

Report on Sustainable Financing for Poverty Alleviation in China

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Preface

China was the first developing country in the world to achieve the poverty reduction target set by the Millennium Development Goals (MDGs) ahead of schedule, the target being to halve the proportion of people whose income is less than USD 1.25/day. Between 1990 and 2011, the poverty-stricken population in China decreased by 439 million people, from 689 million to 250 million¹. Extreme poverty rates in Eastern Asia, aided by China's progress, dropped 57% from 1990 to 2015².

Despite these achievements, China still had approximately 55 million people living in poverty in 2015, according to the national poverty line (RMB 2300/USD 370 per year) (see ANNEX II). This was due primarily to the communities where these people resided being located in remote, often inaccessible and climate-sensitive areas, ones in dearth of basic infrastructure and social services.

Confronted with the challenge of assisting these communities, the Chinese government committed themselves to eradicating extreme poverty by 2020, a commitment made explicit in their 13th Five-Year Plan (2016-2020). These efforts would coincide with the adoption of the Sustainable Development Goals (SDGs) by the United Nations Member States in 2015, one of the goals being the elimination of extreme poverty in all forms everywhere by 2030. China's role in realizing this goal is essential.

Adequate financing is crucial for sustainable development. Given China's ambitions above, it is necessary to examine the mobilization and use of financing in China for purposes of poverty reduction. Various types of financing need to be leveraged and investments have to be managed effectively and efficiently to ensure they impact their intended targets. Properly implemented, this will allow China to generate and direct financing to more productive and strategic uses and obtain optimal results, hence steering financing for development in a more sustainable direction.

Report on the Sustainable Financing for Poverty Alleviation in China has been jointly released by UNDP China and the Chinese Academy of Fiscal Sciences of the Ministry of Finance. This report represents the first systematic attempt at reviewing and mapping the current financial landscape for poverty alleviation in China, as well as assessing how effective such financing is. It also aims to provide useful insights and lessons on China's poverty reduction initiatives from a financing perspective, with the hope of enlightening the international community on how financial resources can be mobilized to achieve development outcomes. Finally, the report intends to propose recommendations to help reinforce China's financing efforts for poverty reduction in a sustainable way.

Research Team
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¹ Report on China's Implementation of the Millennium Development Goals (2000-2015). Available at: <http://www.cn.undp.org/content/china/en/home/library/mdg/mdgs-report-2015-.html>

² The Millennium Development Goals Report 2015. Available at: [http://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20\(July%201\).pdf](http://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20(July%201).pdf)

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List of Acronyms

ABC	Agricultural Bank of China
ACFIC	All-China Federation of Industry and Commerce
ACFSMC	All-China Federation of Supply and Marketing Cooperatives
ADB	Asian Development Bank
ADBC	Agricultural Development Bank of China
CBD	China Development Bank
CCCPC	Central Committee of the Communist Party of China
CCT	Conditional Cash Transfer
CFPA	China Foundation for Poverty Alleviation
DAC	Development Assistance Committee
EU	European Union
FYP	Five-Year Plan
GB	Grameen Bank
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
LGOP	Leading Group Office for Poverty Alleviation and Development
MDG	Millennium Development Goal
MEP	Ministry of Environmental Protection
MHURD	Ministry of Housing and Urban Rural Development
MOA	Ministry of Agriculture
MOC	Ministry of Commerce
MOE	Ministry of Education
MOF	Ministry of Finance
MOST	Ministry of Science and Technology
MOT	Ministry of Transport
MWR	Ministry of Water Resources
NBS	National Bureau of Statistics
NDRC	National Development and Reform Commission
NEA	National Energy Administration
NGOs	Non-governmental Organizations
NHFPC	National Health and Family Planning Commission
NTA	National Tourism Administration
OECD	Organization for Economic Cooperation and Development
PBC	People's Bank of China
RCC	Rural Credit Cooperatives
SDGs	Sustainable Development Goals
SFA	State Forestry Administration
UN	United Nations
UNDP	United Nations Development Program
UNICEF	United Nations International Children's Emergency Fund
WB	World Bank
WBG	World Bank Group

Executive Summary

China has made significant poverty reduction progress (see ANNEX II) during the past three decades, and is currently working to eradicate extreme poverty by 2020 – as outlined in the government’s 13th Five-Year Plan (FYP). With this new target set, understanding the role of financial resources and mechanisms in achieving it has become increasingly important. While at the macroeconomic level the literature on China’s poverty reduction has shed light on how social-economic policies and institutions have contributed to positive development outcomes, research on how financing matters for poverty reduction remains scarce in China. This report attempts to address this knowledge gap by providing a preliminary analysis of the role, contribution and effectiveness of financing for poverty alleviation in China.

Drawing from desk reviews and case studies, this report attempts to showcase China’s experience in demonstrating how poverty alleviation progress can be effectively financed by answering the following questions:

1. Who pays to reduce poverty in China and how has the financial architecture changed over time?
2. Through what mechanisms are financial resources channeled and are they effective?
3. What can be done to improve the financing outlook for China’s new phase of poverty reduction?

Question 1: Financial resources and their role over time

- Domestic financial resources have played an increasingly important role in poverty reduction in China over the past three decades. Domestic financing is aimed at overall capacity building for the poor through sectorial investments in production (e.g. infrastructure, financial products) and public services (e.g. education), while international financing serves as a source of innovative financing mechanisms.
- Domestic financial resources are provided by a variety of stakeholders, including the government, businesses, financial institutions and civil society (e.g. individuals, NGOs). While the state plays a leading role in financing, non-state financiers have begun to share a considerable amount of the burden by supplementing state spending.
- Based on the individual functions that support poverty reduction, four types of financing have been identified in China: fiscal funds, industry funds, credit funds and social funds.

Question 2: Financial mechanisms and their effectiveness

- Broadly speaking, financing has transitioned from an assistance-oriented to a development-oriented approach in China, featuring a shift from a planned and free distribution of funds for relief to a paid and market-oriented fund allocation that focuses on capacity building for the poor.
- Financing is highly institutionalized to support the implementation of poverty reduction strategies. This enables resources to be secured from multiple sources, with fiscal funds

playing a prominent role in leveraging the other types. As financing targets become narrower and more precise, innovative financing mechanisms are required to help deliver outcomes.

- Across the case studies used for this report, a variety of financing mechanisms were found that highlighted effective practices, such as incentive measures (e.g. bonuses for towns that fulfill poverty reduction tasks ahead of schedule), platforms (e.g. diverse assistance mechanisms) and risk prevention structures (e.g. guarantee models for credit finance). These kinds of practices have effectively engaged stakeholders, particularly private enterprises, in providing financing for key projects and industries that help with poverty reduction.
- Most of the case studies found that financing had contributed positively to poverty reduction outputs, including increases in household income, job creation and improvements in basic infrastructure. However, challenges still exist, particularly in the area of managing fiscal funds.

Question 3: Financing prospects and policy recommendations

- The prospects of financing in China concern the following:
 1. The “Targeted Poverty Alleviation Strategy” proposed in the 13th FYP, which requires precision in targeting and directing financing to address the interlinked causes of poverty;
 2. The on-going process of consolidated existing financial resources and organizing them to be more impactful;
 3. Emerging trends, such as digitalization, that encourage innovative financing mechanisms and ensure poverty reduction is inclusive and justly distributed.
- Given China’s experience in financing, the report recommends the following:
 1. Adopting a participatory approach that enables the poor to be targeted using multiple criteria (e.g. perceived self-capacity to develop);
 2. Using varied and innovative tools (e.g. Big Data) to research and produce reliable evidence for decision making (e.g. impact assessment);
 3. Further decentralizing the management of financial resources to support tailor-made and context-specific solutions;
 4. Developing strategies for further consolidating existing resources;
 5. Improving coordination and communication between departments through the use of “Project IDs”.

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1. China's Poverty Alleviation Progress and the Role of Financing

Key Messages:

- China has made significant poverty reduction progress (see ANNEX II) during the past three decades, and is currently working to eradicate extreme poverty by 2020 – as outlined in the government's 13th Five-Year Plan (FYP). With this new target set, understanding the role of financial resources and mechanisms in achieving it has become increasingly important.
- China has gone through four phases of poverty reduction since its reform and opening-up in 1978. Over time, poverty reduction has been approached using an increasingly multi-dimensional and multi-stakeholder approach through institutionalized frameworks in a context of rapid economic growth, industrialization and urbanization.
- As poverty strategies have evolved, financing has transformed from an assistance-oriented to a development-oriented approach, featuring a shift from a planned and free distribution of funds for relief to a paid and market-oriented fund allocation that focuses on capacity building for the poor.

1.1. Introduction

Since its reform and opening-up in 1978, China has attracted worldwide attention due to its achievements in the area of poverty reduction. According to the World Bank's (WB) poverty line of USD 1.25/day, 439 million people in China were lifted out of poverty between 1990 and 2011, contributing to approximately 48% of global poverty reduction achievements during the same period (see ANNEX II). This has also made China the first developing country to have achieved MDG 1 ahead of schedule. Alongside a significant decline in absolute poverty, the provision of public services (e.g. education, healthcare and infrastructure) has also substantially improved (See Annex D). However, at the end of 2015, there were still an estimated 55 million Chinese people living under the poverty line of RMB 2,300. Most of China's poor reside in rural communities, with around 80% of them living in remote and isolated areas in the country's central and western provinces. Faced with such challenges, China has listed poverty alleviation as one of its top national policy priorities and has formulated key goals in the outline of its 13th Five-Year-Plan (2016-2020) for National Economic and Social Development (hereinafter referred to as the 13th FYP). One key aim of this plan is to lift all remaining people and counties in China out of poverty by 2020. In 2014, China raised its domestic poverty line to an annual net income per capita of RMB 2,800, which is higher than the latest international poverty line of USD 1.9/day, updated by the WB.

Poverty alleviation cannot be achieved without effective financial support. Financing serves to generate momentum for poverty alleviation. It can support productive activities and help ameliorate the basic living standards of the poor. Moreover, it can provide source funding for poverty-stricken areas to self-develop by, for instance, promoting the growth of local businesses. With a new and ambitious domestic agenda being implemented to end extreme poverty in China, understanding the role of financial resources and mechanisms and how poverty reduction can be financed more effectively has become more crucial than ever before. This is particularly relevant as China's global rise in economic governance is beginning to have implications on the mix of financial resources available for domestic development.

Many attempts have been made to analyze China's poverty policies and their contributions to poverty reduction outcomes. However, evidence of how financial resources matter for poverty alleviation remains scant. Against this backdrop, this report aims to address this knowledge gap by providing a preliminary analysis of the role, contribution and effectiveness of financing for poverty alleviation in China. At a time when all UN Member States have signed up to achieve the new set of SDGs which prioritize eliminating poverty in all of its forms, China's experience in financing for poverty reduction could provide valuable insights for other developing countries trying to achieve similar outcomes.

This report draws on desk reviews and case studies to showcase China's experience in how poverty alleviation progress can be financed. It aims to address the following questions:

1. Who pays to reduce poverty in China and how has the financial architecture changed over time?

2. Through what mechanisms are financial resources channeled and are they effective?
3. What can be done to improve the financing outlook for China's new phase of poverty reduction?

Due to the long-standing urban-rural social structure in China and the prominence of extreme poverty in its rural areas, national poverty alleviation campaigns largely concentrate on the rural areas. Accordingly, this report focuses mainly on the analysis of poverty alleviation financing in rural areas.

The report is structured as follows:

- Chapter 1 provides an overview of China's poverty reduction progress over time and how financing has evolved accordingly.
- Chapter 2 identifies the main types of financial resources, bringing into perspective the primary payers and their relative contributions.
- Chapter 3 reviews case study evidence across two themes: 1) How financing is channeled and managed; 2) How effective such financing is – its successes and challenges.
- Chapter 4 summarizes China's lessons emerging from these areas and looks toward its future prospects within the broader context of social-economic and policy trends.
- Chapter 5 draws conclusions and provides policy recommendations as well as directions for further research.

1.2. China's Poverty Alleviation Over Time

Based on the transformation of China's overall development patterns and the institutional changes concerning poverty alleviation between 1978 and 2014, rural poverty alleviation efforts fall into four phases:

(1) The First Phase - 1978 to 1985

China's economic reforms and opening-up in 1978 played an indispensable role in economic development and poverty alleviation. From 1979 to 1983, the total value of industrial and agricultural production in China averaged an impressive annual growth rate of 7.9%³. During the same period, the national economy and fiscal revenue also made steady progress. In terms of rural poverty alleviation, as the reforms and opening-up began to influence rural areas, the rural household contract responsibility system empowered farmers, thereby putting rural economies on a developmental fast track. Income for farmers grew rapidly and the poor populations residing in China's rural areas downsized quickly during this period.

(2) The Second Phase - 1986 to 2000

Since the mid-1980s, the focus of China's economic reforms and opening-up began to shift from

³ The Current Economic Situation and Economic System Reform (1985), http://www.npc.gov.cn/wxzl/gongbao/2000-12/06/content_5001619.htm

rural to urban areas. Accordingly, the industrialization and marketization of cities deepened consistently. China's export-oriented economy also grew rapidly. However, three rural issues (i.e. the issues related to agriculture, rural areas and farmers) began to emerge. In 1986, the central government of China established a specialized organization for poverty alleviation, namely, the State Council's Leading Group for Economic Development in Poverty-stricken Areas⁴, to plan and carry out poverty alleviation projects. In 1994, the central government issued its *Seven-Year Priority Poverty Alleviation Program in China (1994-2000)*. This document explicitly proposed to "pool human, material and financial resources and mobilize all social forces to basically solve the food and clothing problem for 80 million rural poor in 7 years." It released a series of preferential policies and concrete measures⁵ to achieve this goal, e.g. to accelerate the development and utilization of uncultivated land by leasing or transferring the right to its use. Among the world's developing countries, this is the only national poverty alleviation initiative with a clear set of goals and a concrete time frame. In this context, China started to tackle the poverty issue county by county⁶. This was a phase when the pro-poor effects of economic growth weakened and the government's development efforts began to play a leading, but still insufficient, role in poverty alleviation.

(3) The Third Phase – 2001 to 2010

From 2001 to 2010, the Chinese economy experienced an annual average growth rate of 10.5%. China's Gross Domestic Product (GDP) rose from the sixth to the second largest in the world and witnessed an upgrading of industry infrastructure and the consolidating of agricultural foundations. The income of urban and rural residents increased sharply. Economic and fiscal capacity increased and the agricultural industry began to develop, resulting in advances in rural development. Within this context, the Chinese government issued its *National Outline for Rural Poverty Alleviation and Development (2001-2010)* in order to implement specialized poverty alleviation policies such as entire-village advancement, transfer labor for training, agricultural industrialization, relocation for the poor, and providing work as a form of relief. There were also policies that were gradually issued and implemented, such as:

- Rural fee-to-tax reform and the removal of agricultural tax;
- Eco-compensation policies such as reforestation farmland, returning grazing land to grassland, and developing ecological forests;
- Agricultural subsidy policies for grain producers and farmers who purchase agricultural machines or inputs;
- Social protection policies such as free compulsory education, rural cooperative medical insurance systems and minimum living standards.

As economic capacity and overall income levels advanced, together with the rapid development of non-governmental organizations, social assistance in the form of donations and volunteering

⁴ Renamed as the State Council's Leading Group for Poverty Alleviation and Development in 1993.

⁵ The State Council's LGOP: *A Summary of China's Poverty Alleviation and Development in Rural Areas*, China Financial & Economic Publishing House, 2003, p. 4 and p.33

⁶ The State Council's LGOP: *A Summary of China's Poverty Alleviation and Development in Rural Areas*, China Financial & Economic Publishing House, 2003, pp.6-7

services significantly increased. A “tri-party” poverty alleviation pattern was gradually and organically created where fiscal, industry and social policies began to play their roles respectively.

(4) The Fourth Phase - 2011 to Present

The enactment of the *National Outline for Rural Poverty Alleviation and Development (2011-2020)* shifted poverty alleviation efforts from solving individual food and clothing problems to consolidating these basic efforts, as well as accelerated the drive to eradicate poverty, improve the environment, build capacity for development and narrow the gap in China's level of development. Beginning in 2011, poverty alleviation became an important manifestation of a human-centered approach to governance and an important measure for the Chinese government in balancing development between urban and rural areas, securing and enhancing people's livelihood and enabling inclusiveness in the sharing of the fruits of reform and development. Moreover, due to changes in the domestic and international economic landscapes, poverty alleviation became integral for the Chinese government to stimulate domestic demand, accelerate the transformation of economic growth patterns and promote sustainable economic development in the long run⁷. While making provisions for increasing fiscal support for poverty alleviation, the *National Outline for Rural Poverty Alleviation and Development (2011-2020)* also emphasized planning for fiscal, industry and social poverty alleviation models. In addition, the outline put special emphasis on the role of financial services in poverty alleviation by pointing out the need to continue improving the national policy of granting loans with discounted interest for poverty alleviation, promoting innovation in financial products and services for impoverished areas, and encouraging the provision of microcredit loans to meet the need for capital in production activities. The outline also encouraged the development of characteristic agricultural insurance policies and credit rating systems in poor areas. This framework for poverty alleviation financing is gradually consummating. In response to shrinking international markets and the difficulties associated with exporting, enterprises in more developed, coastal areas began to shift the focus of their attention to domestic markets and started to express a stronger interest in investing in and developing underdeveloped markets. Therefore, there is now potential for significant amounts of capital and technology to transfer to underdeveloped areas and for China's market economy to provide scope for inclusive development. This new phase is one where the government and the market join forces to tackle poverty issues and create strategic opportunities for poverty alleviation in China. Figure 1 below shows the four phases of China's poverty alleviation efforts.

⁷ *National Outline for Rural Poverty Alleviation and Development (2011-2020)*. People's Publishing House, 2011

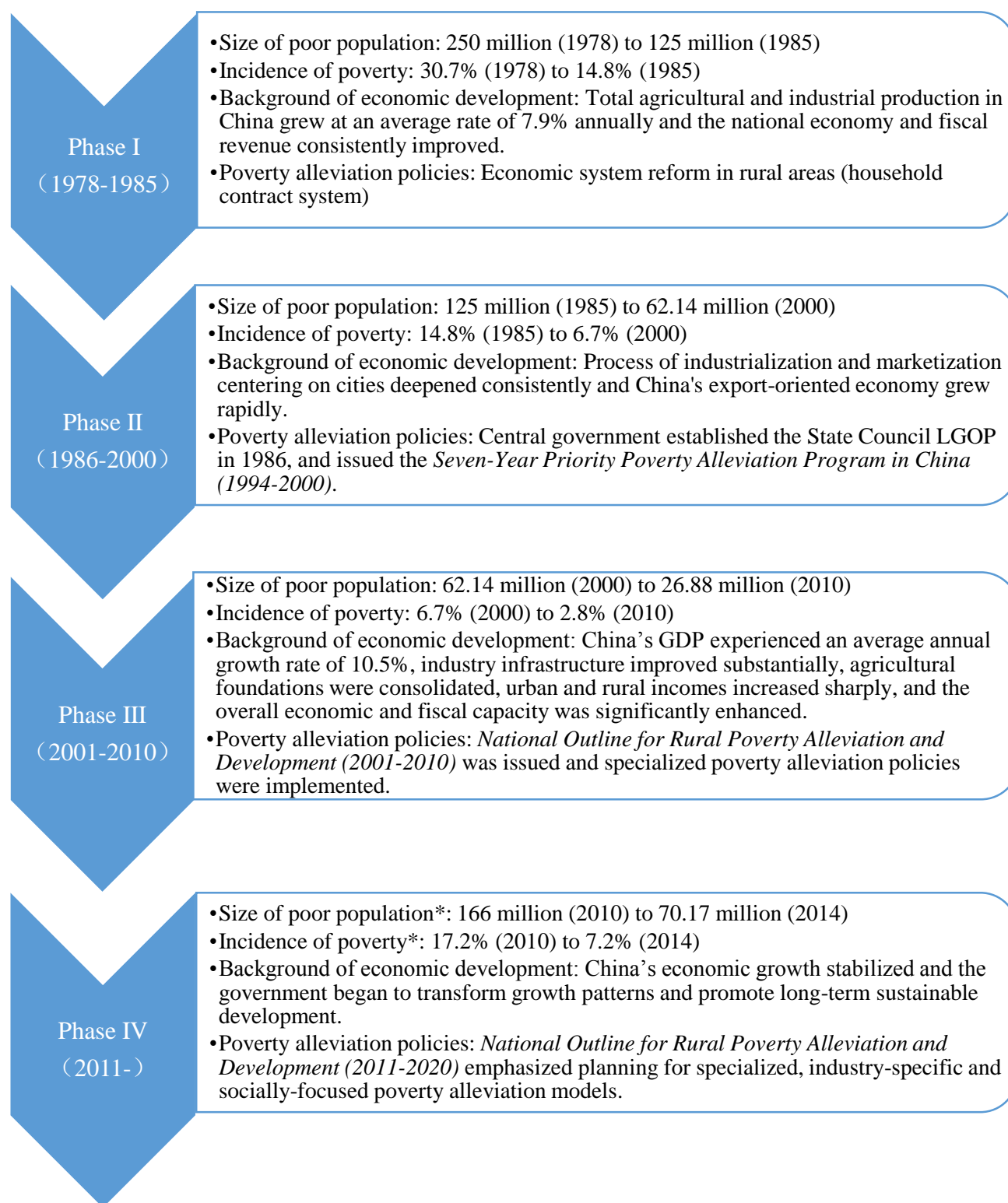


Figure 1. Phases of China's Poverty Alleviation Efforts

* The poverty line was RMB 2,300 /year/person ⁸(2010 PPP) in the 2010-2014 period, while the other phases used the poverty criteria during their respective years (low income line).

Source: *National Contiguous Destitute Areas: Research on Regional Development and Priority Poverty Alleviation*

⁸ Zhang Weimin. Poor Population of China Sharply Downsized Due to Accelerated Pace of Poverty Eradication and Enhanced Effectiveness of Poverty Alleviation, http://www.stats.gov.cn/tjsj/sjjd/201510/t20151016_1257098.html

1.3. The Role of Financing

As poverty reduction strategies have evolved over time, the role of financing has also changed. In general, poverty alleviation in China has undergone a shift from an assistance-oriented approach to a development-oriented approach. Accordingly, financing has also transformed from an approach featuring one-way supply and free use⁹ to an approach featuring paid use and the goal of building capacity for poor households. This transition aims to eventually achieve both fund transfers and a generation of dynamism for poverty alleviation (see Figure 2).

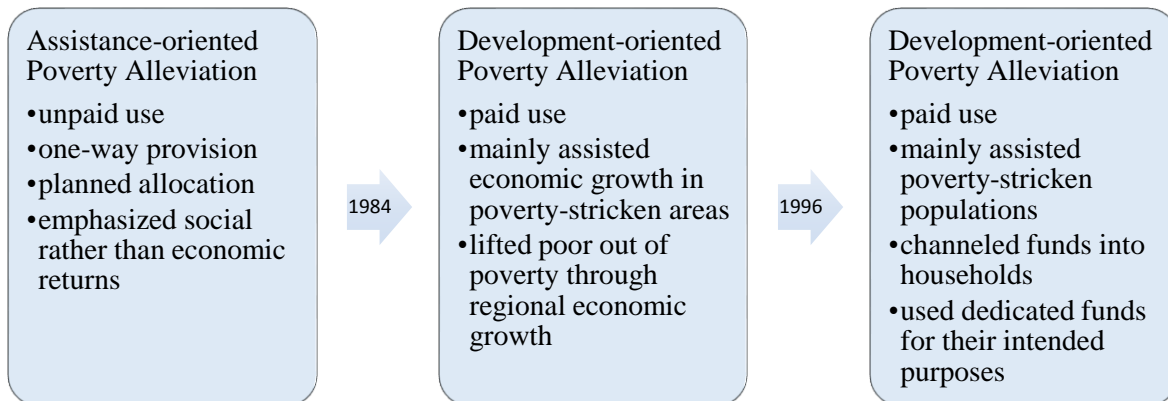


Figure 2. Evolution of the Operating Models for Poverty Alleviation Funds

(1) Financing under the assistance-oriented approach: Before 1978, financing was mainly conducted through emergency relief plans and a top-down administrative system of civil affairs. The funds mainly consisted of government-provided social assistance, natural disaster relief and special assistance to entitled groups - a model with an assistance-oriented nature. At this stage, poverty alleviation funds were mainly allocated and used in a planned and unpaid manner, with emphasis on social rather than economic returns. This model was suited for the planned economy in that it was able to meet the temporary needs of the poor. However, in the absence of incentive mechanisms, it was not able to stimulate or expand production. Moreover, egalitarianism and the “big-pot” distribution system, regardless of the amount of work done, required “waiting for,” “relying on” and “asking for” assistance from the government, thereby limiting the capacity and impact of financing efforts.

(2) Financing under the development-oriented approach: Financing went through two phases during this period, with its focus having shifted from assisting the regional economy to assisting people in poverty-stricken areas. These two stages differ from each other.

In 1984, the *Notice on Assisting the Poverty-stricken Areas to Eradicate Poverty as Quickly as Possible* was issued, establishing the development-oriented poverty alleviation principle. According to this principle, the government’s anti-poverty strategy sought to achieve growth in the overall economic strength of poverty-stricken areas. Being a regional economic development strategy, it

⁹ One-way supply and free use refer to unpaid supply and use of fiscal poverty alleviation funds.

aimed to lift poor populations out of poverty and build their self-development capacity as a means of stimulating regional economic growth. This model highlighted the paid use of poverty alleviation funds. Specifically, since the majority of the funds were released in the form of loans with discounted interest, it was hard for poor farmers to gather enough collateral to get access to funding, due to their inability to repay the loan amounts. Moreover, projects in the agricultural industry, which had the potential to benefit a large majority of destitute farmers, had limited access to poverty alleviation funds due to their long repayment periods or low comparative advantages. For these reasons, funds were largely used for industrial development purposes. As a result, while the economy grew by leaps and bounds, the employment opportunities created by way of these funds largely benefitted “non-vulnerable groups.”¹⁰ Since the poor and extremely poor populations failed to benefit from industrialization, the Matthew Effect ensued, where the rich became richer and the poor became poorer. As a result, the size of the population in poverty-stricken areas was not reduced dramatically.

In order to address the “blind” spots of China’s poverty alleviation efforts, in 1996 the *Notice of the Central Committee of the Communist Party of China (CCCPC) and the State Council on Solving the Food and Clothing Problem of the Poor Rural Population as Soon as Possible* was issued, which targeted individual households, rather than poor areas, for fund allocation.

¹⁰ They refer to the population groups who have the ability to acquire industrial projects and are therefore outside of the scope of poverty alleviation.

2. Types of Financing for Poverty Alleviation in China

Key Messages:

- There are four types of financing to support poverty alleviation work in China: fiscal funds, industry funds, credit funds and social funds. These types were identified based on the poverty alleviation approaches used in China.
- Domestic financial resources have played an increasingly important role in poverty reduction over the past three decades, adding substantially to international financial resources. Domestic financing is aimed at overall capacity building for the poor through sectorial investments in production (e.g. infrastructure, financial products) and public services (e.g. education), while international financing serves as a source of innovative financing mechanisms.
- Domestic financial resources are provided by a variety of stakeholders, including the government, businesses, financial institutions and civil society (e.g. individuals, NGOs). While the state plays a leading role in financing, non-state financiers have begun to substantially supplement state spending.

Financing aims to establish appropriate financial mechanisms to ensure capital supply for poverty alleviation projects and create appropriate income and risk arrangements for different project participants. Based on the current poverty alleviation approaches used in China, financial resources are divided into four types: fiscal funds, industry funds, credit funds and social funds.

2.1. Fiscal Funds for Poverty Alleviation

Fiscal funds for poverty alleviation are specially earmarked by the state to improve productivity and living conditions in poverty-stricken areas, increase the overall quality of life for China's poor populations, and support economic and social development in these areas. Fiscal funds consist mainly of fiscal development funds, work-relief funds, ethnic minority development funds, "Sanxi" agricultural development special subsidy funds, and poverty alleviation discount-interest-loan funds (see Table 1).

Table 1. Types of Fiscal Poverty Alleviation Funds

Types	Organizations in Charge	Main Uses
Fiscal Development Funds	State Council Leading Group Office for Poverty Alleviation and Development (LGOP)	To improve the conditions of production for the agricultural and animal husbandry industries in poverty-stricken areas; diversify the rural economy; construct rural roads; popularize compulsory education and eliminate illiteracy; provide farmers with relevant skills training; prevent and treat endemics.
Work-relief Funds	National Development and Reform Commission (NDRC)	To construct county and town-level roads (excluding provincial and state-level roads) and those in support of poverty alleviation projects; develop basic farmland (including grazing land, forests and orchards); implement water conservancy projects for farmland; solve drinking water problem for people and animals.
"Sanxi" Agricultural Development Special Subsidy Funds	State Council LGOP	To solve food and clothing problems and increase the income of farmers in Hexi District, Dingxi District and 10 extremely poor counties in high altitude areas, Longnan District, Gansu Province and Xihaigu District, Ningxia Hui Autonomous Region; focus on improving the conditions of agricultural production, solving the drinking water problem for people and animals and developing township and village enterprises.
Ethnic Minority Development Funds	Ethnic Affairs Commission	To address the difficulties of economic development in national autonomous counties/towns and other poverty-stricken areas where ethnic minorities concentrate; to promote social stability and economic growth in the areas aforesaid.
Poverty Alleviation Discount-Interest-Loan Funds	Agricultural Bank of China (ABC)	To fund the development of the growing, breeding and processing industries; national treasury to subsidize the interest of the loans.

As national fiscal revenues increase and the government continues to attach importance to poverty alleviation, fiscal funding is showing an upward trend (see Table 2). After 2008 in particular, fiscal funds maintained an annual growth rate of more than 15%. In terms of the different types of fiscal funds, both fiscal development funds and ethnic minority development funds have increased dramatically. The former has grown about 7-fold, while the latter has increased 10-fold. The other major types of funds remained close to constant during the same period. The share of fiscal development funds is the biggest, accounting for nearly 78% of the entire portfolio of fiscal funding in 2014.

2. Types of Financing for Poverty Alleviation in China

Table 2. Fiscal Funds Earmarked for Poverty Alleviation from the Central Government (Unit: RMB 100 million)

Year	Total Fiscal Poverty Alleviation Funds	Including:					
		Fiscal Development Funds	Work-relief Funds	Ethnic Minority Development Funds	“Sanxi” Agricultural Development Special Subsidy Funds	Poverty Alleviation Discount-Interest-Loan Funds	Other
2001	100	47	40	4	2	5	2
2002	106	52	40	4	2	6	3
2003	114	60	40	4	2	5	3
2004	122	66	40	5	2	6	4
2005	130	74	40	5	2	5	4
2006	137	80	40	6	2	5	4
2007	144	85	40	7	2	5	5
2008	167	104	40	10	2	5	6
2009	197	129	40	12	3	5	8
2010	223	151	40	15	3	5	8
2011	273	193	40	20	3	6	10
2012	333	241	42	28	3	6	12
2013	395	290	42	37	3	6	16
2014	433	339	42	40	3	—	8

Sources: National Bureau of Statistics’ *China Statistical Yearbook*, *Poverty Monitoring Report of Rural China* and *Rural Poverty Monitoring Materials* for various years

From the 1980s to the mid-1990s, fiscal funds were primarily distributed by the central government in two manners. One was to distribute the funds by project, based on the scale and number of projects proposed in a given poverty-stricken area. The other was to distribute funds based on “base amounts” and “incremental amounts”. This approach would distribute only the incremental amount of the poverty alleviation funds on the basis of the base amount of the previous year, with the total amount distributed being the sum of the base amount and the incremental amount.

Since 2001, the central government began to allocate fiscal funds using a factorization method. The distribution at the central and provincial levels used primary factors, such as the size of poor populations, per capita net income of farmers, fiscal strength of local governments, per capita GDP and policy adjustments, with the size of poor populations given the greatest importance. In 2011, more factors were integrated, according to the *Measures for Management of the Special Fiscal Funds for Poverty Alleviation*. Besides the objective factors mentioned above, policy-based factors which link fund allocation with poverty reduction achievements as well as assessments of fund use effectiveness were added. Regarding these factors, data provided by the National Bureau of Statistics (NBS) and other ministries played an important reference.

The fund allocation process from provincial to county-levels varies from province to province. Most provinces (autonomous regions) base the distribution of funds on projects submitted by lower-level governments, with reference to the base amount allocated the previous year. Some provinces use the factor-based method to distribute funds among counties. Contrary to the central-to-province fund distribution method, a majority of provinces are also directly responsible for project approval. In the current distribution system, prefecture-level cities are responsible for transferring funds instead of allocating them. At the bottom level, towns and villages acquire poverty alleviation funds by applying for projects.

2.2. Industry Funds for Poverty Alleviation

Apart from fiscal funding for poverty alleviation, various industries also participate in poverty alleviation by exercising their respective functions and implementing their particular poverty alleviation policies and financial support measures. The financial input of such industries is known as industry funding for poverty alleviation. It is to be noted that the concept of “industry” in this context refers to the functional departments of the government, as divided according to the scope and nature of their activity, rather than in the sense of industrial economics.

Despite the fact that industries have long participated in poverty alleviation, the notion of poverty alleviation through industry activity was not put forward until a few years ago. The *National Outline for Rural Poverty Alleviation and Development (2001-2010)* emphasized that “all the industries shall regard improving the environment and conditions of development for the impoverished areas as an important agenda of their industry development program, give preferential treatment to the impoverished areas in terms of funds and projects and complete the poverty alleviation tasks established by the state for their respective industries”¹¹. Therefore, poverty alleviation through industry activity refers to the efforts of various governmental departments to give preferential support to impoverished areas and population groups by way of their planning, policy issuances and funding and project arrangements; such support is also facilitated through the implementation of working measures, aimed at promoting economic and social development, increasing the income of impoverished populations, improving the environment and conditions of self-development and promoting the equalization of public services in poverty-stricken areas (see Figure 3)¹².

According to the China’s budget management system, a majority of the industry administrative departments command certain amounts of budgetary funds, most of which belong to projects or special funds. Moreover, some administrative departments, such as those for transportation and water conservancy, are fairly influential over the special transfer payments of their industry funds.

¹¹ Bai Xiao, Reading into the Poverty Alleviation by Industries in the *National Outline for Rural Poverty Alleviation and Development (2001-2010)*

¹² Hubei Provincial Leading Group for Poverty Alleviation and Development, *Opinions on Responsibility Management for the Goals of Poverty Alleviation by Industries*

Village Roads

- The Ministry of Transport (MOT) allocated more than RMB 155 billion to support 14 areas in constructing 21,700km of expressway and ordinary national and provincial highway and 96,000km of rural roads, and implementing 138 "zip line-to-bridge" construction projects, thus solving the road problems for 10,500 administrative villages scattered throughout 93 towns in those areas.

Drinking Water Safety

- The NDRC and the Ministry of Water Resources (MWR) allocated RMB 13 billion to solve drinking water safety problems for 19 million rural residents and 2.85 million teachers and students of rural schools in poverty-stricken areas.

Electric Power Supply

- The National Energy Administration (NEA) allocated RMB 45 billion to upgrade the electrical power grids in impoverished areas, ethnic minority areas and the old revolutionary base areas in particular; an additional RMB 9 billion was spent to solve power supply problems for 840,000 residents who lacked electricity.

Renovation of Dilapidated Buildings

- The Ministry of Housing and Urban Rural Development (MHURD), NDRC and MOF arranged a RMB 23 billion subsidy to support 3 million impoverished farmers in renovating their dilapidated houses, thus raising the amount of the government subsidy for renovation work in 832 counties from RMB 7,500 per household to RMB 8,500 per household.

Income Increase from Characteristic Industries

- The MOA, State Forestry Administration (SFA), LGOP, MOC, NDRC, Ministry of Science and Technology (MOST) and All-China Federation of Supply and Marketing Cooperatives (ACFSMC) all actively supported poverty alleviation efforts. While supporting impoverished areas in expanding their leading industries, they also strived to help them foster new engines of growth by adopting new technologies and adapting to new forms of business.

Poverty Alleviation Through Countryside Tourism

- Seven central government departments, including the NDRC, NTA, Ministry of Environmental Protection (MEP), Ministry of Housing and Urban-Rural Development, Ministry of Agriculture, SFA and LGOP, jointly issued a Notice on implementing their Countryside Tourism Project to Promote Poverty Alleviation through Tourism. According to this notice, local governments actively explored ways of conducting poverty alleviation through tourism. All of their efforts have produced positive effects.

Poverty Alleviation Through Education

- The MOE and National Health and Family Planning Commission (NHFP) jointly formulated the *National Children's Development Program for impoverished Areas (2014-2020)* and allocated RMB 31 billion to improve the basic teaching and learning conditions for schools in poverty-stricken areas where compulsory education was poorly provided and to ensure that the 40 million students already receiving compulsory education in these areas had nutritional meals every day.

Figure 3. Examples of Industry Funds for Poverty Alleviation

2.3. Credit Funds for Poverty Alleviation

Credit funding is an important form of poverty alleviation financing. In recent years, with financial institutions playing an increasingly significant role in poverty alleviation, credit funding has become more important in the implementation of development-oriented poverty alleviation efforts.

Currently, credit funding is mainly provided by the Agricultural Development Bank of China (ADBC), ABC and Rural Credit Cooperatives (RCC). Credit funds are transferred by the State Council LGOP and ABC to the corresponding offices and branches at the provincial level, which are then released by ABC's sub-branches.

By the end of 2015, China Development Bank's (CBD) balance of poverty alleviation loans came in at RMB 962 billion (~ USD 150 billion), with RMB 212 billion (~ USD 33 billion) having already been released so far this year, 2016; ADBC approved loans worth more than RMB 320 billion (~ USD 50 billion) for relocation projects; ABC's balance of poverty alleviation loans, granted throughout 832 priority counties, reached RMB 591 billion (~ USD 92 billion); and Postal Savings Bank of China granted RMB 41 billion (~ USD 6 billion) worth of microcredit loans of various types, also throughout China's priority counties. Small-and-medium-sized financial institutions in rural areas released more than half of the total microcredit loans granted to them that year, thereby providing significant support to the poverty alleviation efforts of the country¹³.

ADBC is the only agricultural policy-based bank in China. Directly affiliated with the State Council, its primary responsibility is to raise funds and deal with agricultural policy-based financial businesses, based on state credit, in order to serve agricultural development in particular and rural economic development in general. Since 1994, the central government commissioned ADBC to manage the transactions of all poverty alleviation loans throughout the country, resulting in the bank's own credit capacity greatly affecting the volume of loans. In the period from 2002 to 2014, they assisted the completion of 24 projects in impoverished areas, having directly invested RMB 10 million (~ USD 2 million) and released about RMB 105,000 (~ USD 16,406) worth of loans for agricultural infrastructure development and industrialization projects. However, ADBC's capital adequacy ratio was extremely low during that time, with its capital deriving from only a few sources (more than 80% being borrowed from the People's Bank of China (PBC)). Moreover, its credit structure was unreasonable (with the purchasing of loans for agricultural circulation accounting for around 90.8% of its total loans), with its development-oriented loan portfolio accounting for only 8.1%. In this context, the bank's credit capacity was greatly restricted. As the poverty alleviation industry, compared with other industries, is harder to obtain loans for and therefore requires the guarantee of fiscal funds, credit funds are usually bundled together with fiscal funds for use.

As a member of LGOP, ABC has also made impressive contributions to poverty alleviation efforts. During the 12th FYP period, ABC had a balance of RMB 591 billion (~ USD 92 billion) worth of loans granted to priority counties for poverty alleviation (see Figure 4).

¹³ China Banking Regulatory Commission. Promoting targeted poverty alleviation by the banking industry mainly through microcredit credit loans, <http://finance.china.com.cn/news/20160421/3688733.shtml>

Furthermore, they actively explored the use of targeted and differentiated financial products for poverty alleviation. For example, ABC launched the Golden Spike Oil Camellia Loan Project in Jiangxi, Hunan and Guangxi Provinces. By the end of 2015, the loan balance for this project had amounted to RMB 2 billion (~ USD 0.3 billion), resulting in support for 52 enterprises and 10,428 rural households in the planting of some 115,000 *mu* oil camellia¹⁴.

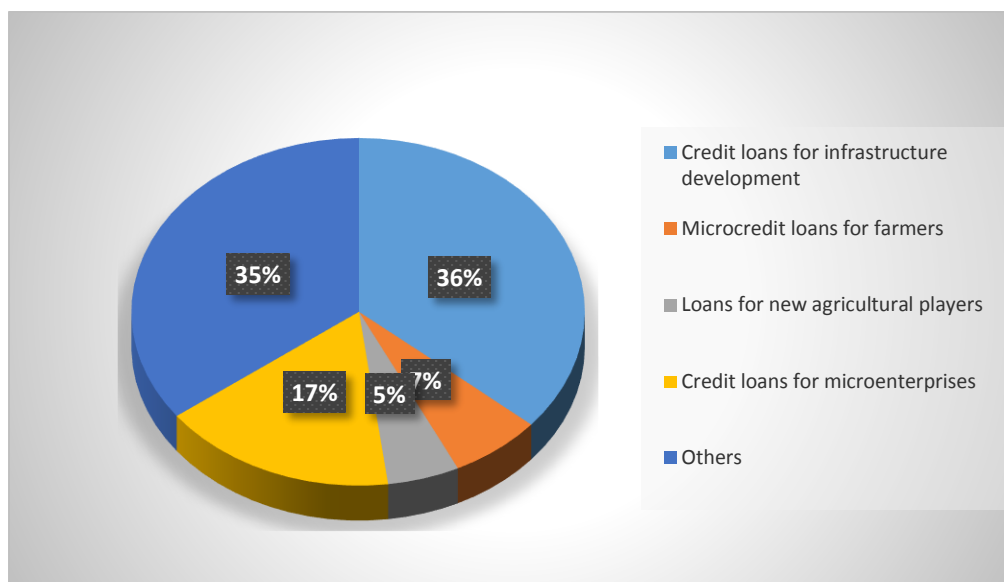


Figure 4. Breakdown of Loans Granted by ABC to Priority Countries for Poverty Alleviation

Source: The Social Responsibility Report of ABC

The difficulty for poor households to obtain loans is a major problem for financial institutions. The Chinese government has striven to improve the poverty alleviation work of financial institutions by way of providing poverty alleviation loans with discounted interest, microcredit loans and poor villages' mutual aid funds.

2.3.1. Poverty Alleviation Loans with Discounted Interest

The provision of poverty alleviation loans with discounted interest rates is a policy that uses fiscal funds to incentivize and direct the funds of financial institutions into poverty alleviation work. The Chinese government provides flagship enterprises, professional agricultural cooperatives and impoverished farmers with discounted interest loans, amounting to 5% for farmers and 3% for flagship enterprises working in poverty alleviation. Through discounted interest loans, LGOP guides more than RMB 50 billion (~ USD 8 billion) in loans aimed at funding poverty alleviation projects every year. For example, ADBC granted RMB 2 billion (~ USD 0.4 billion) for poverty alleviation reform projects in a large, impoverished area of Enshi Autonomous Prefecture, Hubei Province, in order to support environmental treatment and infrastructure development. Moreover, they have cooperated with Hubei Provincial Transportation Investment Group and other

¹⁴ The Social Responsibility Report of ABC 2015, <http://www.abchina.com/cn/AboutABC/CSR/CSRReport/201603/P020160407315742267844.pdf>

provincial-level financing platforms to promote the development of pilot areas¹⁵ through the BOT model¹⁶.

2.3.2. Microcredit Loans

The microcredit business in China originated from poverty alleviation efforts in rural areas. Figure 5 shows the historical development of the microcredit industry in China.

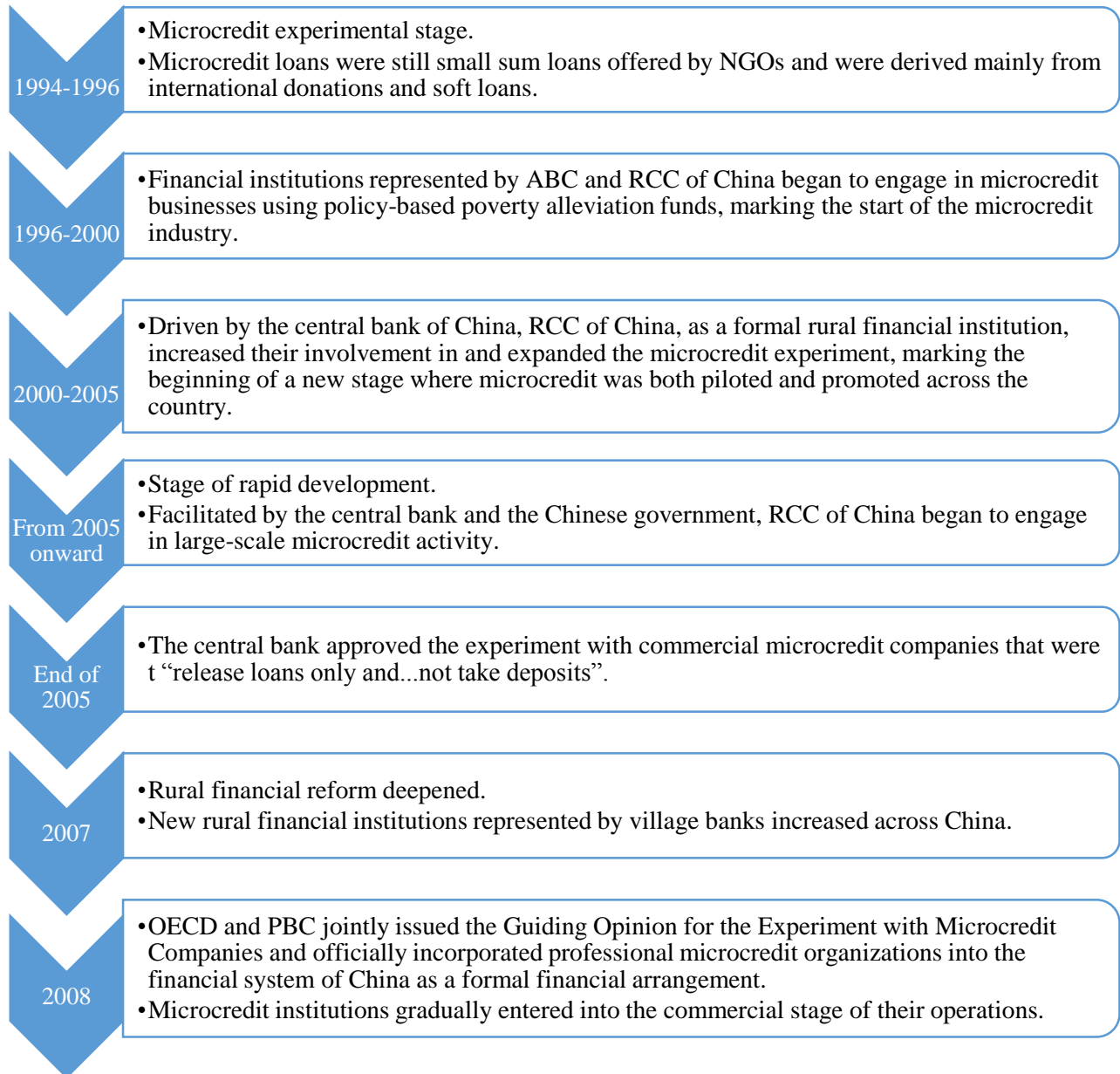


Figure 5. Historical Development of Microcredit Business in China

¹⁵ The Social Responsibility Report of ABC 2014, http://www.adbc.com.cn:81/upload/files/2015-07-27/social_responsibility%E2%80%94942014.pdf

¹⁶ BOT, viz. build-operate-transfer, is one of the ways private enterprises participate in public infrastructure development projects.

In the late 1990s, the Chinese government resorted to fiscal funds and poverty alleviation loans with discounted interest as sources of financing for conducting microcredit business activity through existing financial institutions such as ABC, city commercial banks and RCC. As all these financial institutions are able to take deposits, obtain loans from the central bank and access government subsidies, they enjoyed more sufficient sources of funding than other microcredit institutions. However, due to the nature of poverty alleviation, it's extremely low interest rate (which is the benchmark rate for ABC and city commercial banks and 0.9-2.3 times the benchmark rate for RCC), fairly high cost of management, poor profitability and potential for defaults, these financial institutions were not enthusiastic about granting such loans, resulting in a low level of sustainability.

Nowadays, ABC has made institutional innovations to the microcredit business and established a differentiated, small-business-oriented credit system to meet the diversified financial needs of small enterprises, thus gradually pushing its microcredit business onto the path of commercialization. The RCC has also commenced a transformation drive towards commercialization by setting up new financial institutions such as cross-regional village banks.

As rural financial reform deepened, new rural financial institutions represented by village banks began to appear in China in 2007. Village banks are banking institutions founded by domestic or foreign financial institutions, domestic non-financial-enterprise legal persons or domestic natural persons, with the aim to extend financial services to local farmers and support agricultural and rural economic development. They operate similarly to RCC, but enjoy a policy advantage that allows them to apply a lending rate 4 times the benchmark rate, enabling them to develop quite fast. By the end of 2015, 1,377 village banks were incorporated in China, 1,311 of which having gone into operation with approval, covering 1,232 towns/villages with a coverage rate of 65.9%¹⁷. The balance of loans released by village banks added up to RMB 486 billion (~ USD 76 billion) by the end of 2014, an increase of RMB 123 billion (~ USD 19 billion) over the previous year. Of these, the balance of loans to farm-based households and microenterprises was RMB 211.1 billion (~ USD 33 billion) and RMB 241 billion (~ USD 38 billion), respectively, with the sum of the two accounting for 92.9% of the total loans released by village banks.

2.3.3. Poor Villages' Mutual Aid Funds

Since 2006, LGOP and the Ministry of Finance (MOF) have conducted the "poor villages' mutual aid fund experiment" in 140 villages across 14 provinces (autonomous regions), in the hope of renewing and improving funding usage and related management systems, addressing shortages of funds for poor villages and households, solving the difficulties associated with accessing loans in production, and enhancing villagers' capacity for self-accumulation, mutual assistance and sustainable development.

The poor villages' mutual aid funds combine fiscal funds with the contributions of participating farmers to form mutual aid funds that are owned, used and jointly managed by all members. According to the principle of democracy, participating farmers formulate various rules and

¹⁷ Poverty Alleviation Effect of Village Banks. http://www.boc.cn/aboutboc/ab8/201606/t20160606_7031390.html

regulations themselves, under the guidance of local governments, and strengthen the supervision and management of funds in collaboration with civil groups and financial institutions. Mutual aid funds do not take deposits, nor do they serve as profit-generating vehicles. Rather, they operate in a closed manner and aim to provide microcredit loans for impoverished farmers to solve their fund shortage problems in production. However, mutual aid funds do charge occupancy fees to help maintain their own operations and accumulate public funds. They reduce the tension between production expansion and fund shortage in impoverished areas by providing poverty-stricken families with microcredit loans to support the expansion of production. Meanwhile, by promoting mutual assistance among poor farmers, they help build up public funds that have the economy of scale to provide financial support for economic growth in entire villages and to enhance each village's production capacity. They also have effectively consolidated the existing poverty alleviation achievements, thus preventing a fall back into poverty.

After years of experiment, mutual aid funds have become widely promoted across the country. Statistically, by the end of 2011, 16,299 villages in 1,141 counties of 28 provinces (autonomous regions or municipalities directly under the central government) have piloted this financing mechanism. Among the 6 million rural households and 2 million poor families involved in these pilot projects, 2 million farming households and 846,400 impoverished families used mutual aid funds. Across the country, the average participation rate was 27.3% for rural households in general and 43.6% for impoverished households. By the end of 2011, mutual aid funds had lent RMB 5 billion (~ USD 0.7 billion) cumulatively, including RMB 2 billion (~ USD 0.3 billion) for poverty-stricken families¹⁸.

2.4. Social Funds for Poverty Alleviation

Over the years, China has formed a social poverty alleviation system with Chinese characteristics. Strictly speaking, social poverty alleviation refers to poverty alleviation efforts exerted by subjects other than the government, including enterprises, individuals and social organizations. Social poverty alleviation with Chinese characteristics, however, refers broadly to efforts made by all social communities in addition to that of the government and related industries. It consists of six forms, as follows: fixed-point poverty alleviation; east-west cooperation poverty alleviation; poverty alleviation by social organizations; poverty alleviation by enterprises; poverty alleviation by individuals. So far, social poverty alleviation in China has undergone a process from voluntary participation to standardized and institutionalized participation, representing a gradual process of maturation¹⁹.

2.4.1. Fixed-point Poverty Alleviation Funds

Assistance-based organizations designated by the state to engage in fixed-point poverty alleviation efforts include the departments of the CCCPC and central state organs, people's organizations and

¹⁸ Ru Yu, Zhang Liqin, Lin Wanlong. A study on the credit channel options for farmers in impoverished villages under the support of fiscal funds. *Financial Theory and Practice*, (4), 2015.

¹⁹ Part of the content is cited from the book *Innovations in Social Poverty Alleviation Systems and Mechanisms in the New Stage* authored by Gong Ji, China Agricultural Press, 2012.

public institutions managed according to China's civil servant law, large-scale state-owned enterprises, state-holding financial institutions, central committees of various non-Communist parties, the All-China Federation of Industry and Commerce (ACFIC) and key national research institutes and universities. The targets of assistance are priority counties for poverty alleviation. Over the years, these organizations have adopted a variety of measures for conducting poverty alleviation, including sending cadres to assisted counties, engaging in infrastructure development, undertaking poverty alleviation based on the industry advantages of organizations, training and sending labor and alleviating poverty through the use of education, science and technology, business attraction, ecological development, medical services and disaster relief.

In 2002, China's central state organs, enterprises and public institutions affiliated with central state organs, and people's organizations directly invested RMB 850 million (~ USD 133 million, including funds and materials whose use is both paid and unpaid) into assisted counties. In 2014, investment increased to RMB 3 billion (~ USD 0.5 billion), 4.5 times that of 2002. In 2014, moreover, the assistance-based parties channeled RMB 22 billion (~ USD 3 billion) into priority poverty alleviation counties, 7.2 times the government's input that year. By the end of 2014, the number of central government departments participating in fixed-point poverty alleviation efforts reached 302, 76 more than in the period when the *National Outline for Rural Poverty Alleviation and Development (2001-2010)* was implemented, thus extending fixed-point poverty alleviation to all 592 priority alleviation counties for the first time (see Table 3). Furthermore, the central committees of various democratic parties and the ACFIC also played significant roles in human resources, fund mobilization and information and knowledge sharing.

Table 3. Statistics on Fixed-point Poverty Alleviation by State Organizations (2002-2014)

Year	Number of Cadres Sent	Study Tours to Assisted Counties (person-times)	Direct Input from Organizations (including paid-use and unpaid-use funds) (1,000 yuan)			Funds Channeled into Assisted Counties (1,000 yuan)
			Total	Funds	Materials-converted funds	
2002	298	1,774	845,830	809,580	36,250	1,296,020
2003	487	4,741	701,040	642,030	59,010	3,133,860
2004	564	5,296	708,210	652,310	55,900	1,843,420
2005	349	4,317	847,540	753,190	94,350	1,572,650
2006	396	4,925	664,150	559,520	104,630	6,748,610
2007	299	5,799	1,212,890	1,161,260	51,630	6,722,970
2008	361	4,921	1,522,570	1,172,440	350,130	3,329,850
2009	390	5,942	1,103,590	1,056,480	47,100	3,106,620
2010	415	6,552	1,483,810	1,378,240	105,570	6,151,570
2011	404	6,873	1,537,340	1,401,930	81,930	5,054,860
2012	357	3,695	1,902,300	1,757,680	79,290	9,033,870
2013	451	6,162	2,082,170	1,986,560	99,910	5,385,390
2014	458	5,953	3,027,040	2,895,870	88,430	21,869,180

Sources: National Bureau of Statistics' *China Statistical Yearbook*, *Poverty Monitoring Report of Rural China* and *Rural Poverty Monitoring Materials* for various years.

Note: A new round of fixed-point poverty alleviation efforts by central state organs began in 2014. Due to the restructuring of the State Council and the merger and reorganization of central-government-owned enterprises, the number of organizations participating in poverty alleviation dropped from 310 to 302, covering all 592 priority poverty alleviation counties across the country.

2.4.2. East-West Cooperation Funds for Poverty Alleviation

East-west poverty alleviation is another strategically important measure for the Chinese government to use in mobilizing social forces to take part in poverty alleviation work. It refers to the efforts of developed provinces in East China who provide fixed-point support for the development of provinces in West China, according to the requirements of the CCCPC and State Council.

In 1996, the central government of China issued a special document guiding east-west cooperation for poverty alleviation, the *Notice of the State Council Leading Group for Poverty Alleviation and Development on Organizing the Economically Developed and Underdeveloped Areas to Report their Cooperation for Poverty Alleviation*, which was forwarded by the General Office of the State Council. This document explicitly designated 15 economically developed provinces or municipalities in the east to pair up with 11 provinces (autonomous regions or municipalities directly under the central government) in the west to cooperate on reducing poverty. This marked the beginning of the institutionalization and standardization of east-west poverty alleviation work. Since 2008, the State Council LGOP studied the performance of the east-west cooperation in terms of its impact on poverty alleviation.

In addition to the national east-west cooperation for poverty alleviation, many provinces have also formulated regional cooperation projects within their own territories, such as those for the southwest areas of Shandong Province and the south-north poverty alleviation cooperation project of Jiangsu Province. In 2009, government aid given by the eastern provinces to the western provinces stood at RMB 700 million (~ USD 109 million). This figure increased to RMB 880 million (~ USD 138 million) by 2012 and jumped to RMB 1.34 billion (~ USD 0.2 billion) by 2014. Moreover, the east-west poverty alleviation cooperation helped mobilize various types of funds. In 2011, the actual amount of investment under the cooperation agreements of enterprises was RMB 65 billion (~ USD 10 billion). In 2014, the figure rose to RMB 313 billion (~ USD 49 billion), 234 times the government's input that year (see Table 4).

Table 4. Statistics on the East-West Cooperation Funds for Poverty Alleviation (2011-2014)

Indicators	Units	2011	2012	2013	2014
I. Government Aid					
1. Aid Funds	RMB 10,000	84,026	88,220	118,058	133,769
2. Aid Construction Projects					
Including: 2.1 Schools Funded	school	147		107	718
Impoverished Students Funded	person-time	22,080	13,305	5,130	11,738
2.2 Clinics/Health Centers	clinic/ center	80	66	38	36
ii. Enterprise Cooperation					
1. Cooperating Enterprises	enterprises	267	454	311	427
2. Cooperation Projects Implemented	project	375	387	2,499	2,248

2. Types of Financing for Poverty Alleviation in China

Indicators	Units	2011	2012	2013	2014
3. Actual Investment by Enterprises	RMB 10,000	6,482,992	23,363,121	34,002,984	31,313,348
4. Employment Created	person	49,314	21,703	16,636	13,806
5. Tax Paid	RMB 10,000	16,466	24,954	12,348	6,541
iii. Social Assistance	RMB 10,000	10,557	16,240	15,043	10,734
1. Donated Money	RMB 10,000	5,999	11,942	8,486	7,058
2. Donated-Materials-Converted Funds	RMB 10,000	4,558	4,298	6,558	3,675
3. East-To-West Volunteers	person-time	288	553	111	478
Iv. Study Tours and Visits by Leaders	person-time	7,364	8,580	4,593	5,528
1. East-To-West Study Tours/Visits	person-time	4,418	4,364	2,413	3,023
Including: Study Tours/Visits by Provincial-Level Leaders	person-time	46	68	53	22
V. Personnel Exchanges					
1. Exchanges of Party/Government Cadres	person-time	354	361	341	404
2. Technical Exchanges of Professionals (Including Teachers, Doctors and Agricultural Technicians)	person-time	1,035	1,266	1,148	1,534
Vi. Personnel Training					
1. Trainings Provided	session	3,249	498	488	403
2. Number of Trainees	person-time	454,933	330,562	35,709	35,662
Vii. Technology Transfer (Introduction)	item	32	18	7	14
Viii. Labor and Service Cooperation					
1. Labor and Service Transfer	person	284,662	1,215,200	212,412	258,543
2. Labor and Service Income	RMB 10,000	406,342	1,427,267	358,801	492,195

Source: Department of International Cooperation and Social Poverty Alleviation of the State Council LGOP

Of the aid funds from the 2014 east-west poverty alleviation cooperation initiatives, those used for infrastructure development were valued at RMB 634 million (~ USD 99 million), accounting for 47.4% of the total, thereby indicating that nearly half of the funds were spent on infrastructure development in western areas. The funds used for industrial development reached RMB 325 million (~ USD 51 million), accounting for 24.3% of the total. The funds for culture, education and healthcare were RMB 268 million (~ USD 42 million), accounting for around 20%. These were the main areas of investment for the east-to-west poverty alleviation funds in 2014 (see Figure 6).

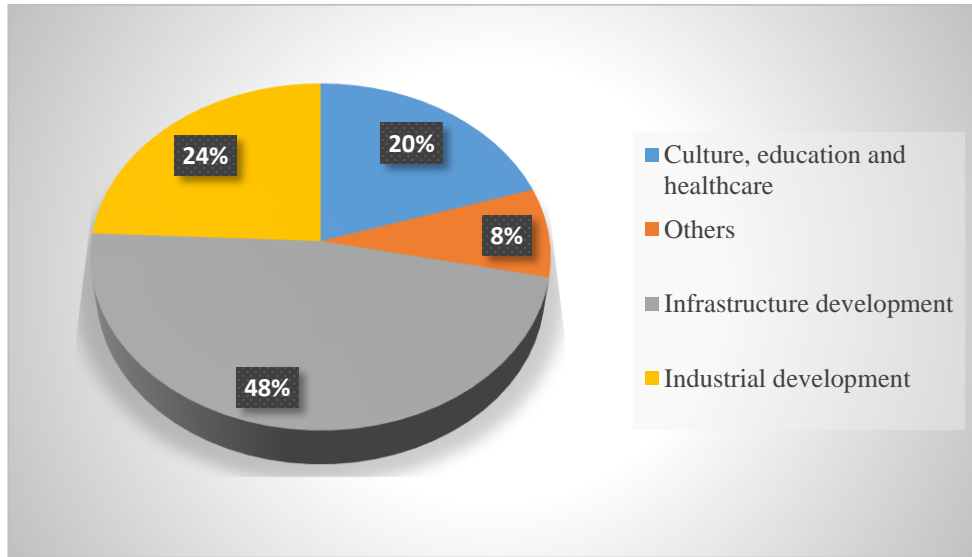


Figure 6. Structure of the Financial Aid Provided by Eastern Provinces to Impoverished Western Areas in 2014

2.4.3. Poverty Alleviation Funds by Social Organizations

Poverty alleviation by social organizations refers to activities partaken by various social organizations outside of the Communist Party, Chinese government and market systems; in other words, organizations with exclusively non-governmental and not-for-profit characteristics (mainly foundations and private non-enterprise entities). In the mid-to-late 1980s and 1990s, a number of important social organizations dedicated to poverty alleviation were established in China (see Figure 7).

Main Non-Profit Poverty Alleviation Organizations

- CFPA
- China Charity Federation
- Women’s Poverty Alleviation Campaign by All-China Women’s Federation

Main Projects

- Poverty alleviation activities by China Disabled Persons’ Federation
- Project Hope
- China Guangcai Program
- Happiness Project
- China Soong Ching Ling Foundation’s poverty alleviation projects
- Chinese Academy of Social Sciences’ Microcredit Center
- Amity Foundation
- Oxfam Hong Kong

Figure 7. Main Non-Profit Poverty Alleviation Organizations and Projects in the Mid-to-late 1980s

In addition, select small-sized foundations and an increasing number of grassroots non-profit organizations have actively taken part in poverty alleviation. It is estimated that social organizations raised RMB 18 billion (~ USD 3 billion) for poverty alleviation work in the period of 2001 to 2005²⁰.

2.4.4. Poverty Alleviation Funds by Enterprises

Poverty alleviation by enterprises refers to poverty alleviation efforts made by an array of enterprises, both private and foreign. Apart from the fixed-point poverty alleviation mission designated by the government, many state-owned enterprises have taken the initiative and assumed more responsibility in carrying out poverty alleviation work. Alongside a growing awareness concerning the social responsibilities of private enterprises, an increasing number of such companies have actually taken part in poverty alleviation initiatives. Moreover, many foreign enterprises in China have also participated in China's poverty alleviation efforts through Corporate Social Responsibility (CSR) programs. A questionnaire survey conducted by the Chinese Entrepreneur Survey System in 2006 showed that more than 90% of enterprises in China had, to varying degrees, carried out social donations, but that only 11 Chinese enterprises had released CSR reports during 2000 to 2005; however, that figure had increased to 88 by the end of the first half of 2008.

2.4.5. Poverty Alleviation Funds by Individuals

Individual participation has been a highlight of China's social poverty alleviation efforts in recent years. Individuals include volunteers, donors and citizens who take an active part in poverty alleviation.

In order to encourage individual participation in poverty alleviation, the *Personal Income Tax Law of the People's Republic of China* [19931031], amended in 1993, established that "the part of an individual's personal income that is used as donation for education or other forms of public welfare shall be deducted before tax from the taxable amount of the individual's personal income according to concerned provisions of the State Council". The same law, amended in 2006 and again in 2011, reaffirmed this provision. The *Notice on the Policy and Relevant Management Issues Concerning the Pre-Tax Deduction of Public Welfare Relief Donations* ([2007] No.6 of the Ministry of Commerce (MOC)), jointly issued by MOF and the State Administration of Taxation in 2007, provided that, with respect to the not-for-profit charity groups and foundations established with approval from relevant civil affairs administrations, their donations for public welfare and disaster relief purposes could be deducted from their taxable income, given that such donations satisfy all associated conditions and are confirmed by the relevant fiscal and taxation authorities. The issuance of this policy expanded the scope of public welfare donations eligible for pre-tax deduction and helped fuel individual and corporate enthusiasm about charity donation.

²⁰ Calculated according to the data on page 14 of the book *Innovations in Social Poverty Alleviation Systems and Mechanisms in the New Stage* authored by Gong Ji, China Agricultural Press, 2012

Figure 8 below shows changes in the proportions of social donations received by civil affairs administrations and social organizations since 1999, a year when comparable data became available for the first time. It can be seen from this figure that 2007 was a critical turning point. Before 2007, social donations received by civil affairs administrations were more than those received by social organizations, regardless of type. After 2007, however, excepting extraordinary events such as the 2008 Wenchuan Earthquake, donations received by social organizations exceeded those received by civil affairs administrations. With respect to their growth rate, social donations received by civil affairs administrations grew by 19 times, while those received by social organizations grew by 234 times, from 1999 to 2012. In 1999, the amount of social donations received by civil affairs administrations and social organizations accounted for 71.4% and 28.6%, respectively, of the total social donations received. However, in 2012, these proportions changed to 17.8% and 82.2%, respectively.

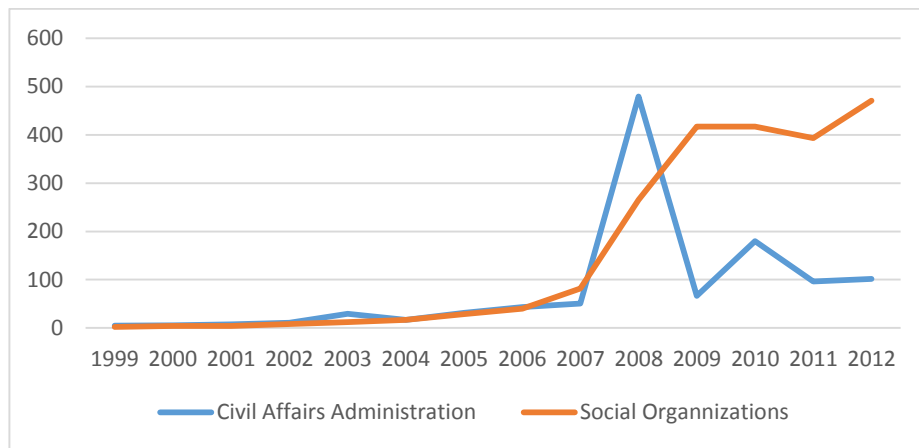


Figure 8. Changes in the Amounts of Social Donations Received by Civil Affairs Administrations and Various Social Organizations 1999-2012 (Unit: 100 million yuan)

Sources: Data for the period 1999-2010 are from *China Civil Affairs' Statistical Yearbook (2011)*. Data for 2011 and 2012 are from the *Social Service Development Statistical Bulletins 2011 and 2012*, respectively.

2.4.6. International Funds

The active and effective utilization of international aid is important for increasing the financial resources available to poverty-stricken areas and for making up for shortages in domestic reserves. The money donated from international organizations is a major channel for the ethnic minority areas of China to obtain international financing for poverty alleviation and development.

(1) International Economic Assistance to China.

According to the definition of the Organization for Economic Cooperation and Development (OECD)'s Development Assistance Committee (DAC), economic assistance refers to assistance given by official organizations to promote the economic development of developing countries with the aim of reducing poverty and improving well-being. It involves aspects such as the environment, transportation and healthcare; international funds used directly for poverty alleviation purposes are

therefore only part of such economic assistance.

There are two ways of acquiring international economic resources: receiving international aid and conducting international cooperation, as shown in Figure 9. International aid refers to the provision of goods or funds by a country or country block to another country or country block; such provisions are either unpaid or paid but under favorable conditions regardless, and are aimed at solving political or economic difficulties, or any problems faced by the recipient country or country block (Jiao Jialing, 2008). International aid is important in the global fight against poverty, with international cooperation providing a critical mechanism for increasing impacts.

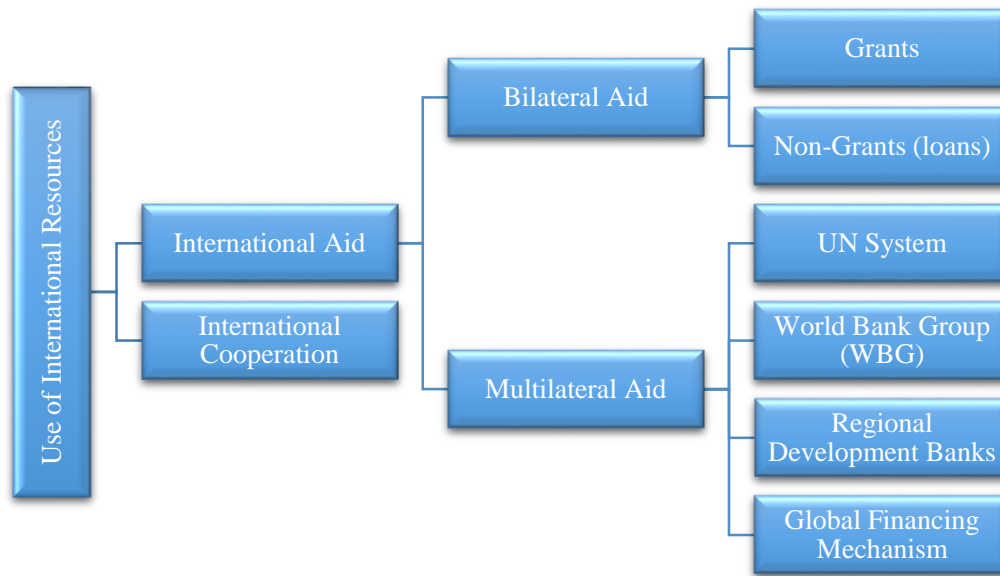


Figure 9. Forms of International Economic Assistance

International aid is divided into multilateral aid and bilateral aid, depending on the source. Currently, the global multilateral aid can be roughly attributed to four sources, namely, the United Nations (UN) System, WBG, regional development banks and various global financing mechanisms. On the other hand, according to the criteria of the OECD’s DAC, bilateral aid given from aiding countries to recipient countries is categorized by grants and non-grants. Grants cover project aid, program aid, technical cooperation, food aid, distress relief and debt forgiveness, while non-grants are primarily loans, for purposes of providing recipient countries with long-term, low interest rate concessional loans. Such loans are to help alleviate financial distress or replenish the funding necessary for the recipient country’s development (Chen Shuangfei, 2007).

Bilateral aid is the most valuable source of international economic assistance in China. From 1981 to 1990, bilateral aid accounted for 77.7% of the total international assistance received by China. From 1991 to 2000, it decreased to 71.0% (see Figure 10).

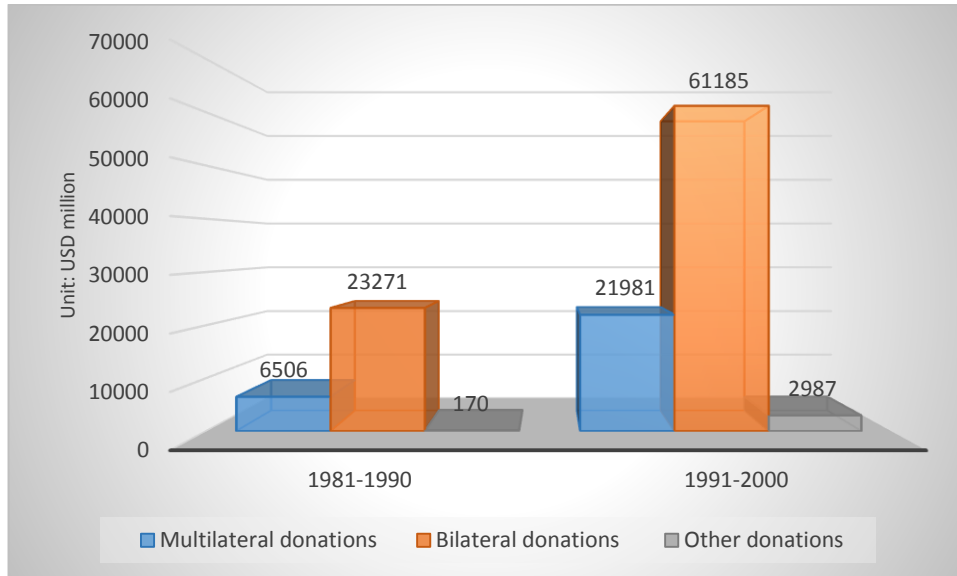


Figure 10. Composition of International Economic Assistance to China (1981-2000)

Source: *China Country Assistance Evaluation Report*, WB Business Evaluation Bureau (ed). China Financial & Economic Publishing House, 2005

Japan and the European Union (EU) are the two most significant sources of bilateral aid to China. The aid from Japan has consistently increased, with its absolute value having grown from USD 14 billion in 1981 to 1990 to USD 21 billion from 1991 to 2000; however, Japan’s proportion of the total amount of bilateral aid to China decreased from 46.5% to 24.9%. In contrast, the proportion of bilateral aid from the EU and its member countries rose significantly from 27.0% to 34.1%, making the EU China’s top donor (see Figure 11).

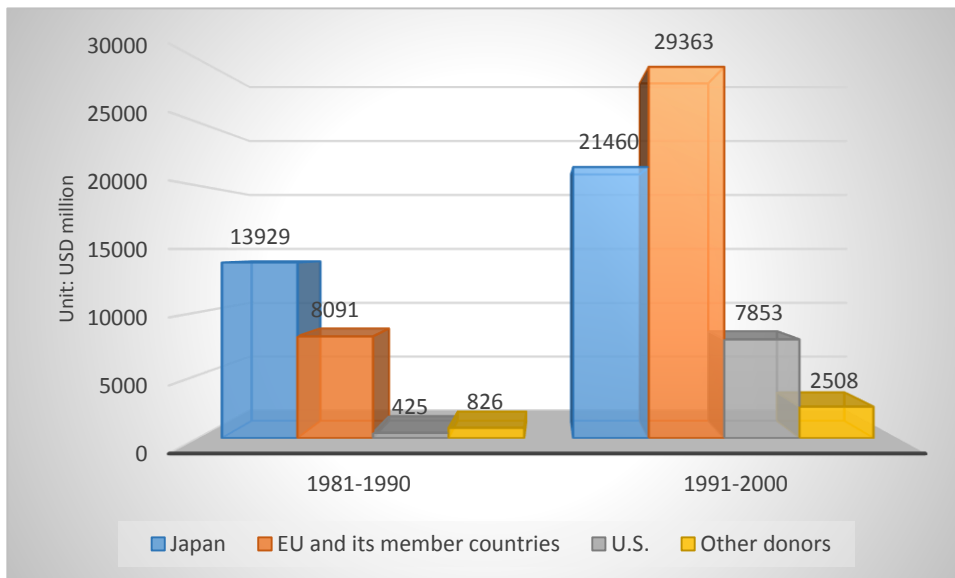


Figure 11. Scale of the Bilateral Economic Assistance to China (1981-2000)

Source: *China Country Assistance Evaluation Report*, WB Business Evaluation Bureau (ed). China Financial & Economic Publishing House, 2005

With respect to multilateral aid, the International Bank for Reconstruction and Development

2. Types of Financing for Poverty Alleviation in China

(IBRD), International Development Association (IDA) and Asian Development Bank (ADB) are the major donors to China. The IBRD and the IDA are actually members of the WBG. From 1981 to 2000, the proportion of aid from these three sources increased from 78.6% to 92.5%, up nearly 14 percentage points (see Figure 12).

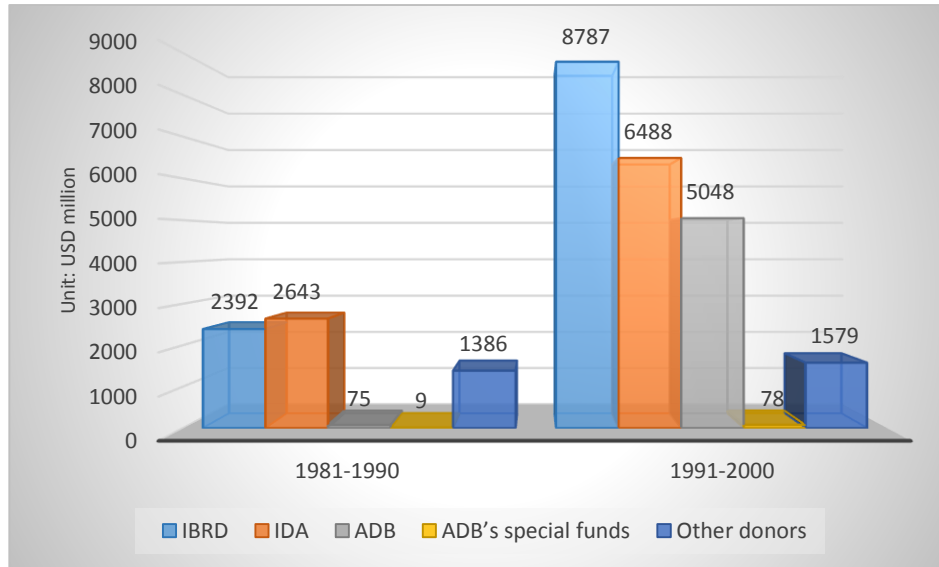


Figure 12. Scale of Multilateral Economic Assistance to China (1981-2000)

Source: *China Country Assistance Evaluation Report*, WB Business Evaluation Bureau (ed). China Financial & Economic Publishing House, 2005

As for the uses of such funding, the funds from the WB were invested into areas such as transportation, rural sectors and energy and mining, as shown in Figure 13.

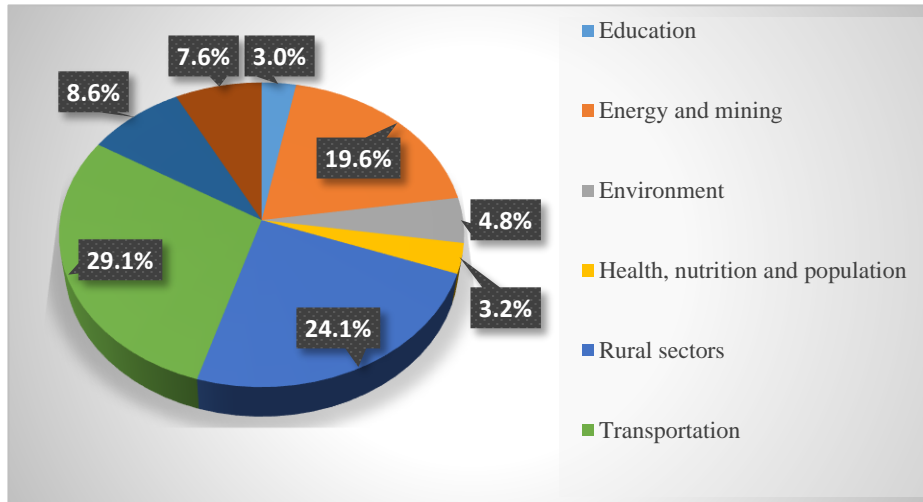


Figure 13. Uses of Aid Funds

Source: *China Country Assistance Evaluation Report*, WB Business Evaluation Bureau (ed). China Financial & Economic Publishing House, 2005

(2) Current Development of International Funds for China's Poverty Alleviation Work.

China's use of international funds for poverty alleviation dates back to the reform and opening-up

initiative and runs through the entire poverty alleviation process. China's cooperation with the WB marked the beginning of a large-scale cooperation between China and the international community in poverty alleviation work. Since 1995, China has used the loans from the WB to implement five poverty alleviation projects, located in the southwest, the Qinba Mountainous Area, Inner Mongolia and Gansu Province. These projects covered 145 priority poverty alleviation counties in 10 of the most impoverished provinces/autonomous regions in central and western China, and benefitted more than 9 million people²¹. Particularly, the southwestern China project used nearly USD 250 million from the WB to ensure adequate food and clothing for 4 million people in Yunnan, Guizhou and Guangxi Provinces. Similarly, the 1997 project in Qinba Mountainous Area used USD 180 million from the WB to ensure adequate food and clothing for 2 million people in that area²².

In China's anti-poverty campaign, the international funds used accounted for only a relatively small share of total amount available at the time. Over the past 15 years, international funds used for poverty alleviation purposes covered only 9.7% of the fiscal funds annually invested into poverty alleviation projects²³. In terms of actual amounts, China used approximately RMB 20 billion (~USD 3 billion) (including domestic funds supporting the use of international funds) in international funds from 1995 to 2010²⁴. From 2001 to 2010, however, China's fiscal allocations for poverty alleviation purposes added up to RMB 204 billion (~USD 32 billion), with the annual growth rate averaging 11.9%²⁵.

Although international funds used for poverty alleviation account for a relatively small share of the total, they have generated far-reaching effects. In the 15-year period from 1995 to 2010, China implemented 107 foreign-fund-financed poverty alleviation projects, covering 320 counties across 18 provinces (autonomous regions or municipalities directly under the central government) in central and western China, benefitting nearly 20 million people²⁶. International aid has not only supplemented China's poverty alleviation financing, but more importantly has introduced innovative poverty alleviation methods and provided new perspectives for addressing poverty alleviation, such as Conditional Cash Transfer (CCT) and rural microfinance. Since 2011, the United Nations International Children's Emergency Fund (UNICEF) and the Chinese government have jointly designed and implemented the CCT project. This project is a new approach to leveraging international aid that directly transfers cash to women and children of impoverished families, on condition that they actually access the available maternal and children's health services. The purpose of this project is to encourage women and children to make use of maternal and

²¹ Source: Xie Shiqing, Comments on the 30 Years' Cooperation between China and the WB, *Macroeconomics*, 2011(2), 8-9. <http://econ.pku.edu.cn/upload/file/20140318/20140318170893129312.pdf>.

²² Source: *Development-oriented Poverty Reduction Program for Rural China*. The central government of the People's Republic of China. http://www.gov.cn/zwhd/ft2/20061117/content_447141.htm.

²³ The percent is a result of calculation by the author based on the data from the white paper *New Progress in Development-oriented Poverty Reduction Program for Rural China* and the article *China's Outstanding Achievements in Using International funds for Poverty Alleviation*.

²⁴ Zhang Feng, China's Outstanding Achievements in Using International funds for Poverty Alleviation. *China Poverty Alleviation*, 2010(23).

²⁵ According to the State Council's white paper *New Progress in Development-oriented Poverty Reduction Program for Rural China 2011*, China's fiscal input for poverty alleviation has grown year after year from RMB 12.75 billion yuan in 2001 to RMB 34.93 billion yuan in 2010, with the annual growth rate averaging at 11.9% and the accumulated input over the decade reaching RMB 204.38 billion yuan.

²⁶ Source: Zhang Feng, China's Outstanding Achievements in Using International funds for Poverty Alleviation. *China Poverty Alleviation*, 2010(23).

children's health services and improve their health. Implemented during the period of 2013-2015, the CCT project covered 14 counties in Yunnan, Sichuan and Gansu Provinces. Since inception, it has produced positive results. Ludian County, Yunnan Province, is a good example. By September 30, 2015, 1,428 pregnant and lying-in women had been served; 888 children had, together with their mothers, benefitted from the available services and subsidies; 6,938 subsidies, totaling RMB 662,640 (~ USD 103,538), had been distributed with approval²⁷. In addition to this project, the Chinese government has been partnering with international organizations to provide micro financial services in select rural areas, providing impoverished farmers with microcredit to help them get employed or start their own businesses. This is an innovative approach to poverty alleviation that has proven beneficial (see *UNDP's Microcredit Poverty Alleviation Project*).

UNDP's Microcredit Poverty Alleviation Project

UNDP's microcredit project in China took lessons from the microcredit model of the Grameen Bank (GB) in Bangladesh. It released microcredit loans to households in select poverty-stricken counties in China to support them in expanding production or conducting business.

GB was founded in 1976 to provide credit services for poor people in Bangladesh. It was accredited to be an independent bank in 1983. Under the GB model, the target customers for loans are people who comply with certain poverty criteria. The release of loans does not require physical mortgages or collateral, but is supervised by a joint guarantee team. The loans are of small amounts and come with short term circulation.

UNDP's microcredit project has similar characteristics. It targets poverty-stricken populations and relies on the mutual guarantee of impoverished families. It offers loans of small sum with a duration of one year, at lending rates reflecting the market. UNDP requires the borrowers to save money actively, for saving is both a physical guarantee for poor people to get out of poverty and an important means for the project's sustainability

From 1994 to 2000, all 14 microcredit projects aided by UNDP supported impoverished rural populations. The beneficiaries they chose were all poor families under the poverty line. The participation rate of women was particularly high, more than 50% in general and 100% in some projects. Among the 48 UNDP project counties, an absolute majority of them were among the 592 poverty-stricken counties designated by the central government, with no more than 10 being provincially designated poverty-stricken counties. Based on years of experience in poverty alleviation, UNDP realized that it is the low lending rate that has hindered poor people from getting loans, due to non-poor populations in rural areas taking advantage of their economic and social positions to acquire them. The adoption of the commercial lending rate, therefore, has become an effective means for UNDP to ensure their target borrowers have access to the loans designed for them.

From 1994 to 2000, UNDP's microcredit project offered USD 8 million for a revolving microcredit fund and accumulatively granted microcredit loans worth RMB 120 million (~ USD 19 million), directly supporting more than 90,000 impoverished households (ethnic minority women in particular). From 1996 to 2000, 53% of poor households had successfully risen above the poverty line and established a revolving microcredit fund in their own counties, with the total of such funds exceeding RMB 60 million (~ USD 9 million). UNDP's microcredit project stressed sustainable development for impoverished areas and effectively prevented a return to poverty. Moreover, due to a series of training sessions and the formulation of certain loan release principles and management and repayment methods, the project realized a 99.4% rate of principal and interest repayment within the specified period.

The rural microfinance innovation project in Yilong County, Sichuan Province is a good example. Yilong is a priority country for poverty alleviation purposes. Because of a lack of employment opportunities, there is an exodus of young people out of the county. The people who are left behind find it difficult to get out of poverty due to the lack of knowledge, skills and capital support. In 2014, UNDP China Office and CICETE initiated a pilot rural finance innovation project in that county and established a Minfu Rural Sustainable Development Service Center. As a not-for-profit financial services provider, the center has, since 2014, integrated the resources of 42 RCC and granted RMB 25 million (~ USD 4 million) in loans. It improved the internal operating efficiency of the RCC and provided their employees with training sessions on the operations of routine fund transactions and the management of credit risks.

²⁷ ADB. The Rationale for Implementing CCT Projects in China. http://www.mof.gov.cn/mofhome/guojisi/pindaoliebiao/diaochayanjiu/201304/t20130418_830099.htm;

2.5. China’s Institutional Set-up for Fund Distribution

China has adopted a multi-layered and top-down fund distribution system (see Figure 14). At each level of governance, the LGOP leads and coordinates the work of the ministries participating in poverty alleviation work. These include the National Development and Reform Commission (NDRC), MOF, LGOP, Ministry of Agriculture (MOA), Ministry of Education (MOE), other ministries, and financial institutions.

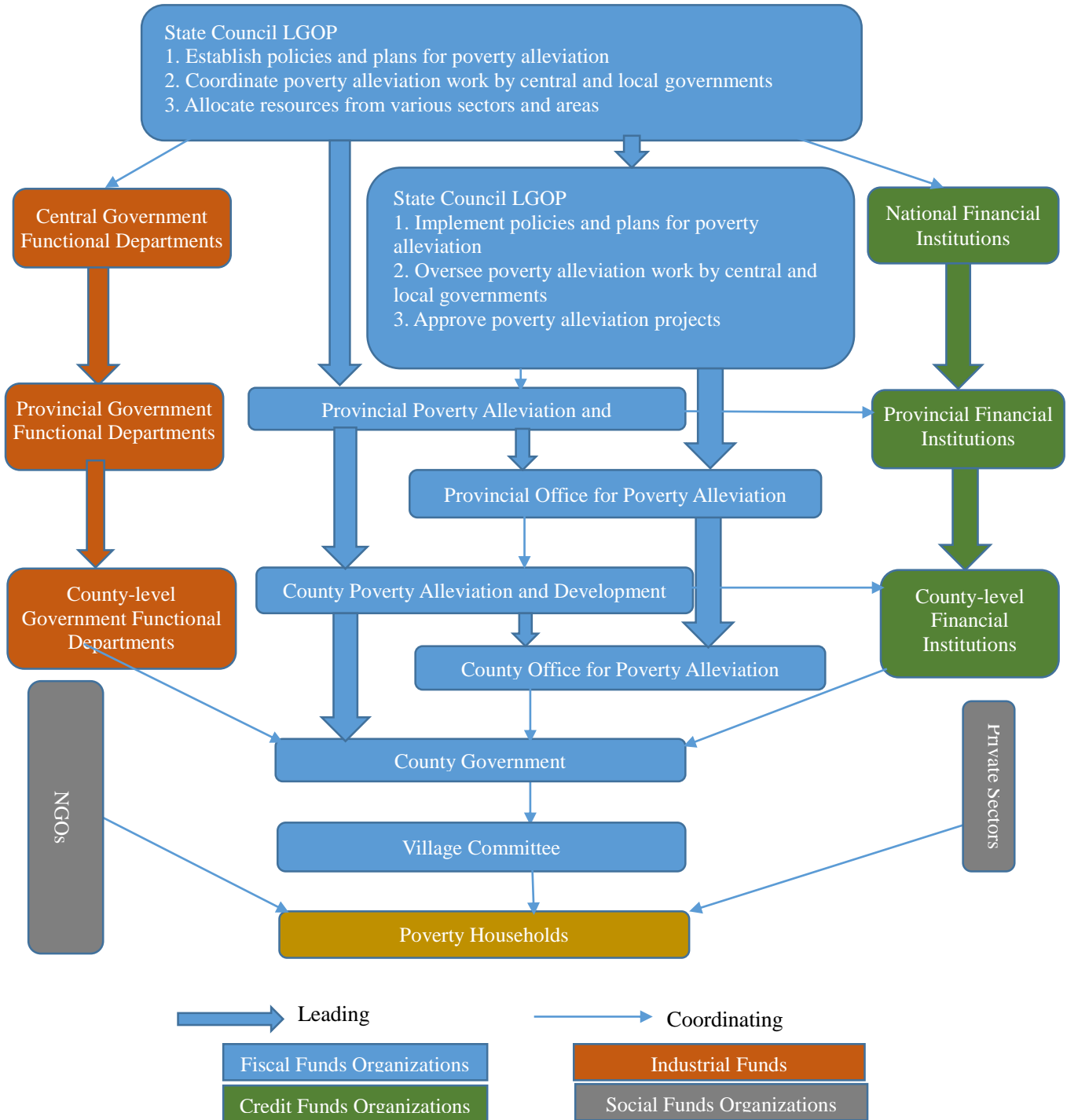


Figure 14. Operating Process of China’s Poverty Alleviation Fund

NDRC, MOF and LGOP are primarily responsible for managing poverty alleviation funds earmarked by the central and local governments, while the others are responsible for implementing various poverty alleviation projects. This institutional design aims, first and foremost, to adapt to the need for an open and comprehensive approach to poverty alleviation. Second, the design purports to mobilize existing government functions and leverage their respective advantages. Third, it intends to lower the management cost of poverty alleviation by avoiding the establishment of additional full-time poverty alleviation departments.

3. Case Studies

Key Messages:

- Our case studies revealed a diversity of financing mechanisms developed either in isolation or in combination, based on the four main types of funds for poverty reduction.
- In analyzing the cases, best practices were discovered, such as incentive measures (e.g. bonuses for towns that fulfill poverty reduction tasks ahead of schedule), platforms (e.g. diverse assistance mechanisms) and risk prevention structures (e.g. varied guarantee models in credit finance), that have effectively encouraged stakeholders, particularly private enterprises, to finance poverty reduction-related projects and industries.
- Most of the cases found positive financial contributions to poverty reduction outputs, including increases in household income, job creation and improvements in basic infrastructure. Challenges do exist, however, particularly in managing fiscal funds.

Chapter 2 analyzed various types of financing for poverty alleviation in China. In practice, however, different types of financing are often combined, and a particular project may be financed using mechanisms that reflect various financing types. In this chapter, we examine five major case studies in order to better understand: 1) how finance is channeled and managed; 2) how effective finance is—the successes and challenges of each financing type. However, contributions of each type of financing are far from clear cut. In cases where diverse types of financing are packaged to support certain projects, the report only focuses on the overall effectiveness of the financing mechanism.

3.1. Fiscal Funds, Guizhou Province

3.1.1. Guizhou Province

Guizhou Province is located at the very center of southwestern China. Its land area is 176,000 square kilometers, with mountains and hills accounting for 92.5% and karst formations covering 109,000 square kilometers, 61.9% of the province's total land area. The geological and topographical features of Guizhou result in a high cost for infrastructure development and social management. Moreover, due to the impact of atmospheric circulation and physical geography, it suffers from many different types of disastrous weather, such as droughts, ice storms and hail storms, all of which have a highly adverse effect on agriculture. That said, Guizhou is well known for having abundant mineral resources and its hydropower reserve stands at approximately 19 million kilowatts. It is also home to multiple ethnic groups.

Due to Guizhou's geographic conditions, it has a large number of impoverished residents and is one of the provinces where poverty alleviation work is the most difficult. According to the RMB 2,300 /person/year poverty line (2010 constant rate), the province reported having five million poverty-stricken people in 2015, accounting for 8.8% of the national total. In the same year, its incidence of rural poverty stood at 14.3%, 9.1 percentage points higher than the national average. Of its 88 counties (cities or districts), there are 66 impoverished counties (including 50 priority counties and 16 counties that belong to poverty-stricken block areas), 934 impoverished towns and 9,000 impoverished villages. In 2015, the per capita disposable income for rural residents in the province stood at RMB 7,387 (~ USD 1110), 59.5% the national level. LGOP identified 11 destitute block areas across the country in 2011 and Guizhou Province contributed three, namely, Wuling Mountainous Area, Wumeng Mountainous Area and the desertification area where Guizhou, Yunnan and Guangxi Provinces meet. Wuling Mountainous Area suffers from weak infrastructure and inefficient market systems, which seriously impedes the development of available resources in the block areas; Wumeng Mountainous Area suffers from population and social development problems that have led to a scarcity of resources, poor education and substandard healthcare; desertification and water conservation facility issues are prominent where Guizhou, Yunnan and Guangxi Provinces meet.

3.1.2. Provincial Fiscal Funds

From 2011 to 2015, Guizhou Province received approximately RMB 23 billion (~ USD 4 billion) in fiscal funds from the central government for poverty alleviation purposes. In the same period, the provincial government of Guizhou invested around RMB 4 billion (~ USD 0.6 billion) in fiscal funds for poverty alleviation work. The province's fiscal funding exhibits a trend of year over year increases (see Table 5). For example, the central government's input increased from RMB 2 billion (~ USD 0.4 billion) in 2011 to approximately RMB 4 billion (~ USD 0.6 billion) in 2014, an increase of 73.9%, while provincial inputs increased from RMB 1.4 billion (~ USD 0.2 billion) in 2012 to RMB 3 billion (~ USD 0.4 billion) in 2014, an increase of 78.5%. Moreover, fiscal development funds, as part of the fiscal input for poverty alleviation work, has been growing year over year and has accounted for more than 80% of the total funding allocated by the central government. In contrast, fiscal development funding at the provincial level, though growing, accounts for only a relatively small proportion of the total government input. In 2015, for example, provincial fiscal development funds amounted to RMB 1 billion (~ USD 0.2 billion), an increase of 29% over the previous year.

Table 5. Guizhou Province's Fiscal Poverty Alleviation Funds (Unit: 100 million yuan)

	2015	2014	2013	2012	2011
Total Central Government Fiscal Poverty Alleviation Funds	-	40	-	30	23
Central Government Fiscal Development Funds	40	35	30	26	-
Total Provincial Government Fiscal Poverty Alleviation Funds	-	25	-	14*	-
Provincial Government Fiscal Development Funds	10	8	8	-	-
Total	-	65	50	-	-

Note: The asterisked data refer to the funds that were included in the poverty alleviation item by the provincial treasury; 2015 data was provided by the provincial LGOP of Guizhou; other data was from the *Yearbook of China's Poverty Alleviation and Development*.

(1) Allocation of Fiscal Poverty Alleviation Funds Using the Factor Method

Guizhou Province allocates the central and provincial governments' fiscal funding for poverty alleviation using primarily the factor method. Except for special funds earmarked for specified purposes by the central or provincial governments, all funds are distributed according to factors such as poverty-stricken county, poverty-stricken village, poverty-stricken population size and performance appraisal results, their weights being 20%, 20%, 50% and 10%, respectively. The funding distributed based on the first three factors was directly transferred to each county, at the end of 2014, according to the number of impoverished counties, villages and people, while the funding based on performance appraisal results was distributed according to provincial appraisals of poverty alleviation and development work in each county throughout the previous year.

(2) Uses of Fiscal Funds

Since March 2016, fiscal funds for poverty alleviation have been allocated to each county using the factor allocation method (see Figure 15):

- 30% of the total fiscal funding for poverty alleviation was used to support associated industries, particularly regional, large-scale industries with local characteristics. 30% of the funds were used to experiment with the “3 Changes” reform (See the example of Nanmeng Village), which includes changing resources into equity, changing funds into shared capital, and changing farmers into shareholders; the remaining 70% was distributed among towns (townships) and villages to finance the development of local industries.

- 30% of the total poverty alleviation funding was invested in production and livelihood projects, such as professional farmer cooperatives and village-based collective economic organizations.

- 10% of the total poverty alleviation funding was used to cover the interest on subsidies for small-sum, concessional loans used for poverty alleviation work; this work included providing impoverished-family-oriented small-sum loans “in an amount of no more than RMB 50,000 (~ USD 78,125), within 3 years, without guarantee or collateral, and with interest subsidized and risk compensation made at the county level”.

- 10% of the funds were used to finance the Yulu Plan and the training of poverty alleviation cadres.

- 20% was used to support small-scale public infrastructure development, particularly for industries concerned with improving the productivity and living conditions of poverty-stricken areas.

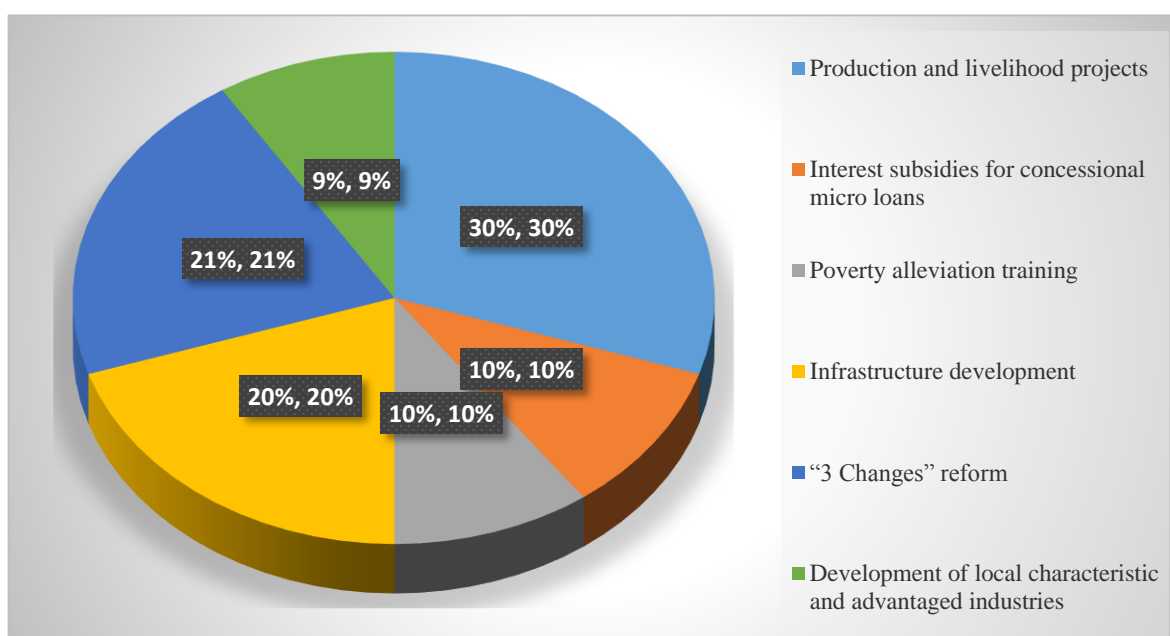


Figure 15. Proportions of Different Uses of Fiscal Poverty Alleviation Funds

(3) Management of Fiscal Poverty Alleviation Funds

The need for routine supervision and proper management of fiscal funding is assumed by the fiscal and poverty alleviation departments, at all levels. Those responsible for approving projects financed through fiscal funds are required to track and evaluate the effectiveness of the project funds, while those charged with implementation are responsible for the processes guiding their use. The auditing and supervision departments are responsible for the distribution and use of poverty alleviation funds. In addition to traditional models of supervision, Guizhou Province also developed a series of innovative ones. For example, it developed a management and monitoring system for poverty alleviation funding on “the poverty alleviation cloud,” where project fund information can be entered in real-time and disclosed on departmental websites, a process meant to strengthen social supervision.

The outcomes associated with the use of fiscal funds is primarily evaluated by way of routine supervision, audits and year-end appraisals. Routine supervision is focused on putting-in-place the project funds exercised by the provincial LGOP and the provincial government’s financial department; audits are based on the reports of the discipline inspection department, the audit reports of the audit department and feedback from the general public; year-end appraisals are a third-party appraisal commissioned by the government. The results of these three assessments are important for the performance appraisal of cadres at all levels of service and for the distribution of poverty alleviation funds going forward into the next phase.

Rural Cooperatives for Industries as Part of the “3 Changes” Reform in Nanmeng Village, Leishan County, Guizhou Province

- Nanmeng Village is administratively affiliated with Langde Town, Leishan County, and is 13 kilometers away from the county center. It has 404 *mu* farmland and 756 residents. As a site of the Miao ethnic minority group’s cultural heritage, it is reputed to be the “Home of the Reed Pipe Dance”. In 2012, the village was put on the first national list of “Traditional Villages in China” by the Ministry of Housing and Urban-Rural Development.
- In 2015, it was designated by the State Council LGOP and the National Tourism Administration (NTA) as one of the first batches of pilot villages for poverty alleviation through tourism. At present, the village has one inheritor of its cultural heritage registered at the prefectural government and owns public cultural facilities, such as a reed pipe museum, a reed pipe workshop and an ethnic culture exhibition center.
- Despite its rich ethnic cultural resources, the cultural industry is yet to be developed and the degree of poverty is quite high. In 2014, the village’s incidence of poverty exceeded 30%, with per capita net income less than RMB 4,800 (~ USD 750). According to the poverty alleviation policy of the country, it has been identified as an impoverished village that needs to be filed and have its residents registered with the government. By the end of 2015, the village had registered 131 poverty-stricken people and 256 households eligible for minimum living subsidies.

- “3 Changes” reform: In December 2015, Nanmeng Village founded a professional countryside tourism cooperative by the name of Gongji. The village, as a collective economy, contributed in-kind capital of RMB 500,000 (~ USD 78,125); the village-owned Reed Pipe Museum, along with 44 registered poverty-stricken households, contributed another RMB 500,000 in monetary capital they gained through industry work. The cooperative set up a reed pipe performance team, an ethnic arts and crafts team, an agricultural operations team and an e-commerce team.
- So far, Nanmeng Village has entered into cooperation with Miaojiachun Tea Co., Ltd., Leishan Ani Embroidery Co., Ltd., and Yunshang Guizhou Big Data Industry Development Company. In March, 2016, during the land circulation meeting held in Nanmeng Village, the cooperative agreed upon a land circulation contract with villagers that would allow its agricultural operations team to grow 100 *mu* of white tea that month. In addition, the cooperative’s e-commerce team developed a media production titled *The First Party Secretary* in collaboration with Yunshang Guizhou Big Data Industry Development Company.

3.1.3. Effectiveness Assessment

Poverty alleviation work in Guizhou Province has been successful throughout the 12th FYP period. First, the impoverished population was reduced from 11 million in 2011 to 5 million in 2015 (as per the RMB 2,300 /person/year poverty line (2011 constant rate)) and the incidence of rural poverty was lowered by 19.1%.

Second, the development of poverty alleviation industries was significantly promoted. During the 12th FYP period, Guizhou Province invested RMB 10 billion (~USD 2 billion) in support of industrialization projects and generated a total production output of RMB 81 billion (~ USD 13 billion). The province’s ecological industries, based on its wealth of natural resources, developed by leaps and bounds.

Third, infrastructure conditions were dramatically improved. The RMB 110 billion (~ USD 17 billion) in fiscal poverty alleviation funds used to build the “Six Xiaokang (moderately well-off living standards)” achieved preliminary success in road construction, water supply facility development, dilapidated housing renovation, the relocation of impoverished populations, and the laying of telecommunication cables.

Fourth, fiscal funds also played an important role in improving people’s livelihoods. Guizhou Province took the lead in implementing the “free nutritious lunch program” and poverty alleviation-related educational policies that exempted registered impoverished students from paying tuition fees, textbook expenses and lodging expenses (or they received subsidies for these expenses from the government); these educational policies also provided them with national scholarships and poverty alleviation-oriented scholarships²⁸. Moreover, by improving 22 3A hospitals, Guizhou

²⁸ Guizhou Province put forward a *Plan for Implementing the Policy of Strengthening Subsidization and Promoting Targeted Poverty Alleviation for Impoverished Rural Students* in 2015 and decided to exempt the registered impoverished students from paying the tuition fee, the textbook expense and the lodging expense (or give them subsidies for the foregoing expenses) and provide them with national scholarship and poverty-alleviation-oriented scholarship in addition to the then existing funding policies applicable to eligible registered students.

Province gradually advanced its medical service system.

During our field investigations, efforts were being made to innovate their approach to managing fiscal poverty alleviation funds, examples being the usage of the factor allocation method, the creation of a checklist of investment areas and the stringent supervision and management of funding. Though the province has made considerable progress in these areas, some dilemmas remain.

First, potential conflicts exist between the goals of poverty alleviation and the limited size of available poverty alleviation funds. A wide range of government departments are involved in managing poverty alleviation funds. In Guizhou Province alone, nearly two thirds of the government departments at a given level are involved in the distribution and use of poverty alleviation funds; examples include the provincial LGOP, development and reform commission, civil affairs administration, water conservancy department, and rural work committee. In performing their respective functions, these departments lack effective communication structures and information sharing mechanisms. As a result, some poverty alleviation projects are repeatedly funded, while other projects lack funding. For special poverty alleviation funds, all departments have to allocate funds for projects that reflect their own goals. The consequence is that, at the grassroots level, poverty alleviation funds become scattered across a wide range of areas and fail to achieve their performance targets. In 2014, for instance, Danzhai County received a total of more than RMB 500 million (~ USD 78 million) in the form of special transfer payments; however, this payment involved more than 260 projects, with the largest project getting more than RMB 55 million (~ USD 9 million) and the smallest project only RMB 4,800 (~ USD 750)²⁹. In the end, some projects could not be carried out.

Second, difficulties have arisen between the positive and negative lists concerning the uses of fiscal poverty alleviation funds. If the negative list is adopted, poverty alleviation funds are susceptible to misappropriation due to blurry policies. If the positive list is adopted, poverty alleviation funds struggle to accommodate on-the-ground needs and situations. If both the positive and negative lists are adopted, it can give rise to blind spots, even though they can work together to reflect policy intentions. In fact, policy formulation is a sword that cuts both ways in terms of the performance of poverty alleviation funds. For example, Guizhou Province issued its *Measures for Managing the Special Fiscal Funds for Poverty Alleviation Purposes* in 2011,³⁰ which explicitly accommodated both the positive (five items) and negative lists (10 items) (see Figure 21). These lists provided clear guidance for the areas of poverty alleviation investment, but were so detailed that they created “gray areas” and blind spots for management. In consequence, a large amount of the poverty alleviation funding was left unused. Furthermore, as new approaches to poverty alleviation develop, such as poverty alleviation through financial institutions and e-commerce, they have failed to be incorporated into the management measures governing poverty alleviation funding. This therefore restricts the leverage effect and increases the opportunity cost of fiscal funds used in poverty alleviation work.

²⁹ <http://www.audit.gov.cn/n4/n23/c82514/content.html>

³⁰ http://www.mof.gov.cn/zhengwuxinxi/caizhengwengao/2012wg/wg201201/201203/t20120331_640066.html

Positive List of the Uses of Fiscal Poverty Alleviation Funds

- To foster and develop characteristic and advantaged industries.
- To improve basic production and living conditions in impoverished rural areas.
- To enhance the employment and production capacity of targeted population groups in rural areas.
- To help targeted population groups alleviate their shortage of productive funds.
- To serve as the project management expense incurred in formulating, examining and approving poverty alleviation plans and implementing and managing poverty alleviation funds and projects.

Negative List of the Uses of Fiscal Poverty Alleviation Funds

- To fund basic expenditures of administrative departments or public institutions.
- To serve as a bonus, allowance or benefit.
- To offset losses to enterprises.
- To construct office buildings, large halls or guest houses; or to construct residential houses for employees, except in the case of renovating shelters for impoverished farms or forestry centers.
- To offset the budget deficit or repay debt.
- To fund medium or large-scale capital construction projects.
- To purchase vehicles or communication equipment.
- To fund urban infrastructure development or urban poverty alleviation.
- To serve as enterprises' guarantee funds.
- Other uses inconsistent with the provisions of Article 8 of the *Measures*.

Figure 16. Measures for Managing the Uses of Special Fiscal Funds for Poverty Alleviation Purposes

Note: derived from the *Measures for Managing the Special Fiscal Funds for Poverty Alleviation Purposes (2011)*.

Third, there is a potential contradiction between the standardization of management systems and the efficiency of fund use. The standardization of management systems for fiscal funds tends to create too many links in the chain of examination and approval. For example, for a project with a budget of RMB 100,000 (~ USD 15,625), the examination and approval process may be two months or longer. It unnecessarily increases the cost of management, including time, energy and money consumed; it also leads to lower efficiency. Guizhou Province has rigorous management and supervision systems for poverty alleviation funds and is rated A, based on the national performance appraisal for the use of such funds. According to the existing *Guiding Opinions for Reforming and Renewing the Management Methods of Special Fiscal Funds for Poverty Alleviation*, fund implementers are directly responsible for the use of the funds, while project approvers are responsible for tracking and appraising the results. This has, in part, plunged fund implementation into a predicament. The stringent auditing process might dissuade people from using the funds for projects that have no explicit policy support. The result is that poverty alleviation funds are being left unused.

3.2. Fiscal Funds, Leishan County, Guizhou Province

3.2.1. Leishan County

Located in southwestern Guizhou Province, Leishan County is 180 kilometers away from the provincial capital, Guiyang, and 36 kilometers away from the prefectural capital, Kaili. With a land size of 1,218.5 square kilometers and a population of 157,000, Leishan is a small county where many ethnic groups, including the Miao, Han, Shui, Dong, Yao and Yi, reside. In 2015, the county generated RMB 2.376 billion (~ USD 366 million) in GDP, with per capita disposable income at RMB 22,564 (~ USD 3,477) for urban residents and RMB 6,810 (~ USD 1,049) for rural residents. Though it has a small economy, Leishan is abundant in ecological resources. With the vegetation rate at 94% and forest coverage at 68.5%, it is known as a “natural oxygen bar” and “gene pool.” Moreover, the county has strong tourism appeal, due to sites such as Leigong Mountain, a national nature reserve and geological park, Langde Upper Village, a protected national cultural heritage site with a beautiful village landscape, and Xijiang Qianhu Miao Village, a 4A scenic spot and famous for its historical and cultural qualities. In particular, Leishan embodies a significant amount of Miao culture, including traditions such as Miao songs, embroidery and the Miao New Year, all of which made the national list for intangible heritages.

In 2015, the per capita disposable income was RMB 22,564 (~ USD 3,477) for urban residents and RMB 6,810 (~ USD 1,049) for rural residents, up 10.7% and 12.3% respectively³¹. In the same year, the county reduced the number of impoverished people by 8,300 and lifted all poverty-stricken townships out of poverty. Currently, the county has a total of 27,700 impoverished residents, with the incidence of poverty across the county at 20%, and a total of 70 impoverished villages, with the incidence of poverty in impoverished villages at 46.1%.

3.2.2. Fiscal Transfer Payments, Leishan County

During the 12th FYP period, fiscal transfer payments received by Leishan County from the superior government increased substantially. The county received a total of RMB 5 billion (~ USD 780 million) in the form of fiscal transfer payments. In 2015 alone, the county received as much as RMB 1.45 billion (~ USD 223 million), accounting for more than 83% of the county’s total financial strength. Fiscal transfer payments falls into two types, namely, the general transfer payment and the special transfer payment. The special transfer payments received by Leishan County in 2015 are shown below:

³¹ http://www.leishan.gov.cn/info/egovinfo/new2014/xxgk_show/lxzf00120160201002.htm

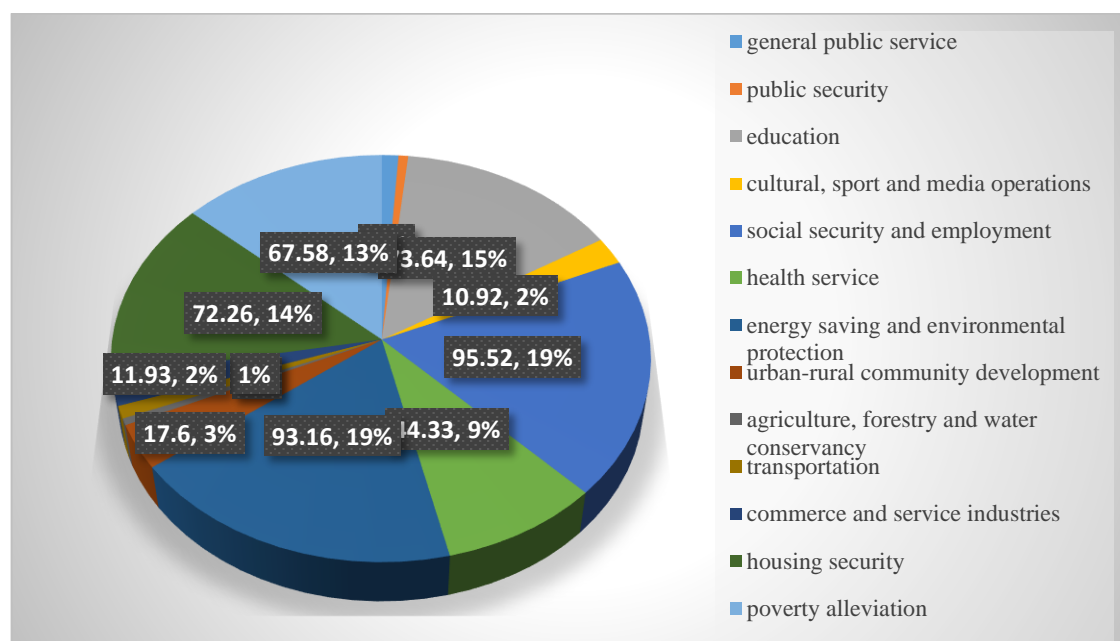


Figure 17. Special Transfer Payments in 2015

Of the total special transfer payments, the transfer payment for poverty alleviation accounted for approximately 9%. In 2014 and 2015, Leishan County received RMB 2 billion (~ USD 0.2 billion) in transfer payments for poverty alleviation and funded 166 poverty alleviation projects. By the end of January 2016, the county had delivered RMB 1 billion (~ USD 0.2 billion) to project implementers, with disbursed funds accounting for 94% of the total poverty alleviation funding. From 2014 to 2015, the structure of funding usage in Leishan County underwent a dramatic change (see Table 6). In 2014, 34% of all poverty alleviation funds were invested into countryside tourism, while the rest was invested into emerging industries like tea growing, characteristic breeding and Chinese herbal medicine. In 2015, however, the county increased the proportion of poverty alleviation funds to be invested into assistance programs facilitated by entity groups, discounted-interest microcredit lending schemes, and subsidies for ecological protection-induced migration.

Table 6. Uses of Poverty Alleviation Funds in Leishan County (2014-2015)(Unit: 10,000 yuan)

	2015	2014
Ecological Protection-induced Migration	1478	-
Assistance by Entity Groups	1000	500
Herbal Medicine Growing	900	716
Tourism	700	2941
Interest Subsidy for Poverty Alleviation Loans	694	38
Ecological Disaster Relief	550	-
Tea Growing	500	1879

	2015	2014
Quality Vegetable Planting	300	95
Assistance to Village-based Collective Economies	250	63
Training	174	180
Project Management	113	88
Others	36	385
Characteristic Breeding	35	910
Quality Fruit Planting	28	192
Family Farms	-	480
Arts and Crafts	-	140
Quality Rice Planting	-	80

In terms of the distribution of poverty alleviation funds, Leishan County adopted the national poverty line as the quantitative criteria for identifying poverty-stricken populations; the qualitative criteria were that residents “need not worry about food and clothing and have security in housing, education and medical care”. During the 12th FYP period, the county registered 13,186 people of 3,194 families as targets of its poverty alleviation work, and subsequently invested RMB 4 billion (~ USD 0.6 billion) in and released RMB 37 million (~ USD 6 million) small sum, discounted interest loans to them. In addition, the county established incentive and punishment mechanisms for its poverty alleviation work and made the criteria for appraising the performance of its poverty alleviation efforts more detailed. For example, it provided a lump sum of RMB 500,000 (~ USD 78,125) as a bonus to towns that eradicated poverty ahead of schedule, RMB 200,000 (~ USD 31,250) for towns that eradicated poverty by the deadline, and implemented a policy that would hold accountable government officials in towns that failed to fulfill the poverty alleviation goal. In supervising and managing poverty alleviation funds, Leishan County has adopted many innovative measures. For example, it created the “construction first and subsidization later” mechanism for poverty alleviation projects implemented by industries. This means that the project implementer has to complete the poverty alleviation task first, according to the associated plan, and will only be provided subsidies thereafter if the provincial inspection team finds the work of high enough quality. This mechanism plays an important role in improving the efficiency of both poverty alleviation efforts and the use of poverty alleviation funds.

Criteria for the Identification of Impoverished Villages/Households and Poverty Registration in Nanmeng Village, Leishan County

- *Criteria for the identification of impoverished households:* Implement provincial poverty household identification criteria, namely, the requirement that annual per capita net income of rural households must be less than RMB 2,736 (2010 PPP, ~ USD 424).
- *Criteria for the identification of impoverished villages:* The national criteria for identifying impoverished villages includes: (1) the incidence of poverty in an administrative village must be twice that of the whole province; (2) the per capita net income of farmers in the administrative village must be lower than 60% of the provincial average; (3) the administrative village has no collective income. According to the provincial data of Guizhou, the criteria for identifying impoverished villages is as follows: (1) the incidence of poverty in an administrative village must be higher than 27%; (2) the per capita net income of farmers in the administrative village must be lower than RMB 4,819 (~ USD 753); (3) the administrative village has no collective income.
- *Poverty household identification process for Nanmeng Village:* Application submitted by farmers; democratic discussion; first-time consultation with the public; preliminary registration; review by the town government; second-time consultation with the public; review by the county government; formal announcement (before the end of May); pairing up for assistance; handbook distribution (before the end of July).
- *Registration steps:* Preliminary screening; seeking public opinion; pairing up for assistance; making plans; completing registration forms; entering data; network operation; data updates.

3.2.3. Effectiveness Assessment

Supported by fiscal poverty alleviation funding, the primary poverty alleviation goals of Leishan County were achieved in 2015. The county reduced the number of people in poverty by 8,300 and reduced the incidence of impoverished towns to zero. Local industries, countryside tourism in particular, grew steadily with support from fiscal funding from 2014 onward. In 2015, the county received a total of 6 million tourists, up 23.7% from 2014, and generated an income of RMB 5 billion (~ USD 1 billion) from the tourism industry, up 25.5% from 2014. Moreover, flagship industries like tea growing and medicinal plant cultivation grew quickly. Rural infrastructure, including roads, water conservancy and power supply systems gradually improved. However, challenges still exist.

First, at the county level, special poverty alleviation funds allocated as project funds are oftentimes not able to meet the actual needs of the families they aim to help, resulting in a mismatch between funding supplies and poverty alleviation needs. For example, according to project requirements, Leishan County once tried growing walnut, but ultimately failed. An important cause of this failure was unfavorable natural and geographic conditions, which resulted in extremely low yields and, in turn, limited the scale of the industry. Since 2016, the distribution method for provincial poverty alleviation funds was been improved to include the factor method of distribution. To a degree, this

new method enhanced the flexibility of fund uses and enabled funds to function according to local conditions; however, the fund uses were and are still subject to restrictions, in terms of being able to invest in priority areas, by the provincial government. This is because such areas are identified and given particular proportions of the total funds by the provincial government itself. After identifying these areas, however, the government failed to conduct field investigations and therefore did not take local conditions into consideration. In consequence, the supply of poverty alleviation funds resulted in poor outcomes.

Second, a government procurement process has to be initiated when the funds to be used exceed a certain limit. Considering economies of scale and the need to lower costs, this provision is conducive to improving the efficiency of project implementation, but sometimes is counteractive. For example, Leishan County was once successful in promoting the fish farming industry, where fish were grown amongst paddy fields. However, the fry procurement process, facilitated through tendering, was not suitable for the paddy fields and consequently lowered yields. In fact, many farmers had their own approaches to procuring their favorites variety of fry. If they had been allowed to buy the fry themselves, they could have not only enjoyed lower prices, but also procured fries more quickly and conveniently.

Third, the top-down distribution of project funds often requires a lot of parallel funds, but without specific budgeting for project management costs. For example, in 2015, Leishan County was required to provide parallel funds worth RMB 760 million (~ USD 117 million), accounting for 348% of the county government's budgetary revenue that year, a number way beyond the county government's fiscal capacity. Due to the shortage of funding, project management was adversely affected. There were also instances of misbehavior, such as diversion and the misappropriation of funds, the result being a decrease in the efficient of such project funds.

Fourth, the actual distribution of poverty alleviation funds is typically late. This is not helpful for implementing projects that need to be started in the current year. It also poses a challenge to projects that are seasonal, such as those related to agriculture.

Fifth, the design of poverty alleviation strategies is gradually improving, but capacity building at the local government level still needs to be improved. The local government is responsible for conducting door-to-door investigations, entering and updating databases, including Big Data, implementing and managing projects, and collecting relevant information. However, these governments are oftentimes severely under-staffed, with each working station equipped with only 1-3 employees. As a result, they are overburdened by office routines and the progress of substantive work is slow.

3.3. Photovoltaic (PV) Poverty Alleviation Project, Jinzhai County, Anhui Province

Jinzhai County is located in western Anhui Province, in the hinterland of Dabie Mountain at the junction of Hubei, Henan and Anhui Provinces. With a land area of 3,814 square kilometers, it governs 23 towns, 1 modern industrial zone and 226 administrative villages, and has a population of 680,000. Jinzhai is one of the many counties that form a large, destitute block area in the Dabie

Mountain region. Due to the frequency of natural disasters, poverty eradication efforts coexists with the fact that many end up returning to poverty, creating a vicious cycle. At the end of 2014, per capita disposable income for rural residents in the county was RMB 9,780 (~ USD 1530), which is RMB 136 (~ USD 21) and RMB 709 (~ USD 111) lower than the provincial and national averages during the same period, respectively. In 2014, the incidence of rural poverty in the county was 23.2%; nearly 10,000 rural families struggled to get out of poverty due to inclement living conditions, low productivity skills, high medical expenditures and a shortage of labor opportunities. Due to the impact of natural, geographic and historical factors, the degree of poverty varies from town to town and from village to village. Most of the county's impoverished people are scattered in remote mountainous areas and on the rim of reservoirs; these are areas where poverty eradication work is difficult and costly, due to poor site conditions, a lack of farmland and underdeveloped infrastructure, thus creating a situation where falling back poverty is very easy for the people there, many of whom already suffer from disasters, diseases, disabilities, lack of schooling, labor shortage and unfavorable market fluctuations. Taken together, these conditions have hindered the production of positive poverty reduction results and heightened the difficulties of poverty alleviation in the county.

3.3.1. Financing Sources and Investment Models of Poverty Alleviation Funds

Jinzhai County's poverty alleviation funds amounted to RMB 42 million (~ USD 7 million) in 2015. It consisted of RMB 38 million (~ USD 6 million) for the PV poverty alleviation project, RMB 1 million (~ USD 0.2 million) for infrastructure development in impoverished villages, RMB 1 million (~ USD 0.2 million) for interest subsidies, RMB 1 million (~ USD 0.2 million) for the *Yulu Plan*, and RMB 0.98 million (~ USD 0.2 million) for other projects. In 2014, the county allocated RMB 11 million (~ USD 2 million) in the form of special fiscal funds to finance the *beautiful countryside development initiative*. In addition, it integrated rural-related funds and set aside more than RMB 20 million (~ USD 3 million) for projects that support the resettlement of migrants and village construction; these projects involved the development of infrastructure and facilities that would support public services in 11 key demonstration villages. Typical poverty alleviation projects in Jinzhai County include the PV Agricultural and Ecological Industry Park at Xiaonanjiang Village, Meishan Town, power generation station in Yangqiao Village, roof-top power generation project in Qianping Village, Huashi Town, and village image reconstruction project.

(1) PV Agricultural and Ecological Industry Park

The project involved a total investment of RMB 2 billion (~ USD 0.2 billion), with RMB 120 million (~ USD 19 million) from fiscal subsidies and the rest financed by the concerned enterprise itself. The project included a ground PV power station with a generating capacity of 150MW and a 200,000m² PV greenhouse of consistent temperature and humidity for purposes of cultivating high-end flowers, organic agricultural produce and dendrobium stem. The cost of construction for the PV greenhouse exceeded RMB 2,000 /m² (~ USD 308 \$/m²).

(2) Village PV Power Stations

In 2014, Jinzhai County founded Chuangfu Company, an economic entity, in each of its 218 villages county-wide. The company was to lead the villages in building a collective economy and in developing a central PV power generation project with a capacity of 60 kilowatts, which required a total investment of RMB 480,000 (~ USD 75,000) in each village. Funding for the PV power station included publicly accumulated funds from the village-based collective economy, poverty alleviation funds (RMB 180,000 (~ USD 28,125) from fiscal subsidies) and discounted interest loans from the government (the interest being subsidized by the government).

(3) Roof-top Distributed PV Power Generation Project

The first phase of the project required an investment of RMB 24,000 (~ USD 3,750) from each participating household, including fiscal poverty alleviation funds of RMB 8,000 (~ USD 1,250); the donation of RMB 8,000 (~ USD 1,250) from local enterprises was to cover material costs; and RMB 8,000 (~ USD 1,250) was to be raised by participating households on their own. In practice, however, many impoverished families were not able to raise funds on their own. In the second phase of the project, Jinzhai County therefore had to make arrangements with all the impoverished families for them to borrow money from the village mutual aid funding pool; they would repay the money using the income produced from power generation over a six-year period. Moreover, loan interest was subsidized by the county government, thus solving the self-financing problem. With regard to extremely poor families, the government constructed a 3kW family distributed PV power generation station free of charge, with the cost of construction funded by prefectural and county-level poverty alleviation funds at a ratio of 2:1. Some poverty alleviation-purposed PV power generation stations were also constructed by enterprises.

(4) Village Image Reconstruction Project

The village image reconstruction project is an important component of the countryside's central village development project. The project is supported by fiscal poverty alleviation funds and county-level special funds. Jinzhai County actively introduced credit funds, industrial and commercial funds and private funds for the development of the countryside through subsidies (i.e. the government encouraged social funds to be used in project development first, with subsidies given in view of the effects and benefits of the project), bonuses, allowances, and interest subsidies (i.e. the government lowers the cost of participation in a development project by giving the participants fiscal or interest subsidies to encourage the use of social capital in project development). The project's funds were primarily raised by the villagers themselves³².

3.3.2. Effectiveness Assessment

(1) PV Agricultural and Ecological Industry Park

Both the ownership and the proceeds of the PV power station and the PV greenhouse belong to the enterprise involved, but the project was able to create 700 jobs and help more than 200 rural

³² It meant that the project funds were mainly the funds owned by the villagers themselves. Such funds were also part of the social funds incentivized by the government to participate in concerned projects.

families generate a steady income (RMB 20,000 /family/year).

(2) Village PV Power Stations

The power stations are owned by the villages. Annual income reached more than RMB 65,000 (~ USD 10,156) and was primarily used for infrastructure development, such as road construction, greening, lighting and cultural undertakings.

(3) Roof-top Distributed PV Power Generation Project

The power supply companies signed power generation and grid connection contracts with impoverished families and paid the grid-connected electricity to the latter in cycles. Both the ownership and the proceeds went to the impoverished families. It was estimated that every impoverished family would have an annual income of RMB 2,500 (~ USD 390) from the effects of the project within 20 years after the completion of the power station. The government would provide financial support to impoverished families that were not able to take part in the distributed PV power generation project. 5% of the power station's revenue would go to impoverished families whose roofs were not suitable for the construction of a distributed PV power generation facility; the money would be directly transferred to the power bill account of the family by the power grid company on a monthly basis.

(4) Village Image Reconstruction Project

The government conducted performance appraisals of the project and took the progress and quality of the project as the primary indicators. The result was then used as the basis for the distribution of the next year's project funds.

The poverty alleviation funds used in Jinzhai County were efficient and fruitful. First, this was, to a large extent, attributed to the introduction of market players. For example, in constructing the ground PV power stations and the PV agricultural industry park, the county had Xinyi Group³³ play a role. Xinyi Group was financially strong and laid a solid foundation for the construction of large-scale ground power stations and PV greenhouses in the county. Second, Jinzhai County innovated new poverty alleviation mechanisms and adopted flexible and differentiated policies, determined by industry type and public need. These practices enhanced the pertinence and effectiveness of their poverty alleviation efforts. Third, project funds were shared equally by the government, the enterprises involved and local farmers, which opened multiple sources of financing. Moreover, Jinzhai County attached importance to the inclusiveness of public services. It assisted impoverished families by way of mutual aid and microcredit loans and arranged for them to repay their debt with the proceeds from power generation and interest subsidies.

3.4. Financing Model for Social Poverty Alleviation, Chongqing

Chongqing's poverty alleviation efforts are characterized by the rapid development of social

³³ Chuangfu Company funded construction of the village PV power stations, while Xinyi Group funded construction of the ground PV power stations and the PV agricultural and ecological industry park.

poverty alleviation. Since 1997, Chongqing has raised RMB 18 billion (~ USD 3 billion) in social funds and introduced nearly RMB 20 billion (~ USD 3 billion) in funding for over 27,000 poverty alleviation projects. For five consecutive years, social funding exceeded the sum of the national and municipal governments' fiscal funds and contributed significantly to social and economic development in Chongqing's poverty-stricken areas.

(1) Group Assistance Mechanism

By establishing municipal assistance groups³⁴ and conducting group-assisted poverty alleviation, Chongqing has advanced the participation of social funding in poverty alleviation work. In 2014, 18 assistance groups in the municipality inputted RMB 351 million (~ USD 55 million), introduced RMB 2 billion (~ USD 0.3 billion), started 176 projects, contributed 66 technological advancements and brought 185 professionals to select districts/counties. Moreover, they funded 9,537 impoverished students, sent 31 cadres to help in poverty alleviation efforts and had 2,134 people conduct investigations in the assisted districts/counties.

(2) One Circle-Two Wings Assistance Mechanism³⁵

In 2007, the municipal government of Chongqing launched the One Circle-Two Wings poverty alleviation campaign, in which districts/counties within a one-hour economic circle of the municipality paired up with districts/counties in the northeast and southeast wings to alleviate poverty in the latter areas. For that purpose, the municipal government of Chongqing issued *Opinions on Establishing and Perfecting the One Circle-Two Wings Fixed-point Assistance Mechanism* and required districts/counties within a one-hour economic circle to provide districts/counties (autonomous counties) in the two wings areas with material support equal in value to 1% of their general budgetary revenue or, in cases where three districts/counties are assisting one county, with material support equal in value to 0.5% of their respective general budgetary revenue. In 2013, all assisting districts/counties were required to provide material support equal in value to 1% of their respective fiscal revenue. Under this mechanism, Chongqing consolidated the resources of the assisting and assisted districts/counties to attract businesses, funds, technology and talent to the assisted areas. This effort effectively enhanced urban infrastructure development, boosted ecological protection-induced migration and increased the development of industrial zones in assisted areas, thus injecting strength into the poverty alleviation efforts in target areas. Since 2007, districts/counties within a one-hour circle have provided those in the wing areas with material support equal in value to RMB 3 billion (~ USD 0.4 billion).

(3) Residential Assistance Mechanism

Chongqing has established a sound residential assistance mechanism that has achieved a 100% coverage rate over all its impoverished villages. In 2015, Chongqing combined its project funds for

³⁴ Members of the municipal assistance groups included key enterprises, primary, secondary and tertiary schools, hospitals and research institutes.

³⁵ "One Circle" refers to the one-hour economic circle of Chongqing, namely, the relatively well developed areas which have higher resource and environmental carrying capacity and better conditions for development; this means they have the conditions to accelerate and take the lead in development work; "Two Wings" refers to the northeast and southeast areas of Chongqing, which struggle with migration, economic development and livelihood improvement, and therefore must take priority if Chongqing is to achieve its goal of taking the lead in building a moderately prosperous society in western China.

development and reform, education, agriculture and the poverty alleviation departments of the municipal government and allocated them to poverty-stricken villages with on-site working groups. Moreover, the municipality allocated RMB 7 million (~ USD 1 million) for the working expenses of cadres in residence.

(4) Charitable Assistance Mechanism

Chongqing has actively advocated for the “one for all and all for one” charity concept and focused on fixed-point assistance. First, the municipality established convenient and efficient platforms for donating by empowering the Chongqing Foundation for Poverty Alleviation and Chongqing Association of Poverty Alleviation and Development. Second, the municipality established platforms for large-scale poverty alleviation promotional events. Taking advantage of the first national Poverty Alleviation Day (October 17, 2014), it put on a dividend distribution ceremony for impoverished families and awarded specific events, such as the “top 10 entrepreneurs for poverty alleviation,” “top 10 star enterprises for poverty alleviation” and “top 10 poverty alleviation demonstration projects.” In 2014, these events successfully raised poverty alleviation funds worth RMB 924 million (~ USD 144 million).

3.5. Preferential Financial Poverty Alleviation Model, Hunan

Since 2013, Hunan Province has been piloting its preferential, directional and targeted financial poverty alleviation mechanism and has preliminarily formed a series of preferential financial poverty alleviation models using Hunan’s signature characteristics.

3.5.1. Preferential Financial Poverty Alleviation Model

(1) Poverty Alleviation Microcredit Model

The Poverty Alleviation Microcredit Model is the primary poverty alleviation model promoted by Hunan Province at present. It evolved from the village-level credit guarantee platform used in Tangongchong Village, Mayang County. After a successful experiment in Mayang County, it was promoted across the province from the second half of 2014 onward. The model is tailored for select registered poverty households and focuses on innovation, with “preferences” as the top design. Its core content can be summarized as the “extension of credit, exemption of guarantee, preferential treatment and prevention of risk.”

First, extension of credit means to rate impoverished farmers and extend them credit accordingly. That is to say, farmers will be rated by the village or village group to which they belong according to three new indicators, namely, credibility, labor and family income, instead of the original eight indicators represented by family assets. The credit lines for rated farmers are classified into four levels and 85% of them are able to obtain microcredit loans valued at RMB 10,000-50,000 (~ USD 1,562-7,813). Second, exemption of guarantee means to exempt impoverished farmers from providing collateral, or guarantee, when taking out microcredit loans. Third, preferential treatments are in terms of interest rates (benchmark lending rate is applied uniformly to impoverished farmers),

loan terms (term may be 3-5 years or longer) and interest subsidies (every impoverished family can enjoy interest subsidies at the benchmark lending rate for up to three years). Fourth, prevention of risk means to establish an initial risk compensation fund of no less than RMB 3 million (~ USD 0.5 million) for poverty alleviation microcredit loans in each county (city/district), in order to evade financial risks. In 2015, 97 counties (cities/districts) across Hunan Province implemented the poverty alleviation microcredit initiative, established a total credit line of RMB 19 billion (~ USD 3 billion) for 958,000 registered rural households and released RMB 2 billion (~ USD 0.3 billion) in microcredit loans; this activity neared the total fiscal poverty alleviation funds from the central government and helped 150,000 impoverished families out of poverty. In 2016, 131 county-level administrative units with poverty-stricken populations have undertaken poverty alleviation microcredit campaigns, with newly planned credit loans worth more than RMB 6 billion (~ USD 1 billion)³⁶.

(2) Village-level Poverty Alleviation Mutual Aid Fund Mechanism

Hunan Province began to pilot its mutual aid mechanism for impoverished villages in 2006. 270 villages in 29 impoverished counties participated in this experiment. The village mutual aid funds were mainly derived from fiscal poverty alleviation funds, valued at RMB 150,000 (~ USD 23,438), voluntary capital contributions from members, donated money and the added value of the funds themselves. Every member had to contribute a minimum of RMB 500 (~ USD 78), but was, in turn, able to take out loans valuing RMB 5,000-10,000 (~ USD 780-1,560) with terms of no more than 12 months.

(3) China Foundation for Poverty Alleviation (CFPA) Microfinance's Microcredit Model

CFPA Microfinance's loans use the tri-party cooperation model, which involves local governments, commercial banks and CFPA Microfinance itself. First, CFPA Microfinance signed partnership agreements with the pilot county government and provincial poverty alleviation office to specify the necessary financial inputs and determine the management rights and obligations of each party, and to set up county-level branches for themselves. Second, CFPA Microfinance raised funds by applying for wholesale loans from state-owned commercial banks (CFPA Microfinance is a semi-financial institution which cannot take deposits; its funds are mainly wholesale loans from CBD, commercial banks such as ABC, fiscal poverty alleviation funding from the central government, supporting funds from local governments, social donations and self-owned funds). Third, CFPA Microfinance recruited and trained personnel to manage and use the funds, and who were in charge of releasing and recovering loans from borrowers. The loans under this model included two types: group lending jointly guaranteed by five households and personal lending based on personal credit³⁷. The value of the lines of credit on offer ranged from RMB 1,000 to 50,000 (~ USD 156-7,812), all at the annual lending rate of 13.4%.

Since 2006, CFPA Microfinance has piloted the personal microcredit loan model in Shuangpai,

³⁶ Xinhua News Agency, Hunan Presented a New Financial Poverty Alleviation Model to Help Impoverished Farmers Obtain Loans. http://hunan.ifeng.com/a/20160409/4442016_0.shtml

³⁷ The group lending jointly guaranteed by five households refers to loans guaranteed by a group of five rural households that are jointly liable for loan repayment. If or when one of the five families gives rise to bad credit or other problems, the other four families are liable. Personal lending refers to personal credit loans.

Chaling and Anren Counties, Hunan Province, and with good effect. Over a few years, the company has granted 2,348 loans, totaling RMB 44 million (~ USD 9 million), to farmers from 10 towns in Shuangpai County, and 122 loans, totaling RMB 3.26 million (~ USD 0.5 million), to farmers from 10 towns in Chaling County. In 2014, the provincial poverty alleviation office, based on the achievements of the experiment, expanded the model to 12 priority poverty alleviation counties. In the same year, CFPA Microfinance loaned RMB 57 million (~ USD 9 million) to 2,240 impoverished households under that model.

(4) Village-level Micro-Guarantee Platform Model

The Village-level Micro-Guarantee Platform Model has three characteristics. First, it has a village-level poverty alleviation guarantee fund, with fiscal poverty alleviation funds contributing 80%, partnership enterprise contributing 10%, and the village and farmers contributing the remaining 10%. Second, it has an enhanced risk prevention mechanism. It strengthened the credit rating for impoverished farmers, required that the financial poverty alleviation government offices at the town and village levels assist in loan collection, and used the “Five Rights”³⁸ as a counter guarantee to the Village Financial Service Center for Financial Poverty Alleviation. If or when a solvent farmer defaults, the loan is repaid out of the poverty alleviation guarantee fund, with the town and village authorities using the “Five Rights” collateral to offset the loss. Third, the “company + village + farmer” tri-party model has removed market risks for poverty alleviation industries. After selecting projects and enterprises, it has allowed enterprises to voluntarily place orders to and sign a minimum acquisition contract with each household, resulting in a win-win scenario for all parties involved, namely, the banks, companies, farmers and governments.

In early 2013, Tangong Village, Shiyangshao Town, Mayang County deposited RMB 200,000 (~ USD 31,250) (including RMB 150,000 (~ USD 23,438) from the fiscal poverty alleviation fund and RMB 50,000 (~ USD 7,813) from participating enterprises) into a rural credit cooperative as a guarantee fund for poverty alleviation microcredit loans; in turn, the rural credit cooperative promised to grant impoverished farmers loans valued at 5 times that of the guarantee fund. That year, poverty alleviation-related government agencies mobilized 68 impoverished households to take out loans totaling RMB 1 million (~ USD 0.2 million) to grow 238 *mu* pinellia ternate, a medicinal herb. Despite undergoing a severe drought during that time, participating households managed to increase their annual income by RMB 10,000 (~ USD 1,563).

(5) Poverty Alleviation Agricultural Enterprises’ Guarantee Model

Zhijiang County made improvements in their managing of poverty alleviation funds. It promoted a revised model that involved “the object of poverty alleviation + the flagship enterprises + the banks” to finance industries producing grapes, tangerines and Zhejiang duck. On a voluntary basis, impoverished farmers were connected with flagship enterprises so as to work together to improve economic conditions. An interest-linking mechanism was established for the financial poverty alleviation process. This model has four characteristics: First, poverty-stricken farmers can obtain loans guaranteed by flagship enterprises; second, loans can be used by poverty-stricken farmers to

³⁸ “Five Rights” refer to the right to contract farmland, the right to contract forest land, the right to contract waters for breeding purposes, the right to use the collective economy’s land for development, and the right of housing ownership.

acquire share capital from flagship enterprises; third, the results of production activity funded by the loans are purchased by flagship enterprises and the proceeds would be used to repay the loans' principal and interest; fourth, the government provides interest subsidies and risk compensation to either poverty-stricken farmers or flagship enterprises according to the interest subsidy policies and risk compensation systems in effect.

In 2013, guaranteed by Youxiang Duck Industry Company in Zhijiang County, 94 poverty-stricken families (totaling 513 people) in Shibaxi Village, Yanqiao Town and Wengtang Village, Nanmuping Town obtained short-term loans of RMB 50,000 (~ USD 7,813) from the local ABC; their loans were invested as capital stock, valued at RMB 5 million (~ USD 1 million), in Youxiang Duck Industry Company, for purposes of supporting the standardization of duck raising. The company then purchased a personal accident insurance policy for borrowers of microcredit loans from China Life for RMB 150 /family. In addition, the county government granted each impoverished resident involved in the project RMB 400 as assistance to cover part of the loan interest they took out from said bank, the rest of the interest to be covered by the profits derived from duck raising. One year later, the company would return the principal and pay dividends to the farmers. In March 2014, each of the 94 participating families got paid a dividend of RMB 4,000 (~ USD 625).

(6) County-level Financing Guarantee Platform Model

In 2013, China Development Bank's branch in Hunan Province piloted financial poverty alleviation in Yuanling County using the county-level financing guarantee platform model. Under this model, the bank extended a line of credit worth RMB 200 million (~ USD 31 million) and loaned RMB 58 million (~ USD 9 million) to Yuanling County that year. The model is based on a financing guarantee platform. According to an agreement between the government and policy banks, a state-owned not-for-profit financial guarantee company can serve as the guarantor for loans of that particular financial institution; then each financial institution can extend preferential loans to poverty alleviation economic organizations and poverty-stricken farmers through an agency designated by the government.

3.5.2. Effectiveness Assessment

Drawing on existing financial poverty alleviation experience, Hunan Province has used the preferential financial poverty alleviation model by integrating the role of the government, the participation of the financial industry, and the role of other industries. It also focuses on the prevention and control of risk in innovation. The operating institution is responsible for policy guidance; platform construction is essential for industry development, which is guaranteed through risk prevention and control. Hunan Province has established an effective poverty alleviation mechanism, which features responsibility sharing, cooperation and shared success among local governments, financial institutions, economic organizations and impoverished populations. It has introduced a new, practical way to fast income growth for poor farmers. This model has generated the following lessons for use in poverty alleviation financing mechanism:

First, the government shall play a leading role. The government shall be responsible for optimizing the top-down institutional design and for creating the organizational structure for fund supply and distribution; it will also be responsible for increasing policy support for poverty alleviation. Moreover, it shall change the “all departments exercise their functions separately” into “all resources are effectively integrated,” aimed at enhancing the synergy of fund uses.

Second, the financial industry shall also play a major part. It will work to improve the financial organization system, renew financial products and services, and improve the financial credit investigation system. The market shall be responsible for the transformation from “the Party and government make all decisions on behalf of the market” to “resources are allocated by the market.” On the one hand, the government shall work on fostering a diversified market of players, optimizing market-oriented mechanisms and enhancing the financial market system as whole. Financial regulatory bodies, in particular, shall promote the establishment of poverty alleviation financial institutions and the formation of a favorable competitive environment; it will also provide supervision and support for policies aimed at assisting new rural financial institutions. Moreover, they shall increase tolerance for bad microcredit loan ratios, increase agriculture-related relending, rediscount support to poverty-stricken areas in an effort to encourage financial institutions to expand their business holdings there and increase loan releases to impoverished farmers. On the other hand, financial institutions shall seek to consistently improve upon their financial products and services and increase the accessibility of loans to registered poverty-stricken families. They shall also establish a credit rating and extension system for poverty-stricken farmers and lower the threshold for their loans. According to the principle, “where there is a need, there is a loan that can be taken out and collected back,” financial institutions shall design preferential credit products tailored to local needs and enhance the accuracy and effectiveness of microcredit lending for poverty alleviation purposes in order to ensure that impoverished farmers have access to credit products and services whenever necessary.

Third, relevant industries shall serve as the vehicles for poverty alleviation and will be responsible for optimizing the use of poverty alleviation funds. Efforts shall be made to identify such industries, support the development of economic organizations engaged in poverty alleviation and establish interest-linkage mechanisms. Industrial organizations shall be given a fundamental role in preferential poverty alleviation work; they will be responsible for promoting the shift from assistance-oriented poverty alleviation to development-oriented poverty alleviation, and for enhancing the sustainability and self-expansion of poverty alleviation funds. In line with the overall guideline that “funds go after the poor; the poor go after able men; able men go after industrial projects; and industrial projects go after the market,” the government shall strive to break through the capital, market and technology bottlenecks and facilitate financial poverty alleviation.

4. The Experience of and Outlook for China's Poverty Reduction Financing

Key Messages:

- The success of China's financing for poverty reduction is based on many factors. Financing is highly institutionalized in order to support the implementation of poverty reduction strategies, the result being that resources are secured from multiple sources, each source complementing the other, with fiscal funds playing a prominent role in leveraging other types of funds. As the targets of financing have become more precise, innovative financing mechanisms have been developed to help deliver outcomes.
- In China, financing is still confronted with several challenges, including how financial resources are invested, regulated and monitored, and how to deal with unfavorable macro social-economic trends.
- Financing has good prospects in China, for the following reasons: 1) The "Targeted Poverty Alleviation Strategy" proposed in the 13th FYP, which requires precision in targeting and directing financing to address the interlinked causes of poverty; 2) The on-going process of consolidating existing financial resources and organizing them to be more impactful; 3) Emerging trends, such as digitalization, that encourage innovative financing mechanisms and ensure poverty reduction is inclusive and justly distributed.

4.1. The Successful Experience of Poverty Reduction Financing

4.1.1. Highly Institutionalized Financing in Support of Poverty Reduction Strategies

In China, financing, as an important part of its poverty reduction strategy, is highly institutionalized to fulfill strategic goals. Since the beginning of its economic reforms and opening-up, China's poverty reduction financing has gone through different stages, which are closely related to the changes in its poverty reduction measures. In 1986, poverty alleviation funds transitioned from a support and relief-oriented usage to a development-oriented usage. As to the former, special fiscal funds were allocated to help meet basic needs, such as for food and clothing, and address the poverty issues being faced across vast areas of China. Funds were distributed in cash or in kind to households based on arbitrary administrative standards. By contrast, the latter is based on significant economic progress and is market-oriented. It aims to stimulate rural areas by enhancing their production capacity by way of financial, technical and policy support by the government.

Specifically, the transition from a dispersed and relief-oriented poverty reduction strategy to a more centralized and development-oriented strategy allowed funding to be applied in more diverse ways, including: 1) Constructing farmland, building water conservation infrastructure and expanding highways to improve production conditions; 2) Developing market-oriented planting and breeding industries and relevant processing projects to increase production and income; 3) Issuing training in advanced agro-technology to help poor farmers enhance their self-development capacity. The funds were previously distributed for free. After the shift, funds were only partially free. They were mostly consolidated and invested only in qualified projects, to avoid the inefficiencies of equal distribution and to ensure that funds went to supporting sound economic development.

China's development-oriented poverty reduction strategy has helped expand financing channels. In addition to fiscal funding, China has also started to source funds from banks, enterprises, civil society and other economic entities. Various types of foreign aid, in addition to domestic funding, have also been incorporated. With more funding channels now being utilized, the scale of poverty alleviation investment has increased substantially. The focus of poverty reduction has been enlarged, with attention now being paid to investments in factors such as human capital and health, which are important for sustainable development. This, as a whole, has contributed to forming a firm financial base so as to promote more holistic poverty reduction strategies.

4.1.2. The Shifting Targets of Financing

China's poverty reduction strategy consists of four elements, namely, subjects, objects, methods and performances. Subjects refer to those who distribute poverty reduction resources and implement them. Objects are the beneficiaries of poverty reduction resources. Methods are used to identify the beneficiaries, usually through algorithmic models or related mechanisms. Performances reflect the effectiveness of poverty reduction projects and policies. Subjects identify the objects through certain methods, and implement projects that are measured in terms of performance. Performance

assessments help adjust and correct methods, so as to further improve performance outcomes. These four elements are inter-linked to form a circular feedback mechanism (See Figure 16). The investment strategies for China's poverty alleviation funds also need these four elements to work together; beneficiaries are identified using the appropriate method; funds are distributed by the corresponding subjects, all to achieve optimal performance.

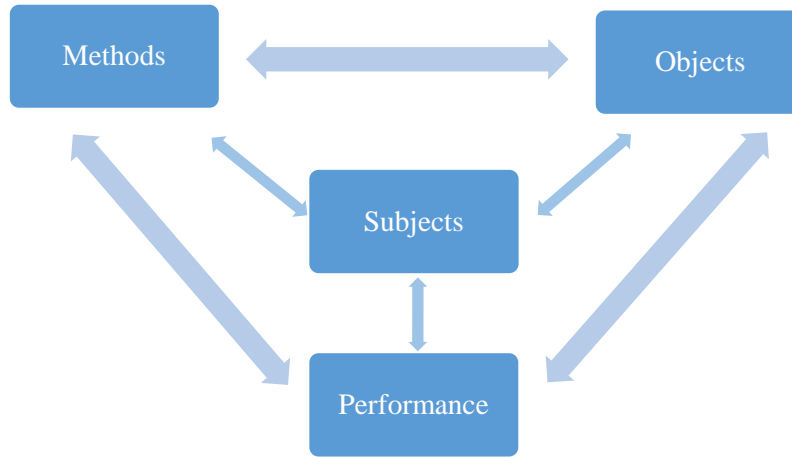


Figure 18. The Feedback Mechanism for the Subjects, Objects, Methods and Performances

The targets of China's poverty financing have narrowed over time. Given this trend, the year 1986 can be seen as a dividing line, before which funding was loosely distributed to individuals. After that, funding was allocated to increasingly smaller geographical areas; starting from impoverished regions, funding was then distributed to the county-level, village-level, and finally to the household-level.

The ultimate goal of financing is to improve performance through capacity building for the poor, which is the surest way to reduce poverty in a sustainable manner. For example, as Guizhou Province's case study shows, the overall planning and application of poverty alleviation funds among registered households, which was intended to support farmer cooperatives and village collective economic organizations, has created opportunities for such households to use their abilities and increase income. Moreover, these efforts have motivated households to fight poverty on their own, thus preventing them from being passive or overly dependent on funds for relief.

4.1.3. Extensive Poverty Reduction Financing Channels with Fiscal Funds Playing a Prominent Role in Leveraging Other Funds

Given the participation of a multitude of stakeholders, funding sources have become more extensive, forming an all-in-one structure with the fiscal funds at the core, supplemented by industrial funds, credit funds and social funds. These funds all play different roles in supporting poverty reduction. As described in Chapter Two, fiscal funds are controlled by the government and are allocated to specific purposes. Fiscal funds aim to address common problems in poverty-stricken areas. Industrial funds are co-managed by the government, industrial associations and representative

enterprises. The purpose of industrial funds is to establish a comprehensive social-economic circulation system in poverty-stricken areas to enhance the self-development capacity of the people therein and help them adapt and integrate into the entire social-economic system. Credit funds are controlled by financial institutions and aim at meeting the demand for particular financial products and services catered to the needs of poor areas. Social funds are controlled by enterprises, individuals, NGOs, international organizations and others. The goal of social funding is to call on the whole of society to supplement resources and build an inclusive, far-reaching and multi-tiered poverty reduction mechanism.

Of particular importance is the role of fiscal funds in leveraging other funds. Fiscal funds indicate the direction of poverty reduction investments, provide reliable information and build credible platforms for the use of other funds. Fiscal funding also doubles as seed funding. For example, financing guarantee companies for farmers have leveraged fiscal funds in a number of ways, namely, by supporting family planning rewards, promoting poverty reduction discount policies and extending micro-credit products; through these activates, the government has provided interest-free loans and significantly motivated farmers to take out loans to increase production capacities.

As a result, the functions of the government and other investing bodies are changing in terms of funding usage and management. The government is transitioning from a fund distributor and implementer to a fund administrator and coordinator. As such, it takes charge of policy making on fund usage, monitoring and evaluation. At the macro-economic level, given the principle of “giving priority to efficiency with due consideration to fairness,” the government has the responsibility of mobilizing all possible resources to ensure that there is sufficient poverty alleviation funding. At the micro-economic level, according to the features of different projects and the status of local conditions, the government is obligated to design sound financing models, arrange profit and risk-sharing agreements between relevant parties and devise appropriate incentive mechanisms to ensure positive social-economic impacts. Meanwhile, other stakeholders have gradually become the primary body of investment and implementation.

4.1.4. Innovation in the Use of Poverty Alleviation Funding

Innovation has been key to poverty alleviation funding in China throughout all stages of its development. As our case studies have shown, different types of funding have exhibited varying degrees of innovation in the mobilization, allocation and actual use of funds, all with the aim of improving overall effectiveness. For example, regarding fiscal funds, the piloting of “construction first and subsidization later” in Leishan County, Guizhou Province, helped set up incentive mechanisms to encourage poor households to produce according to their own demand. Funds were distributed directly to households, insofar as the project outcomes were substantiated by the relevant authorities. This, to a certain degree, has prevented the distribution of “funds for feeding the lazy,” an impediment to poverty reduction. In terms of monitoring, the “poverty alleviation cloud,” which was developed based on Big Data, enabled a more efficient and transparent model for managing and using funding data. Another example is the updated institutional set-up for credit funds. This set up features semi-financial institutions (such as CFPA Microfinance), who are responsible for

coordinating participating parties and managing and implementing credit funds. In addition, micro-guarantee platforms at the village level have effectively decreased the risks associated with poverty reduction loans and raised poor households' lines of credit.

4.2. Challenges Faced by Poverty Reduction Financing

4.2.1. Use and Management of Poverty Alleviation Funds

Despite the progress made in poverty reduction financing, challenges remain in terms of fund usage and management:

First, poverty alleviation funds are currently, in a lot of cases, used to support village collective economies and rural cooperatives. As has been discussed above, this measure has played an active role in many ways. However, collective use has certain risks. It is likely to result in a single source of income for poor households, which is highly susceptible to demand-supply fluctuations in the market. Although policies have been explicitly stipulated to safeguard the dividends and benefits meant for the poor, the market is unpredictable and business failures, along with capital losses, cannot always be recovered.

Second, the central government has clear regulations governing the use of poverty alleviation funds. Although these regulations have provided direction for local governments, they have, at the same time, decreased the flexibility of funding operations significantly. The result is that many innovative measures have no back-up in policy and therefore cannot obtain financial support. Too much attention on policy making is unhelpful for tailoring the use of funds to local needs, the result being less than optimal results. Further discussions are needed concerning the governance of funds and the roles that ought to be played by the central and local governments.

Third, the use of poverty alleviation funding is strictly regulated to prevent embezzlement and abuse. In particular, government officials' work performance evaluations are closely linked to poverty reduction efforts, of which funding operations are an indispensable part. Nonetheless, overly strict monitoring and supervision have had negative effects. In response, many funds and projects have been shelved indefinitely, inducing a high opportunity cost. As a result, incentives have ironically become disincentives. This has raised the need to take another look at the existing monitoring and evaluation system. It has also posed serious questions as to how to re-adjust and establish an effective system. It remains to be discussed what the fundamental objectives of auditing are, what the criteria of assessment should be and how monitoring and evaluation should be carried out.

4.2.2. Macro Social-economic Situations

First, the fact that economic growth has started to slow down and enter the "New Normal" has brought severe challenges to poverty reduction financing in China, especially for local governments that are heavily in debt. According to the *Asian Development Outlook (ADO) 2016: Asia's Potential*

4. The Experience of and Outlook for China's Poverty Reduction Financing

Growth published by ADB, it is estimated that in 2016 and 2017 China's GDP will grow by 6.5% and 6.3% respectively³⁹ (see Figure 17). At the end of 2015, government debt totaled RMB 38,825 billion, accounting for 57.4% of the GDP⁴⁰. By the end of 2012, the debt balances of 36 local governments totaled RMB 4 trillion, up 12.9% (State Auditing Administration). The expansion of local government debt has restricted financing for poverty reduction, which is a serious problem because financing is integral for raising the remaining pockets of impoverished populations in China out of poverty by the end of the current 13th FYP. According to 2011 statistics, the central government's fiscal funding for poverty reduction was RMB 27 billion, and its fiscal funding for poverty reduction lending was RMB 45 billion. The funding demand between 2014 and 2020 is projected to be RMB 161 billion.

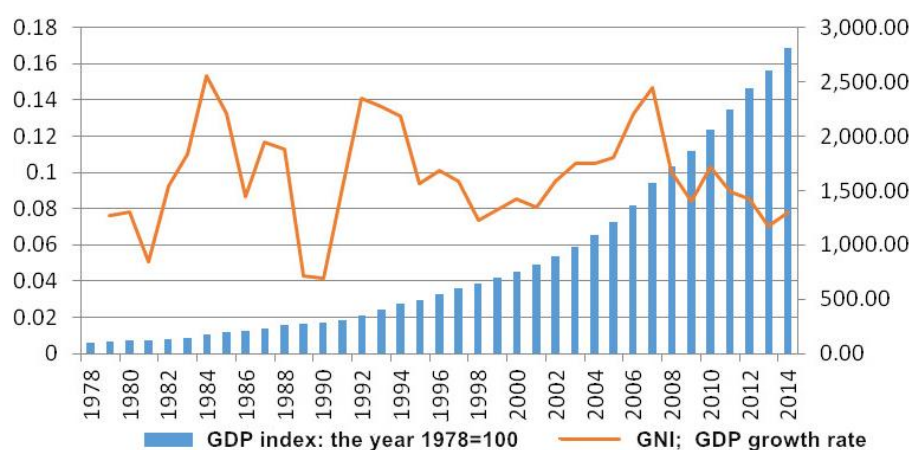


Figure 19. China's GDP and Its Growth Rate Since 1978

Source: Wind Datafeed Service

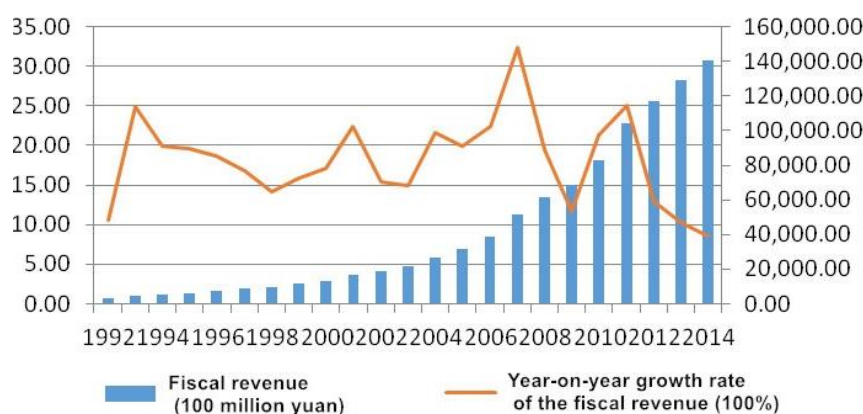


Figure 20. China's Fiscal Revenue and Its Growth Rate Since 1992

Source: Wind Datafeed Service

Second, given fiscal pressures, increasing government spending on its own operations is in conflict

³⁹Asian Development Outlook (ADO) 2016: Asia's Potential Growth. <http://www.adb.org/publications/asian-development-outlook-2016-asia-potential-growth>

⁴⁰Huatai Securities. <http://economy.caijing.com.cn/20160408/4102026.shtml>

with spending more on poverty reduction, due to the augmentative duties of the government to provide public services. This holds true for poverty-stricken areas already lacking in development capacity. As described in our case studies, projects supported by fiscal funds did not budget for administration costs. This problem, if not properly addressed, will affect the implementation and management of projects and funds, posing difficulties to realizing the 13th FYP's poverty reduction targets.

Furthermore, public expenditures for poverty reduction and other sectors needs to be further balanced. Poverty reduction covers a wide scope, involves multiple fields, such as education, health care, and social protection, and includes many sectors, including agriculture, industry and services. Different types of transfer payments contribute differently to poverty reduction. For example, research shows that money spent on agricultural research and development, education and infrastructure can achieve better poverty reduction outcomes⁴¹. Therefore, where and how investments should be channeled is worth further discussion. This is particularly pertinent against the backdrop of current fiscal pressures and the recent slowdown in economic growth.

4.3. Outlook for China's Poverty Reduction Financing

4.3.1. Targeted Poverty Alleviation Strategy

Although poverty reduction financing is facing severe challenges in China, the government's will and ambition to end extreme poverty has presented unprecedented opportunities. The Chinese government adopted a new "targeted poverty alleviation strategy," outlined in the 13th FYP, to lift the country's remaining 55 million poor people out of poverty by 2020 - just over 10 million people per year. Improving precision is key during this process and includes three core aspects: 1) Identification of the poor; 2) Allocation of tasks and duties to take care of the poor; 3) Design of specific instruments for poverty reduction.

In particular, to pinpoint the poor, a detailed understanding of the root causes of poverty, on a case by case basis, is required. This lays the basic foundation for devising and implementing the right vehicle, as well as assigning the right people, to help the households where assistance is most needed. To achieve its targets for poverty reduction, the Chinese government has developed strategies that include five main components (see Figure 19)⁴². The poor are broadly categorized into two groups; 1) Those who have lost the basic capacity to work and participate in economic activities; 2) Those who are still capable of self-developing. For the former group, the government assumes full responsibility for helping them out of poverty by utilizing social protection measures (e.g., healthcare, minimum living allowance), while for the latter, the government will create as many opportunities as possible, categorized by the other four approaches in Figure 21 below, to increase their income and build capacity.

⁴¹ Thorat, S. and Fan, S., 2007. Public investment and poverty reduction: Lessons from China and India. *Economic and Political Weekly* 42 (8), pp.704-710.

⁴² Targeted Poverty Alleviation: China's New Modality, Strategy and Measures for Poverty Alleviation. Available at: http://www.hprc.org.cn/gsyj/yjdt/ldhc/201605/t20160503_371956.html

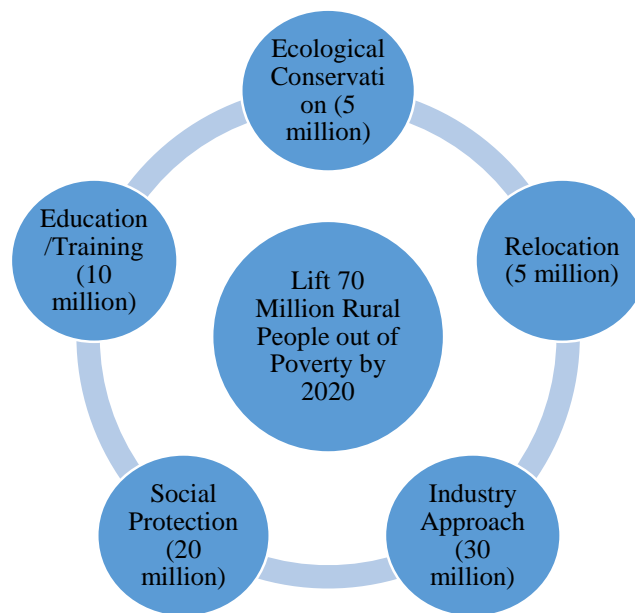


Figure 21. Targeted Poverty Alleviation Strategy

In addition, more financing is currently being allocated to local and provincial governments for poverty alleviation purposes. In 2016, the central government has earmarked RMB 67 billion⁴³ (~ USD 10 billion) in fiscal funds for poverty alleviation, while provincial governments have allocated more than RMB 40 billion⁴⁴ (~ USD 6 billion). During the 13th FYP period, more than RMB 250 billion⁴⁵ (~ USD 37 billion) is estimated to be transferred to provincial financial institutions to support relocation. Moreover, the 13th FYP encourages the development of a system that will help the poor profit through land trusts, the conversion of support funds into stock and rural land management rights shareholding.

To improve precision in targeting the poor, the government aims to establish a comprehensive national database, which is likely to be used in conjunction with other measures, such as actual fund distribution (who would receive money and how). Currently, China's poor are identified according to net annual rural per capita income (as is shown in the case of Nanmeng Village). The way money is distributed depends on the context. For instance, money can be directly allocated to households for specific projects such as relocation and tourism development, or collectively used for joint investment in village cooperatives (in the case of fiscal funds).

China's poverty alleviation strategy, and the financing strategies embedded within it, have several implications. First, financing is to be directed toward a multitude of objectives, including the enhancement of productive capacities (e.g. via the industry approach), accumulation of human capital (e.g. via education/training) and the increasing of resilience among the poor in response to

⁴³ http://news.xinhuanet.com/politics/2016-06/21/c_129080132.htm

⁴⁴ Ibid.

⁴⁵ <http://mt.sohu.com/20160427/n446454194.shtml>

environmental changes (e.g. via relocation/ecological conservation). Many of these help in addressing the inter-linked and multi-faceted causes of poverty. As such, China’s poverty alleviation strategy is intended to tackle many challenges at once, thus helping to achieve a multitude of the UN’s SDGs simultaneously (See Figure 22).

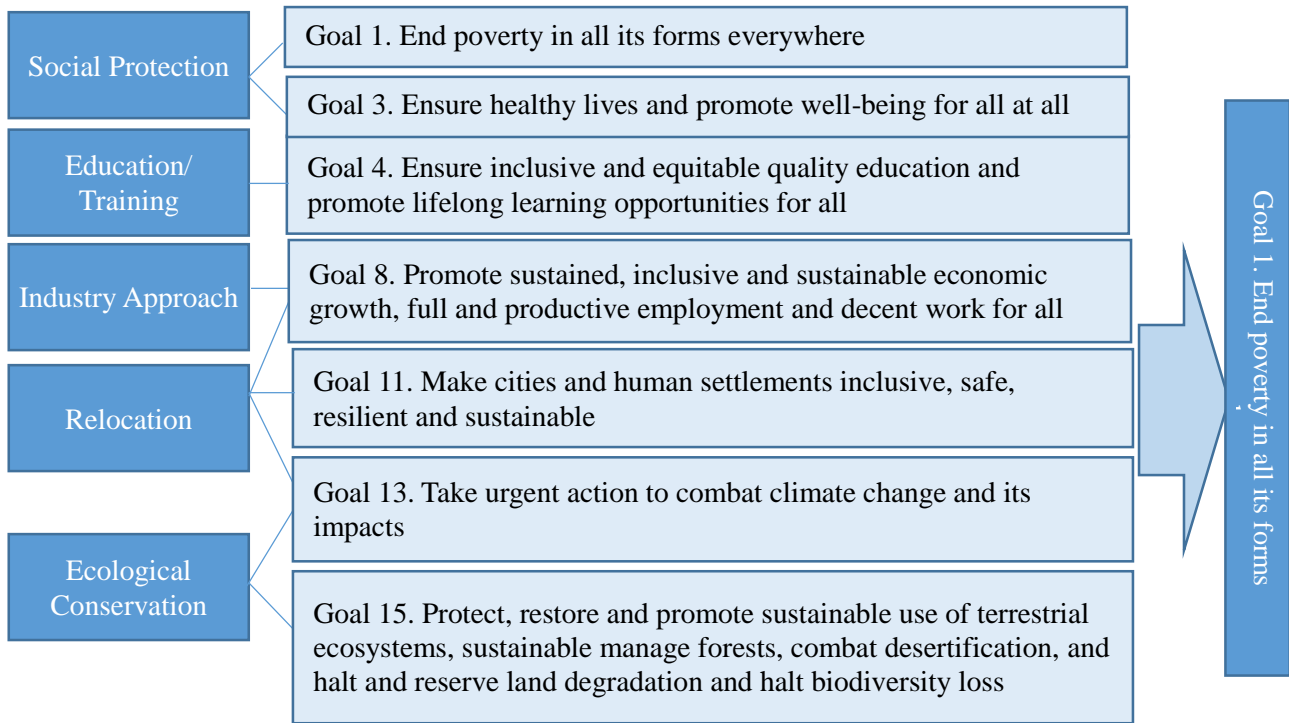


Figure 22. Linkages between China’s targeted poverty alleviation strategy and the SDGs

Second, the poor are gauged by their income, which is the only measure used for assessing poverty in China. Though an appropriate starting point, determining poverty using income indicators alone may end up missing vital aspects that constitute the poor’s experience of deprivation, such as lack of education, health and inadequate living standards. Poverty is an essentially multi-dimensional phenomenon⁴⁶. Moreover, using a single measurement, income, is not enough to pinpoint and reach out to the poorest of the poor. Recognizing the complexity of poverty internationally, a variety of targeting methods exist for identifying poor populations, many of the most successful programs having adopted a mixed criterion for realizing their goals (see *Targeting approaches and targeting mechanisms*).

⁴⁶ <http://www.ophi.org.uk/policy/multidimensional-poverty-index/>

Targeting Approaches and Targeting Mechanisms

A variety of targeting approaches are commonly used, with different focuses on *poverty* (e.g. income, expenditure, consumption, assets or multi-dimensional poverty index), *social category* (e.g. ethnic groups, the disabled), *geographic location*, *age* and the *risks* (e.g. natural disasters) faced by certain populations.

Diversified targeting mechanisms are also available to identify the specific beneficiaries of certain programs. Each mechanism has its advantages and disadvantages in terms of administration cost, leakage errors, data availability and governance structures. For instance, *community-based targeting* leverages the power of communities to identify among themselves who should benefit, while *self-targeting* provides incentives and allows households to decide whether or not to participate in certain programs. *Means testing* is based on information collected about income or assets, while *proxy means testing* adopts easily observable household features (e.g. dwelling conditions, goods owned) to determine, using a weighted method, their social-economic status.

In reality, targeting is done using a combination of targeting approaches and mechanisms. For example, in Brazil's Bolsa Família Project, poor household identification is based on geographical conditions, income levels, and family composition. Pregnant women and families with children under 15 years of age, receiving a monthly per capita income lower than BRL 140 (~ USD 33), can receive BRL 32-38 (~ USD 13-15) in monthly allowances.

Another example is Mexico's CCT program, *Oportunidades*, which employs a targeting approach based on poverty, age category and geographic location, and targets poor families with 7-14-year-old children in both urban and rural areas. The targeting mechanisms identify small, rural communities of marginality (a multidimensional index) with limited access to education and health infrastructure. Within these communities, targeting is also based on age – it focuses on families with 7-14-year-old children. In parallel, in rural areas, a combination of community-based and proxy means testing mechanisms are used. The poorest households are identified based on socio-economic data from census gathering; then a community feedback mechanism is used to reclassify households.

A last and related point refers to the means of fund distribution. As stated above, China intends to adopt a variety of means in their allocation of funds to households. Currently, the role of direct cash transfer to poor households is not very clear, except for specific purposes (e.g. relocation). Cash transfer, either conditional or unconditional, has been found to have positive impacts on the dimensions of poverty alleviation, such as higher income, school attendance, and more economic autonomy and decision-making power, especially for vulnerable groups like women⁴⁷. While there are concerns about the potential work disincentives direct cash transfer may create, the findings have provided encouraging evidence for China to use in experimenting with this mechanism. To do so could also diversify the risks associated with fund allocation (see 4.2.1).

⁴⁷ Hagen-Zanker, J., Bastagli, F., Harman, L., Barca, V., Sturge, G., Schmidt, T., and Pellerano, L., 2016. Cash transfers: what does the evidence say? A rigorous review of impacts and the role of design and implementation features. Overseas Development Institute. Available at: <https://www.odi.org/publications/10505-cash-transfers-what-does-evidence-say-rigorous-review-impacts-and-role-design-and-implementation>

4.3.2. Consolidating Poverty Alleviation Funds

Due to the scattered location of poverty-stricken areas and populations in China, financing is highly dispersed and relatively inefficient. The purpose of fund consolidation is to restructure the financing architecture to optimize its stock and maximize its increment, in order to address poverty more extensively. On the one hand, consolidating funds can improve poverty reduction outcomes by investing in key projects and industries through key regional platforms. On the other hand, it can help raise the scale of investment in public services such as education, healthcare and social protection, with the aim to provide equal access to all.

4.3.3. Emerging Trends that Encourage Further Innovation in Financing Mechanisms

With China (e.g. “Internet Plus”) becoming increasingly digitized, the role of internet enterprises, represented by e-commerce, in poverty reduction and development has provided creative ideas and introduced innovative financing mechanisms. Specifically, these enterprises are developing asset securitization and asset management products, so as to meet, albeit indirectly, the financing demands of industries and individuals in poor areas. Asset securitization relies on the expected returns from projects, leveraging advantages in high-tech, high-growth operations to complete the allocation of the means of production and attain government endorsed financing. Releasing asset management products is a way of financing through investing in non-standard products, trust products, asset management products, and financial plans. In doing so, the poor get direct access to the market and participate in and share the benefits of economic growth. This, in the end, can help reduce inequality in the long run and ensure that poverty reduction is inclusive.

5. Policy Suggestions and Conclusions

Key Messages:

- Given China's experience in financing, this report recommends: 1) Adopting a participatory approach to target the poor using a multitude of criteria (e.g. perceived self-capacity to develop); 2) Using innovative tools (e.g. Big Data) for research in order to produce reliable evidence for decision making (e.g. impact assessment); 3) Further decentralizing the management of financial resources to support context-specific solutions; 4) Performing strategic planning when consolidating existing resources; 5) Improving coordination and communication between departments through "Project IDs."
- This report serves as the first step in providing a comprehensive overview of China's financing for poverty reduction landscape, offering concrete cases describing the use and effectiveness of financial resources. In the future, we hope to conduct analyses on a more micro level to address financing needs and the impact of financing on specific social groups (e.g. women), as well as document innovative financing mechanisms as they emerge.

Over the past 30 years, China has been dedicated to poverty reduction and has made considerable progress, having contributed substantially to global poverty reduction efforts. China has incorporated poverty reduction into its own development blueprint and carried out large scale initiatives that target specific groups of people. By the end of 2015, China had lifted 600 million people out of poverty. However, there are still 55 million people living below the poverty line, mostly concentrated in remote, rural areas. This has become one of top priorities of the government's 13th FYP, namely, to end all rural poverty and build an equitable and just society.

The success of China in the area of poverty reduction is closely linked to its financing efforts. As its various poverty alleviation strategies have evolved at different periods of time, the aim and sources of financing have also changed. In general, as the economy rapidly developed, fiscal expenditures were increased to reduce poverty. Channels of financing were significantly broadened, with fiscal funds being used to leverage the other types of funds. This has enabled the emergence of an economic environment that has been leveraged to increase capacity building for the poor. During this process, there were innovative advancements and the precision of fund targeting was improved. All of this contributed substantially to achieving China's sustainable poverty reduction outcomes.

However, many challenges exist, including the precision of identifying fund targets, the operability and flexibility of policies and regulations governing fund management, the strength of monitoring and supervision, the risks associated with certain investments, and the communication and coordination barriers between departments. All of these need to be further improved. Moreover, the role played by the government needs to be reviewed and repositioned together with the policies they make. Therefore, this report provides the following policy recommendations:

Adopting a Participatory Approach to Enable Targeting of the Poor Using a Multitude of Criteria

As mentioned above, income alone does not reflect the complete picture or trace the root causes of poverty. Thus, it is vital to adopt a multi-dimensional approach that would help redefine poverty and provide more policy-relevant information. For this, China could use its international experience as a good reference point and look to combine approaches proven to be effective in other countries. During this process, China is recommended to take into account the activity of the poor in trying to escape poverty, so that different financing models can be applied to different types of households. Here are four important questions: Why are the poor actually poor in the first place? How do they view their own capacity to self-develop and get out of poverty on their own? What measures do they perceive as effective in tackling their specific problems? How can financing help to realize their goals? To seek answers for these questions, a participatory approach is key, so as to enable the self-targeting and self-selection process, ensuring that the poor are empowered to make individual (household) – specific decisions.

Promoting Evidence-based Policy Making

Adding to the point above, more accurate targeting of the poor could be accomplished by using new tools. Big Data is a case in point, which would provide real-time monitoring of the poor in a comprehensive and dynamic way that is cheaper compared to traditional household surveys. To do this would allow reliable data to provide supplementary evidence for financing decisions.

Furthermore, more research could be done on financing, particularly concerning the establishment of a holistic assessment system that would help to identify the factors, processes and policies that tend to cause inefficiencies in the process of fund management. A third-party is suggested to be introduced for this purpose, which would also increase the transparency and fairness of the process.

Further Decentralizing Fund Management

Further decentralizing fund management is suggested in order to support context-specific poverty reduction policies. The degree to which decentralization should take place can be tested by adaptive management strategies, which are flexible and would allow for evaluation and adjustment along the project management cycle. Approaches to management and supervision should be devised that conform to the social-economic features of each project. It is crucial to further facilitate the collaboration between fund managers and fund evaluators, in order to decrease the cost of inefficient communication.

Further Consolidating Poverty Alleviation Funds

According to existing policies, funds are allocated to different ministries and have specific rules to follow. Some local areas have concerns about the consolidation process, due either to a fear of losing the funds or to the potential of offending relevant authorities. Therefore, the process must be implemented step by step and should take a holistic approach that categorizes by functions instead of by who's in charge. To further consolidate funds does not simply mean to cut and merge funds from their various sources. It is a long-term, strategic plan, with clear goals to be achieved at each stage and over-arching arrangements to optimize fund management by cataloguing existing situations. It is to make better use of existing financial resources so as to mitigate the complex financing management system in China.

Improving Communication and Coordination between Departments and Establishing "Project IDs"

Due to overlapping functions across management and supervision departments, conflicts of interests arise occasionally. It is necessary to improve the communication and coordination mechanism between departments, and to facilitate information sharing and updating. On the one hand, coordination mechanisms should be set up at the superior government level. LGOP, at all levels of operation, should be the major coordinator, responsible for establishing long-term communication mechanisms and information sharing platforms with other departments such as finance, taxation, housing construction, development and reform. As the overall coordinator, it is obligated to facilitate the exchange of relevant personnel between departments and provide institutional support if needed.

On the other hand, a national Project Library and an online monitoring platform is recommended to enable management collaborations (e.g. supervision, rewards). A code system should be developed to assign each project a unique ID for the entirety of its management cycle. Once a project is accepted, all information about the project would be collected and inputted into the Social Credit System as a basis for future monitoring and management. Departments would enjoy an instantaneous exchange of project information.

In July, 2015, the Third International Conference on Financing for Development was held in Addis Ababa, Ethiopia. The conference adopted the *Addis Ababa Action Agenda* as its outcome document, which contained a set of measures, as a reference for global development financing, for addressing social-economic and environmental challenges. As emphasized in the document, global development financing needs to use domestic resources more effectively, prioritize economic development, create favorable policy-making environments and build management capacity at all levels to ensure the just distribution of funds. At the same time, development funding should be transitioned away from the traditional, more static framework to a dynamic one that integrates risk management processes into funding operations. The international community should also develop and adopt more innovative financing models for poverty reduction and development.

China is a leader in global poverty reduction and has a lot to share with other developing countries. As recent trends in global financing suggest, China is not only a pioneer in mobilizing domestic resources to finance poverty reduction, but also an increasingly important donor for development work in other developing countries⁴⁸. China's financing experience, drawing from both the achievements and challenges outlined in this report, could provide a useful reference to the international community for further research and discussion.

It is, however, important to note that this report has attempted to demonstrate the *inherent association* between financing and poverty reduction outcomes, as opposed to merely a causal link. Many other aspects, however, such as the impact of financing on specific social groups (e.g. women, the elderly) has not been examined. To do this, it will require analysis at a more micro-level (e.g. households, individuals). As the financing industry continues to innovate, it is worth documenting the impact of such mechanisms, which may provide valuable knowledge for the international community. We hope to explore these topics in future research.

⁴⁸ Financing for Development: Trends and Opportunities, 2011. WB Concessional Finance & Global Partnerships. Discussion Brief, High Level Forum on Aid Effectiveness, Busan. Available at: http://siteresources.worldbank.org/CFPEXT/Resources/299947-1322067209001/TwoPager_FinanceforDevelopmentTrendsandOpportunities.pdf

ANNEX I: China's Achievements in Poverty Alleviation for Rural Areas

China's achievements in poverty alleviation have attracted worldwide attention. In recent years in particular, China has dramatically raised its poverty line, undertaken poverty alleviation work in a targeted manner and enhanced its pension scheme, minimum living standards, medical services, education, agricultural and ecological protection, infrastructure for development and its migrant relocation strategies for rural areas. As a result, its poverty alleviation work has produced impressive results. According to NBS, the rural poor population in China declined from 70 million in 2014 to 56 million in 2015, meaning that China over-fulfilled its target of raising 10 million people out of poverty on an annual basis. China's achievements in the area of poverty alleviation are summarized as follows:

(1) The Size of Rural Poor Populations Significantly Decreased

Until 2007, the central government had been using the absolute poverty line as the criteria for identifying poor populations and allocating funding to them; the low income line was the criteria only in developed areas. In 2008, however, China adopted the low income line as the criteria for poverty alleviation across the country, so as to "gradually raise the standards of poverty alleviation" set by the 17th National Congress of the Communist Party of China. Ever since, the size of China's poor population, as measured by the low income line, has become the basis for the allocation of poverty alleviation funds.

The number of rural poor in China has declined from 62 million in 2000 to 27 million in 2010; the incidence of poverty, as measured by the low income line, dropped from 6.7% to 2.8% during the same period, down by 3.9% (see Table 7).

Table 7. Status of Poverty of Rural Residents in China (1978-2014)

Year	National Poverty Line ⁴⁹	Poverty Incidence (as per the respective year's criteria)	Size of Poverty (as per the current year's criteria)	Poverty Incidence (as per the current criteria in effect)	Size of Poverty (as per the current criteria in effect)
Unit	(yuan/capita/year)	(%)	(1,000 persons)	(%)	(1,000 persons)
1978	100	30.7	250,000	97.5	770,390
1984	200	15.1	128,000		
1985	206	14.8	125,000	78.3	661,010
1987	227	14.3			
1990	300	9.4		73.5	658,490
1995	530		65,000	60.5	554,630
2000	865	6.7	62,140	49.8	462,240
2004	924	5.3	49,770		

⁴⁹ In the period from 1985 to 2008, there were two concurrent poverty lines in China: one was the rural absolute poverty line, and the other was the rural low income line. Since 2008, the two lines merged into one. The poverty line during the period from 1985 to 2008 in this table refers to the low income line. Source: http://paper.people.com.cn/rmrbhwb/html/2015-10/16/content_1622276.htm

Year	National Poverty Line ⁴⁹	Poverty Incidence (as per the respective year's criteria)	Size of Poverty (as per the current year's criteria)	Poverty Incidence (as per the current criteria in effect)	Size of Poverty (as per the current criteria in effect)
2006	958	3.7	35,500	30.2	286,620
2008	1,196	4.2	40,070		
2009	1,196	3.8	35,970		
2010	1,274	2.8	26,880	17.2	165,670
2011	2,300	12.7	128,000		
2012	2,300	10.2	100,000		
2013	2,300	8.5	82,490		
2014	2,800	7.2	70,170	7.2	70,170

Sources: National Bureau of Statistics' *China Statistical Yearbook*, *Poverty Monitoring Report of Rural China*, *Rural Poverty Monitoring Report* and *China Yearbook of Rural Household Survey* for various years, with some data from: Zhang Quanhong, Zhang Jianhua. The dynamics of China's rural poverty: 1981-2005 -Based on alternative poverty lines and indices. *Statistical Research*, 2010, 27(2): 28-35.

Since 2000 and during the 11th FYP period in particular, the size of the poor population in China was reduced dramatically. During the 10th FYP period, the poor population decreased by 30 million, accounting for 31.7% of the total poverty population in 2000. During the 11th FYP period, the number of poor Chinese decreased by 37 million, accounting for 58.2% of the total poverty population in 2005 (see Table 8).

Table 8. Reduction of the Poverty Population during the 10th and 11th FYP Periods

Periods	Poverty Reduction (1,000 persons)	Proportion to the Total Poor at the Beginning of the Period (%)
2000-2005	29,900	31.7
2005-2010	37,740	58.2
2000-2010	67,340	71.5

Source: National rural household sampling survey

Since the 18th National Congress of the Communist Party of China, the reduction of rural poverty in China has been significant. In the period from 2012 to 2014, rural poor populations were reduced by nearly 30 million people nationwide, with the incidence of poverty having decreased by 1.8% annually on average.

(2) The Annual Income per Capita of the Rural Poor Has Increased Significantly

Since China's reform and opening-up period, rural China has experienced rapid economic development, leading to a consistent growth in the per capita income of farmers. According to the statistics of NBS, the net income per capita per year for farmers living in national-level poverty-stricken counties increased from RMB 160 (~ USD 25) in 1978 to RMB 206 (~ USD 32) in 1985. In the second phase of China's poverty alleviation efforts, that is, the phase when poverty alleviation began to be undertaken on a larger scale, the figure increased to RMB 1,276 (~ USD 199) by 2001. By 2010, when poverty alleviation was in full swing, the figure further increased to RMB

3,273 (~ USD 512) for farmers living in priority counties (see Figure 22). In 2014, the net income per capita per year of farmers in priority countries reached RMB 6,088 (~ USD 951).

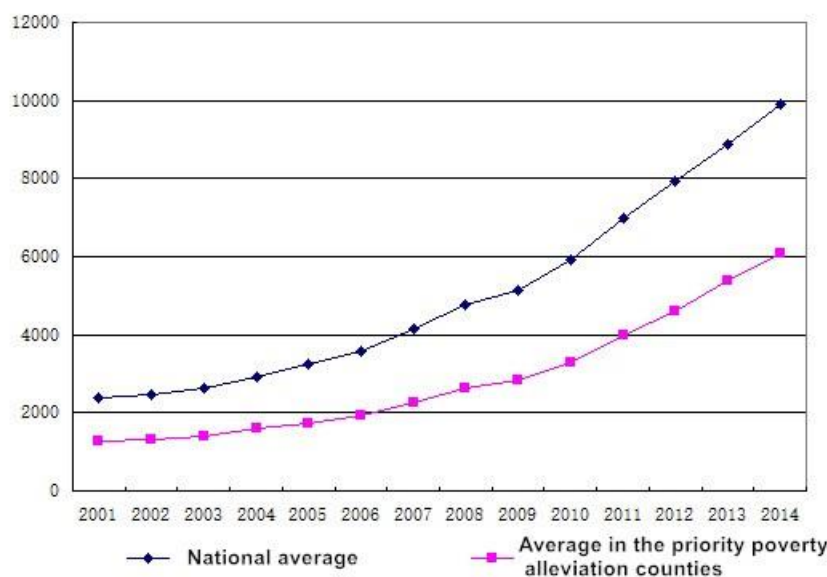


Figure 23. Net Incomes Per Capita of the Farmers (Unit: yuan/capita/year)

Sources: National Bureau of Statistics' *China Statistical Yearbook*, *Poverty Monitoring Report of Rural China* and *Rural Poverty Monitoring Report* for various years

(3) Public Services in Poor Rural Areas Have Consistently Improved

Economic development has led to improvements in the public services provided for rural areas. Such improvements can be found in sectors such as education, medical and health care, the social pension system and infrastructure development. First, in terms of rural education, the Chinese government has increased educational investment for poverty-stricken areas and provided education for rural young dropouts through *Project Hope*. The effects of *Project Hope* not only changed the fate of a large number of dropout teenagers, but also drew national attention to the issue of youth education in poor rural areas and contributed to the development of primary school education. According to relevant statistics, school retention rates for 7-15 year olds studying in priority counties in 2010 was 98%, up 3.9% over 2000 (see Table 9). The retention rates for 7-12 year olds in the same year was 97.7%, up 1.3% over 2000, and 98.6% for 13-15 year olds, up 8%.

Table 9. School Registration Rate of Children in Compulsory Education in the Priority Poverty Alleviation Counties Unit: (%)

Indicator	2000	2005	2010
7-15 year olds	94.1	97.2	98.0
Including: 7-12 year olds	96.4	98.5	97.7
13-15 year olds	90.6	95.5	98.6

Source: Poverty Monitoring Surveys for National Priority Poverty Alleviation Counties

Second, rural health services have improved significantly. According to relevant statistics, by 2010, the proportion of administrative villages with clinics had reached 81.5%, up 12.5% over 2002 (see

Table 10). The quality of medical personnel for rural clinics was also improved. From 2002 to 2010, the proportion of priority administrative villages that had qualified doctors/hygienists increased by nearly 9%, while the proportion of villages that had qualified midwives increased by 7%. In 2003, the new rural cooperative medical insurance scheme was piloted across the country. This scheme was a mutual aid medical service that was organized, led and supported by the government, partaken in by farmers on a voluntary basis, funded by individuals, communities and the government, and primarily targeted for use in treating serious diseases. It was financed by personal contributions, community assistance and fiscal funding from the government. Since its experiment in 2003, the new rural cooperative medical insurance scheme has been expanded and is now effectively helping poor farmers get access to medical services that would otherwise be financially out of reach for them. By 2009, 92.1% of Chinese farmers had taken part in the new rural cooperative medical insurance scheme, which covered almost all of China's rural residents⁵⁰. By 2010, the coverage of the scheme was further increased to 96.5%.

Table 10. Numbers of Village Clinics and Doctors for Priority Poverty Alleviation Counties (2002-2010) Unit: (%)

Year	Proportion of Administrative Villages with Clinics	Proportion of Administrative Villages with Qualified Rural Doctors/Hygienists	Proportion of Administrative Villages with Qualified Midwives	Proportion of Households Participating in the Cooperative Medical Insurance Scheme
2002	69.0	71.0	67.0	2.6
2003	70.6	72.5	69.9	6.4
2004	72.9	74.5	71.9	8.6
2005	73.5	74.8	71.5	17.1
2006	74.0	74.9	71.1	37.7
2007	75.6	76.5	72.9	81.7
2008	77.4	77.4	73.7	87.4
2009	79.6	79.0	75.0	92.1
2010	81.5	80.4	77.0	93.3

Source: Poverty Monitoring Surveys for National Priority Poverty Alleviation Counties

China's rural social pension system has also been ameliorated. Since 2006, 10% of the counties/cities/districts across the country began to pilot the new rural pension scheme. According to the principle, "combining basic pensions with personal accounts," medical costs were partially covered by personal contributions and subsidies from local communities and the government; the basic pension fund was fully subsidized by the central or local government. According to NBS, 326 million people had participated in the rural social pension scheme by 2011. In 2012, the scheme covered major rural areas across the country and played an important role in solving the insurance problems facing senior residents. In 2014, the State Council merged the new rural social pension scheme with the pre-existing urban residents' social pension scheme to establish an integrated pension insurance system for both urban and rural residents that managed services and information systems uniformly. The post-integration insurance system successfully solved a series of problems

⁵⁰ NBS Division of Rural Social and Economic Surveys. 2010. *Poverty Monitoring Report of Rural China*. China Statistics Press, 2010:181

facing the original rural social pension scheme, one being that migrant workers who had participated in the rural pension scheme had to make another contribution to the urban residents' social pension scheme when they moved into a city.

(4) The Infrastructure in Poverty-stricken Areas Has Significantly Improved

Between 2012 and 2014, the development of water, power and road infrastructure was made a priority in rural poor areas, which solved drinking water safety problems for 79 million rural residents and power supply problems for 4 million. There has also been the construction of a total of 1 million kilometers of new rural roads for 14 extremely poor neighborhoods. More and more regions are now accessible by road, rail and air⁵¹.

⁵¹ China Youth Daily. China downsized its poverty-stricken population by more than 50 million in the past three years. 2015. http://sz.nxnews.net/xzxb/html/2015-12/17/content_681248.htm

ANNEX II: An Overview of Poverty Statistics

Poverty Line		People Remaining in Poverty					
		China's Poor Population (millions)	Worldwide Poor Population (millions)	China's Poor Population (millions)	Worldwide Poor Population (millions)	China's Poor Population (millions)	Worldwide Poor Population (millions)
		1990		2011		2015	
World Bank	USD 1.25/day (2005 PPP adjusted)	689.4 ^a	1926 ^b	84.1 ^a	1011 ^b	n.a.	836 (projected) ^b
		1990		2011		2012	
World Bank	USD 1.9/day (2011 PPP adjusted)	755.81 ^c	1959 ^d	149.56 (2010) ^c	983 ^d	n.a.	897 ^d
		1990		2010		2015	
China: National Rural Poverty Line (2011)	RMB 2300/year (2010 PPP adjusted) (rural poverty population)	942.2 ^e	n.a.	128 ^e	n.a.	55.75 ^f	n.a.
China: National Rural Poverty Line (2015)	RMB 2800/year (2014 PPP adjusted) (rural poverty population)	658.49 ^g	n.a.	165.67 ^g	n.a.	n.a.	n.a.

Source: a: http://www.stats.gov.cn/tjzs/tjsj/tjcb/dysj/201509/t20150902_1239121.html

b: *The Millennium Development Goals Report 2015*

c: <http://iresearch.worldbank.org/PovcalNet/index.htm>

d: <http://wdi.worldbank.org/table/2.8.2>

e: <http://politics.people.com.cn/n/2012/1017/c1001-19294054.html>

f: http://www.stats.gov.cn/tjsj/zxfb/201602/t20160229_1323991.html

g: http://www.stats.gov.cn/tjsj/sjgd/201510/t20151016_1257098.html