 47
 Glorious Scheme 71
 GNP 46
 GONGOS 24, 50, 53, 55, 72, 74, 105
 governance 35, 70, 72, 74, 76, 100
 government poverty alleviation 56
 government-organized non-government organizations *See GONGOS*
 Grameen Bank *See GB*
 grey economy 99, 105
 gross national product *See GNP*
 growth
 agricultural 48
 industrial 48
guangcai shiye *See Glorious Scheme*
Guojia Shenjiwei *See National Investigation Commission*

H

- Hand in Hand Action 74
 health services 49
 Hui 55, 56
 Biao Hui 56
 Yao Hui 56
 Lun Hui 56
hukou 93

I

- IFC 71, 99, 106
 illiteracy 109
 women 109
 inflation 16, 20, 48, 61
 infrastructure 62, 63
 rural 64
 INGO 105
 International Finance Corporation *See IFC*

J

- jinguo fupin xingdong* *See Women's Poverty Alleviation Action Program*
 jobless workers *See wuye*

K

- key counties for national poverty reduction and development 14, 20, 68

- Kunming Center for Biodiversity and Indigenous Knowledge 76

L

- Labor Bureaus 102, 103
 labor mobility 43
 laid-off workers *See xiagang*
 LGOP 24, 50, 52, 54, 58, 61, 64, 74, 77, 79, 81, 102, 104
 LGP 50, 52, 53, 54
 low income households 36, 37

M

- macroeconomic policies 50
 MCA 53, 54, 71, 74, 87, 93, 102, 113
 MDG 26, 27
 microcredit 60, 61
 microfinance 36, 55, 60, 61, 62, 63, 74, 75, 80, 81, 106
 Millenium Summit 26
 Millennium Development Goal *See MDG*
 Millennium Development Goals *See MDG*
 Minimum Living Standards Scheme *See MLSS*
 Ministry of Agriculture *See MOA*
 Ministry of Civil Affairs *See MCA, See MCA*
 Ministry of Labor and Social Security *See MOLSS*
 MLSS 53, 97, 102, 103, 104
 MOA 15, 23, 54
 MOF 53, 54, 55, 56, 57, 60, 61, 66, 74, 77, 81
 MOLSS 54, 102, 103, 106

N

- National Development and Reform Commission *See NDRC*
 National Investigation Commission 65
 national minorities 112
 National Poverty Reduction Conference 1996 59
 national savings rate 88
 NBS Urban Household Survey 1998 95
 NBS Urban Poverty Survey 1999 92
 NBS Urban Study Organisation 95
 NDRC 50, 53, 54, 55, 64, 65, 74, 77, 102, 106
 NGO 61, 69, 70, 71, 72, 73, 74, 75, 76, 105, 111
 Nongcun Xinyong She *See RCC*
 Nongye Yinhang *See ABC*
 non-performing loans 59

O

- ODA 77, 81, 82
 OOF 77
 Outline for Poverty Alleviation and Development of China's Rural Areas (2001-2010) 67

P

PADO	50, 52, 59, 66, 74, 111
PBOC	50, 53, 55, 56, 60, 61, 81
Poor Area Development Fund	66
poverty	
broad poverty	30
deep poverty	30
definition of	13, 22
extreme	26
extreme poverty	30
net income poverty	13
rural poverty	
definitions	13
targeting	14
poverty lines	
poverty lines compared	30
diagnostic urban poverty line	86
urban benefit poverty line	86
diagnostic urban poverty line	17, 19
dollar a day	16
<i>See</i> GPL,	
NBS poverty line	15, 17
official rural poverty line	1, 11
Poverty Reduction	5, 11
poverty reduction strategies	
government expenditure on poverty reduction	25
poverty reduction strategies	
Ten Year Plan 2001-2010	20
three stage poverty reduction strategy	22
poverty reduction strategies	
five guarantees	53
poverty reduction strategies	
area development strategy	56
poverty reduction strategies	
loan programs	60
poverty reduction strategies	
three wests	66
poverty reduction strategies	
tenth five year plan	67
poverty reduction strategies	
private sector	70
poverty reduction strategies	
private sector	70
poverty reduction strategies	
ten million in three years	103
poverty reduction strategies	
laid-off employees assistance	103
poverty reduction strategies	
unemployment insurance scheme	<i>See</i> UI
Poverty Research Center of the Institute of Agricultural Economics	76
PPP	16
private sector	79
Private Sector	8, 11
Project Happiness	74
Project Hope	74
pro-poor growth	36, 46
purchasing power parity	<i>See</i> PPP

R

RCC	55, 62, 63
RCCs	53, 55, 61, 62, 63
Red Cross	105
red hat	99
regional cooperation	8, 11
Research Institutes	75
residence permit	<i>See hukou</i>
ROSCA	<i>See</i> Hui
Rotational Savings and Credit Associations	<i>See</i> Hui
rural infrastructure	62, 63
rural pension schemes	53
rural poor	
institutional responsibility	50
definitions	<i>See</i> poverty: broad poverty, deep poverty, and extreme poverty
distribution	32
categories	37
poverty line	39
unit cost	67
Rural Poverty	
levels	1, 11
rural-urban income disparity	43
rural-urban income gap	47

S

SAIC	99
<i>sanxi</i>	<i>See</i> three wests
<i>shehui danwei</i>	<i>See</i> Social Organisations
Shehui Fupin	<i>See</i> society-based poverty alleviation
<i>shiye</i>	94
<i>shou la shou</i>	<i>See</i> Hand in Hand
<i>siying qiye</i>	<i>See</i> domestic private firms
small and medium enterprises	<i>See</i> SME
small individual businesses	71
SME	99
social organisations	75
social safety nets	43
social security	
rural	53
society-based poverty alleviation	56
SOE	94, 97, 100, 103
reform	
women	110
SOEs	55, 71, 82, 85, 88, 94, 97, 100, 101, 103, 104, 106
Song Qingling Foundation	75
Spring Bud Plan	74
State Administration of Industry and Commerce	<i>See</i> SAIC
State Council Leading Group on Poverty Alleviation and Development	<i>See</i> LGP
state owned enterprises	<i>See</i> SOE
subsidized loans	56, 57
Subsidized Loans	58

T

targeted poverty programs	46, 48
Third Front Industrialization	<i>See</i> PPP

.....

Third Plenum	23
three nos	88
town and village enterprises	See TVE
township	19, 22, 24, 52, 57, 65
trusts	71
TVEs	24, 25, 48, 49, 55, 56, 57, 58, 100

U

UI	103, 104
underemployment	44
Unemployed workers	See <i>shiye</i>
urban poor	
overview	85
distribution	90
Urban Poor	
Categories	94
urban poverty	
distribution	90
profiles	94

V

Village Committees	53, 65
vulnerable groups	79
vulnerable poor	36, 37

W

White Paper	25, 64
-------------------	--------

White Paper on rural Poverty Reduction	22
<i>White Paper on Rural Poverty Reduction</i>	22, 26, 67, 75
women	72, 74
land rights	111
trafficking in	111
Women's Poverty Alleviation Action Program	72, 74
Women	21, 54, 73, 74, 109
World Trade Organization	See WTO
WTO	43, 47, 93, 100
<i>wuye</i>	94

X

<i>xiagang</i>	94, 98, 103
<i>xiang</i>	See township

Y

Yigong Daizhen	See Food For Work Scheme
YJDF	74
Youth and Juvenile Development Foundation	See YJDF
Yunnan Academy of Social Sciences	76

Z

Zhengfu Fupin	See Government Poverty Alleviation
---------------------	------------------------------------