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IFAD

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PEOPLE'S REPUBLIC OF CHINA

COUNTRY STRATEGIC OPPORTUNITIES PAPER

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CURRENCY EQUIVALENTS

Currency unit	=	yuan (CNY)
USD 1.00	=	CNY 8.24
CNY 1.00	=	USD 0.12

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 hectare (ha)
1 ha	=	2.47 acres
1 ha	=	15 mu
1 mu	=	0.067 ha
1 kg	=	2 jin
1 jin	=	0.5 kg

ABBREVIATIONS AND ACRONYMS

AsDB	Asian Development Bank
COSOP	country strategic opportunities paper
GEF	Global Environment Facility
GTZ	German Agency for Technical Cooperation
PBAS	Performance-Based Allocation System
RCC	rural credit cooperative
RFSP	Rural Finance Sector Programme
RIMS	Results and Impact Management System
WFP	World Food Programme

GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA
Fiscal Year

1 January – 31 December

COUNTRY MAP: LOCATION OF IFAD-FUNDED OPERATIONS

China



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

PORTFOLIO OVERVIEW

Region: Asia and the Pacific

Country: China

Project/Programme Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Northern Pasture and Livestock Development Project	IFAD	UNOPS	HC	22 Apr 81	20 Jul 81	31 Dec 88	L - 1 - 62 - CH	SDR	28 700 000	100
Hebei Agricultural Development Project	IFAD	World Bank	I	15 Sep 82	14 Jan 83	31 Dec 88	L - 1 - 107 - CH	SDR	22 900 000	100
Rural Credit Project	IFAD	World Bank: IDA	HC	11 Sep 84	22 Jan 85	30 Jun 89	L - 1 - 153 - CH	SDR	24 250 000	100
Guangdong Integrated Freshwater Fish-Farming Project	IFAD	World Bank	I	03 Dec 86	24 Mar 87	31 Dec 92	L - 1 - 195 - CH	SDR	10 150 000	96
Sichuan Livestock Development Project	IFAD	UNOPS	HC	30 Nov 88	16 May 89	30 Jun 95	L - 1 - 233 - CH	SDR	13 400 000	100
Shandong/Yantai Agricultural Development Project	IFAD	UNOPS	HC	07 Dec 89	10 Jul 90	31 Dec 96	L - 1 - 254 - CH	SDR	16 800 000	100
Shanxi Integrated Agricultural Development Project	IFAD	UNOPS	HC	04 Apr 91	26 Jul 91	30 Jun 98	L - 1 - 281 - CH	SDR	17 850 000	100
Jilin Low-lying Land Development Project	IFAD	UNOPS	HC	14 Apr 92	15 Jun 92	30 Jun 98	L - 1 - 300 - CH	SDR	20 000 000	100
Yunnan-Simao Minorities Area Agricultural Development Project	IFAD	UNOPS	HC	15 Sep 93	10 Dec 93	31 Dec 00	L - 1 - 335 - CN	SDR	18 400 000	99
Qinghai/Hainan Prefecture Agricultural Development Project	IFAD	UNOPS	HC	05 Dec 94	08 Jun 95	30 Jun 01	L - 1 - 364 - CN	SDR	13 500 000	100
Jiangxi/Ganzhou Integrated Agricultural Development Project	IFAD	UNOPS	HC	06 Dec 95	10 May 96	31 Dec 01	L - 1 - 395 - CN	SDR	15 950 000	100
Northeast Sichuan and Qinghai/Haidong Integrated Agricultural Development Project	IFAD	UNOPS	HC	11 Sep 96	14 May 97	30 Jun 03	L - 1 - 424 - CN	SDR	19 100 000	100
Southwest Anhui Integrated Agricultural Development Project	IFAD	UNOPS	HC	11 Sep 97	12 Dec 97	30 Jun 04	L - 1 - 451 - CN	SDR	19 100 000	100
Wulin Mountains Minority-Areas Development Project	IFAD	UNOPS	HC	10 Sep 98	21 Apr 99	31 Dec 04	L - 1 - 483 - CN	SDR	21 100 000	27
Qinling Mountain Area Poverty-Alleviation Project	IFAD	UNOPS	HC	08 Dec 99	14 Aug 01	31 Mar 08	L - 1 - 517 - CN	SDR	21 000 000	49
West Guangxi Poverty-Alleviation Project	IFAD	UNOPS	HC	07 Dec 00	21 Mar 02	30 Sep 08	L - 1 - 552 - CN	SDR	23 800 000	55
Environment Conservation and Poverty-Reduction Programme in Ningxia and Shanxi	IFAD	UNOPS	HC	11 Dec 02	11 Feb 05	30 Sep 08	L - 1 - 600 - CN	SDR	21 950 000	11
Rural Finance Sector Programme	IFAD	UNOPS	HC	21 Apr 04	13 Sep 05	31 Mar 10	L - 1 - 634 - CN	SDR	9 950 000	
South Gansu Poverty-Reduction Programme	IFAD	UNOPS	HC	08 Sep 05			L - 1 - 673 - CN	SDR	20 150 000	

UNOPS = United Nations Office for Project Services. IDA = International Development Association (World Bank Group). HC = highly concessional. I = intermediate.

EXECUTIVE SUMMARY

A. The Rural Poverty Context

1. **Achievements.** The People's Republic of China achieved an unprecedented decline in absolute poverty, from about 250 million persons in 1978 to about 28 million in 2002, using the national poverty line of CNY 625 per person per year. Related to the rural population, the numbers translate to a decline in poverty incidence from 30.7% to 3.4%. The Government of China recently introduced a national poverty line that categorizes people living below CNY 869 per annum as absolute poor and low-income poor. In fact, this definition is equivalent to USD 1.00 per person per day in purchasing power parity terms and corresponds to the definition used in Millennium Development Goal 1. According to this criterion, some 88 million persons, or 10% of the rural population, are poor. Recent discussions suggest that, if a poverty concept were applied that defines the poverty line at USD 1.00 per person per day on the basis of consumption, poverty incidence would rise to 161 million persons, or 12.5% of the total population. Meanwhile, the incidence of urban poverty fell to 0.3%.

2. **Issues.** Despite the outstanding success in rural poverty reduction, substantial issues remain. Continued vulnerability, unbalanced regional growth, increasing disparities in rural and urban development, persistent gender inequality and other factors, including unequal endowment of natural resources and limited access to rural finance, constrain the full eradication of rural poverty.

3. **Opportunities.** Several factors are conducive to poverty reduction in China, including:

- the strong government commitment to poverty reduction and to the improvement of the living conditions of low-income households in remote areas;
- a macroeconomic environment of continued strong growth, which creates opportunities also for the poor to participate, while inequalities need to be addressed;
- an institutional environment that has demonstrated a high implementation capacity, and public agencies that are undertaking pilot sector programmes to enhance the impact on the poor; and
- IFAD's experience, which has demonstrated that the improvement of participatory, managed access of the poor to resources is a cost-effective manner of reducing poverty.

B. Strategic Framework for IFAD

4. **IFAD's role and focus.** While impressive progress has been achieved in poverty reduction in China, widening local and regional disparities in living standards call for further efforts to achieve the Government's objective of establishing a *Xiaokang* society (see next paragraph). Within this strategic framework, IFAD support must focus on poor and low-income households in remote areas and ensure their permanent rise out of poverty. In light of the continuing challenges and given IFAD's experience, the State Council Leading Group Office on Poverty Reduction and Development and the Ministry of Finance have expressed strong demand for IFAD to continue its support for poverty reduction. China expects that the Fund would continue to bring conceptual inputs and experience in terms of innovative approaches for poverty reduction from projects outside the country, alongside additional financial resources. IFAD has demonstrated its comparative advantage in tackling poverty in remote and resource-scarce areas due its long-term experience in designing and implementing projects in some of the world's most remote and fragile places and among marginalized people.

5. **Common strategies.** The Government has adopted the Development-Oriented Poverty Reduction Programme for Rural China, 2001-2010. This is based on the classic concept of a *Xiaokang*

society, which is a moderately well-off, equitably prosperous society wherein material values and spiritual standards are equally important. The government programme aims to achieve poverty reduction by focusing on ecologically sound agricultural development, strengthening marketing and financial services for the poor, encouraging private entrepreneurs and farmer organizations and developing off-farm economic activities, including migration. These correspond fully to the thrusts of IFAD's Strategic Framework 2002-2006. The Government and IFAD strategies and timeframe (2006-2010) are aligned, and IFAD support will be fully integrated with these.

6. **Strategic thrusts.** The Fund's intention to initiate and support poverty reduction programmes will be driven by two strategic thrusts: access and innovation. In line with IFAD's Strategic Framework, the Fund's support will promote poor women's and men's access to information and knowledge, natural resources and their sustainable use, appropriate financial services and remunerative and premium-quality markets. Emphasizing IFAD's catalytic role, these efforts will take the form of pilot programmes. Positive results from pilot programmes will be a basis for policy adjustments and for scaling up with the Government's own resources, as happened through the Rural Finance Sector Programme.

7. **Main opportunities: access and innovation.** The opportunities for IFAD support have been identified on the basis of the perceived causes of poverty, the strategic considerations both of the Government and IFAD, the lessons learned from previous experiences and an analysis of institutional delivery capacities. The promotion of access and innovation has been the main guiding principle; the following sectors constitute priority opportunities.

- **Strategy design.** IFAD will support the adjustment of the government poverty reduction strategy by providing financial support for relevant public and private policy-oriented institutions to conduct evaluations, policy analysis and strategy definition. In this way, the Fund will have the occasion to pursue policy dialogue, advocacy and partnership building at a high level.
- **Microfinance and microenterprise development.** The current reform process of the cooperative banking sector will be promoted, together with microenterprise development.
- **Organic farming.** Organic production and access to premium markets will be piloted as a tool for poverty reduction.
- **Marketing.** Support for greater market access for the poor will entail improved market information systems, support for professional farmer associations and the promotion of direct sales contracts.
- **Gender.** Mainstreaming gender equality will be promoted; specific support will include the establishment of women's associations, income-generating activities and formal rural finance.
- **Technology transfer.** The innovative technical envoy approach and the reorientation of rural extension services will be piloted to address the demands of poor men and women farmers.
- **Natural resource management.** Pilot programmes will promote an integrated ecosystem management approach so as to improve the natural resource base in poor areas. The involvement of the Government-Global Environment Facility programme will represent a critical instrument.

8. The selection of areas for pilot sector programmes will be based on poverty incidence and the potential for successful pilot implementation. To meet other priority needs of the poor in these areas, each pilot sector programme will also include a rural development fund that will support community investments identified through participatory village planning efforts.

9. **Policy dialogue** will continue to be firmly based on experiences obtained through the programmes and complemented by strategy development, studies, an IFAD field presence and Knowledge Networking for Rural Development in Asia/Pacific Region. In the past, the promotion of participatory village development planning and rural financial services through rural credit cooperatives were successful examples of policy dialogue. The pilot sector programmes will add to the opportunities for a dialogue with the Government on the adjustment of policies for sustainable poverty reduction. The Performance-Based Allocation System (PBAS) will be used for consultations on strategic policy issues aiming to render the PBAS a country-driven instrument.

10. **Lending framework.** The PBAS rating for China is very positive with regard to macro, rural sector and portfolio performance indicators. The current country score would exceed by far the cap allocation of about USD 23.8 million. A pipeline of sector programmes would be prepared during 2006-2010 that could be complemented strategically through country and regional grants.

PEOPLE'S REPUBLIC OF CHINA
COUNTRY STRATEGIC OPPORTUNITIES PAPER

I. INTRODUCTION

1. The People's Republic of China joined IFAD as a Category III (now List C) member in 1980. Since 1981, IFAD has financed 18 projects in China with a total loan amount of SDR 337.9 million. Most projects have been designed jointly with the Government and have aimed at reducing poverty through support for irrigation and land development, tree plantation, livestock, credit and infrastructure. In 1995, the collaboration with the World Food Programme (WFP) in design and implementation was established, and, in 1998, participatory village planning approaches were gradually introduced. In several projects, the German Agency for Technical Cooperation (GTZ) was associated in the implementation. For three projects, the World Bank was the cooperating institution; for all others, the cooperating institution was the United Nations Office for Project Services.

2. The first IFAD strategy for China was approved in October 1987 and was updated several times thereafter. The most recent country strategic opportunities paper (COSOP), of 1999, has provided the framework for IFAD's support for integrated rural development targeting among the rural poor in marginal areas in western and central provinces. The present COSOP is the result of several background studies and an iterative process of consultations and workshops. A first COSOP consultation workshop was attended by representatives of government agencies, including the Ministry of Finance, the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Agriculture, the State Council Leading Group Office on Poverty Reduction and Development, the China Banking Regulatory Commission and the All-China Women's Federation. Academic institutions and representatives of the donor community, such as the United Nations Development Programme, the Asian Development Bank and GTZ, provided pertinent inputs on strategic issues to the meeting. At a second round-table meeting, policymakers from government institutions, including the Ministry of Finance, the Ministry of Commerce, the National Development and Reform Commission, the China Banking Regulatory Commission, the Rural Development Research Centre, the State Council Leading Group Office on Poverty Reduction and Development, the All-China Women's Federation, the United Nations Office for Project Services and GTZ reviewed and endorsed the present COSOP.

II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

A. Country Economic Background

3. **Population.** The population of China has been estimated at 1.3 billion in 2004, about 20% of the world total population. Population growth in 2004 was 0.7% per year, a decline from the 1.6% in 1970-90. There are 55 ethnic minority groups, which represented, at the time of the 2000 census, 8.4% of the total population (106.4 million). In 2003, about 850 million persons, or 62% of the total population, lived in rural areas, down from 82% in 1978, when economic reforms were introduced. The reforms triggered a labour migration of the rural population to the cities that increased the share of the urban population from 34.8% (1999) to 40.5% (2003).

4. **Social and human development.** China has substantially improved its levels of human development; by 2004, China ranked 94th (index 0.745) on the United Nations Development Programme's Human Development Index, up from 0.541 in 1980. Overall life expectancy at birth in

2002 stood at 71 years, up from 61 years in 1970. Adult illiteracy involves 140 million persons (11% of the total), of whom 70% are women. The net primary enrolment rate is 99%, up from 84% in 1978, of whom 48% are girls. Of the secondary school population, 47% are girls; at universities, the share is 40%. The under-5 mortality rate stands at 39 per 1 000 live births (2002), compared to 61 in 1991 and 64 in 1980. Maternal mortality is 53 per 100 000 live births; the figure was 88.9 in 1990. A high and rising man-woman gender ratio – 116.9 at birth (105-106 is normal) – has emerged. Around 75% of the population has access to safe water, an increase from 71% in 1990. Since 1999, there has been a 30% annual increase in reported HIV/AIDS infections. Estimates suggest that about 1 million people are currently infected.

5. **Macroeconomic performance.** China has experienced an unparalleled expansion in its economy since the introduction of market-oriented economic reforms and the transition to an industrialized economy better connected to a globally integrated system. Land and agricultural reforms were undertaken in the early 1980s, together with the introduction of special economic zones where foreign investments were encouraged, the boom in manufacturing led by collective-owned (cooperative) town and village enterprises and massive investments in infrastructure. Additional sectoral reforms in market pricing, the financial sector, the privatization of state enterprises and adjustments in the legal framework were gradually introduced.

6. The reforms brought an impressive average annual growth in GDP, at constant local prices, of 9.4% during 1979-2004, with income per capita rising by 8.1% and reaching the equivalent of USD 1 087 in 2003. The rapid expansion of the service sector (from 21.4% of GDP in 1979 to 34.5% in 2004) and, to a lesser extent, of the industry sector (from 47.4% of GDP in 1979 to 50.8% in 2004) was accompanied by sharp contraction in the agricultural sector (from 31.2% of GDP in 1979 to 14.6% in 2004). The agricultural labour force remained constant over the same period, at 365 million workers, i.e. decreasing as a share of the total labour force from an estimated 70% in 1978 to 42% in 2004, as internal migration increased. Urban employment rose from 224 million in 1999 to 256 million in 2003, but employment in state-owned and collective-owned units sharply decreased, from 102 million to 78.8 million over the same time period. The official rate of urban unemployment was 4.7% in 2004, up from 4% in 2002.

7. China's accession to the World Trade Organization accompanied the continued strengthening of the country's overall external position. The current account surplus was estimated at 5.9% of GDP in 2004. Exports, primarily textiles, grew by 24% in 2004, while imports, including food items, grew by 30%. The capital account in 2004 recorded increasing levels of short-term liabilities, but foreign direct investments remained solid, at USD 53 billion, about 3.5% of GDP. Official reserves were estimated at over USD 560 billion in 2004 (more than nine months' worth of imports), an amount more than double the total external debt (half of which was short term), which was equivalent to 13.5% of GDP.

8. In 2004, the share of household final consumption decreased to less than 40% of GDP (down from 50% in 1979), while the share of general government consumption remained stable, at around 12.5% of GDP. Gross domestic savings reached an unprecedented 47.5% of GDP, and gross capital formation was 46.6% of GDP, which means there is substantial growth potential in the near future. Reflecting growing concern about the potential overheating of the economy, the Chinese Government adopted a series of monetary and administrative measures to curtail investment and transfer capital to those sectors, such as agriculture, services and small and medium enterprises, that have the potential to relieve the employment pressures from the surplus rural labour force and new entrants to the labour market. Other measures included an increase in the reserve requirements of banks, the tightening of lending standards in sectors experiencing overinvestment and the raising of relending and rediscount rates. Transforming China's potential into effective growth will depend critically on the ability to manage an increasingly overextended financial system, the pace of structural reforms of the banking, fiscal and public enterprise sectors and the ability to offset growing east-west, rural-urban and

intersectoral imbalances. Key areas for structural reform that can promote growth are the rural and factors markets, especially labour, land and energy.

B. Agricultural Sector

9. **Agriculture.** Agricultural production constitutes the main source of income for most of the rural population. The total arable area under annual and permanent crops averaged 152.4 million ha in 2003, of which around 76.8 million ha (50%) were used for cereal production. Since the reforms, the proportion of the total arable area planted to cereals has shown a steady decline from a stable 90% during 1961-80, indicating diversification towards higher value crops. The resulting area under cereals per person of the total population dropped from 0.13 ha in 1961 to 0.06 ha in 2002. Worth noting is the fact that the decline in the area of production could be offset by yield increases. Overall cereal production per person rose from 163 kg in 1961 to 307 kg in 2002. The developments in livestock were equally impressive: the overall meat supply rose annually by about 6.5%, from 3.8 kg per person in 1961 to 52.5 kg per person in 2002. Similarly, the supply of milk increased by about 4% per year.

10. With the introduction of the Household Responsibility System in 1978, households obtained land-use rights on collectively owned lands managed by village committees. The initial distribution of these rights was based on household size, and more or less frequent redistributions prevented farmers from undertaking longer-term investments, such as tree planting or infrastructure improvements. In 2003, legislation was adjusted, providing for 30-year land-use leases that are negotiable. The position of women has been strengthened through a new legal provision. Subsidiary legislation is required to effectively implement the new law because of prevailing traditional patri-local patterns.

11. **Rural enterprise.** Local government- and cooperative-owned town and village enterprises developed rapidly beginning in the early 1980s, providing employment opportunities for a growing rural labour force and sources of revenue for local administrations. The town and village enterprise sector has become a major structural element of the economy, and, in 2003, more than 25 million enterprises produced a total value added of CNY 3.7 trillion (USD 444.7 billion), representing 31% of GDP. Over half of these enterprises are engaged in services and transport, and at least one third in manufacturing. Total employment in 2003 stood at 136 million persons, or 28% of the total rural labour force. The privatization of town and village enterprises began in 1997 and has been proceeding at an uneven pace among regions.

12. **Migration.** Labour migration is an integral element in rural household livelihood strategies, and, in 2003, around 98 million workers took up employment outside their townships; more than six times the 15 million figure of 1990 and representing over 20% of the rural labour force. Government policy is to facilitate rural-to-urban migration by tailoring the legislation on residence registration and the social benefits for migrants, more strictly applied labour contracting regulations and adopting a national plan for training rural migrant workers so as to enhance vocational training among the 60 million prospective rural migrant labourers.

C. Rural Poverty

13. **Achievements.** According to the official poverty lines, the rural population living in absolute poverty declined from 250 million in 1978 to 30 million in 2000 and to 28.2 million in 2002, or, proportionally speaking, from 30.7% to 3.4%. In 2002, the Government introduced a national poverty line that categorized people living below CNY 869 per annum as absolute poor and low-income poor. This official cut-off point is very close to the international USD 1.00 a day income poverty line (CNY 879 at 2002 prices). Using this income criterion alone, some 88 million persons were considered as a “low-income” group in 2002, of which 28.2 million qualified as the absolute poor. Recent discussions with regard to the definition of poverty in China give preference to models that are

based on household consumption rather than on household income. If one applies the USD 1.00 per person per day *consumption* poverty line in 2002, the rural poor amount to 161 million, accounting for 12.5% of the total population, as opposed to 31.5% in 1990. Meanwhile, the incidence of urban poverty dropped to 0.3% in 2000, compared to 0.9% in 1990.

14. This dramatic reduction in poverty has allowed China to achieve Millennium Development Goal 1. With respect to the other Millennium Development Goals, the country is well advanced; the areas needing more emphasis include the access for girls to primary and secondary schools (Goal 3), the incidence of HIV/AIDS and tuberculosis (Goal 6) and the adoption of national strategies for sustainable development (Goal 7).

15. **Issues.** Despite the outstanding success in rural poverty reduction, substantial issues remain. Since 1996, a marked slowdown in poverty reduction has been observed in spite of continued strong overall growth, which suggests that “growth alone is not enough to sustain the downward trend in poverty”. The vulnerability of people around the poverty line level deserves increased attention, because large groups may slip back into poverty. Estimates in 2003 suggested that poverty incidence rose by some 800 000 persons, in particular in remote marginal areas and areas inhabited by ethnic minorities.

16. Overall inequalities in household incomes across the country, as measured by the Gini coefficient, have been rising rapidly, from about 0.2 in the first half of the 1980s to 0.42 in 1993, while the latest available data (2001) suggest 0.45%. As a result of a strong concentration of growth and investments in the eastern urban economies, regional disparities have been increasing, notwithstanding government programmes for the development of the western provinces. Moreover, rural and urban income differences grew, as shown by an urban/rural ratio of 3:1. A large share of these developments are due to the importance of agriculture in rural incomes, the slower than average growth in agriculture and the rise and fall in rural-urban terms of trade. Looking at regional disparities, the ratio of average urban incomes in the east (CNY 8 448) to rural incomes in the west (CNY 1 640) is even larger, at 5.1:1. These regional disparities also explain why, in 1999, around 89% of all the rural poor and 70% of all urban poor households were located in the central and western regions. Local disparities in income are also widely present within a same region and even within a same rural area, such as in Sichuan and Henan provinces. The factors causing local disparities include geographical conditions, the quality of land and access to infrastructure and markets.

17. The economic reforms led to an increase in gender disparities despite a well-developed legal framework for equality. The main issues include gender ratio imbalance due to the reassertion of preference for sons, the bias towards men in extension services, the drop-out rates among girls in education, the restricted access to formal financing and a usually unequal division of labour in the household. The feminization of agriculture and poverty as a result of labour migration among men and differential wage rates remains at a high level. Interestingly, the gender gap related to off-farm labour opportunities seems to have narrowed, as indicated by recent migration patterns. However, particular attention needs to be paid to the incidence of domestic violence, the trafficking of women and children in the poorest areas and the exceptionally high suicide rate among rural women. Much progress has been achieved in resolving these issues, notably with the support of the All-China Women’s Federation, but more needs to be done.

D. Constraints on and Opportunities for Rural Poverty Reduction

18. **Constraints.** Poverty in rural China is a complex phenomenon caused by an array of natural, economic and social factors. Low productivity is the prevalent constraint among poor households. Poor households tend to derive a larger share (73%) of their (low) income from agricultural activities than do all rural households (43%), and these activities show low levels of productivity. In most cases, this is caused by a poor resource base in terms of insufficient *human* and *natural* resources. Poor households aim first at food self-sufficiency, while using a large part of their own labour resources, which leaves few labour opportunities for other, more remunerative off-farm activities.

19. The poor are unable to use their limited asset base at the optimum factor productivity levels because they lack access to the required additional means of production, including access to information, technologies and market opportunities, as well as to rural financial services. An IFAD- and WFP-supported project in Sichuan demonstrated that the provision of infrastructure, credit, training and information could free poor households from poverty, even if the initial resources of these households were insufficient. The annual income of these households increased by 20% annually, exceeding the average income in the project area.

20. Productivity in the farm activities of the poor can be raised without unduly increasing risks, but the promotion of non-farm activities can be the main difference-maker. The average farm income of rural households (CNY 1 421) is about 46% higher than that of poor households (CNY 780); the average non-farm household revenue (CNY 1 111) is 103% more than that of poor households (CNY 547). In an overall economic environment of sustained growth, non-farm opportunities are expanding. Helping the poor to seize them is a powerful instrument of poverty reduction.

21. The degradation of natural resources is a major phenomenon in parts of China, for example, water erosion in the Loess plateau, wind erosion in the north and the aridification and salinization in the northern plains. Much of this occurs outside cultivated areas and affects crop production and household resources only indirectly. Water scarcity causes the strongest, most detrimental impact on the poor as it affects 85 million poor people and 55% of the incomes of these people.

22. High levels of illiteracy and poor health are additional causes of rural poverty. Low levels of social services continue to constrain the development of rural areas. Much of this appears to be the result of the increasing market-determined costs of social services and policies that make resource-strapped local governments responsible for the financing of these services.

23. **Opportunities.** Several factors are conducive to rural poverty reduction in China. The Government has demonstrated a strong commitment to poverty reduction and improved living conditions in remote areas. The current macroeconomic environment of continued strong growth is creating opportunities also for the poor, though inequalities still need to be addressed. The institutional environment shows a high implementation capacity. Public agencies are undertaking pilot sector programmes to enhance the impact on the poor. IFAD experience has demonstrated that the improvement of the participatory access of the poor to resources is a cost-effective instrument of poverty reduction.

E. National Strategy for Rural Poverty Reduction

24. Government policies and the scale of the funding of public poverty reduction programmes are exemplary. Beginning in the 1980s, the government approach towards poverty reduction focused on area development programmes targeted on poor counties. Regional economic development was achieved through improvements in natural resources and the provision of infrastructure and capacity-building among the poor. Despite substantial progress in poverty reduction, poverty remains predominantly a rural phenomenon. Off-farm income-generating activities and labour migration are

encouraged. To implement the approach, three main instruments are used: subsidized loans and food-for-work and development grant funds. The 88 million poor and the “low-income group” are the target of national development-oriented poverty-reduction efforts. Government priority support is targeted at ethnic and extremely poor areas in the central and western provinces.

25. The government development strategy delineated under the Tenth Five-Year Plan (2001-2005) addresses this challenge and builds on the Development-Oriented Poverty Reduction Programme for Rural China, 2001-2010. The Tenth Five-Year Plan reflects also the objectives of China’s Western Region Development Strategy, which aims at creating the conditions for development activities in 12 western provinces. The plan is based on the classic concept of the *Xiaokang* society, which evokes a middle-class society in which most people are moderately well off, prosperity is broadly distributed and material values and spiritual standards are equally important. There is a strong policy emphasis on “growth with equity”, and the government aims to achieve a *Xiaokang* society with five areas of balance (economic/social, people/nature, rural/urban, east/west and domestic/international) during the Eleventh Five-Year Plan (2006-2010). Rural development is a specific focus since rural poverty is still widespread and rural-urban disparities of income and social services continue to widen.

26. The goals of the programme are (a) to help the absolute poor to raise their minimum standards of living as soon as possible, and (b) to improve the basic production and living conditions in the poor areas, expand the infrastructure, improve the environment and enhance social and cultural conditions. The target is to achieve an annual growth in rural per capita income of 5%, reaching CNY 2 880 during 2005. In this manner, absolute poverty would be overcome.

27. Some elements of the strategy emphasize the need for crop and livestock development through improved varieties and techniques and the promotion of ecologically sensitive measures. Farm products that have (niche) comparative market advantages will be promoted, alongside the development of an agro-processing industry. Other elements include science and technology transfers and support for contract farming among poor farmers and the enhancement of efficient support services in information, technology and marketing. Furthermore, the volume of concessional poverty reduction loans will be increased for agriculture, processing, marketing and infrastructure development. Microfinance will be expanded gradually, and non-public enterprise development in poor areas will be strengthened. These investments will be complemented by improvements in infrastructure, communications and social services, including health and education. Programme management responsibility will reside with the provinces, while planning and implementation will be decentralized down to the county and township levels. Monitoring and evaluation and auditing will be regular functions. Substantial resources have been allocated to the programme, amounting to CNY 25 billion-30 billion per year.

28. The government policies as summarized above are supported by a number of international donors. Total official development assistance disbursements fluctuate around an annual average of about USD 2.1 billion (1997-2000); about 30% come from multilateral agencies, and 70% from bilateral sources. Official development assistance flows to China have been decreasing in recent years, and major multilateral and bilateral donors such as the World Bank and Japan are reducing their aid programmes since China has obtained lower-middle-income country status, having graduated from access to International Development Association loans in 1999.

III. LESSONS FROM IFAD’S EXPERIENCE IN THE COUNTRY

29. IFAD has built up substantial experience in China since the first IFAD project was approved in 1981. In addition to the design of 19 projects and programmes, seven project evaluations and two thematic evaluations have been carried out. The most recent evaluations analysed the current status and trends in rural finance and organic farming for poverty reduction. During the last few years, project completion reports have included participatory impact assessments. The lessons learned

through these evaluations and assessments have been reinserted into project designs. Moreover, the very recent thematic evaluation on organic farming has provided the basis for a specific programme under the new COSOP. The lessons learned through the evaluations and impact assessments are summarized as follows.

Results and Impact

30. **Targeting the rural poor.** In line with IFAD's mandate, all projects have poverty reduction as the immediate objective. Projects are thus targeting the poor through a variety of measures. During design, project areas are determined on the basis of poverty incidence and vulnerability, the latter with the help of the vulnerability analysis and mapping developed by the Food and Agriculture Organization of the United Nations and WFP, which aids in the selection of poor project townships. Project activities have been tailored to the capabilities and needs of the poor, e.g. through loan ceilings and food-for-work supplies, while the selection of individual beneficiaries is carried out by village implementation groups. On the whole, these targeting mechanisms have resulted in an effective channelling of project resources to the poor.

31. **Impact.** All projects have contributed to the reduction of poverty, sometimes to the complete elimination of poverty. Examples include the Northeast Sichuan, Chengdu/Nanchong project, where, at start-up, around 90% of the households had incomes below the poverty line, while, at the completion date, this share was practically nil (1%). In a context of strong overall economic growth, it has been estimated that a poverty reduction impact can be attributed to the project in the case of about 40-45% of the project households. This can be explained by the fact that target households were poorer than the "average" poor; project activities helped these households to increase their incomes to levels above the average levels in the project area. Relative to non-project households, the project activities gave the poorer households an extra push in income growth, allowing them to get out of poverty more quickly and to reach higher than average earning levels.

Project design and implementation

32. **Credit.** It was government policy to on-lend IFAD resources from the Ministry of Finance to the relevant provincial, county and township governments, while applying a cascade of commissions, service charges and foreign exchange risk premiums. In this manner, IFAD resources for farm credit reached rural credit cooperatives (RCCs) at a far higher cost than the cost of applying the households' own resources or other external resources. RCCs were thus unable to implement the project credit programmes, and this function had to be taken over by project management officers. In July 2002, the Government agreed to provide IFAD resources directly to RCCs on IFAD terms, and, in more recent projects, RCCs have assumed responsibility for the farm credit programme. This approach follows closely the recommendation of the 2001 thematic evaluation on rural financial services. Other recommendations of the evaluation, such as the need for reform in the RCC system, have been taken up in the Rural Finance Sector Programme (RFSP). The programme supports, on a pilot basis, the adjustment of the policies and lending modalities of RCCs with a view to render the institutions more accessible to the poor and to improve their financial and institutional sustainability.

33. **Participation and flexibility.** Beginning in 1998, joint IFAD/WFP projects started to apply a participatory approach in project implementation. The instrument used to render this approach operational was the participatory village development plan, which was to be drawn up by village populations. However, it was observed that appraisal targets were interpreted too rigidly and that annual work programmes only partially adjusted annual targets (set at appraisal) according to local conditions. In conclusion, the participatory aspects need to be enhanced, and project designs will have to include modalities to provide sufficient flexibility for market developments and social conditions.

34. **Gender.** In light of the growing feminization of agriculture and the severe poverty among rural women, IFAD-funded projects have been designed along a gender-sensitive, integrated rural development approach. Since 1996, credit has been earmarked specifically for women, and women have been given priority in participation in suitable food-for-training and food-for-work activities. Special attention has been placed on women's health status and women's educational level. Moreover, a gender focal point at all levels of project management has become mandatory. Projects have promoted labour-saving technologies, including drinking water and biogas devices, in order to lower the significant workload of women and free up time that, in turn, women have used for other productive activities. The impact on women's social and economic empowerment has been repeatedly confirmed in all project impact assessments. A gender assessment of IFAD-funded projects, financed by the Japanese Government, concluded that project implementation tended to place emphasis on the social rather than on the economic activities of women. It suggests that future IFAD support needs to re-emphasize the economic empowerment of women without compromising the importance of social development. (See also Appendix II.)

IV. STRATEGIC FRAMEWORK FOR IFAD

A. IFAD's Strategic Niche and Proposed Thrusts

35. China has achieved impressive progress in poverty reduction. Applying national poverty lines, the 60 million low-income people, plus 28 million absolute poor people, constitute a significant group of the total population. Using international consumption-based poverty measurements a striking 160 million people are still poor, with a consumption level of below USD 1 per day. Moreover, recent studies suggest that a large section of the population risks slipping back into absolute poverty. Poverty reduction programmes in China thus need to increase their emphasis on vulnerability and sustainability so as to prevent massive regression in the income of persons who have recently lifted themselves out of poverty. Because regional and local income disparities have risen rapidly during the last years, increased efforts are required in the poor areas that are lagging behind mainstream development.

36. The highest incidence of rural poverty occurs in remote, often mountainous areas in the western and central regions. These areas are characterized by water scarcity, low soil fertility and poor endowment with other natural resources. Most of these areas are environmentally very fragile and prone to severe degradation, such as the Loess plateau in north-west China. Moreover, the people residing there are isolated and have difficult access to the outside world. Since ethnic minorities represent a significant proportion of the poor, specific approaches and policies will be required to ensure them equal chances for development.

37. The above poverty analysis provides the justification for IFAD to continue its involvement in China. Support for rural poverty reduction in China is based on the following considerations.

38. **Government request.** Consultations with the State Council Leading Group Office on Poverty Reduction and Development and the Ministry of Finance have confirmed China's strong demand for IFAD's support for poverty reduction programmes due to IFAD's specific focus on marginal areas, the rural poor and ethnic minorities.

39. **Comparative advantage.** China expects that the Fund will continue to bring conceptual inputs and experience in terms of innovative approaches for poverty reduction from projects outside the country, alongside additional financial resources. IFAD has a comparative advantage in tackling poverty in remote resource-scarce areas due to its long-term experience in designing and implementing projects in some of the world's most remote and fragile places and among marginalized people. What differentiates IFAD from several other donors in this respect is that it defines its country strategies from below, taking the causes of rural poverty as the basis for the development of the

national strategy. In this, it has gained a greater understanding of local poverty conditions and more experience in targeting the poor.

40. **Common strategies.** The Government has adopted the Development-Oriented Poverty Reduction Programme for Rural China, 2001-2010. The programme's principal aims in poverty reduction are achieved through a focus in implementation on ecologically sound agricultural development, the strengthening of marketing and financial services for the poor, encouragement for private entrepreneurs and farmer organizations and the development of off-farm economic activities, including appropriate migration. These areas correspond to the three main thrusts of IFAD's Strategic Framework 2002-2006 of equitable access to natural resources, finance and markets and the strengthening of grass-roots institutions. In addition, the time frame of IFAD's strategy will be from 2006 to 2010. Government and IFAD strategies are thus fully compatible, and IFAD support will be fully integrated with the government strategies.

41. **Commitment to marginal areas.** IFAD emphasizes the relevance of redirecting funds to marginal areas so as to create the basis for local rural development. In the context of the increasing migration to urban areas and the presence of vulnerable rural dwellers in remote areas, IFAD recognizes that promoting rural development is critical for those farmer families that cannot or do not want to migrate. Promoting local rural development will create the conditions necessary to absorb return-migration and to ensure the protection of marginal lands and environmental sustainability.

42. **Gender.** IFAD considers rural women to be the primary target group given that women play a focal, although often unrecognized role in the economy of poor rural households. Fostering gender equity is therefore one of IFAD's strategic objectives. In the context of the increasing feminization of agriculture and of poverty, IFAD's gender focus will assist in addressing the challenges faced by poor rural women and thus contribute to the social and economic empowerment of these women.

43. **Policy dialogue.** Within the existing policy framework, IFAD-funded projects have been successfully testing alternative approaches on a pilot basis; these approaches then constitute the foundation for a policy dialogue. In this manner, step-by-step adjustments in policies favouring the poor have been agreed upon with the Government. Examples include the targeting mechanisms in projects, the on-lending rate structure for IFAD resources and the involvement of RCCs in project credit operations. Through the decade old collaboration with WFP to test innovations in strategy and project design, such as the use of vulnerability analysis and mapping, participatory rural appraisal, food for training and food for work, IFAD has proven its capacity to establish partnerships and policy dialogues with international actors. In the future, IFAD field presence in the country and close partnerships with like-minded institutions such as GTZ will enhance IFAD's capacity for policy dialogue.

44. **Strategic thrusts.** IFAD alone cannot solve rural poverty in China. The Fund's niche is defined by emphasizing its catalytic role and developing innovative, strategic pilot programmes with governments and other donors for scaling up. The development of future IFAD poverty reduction programmes will be driven by two strategic thrusts: access and innovation. In line with its Strategic Framework, the Fund will promote poor women's and men's access to information and knowledge, to natural resources and their sustainable use, to appropriate financial services and to remunerative and premium quality markets. The Fund will introduce sector programmes as a new approach in order to focus efficiently its resources on a limited number of strategic opportunities. Positive results from pilot programmes will become a basis for policy adjustments and for scaling up with the Government's own resources. This follows the model established with the recently initiated RFSP.

B. Main Opportunities for Innovations and Project Interventions

45. Opportunities for IFAD support have been identified on the basis of the perceived causes of poverty, constraints on poverty reduction, the strategic considerations of both the Government and IFAD, the lessons learned through previous experiences and the analysis of institutional delivery capacities. The promotion of access and innovation will be major thrusts and a guiding principle for the following priority opportunities.

46. **Strategy design.** The Government's Development-Oriented Poverty Reduction Programme for Rural China, 2001-2010 was designed in 2000. It has largely achieved its objective, and there is a need to adjust the strategy for the second half of the programme to the present situation and characteristics of the poverty and vulnerability that remain. IFAD will consider providing grant support to relevant public and private policy institutions to conduct evaluations, policy analysis and strategy development. Potential themes would include market systems, market regulatory frameworks and rural financial services for the poor. In this way, the Fund will have the opportunity to pursue policy dialogue, advocacy and partnership-building at a high level.

47. **Microfinance and microenterprise development.** Reforms in the rural finance sector were initiated in eight provinces in 2002 by the Government. As the only international institution involved, IFAD is supporting the RCC reform through the recently approved RFSP, in which policy and institutional adjustments in selected RCCs are piloted. On the basis of the implementation experience and results of this programme, IFAD support will be provided to test policy and institutional adjustments and to extend some of the positive experiences obtained to additional pilot areas. To increase the effectiveness of rural finance and strengthen private sector development, a microenterprise development dimension will be added in future support efforts.

48. **Organic farming.** One of the causes of poverty and low farm income is the lack of market information and market linkages among poor households, which, as a result, tend to produce in bulk for undifferentiated markets. It is widely known that net returns on farm output could be increased through product differentiation, quality selection and sales in specialized markets. One relevant option is organic farming.

49. Chinese society is increasingly demanding high quality food, as has been observed in other growing economies. The Government has responded adequately by way of the introduction of the Green Food label as a quality standard for food safety and quality. The Green Food label has been a complete success; domestic sales soared to USD 8.8 billion by 2003, or about 8% of total domestic food sales. Organic agriculture was introduced in 1990, and production and export have been growing at a double-digit pace during the last ten years. While certified organic food still accounts for a very small share in the domestic market, with less than 1%, most certified products are exported to markets in North America, Japan and Europe. As domestic markets in the coastal areas are growing rapidly, it is expected that both green label and organic products can offer considerable opportunities for farmers. Examples from poverty-stricken provinces in China, such as Anhui province, demonstrate the potential of organic products for the rural poor.

50. The recently completed IFAD thematic evaluation on organic agriculture for poverty reduction provides the basis for sector support; it focuses on the market potential of organic farming as an instrument of poverty reduction. Possible options need to be worked out in cooperation with market operators, research institutions and policy-makers. (See Appendix III.)

51. **Marketing.** Poor farmers in remote marginal areas usually have only limited awareness of the developments within agricultural marketing systems, and the market transactions in which they engage with the outside economy are sporadic and of low value. Most of the support provided to poor farmers focuses on production, while research and extension services put scarce emphasis on

marketing. Overall income growth has boosted the demand for niche products such as tea and medicinal herbs. Experience in organic agriculture has demonstrated that niche products represent promising marketing opportunities. Nevertheless, it is equally important to ensure that conventional farmers also gain more access to marketing opportunities.

52. The current market liberalization in China will bring a number of challenges for farmers, particularly for those who are poor and remotely located. During recent years, the supermarket system in China has developed at a breathtaking speed in urban, as well as in rural areas, while the share of more typical market outlets such as local markets and state-run procurement has decreased. Studies have suggested that the share of supermarkets in agri-food sales could grow by up to 20% to 50% in rural areas and cities, respectively, by 2020. It is expected that supermarkets will become an important marketing channel for farmers, while it must be assumed that the majority of poor farmers will face difficulties in taking advantage of this opportunity. The lack of know-how, financial resources and infrastructure and the very limited bargaining power constitute the main constraints.

53. Opportunities exist for improving the access of poor farmers to markets and helping them to sustainably capture a more important share of existing net margins. An appropriate future strategy will start by: (a) bringing markets closer to small farmers; (b) assisting farmers in shifting to new cash-generating activities; and (c) covering some of the marketing risks due to seasonal price fluctuations. IFAD's approaches will entail, among other elements, support for marketing information systems and the promotion of professional farmer associations and direct sales contracts. All approaches will aim at efficiently linking farmers with their markets and support systems and the private sector.

54. **Gender.** As one of IFAD's strategic thrusts, gender mainstreaming has been initiated in the China country programme in due course. In coming years, the collaboration with the All-China Women's Federation and like-minded institutions at the national and local levels will be the linchpin for strengthening gender equity in rural areas. Collaboration will be sought for a larger pilot programme for the establishment of women's associations for income-generating activities. Drawing on similar experiences in other IFAD programmes, the programme will focus on technical and financial support for these associations and on the institutional strengthening of the All-China Women's Federation at all levels. In order to strengthen the role of the Federation in the policy and resource-allocation decision-making process, IFAD, together with other institutions, will explore ways to enhance the role of the Federation at the policy level.

55. **Technology transfer.** Improving the access of poor women and men to information, innovations and technology presents a major opportunity for the IFAD strategy. Two main areas have been identified: (a) the reorientation of the extension services of the Ministry of Agriculture to the demands of poor women and men farmers, and (b) support for the technical envoy approach currently being tested by the Ministry of Science and Technology. Because of the progressive liberalization of input and output markets, farmers are tending to make their production decisions more and more on the basis of a consideration of the net returns. There is a rising need for demand-driven and market-oriented technical advice, and extension messages need to be prepared on the basis of farmer demand and market developments in the local economy. Within this framework, a focus on the poor, who dispose of a more limited set of assets and resources, needs to be applied. A reorientation of the present extension system will include innovative, but proven approaches. This would proceed from grass-roots driven, participatory extension systems such as farmer field schools to purely market-driven service delivery to farmers. The technical envoy approach involves the farmers, who specify the type of advisory services and the expected minimum increase in farm incomes they expect. Services are rendered on a fee basis. IFAD will support the enlargement of the scope of the programme through the inclusion of non-farm economic activities and the strengthening of the gender focus. (See Appendix II.)

56. **Natural resource management.** The economic costs of the degradation of natural resources have been estimated at an average of 1.9% of GDP; soil erosion affects mostly poor households. IFAD support will start by aiming at the root causes of degradation. Community-driven approaches to improving the natural resource base in poor areas will be linked to the village development planning process and other legal bodies at each administrative level. Pilot sector programmes on natural resource management will enable the development of an integrated ecosystem management approach that entails the promotion of public awareness, capacity-building, adapted research and the development and testing of underlying policies. In this context, the involvement of the Global Environment Facility (GEF) will constitute a critical instrument. The Government has requested IFAD, as one of the executing agencies of the GEF, to assist in the development of projects within the Government-GEF Partnership on Land Degradation in Dryland Ecosystems, which is coordinated by the Asian Development Bank (AsDB).

57. **Design considerations.** The selection of areas for such pilot sector programmes will be based on poverty incidence and the potential for successful pilot implementation. As the implementation capacity in poverty-stricken counties could be less than it is in developed areas, capacity-building among implementing agencies will be an intrinsic part of programme design. To meet other priority needs of the poor in these areas, each pilot sector programme will also include a rural development fund. Using predefined criteria, this fund will support community investments identified through truly participatory village planning efforts. Monitoring and evaluation systems will be continuously improved using the Results and Impact Management System (RIMS) as the entry point for reassessing the current tools for benchmark surveys and reporting formats. Training in monitoring and evaluation will be provided for local project staff, while the field presence will be responsible for consolidating project reports and studies. The field presence will also be one of the instruments used to monitor IFAD's catalytic role for scaling up innovative poverty reduction approaches in rural development programmes and related policies.

C. Outreach and Partnership Possibilities with NGOs and the Private Sector

58. **NGOs.** Several international NGOs are active in China, including the Ford Foundation, Save the Children and Oxfam. At the national level, the concept of non-governmental agencies is not well developed, and the few existing agencies are closely linked to the Government, mostly through personal affiliations. Collaboration on the basis of grant funding will be pursued. IFAD will explore, together with the Government, the option of increasing the involvement of NGOs in IFAD's country programme.

59. **Private sector.** The Government increasingly regards the private sector as a dynamic force for national development because of its potential for employment and income generation. In line with government strategy, IFAD will foster rural development promoted by the private sector in areas such as marketing, trade and food processing. Avenues for private sector involvement will include the design and implementation of pilot projects, notably in organic farming, marketing and technology transfer programmes. The evolving banking sector will certainly represent another important opportunity in light of the planned liberalization in 2006. Along the lines of the IFAD's Private-Sector Development and Partnership Strategy (document EB 2005/84/R.4/Rev.1), investment operations will support the creation of family enterprises and related income-generating activities and foster partnership with private sector operators to create linkages between them and small farmers.

D. Opportunities for Linkages with Other Donors and Institutions

60. IFAD was the first United Nations agency to establish a cofinancing framework with a sister agency by starting, in 1996, a strategic partnership with WFP. Both agencies set up an effective collaboration mechanism for project design and financing. WFP, the Government of China and IFAD jointly funded nine projects, worth about USD 550 million, that assisted directly about 6.5 million poor people in 11 poverty-stricken provinces. The combination of WFP food aid and IFAD financial assistance has proved to be an efficient mechanism for targeting more efficiently the poor, build their productive capacity and increase their creditworthiness. The WFP-Government-IFAD partnership has also led to a greater weight in influencing policy dialogue. Examples include the promotion of participatory village development planning, which has become a national policy. The partnership will be terminated because WFP is to end its assistance to China during 2005, when China graduates to donor status. During recent years, IFAD has increased its efforts in building new partnerships, especially with those agencies that demonstrate complementarities with IFAD's strategic objectives and instruments.

61. As the role of development cooperation in China evolves, IFAD has recognized the need to collaborate with an agency such as GTZ that provides high-quality technical assistance. Opportunities with GTZ are offered notably through their support for natural resource management and economic and structural reform. It is expected that these areas will open ample opportunities for joint project activities and a policy dialogue on emerging issues such as the current reform of the rural finance sector. The objective is to make this collaboration strategic; the first joint exercise has been the preparation of the present COSOP. Close collaboration has already begun through the alignment of the project development pipeline and implementation modalities.

62. As one of the GEF executing agencies and as an institution focused on poverty, IFAD has a strong interest in participating in this important framework, and a first project, the Drylands Ecological Conservation and Rehabilitation Project entered the GEF project pipeline in 2003. Strong ties with AsDB as the implementing agency under this partnership have been established. IFAD promotes an integrated ecosystem approach through a combination of concrete programme-supported investments and the development of policies in the dry zones of China. In this way, IFAD, as the agency housing the Global Mechanism of the Convention to Combat Desertification, will also follow up on its commitment to the Convention.

63. A convergence of interests and strategies among multilateral and bilateral donors is emerging; it represents an opportunity to deepen collaboration among partners in development. (See Appendix V.) Linkages within the donor community are important for strengthening knowledge sharing and dialogue on policy issues. Complementarities with the country programme of the World Bank are created by the assistance for microenterprise development and the support for women-led income-generating activities. IFAD aims to improve knowledge and experience sharing with other, like-minded partners such as the Department for International Development (DFID) of the United Kingdom of Great Britain and Northern Ireland and AsDB in order to support the reform of the rural finance sector and to give it a poverty focus. DFID has already actively involved IFAD in informal donor consultations on rural finance. In addition to these matters, AsDB is working on market access, which is an area of increasing importance for IFAD target groups. IFAD participates actively in the United Nations Development Assistance Framework and the preparation of the Common Country Assessment. Given its support for women-related issues, the United Nations Children's Fund is a strategic partner, in conjunction with the All-China Women's Federation, in gender mainstreaming. The same is true of the recent country programmes of AsDB and the World Bank, which offer interesting areas of compatibility with the present COSOP, e.g. in environment protection and poverty reduction in marginal areas. In conclusion, ample opportunities exist for strengthening the cooperation among donors, especially in knowledge sharing and policy dialogue with the Government.

E. Areas for Policy Dialogue

64. Policy dialogue will continue to be firmly based on experiences obtained through the programmes. In the past, the continued promotion of participatory village development planning and the implementation and promotion of rural financial services through RCCs were successful examples of policy dialogue. The latter process permitted IFAD to participate in the national reform process in the rural banking sector through the RFSP. The implementation of pilot sector programmes as proposed under this COSOP will further opportunities for a dialogue with the Government on the adjustment of policies for sustainable poverty reduction.

65. The process through which policy dialogue will be effectively pursued will include regular workshops on strategic and policy issues and the widespread dissemination of project materials and studies, while IFAD's field presence, the Electronic Networking for Rural Asia/Pacific network in China and partnerships with national institutions and like-minded donors will enhance IFAD's capacity to engage in dialogue with the Government. The IFAD Performance-Based Allocation System (PBAS) will provide another platform for consultations on strategic policy issues aiming to render the PBAS a country-driven instrument. The 2004 PBAS assessment for China suggested a few areas in which policies could be improved in order to render investments in poverty reduction more effective. These areas will include enhancing access to land, addressing gender imbalances, improving social services and expanding access to efficient support services, including extension and rural financial systems. Most recent studies advocate also the need for setting up a legal framework for grass-roots organizations such as farmer associations to promote production and, more importantly, marketing. Assistance could be provided to review the regulatory framework for marketing in order to enhance its potential as an efficient poverty reduction tool. Acknowledging the efforts of the Government to reform a large number of sectors, IFAD will continue to offer assistance, through its grant programme, for refinements by piloting new methodologies.

F. Action Areas for Improving Portfolio Management

66. Overall, the current portfolio's performance has been satisfactory and reflects the commitment of the Government to poverty reduction and its capability in implementation. Impact studies have confirmed the positive impact of the projects on rural livelihoods. The project-at-risk score of the country programme was 4 in 2004, which reflects the fact that all but one project are meeting or surpassing the objectives in rural development and the expected progress in project implementation. The prolonged period necessary for reaching loan effectiveness has raised steadily growing concern in IFAD and the borrower. The establishment of a pipeline of several programmes for the coming five years is considered as an efficient tool to address effectiveness conditions satisfactorily, while continuing programme development in a timely fashion. Other, remaining issues should be duly addressed through the measures described below.

67. A critical element in achieving progress in implementation is the strong commitment of all stakeholders and, foremost among them, the national implementing agency. The cooperation with the Ministry of Finance is efficient and builds on a solid basis of trust. The Ministry is proactively involving other governmental agencies such as the National Development and Reform Commission, the China Banking Regulatory Commission and the State Council Leading Group Office on Poverty Reduction and Development, which are critical for the IFAD country programme. The field presence and efficient supervision modalities will additionally enhance the current good performance of the country programme. The cooperation with GTZ will assist IFAD in the provision of implementation support. Together with initiatives such as Knowledge Networking for Rural Development in Asia/Pacific Region, the field presence will assist in knowledge management and ensure that the lessons learned feed back into programme design and implementation.

68. The implementation of RIMS has been helpful in refocusing the project monitoring and evaluation systems. Additional resources will be provided to steer the programmes towards impact and, moreover, will contribute to lessening the risk of failure. Gender mainstreaming in the country programme will continue through the grant assistance of the Government of Japan and through training and the development of a gender guide in order to support design and strengthen national capacities.

G. Tentative Lending Framework and Rolling Programme of Work

69. The PBAS rating for China is positive with regard to macro, rural sector and portfolio performance indicators. The country score, together with the large population size, qualify China for an allocation far exceeding the cap allocation. With the inclusion of the cap under the present PBAS, China qualifies for an annual allocation worth about USD 23.8 million. A low-case scenario has been simulated in order to assess the potential impact on IFAD's allocation to the country of a deterioration in country performance. In order to drop below the maximum allocation, China's performance must worsen by at least 2 points in two of the applied indicators, viz., project at risk, rural sector assessment, or country policy and institutional assessment. It can be assumed with reasonable probability that such a deterioration will not occur given the current positive trends in performance indicators in social and economic development in the country.

70. Within IFAD's strategic framework and allocation of funds, IFAD will continue to invest in poverty-stricken areas in order to tackle the most resistant forms of poverty prevalent in fragile environments and among disadvantaged groups such as ethnic minorities. The lending programme will consist of a series of pilot sector programmes that could be complemented strategically through country and regional grants. The sector programme approach will follow the opportunities identified in the previous section. Assuming a low-case scenario, the programme approach would remain active because it offers flexibility for adjusting the scope, size and schedule of loans in accordance with any potential changes in country performance.

71. In case of an increase in the cap allocation or the annual lending volume, IFAD could expand the geographical coverage of its pilot programmes. This will, with some certainty, increase IFAD's direct impact on rural livelihoods, while it should also strengthen IFAD's role as a catalyst for innovative poverty-reduction approaches. In conclusion, IFAD's contribution to pro-poor policy issues could gain importance.

72. In the event that China graduates from IFAD's highly concessional terms to IFAD's intermediate lending terms, it is expected to continue to borrow, although it might reconsider the size and scope of the loans. However, the focus on sector style programmes within the present strategy offers the opportunity to adapt to changing conditions, unlike broad rural development interventions. The proposed pilot and innovative programmes aim to foster replication and scaling up in government programmes. In this way, the COSOP allows both partners to respond to changing lending conditions, and IFAD loans will continue to complement the government strategy for rural development.

73. IFAD will develop a pipeline of strategic sector programmes that follow its strategic thrusts in order to promote the access of the rural poor to innovative rural development approaches. As the sector programme approach constitutes, for IFAD and its partners, a rather new approach, it will require continuous revision and, eventually, adjustments of the current, proven implementation model. Therefore, the first pilot programme will embrace a few sectors, while placing great emphasis on participatory implementation and programme management. In this way, the strengths and weaknesses of the sector programme approach could be identified before a larger sector programme will be initiated. The first programme will also pilot a modular programme approach, which will involve a detailed design for part of the programme area and for a specific timeframe. The design will serve as a model for the remaining programme area in undertaking planning from the village level upwards

following common participatory-rural-appraisal principles. Implementation will be monitored according to indicators agreed at appraisal.

74. With the initial experience gathered under the first modular sector programme, the remaining lending programme will follow the opportunities identified in the present COSOP and endorsed during the country consultations. The timing of the start up, the objectives and the size of a sector programme will be part of a consultation process involving government agencies and multi- or bilateral partners such as GTZ.

APPENDIX I

COUNTRY DATA

CHINA

Land area (km² thousand) 2002 1/	9 327	GNI per capita (USD) 2002 1/	960
Total population (million) 2002 1/	1 280.40	GDP per capita growth (annual %) 2002 1/	7.3
Population density (people per km²) 2002 1/	137	Inflation, consumer prices (annual %) 2002 1/	-0.8
Local currency	Yuan Renminbi (CNY)	Exchange rate: USD 1 =	CNY 8.24
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	0.8	GDP (USD million) 2002 1/	1 266 052
Crude birth rate (per thousand people) 2002 1/	15	Average annual rate of growth of GDP 1/ 1982-1992	9.7
Crude death rate (per thousand people) 2002 1/	8	1992-2002	9.0
Infant mortality rate (per thousand live births) 2002 1/	30	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	71	% agriculture	15
Number of rural poor (million) (approximate)	n/a	% industry	51
Poor as % of total rural population	n/a	% manufacturing	35
Total labour force (million) 2002 1/	769	% services	34
Female labour force as % of total 2002 1/	45	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	13
School enrolment, primary (% gross) 2002 1/	114 a/	Household final consumption expenditure, etc. (as % of GDP)	44
Adult illiteracy rate (% age 15 and above) 2002 1/	9 a/	Gross domestic savings (as % of GDP)	43
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita,	n/a	Merchandise exports 2002 1/	325 565
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	16 a/	Merchandise imports 2002 1/	295 203
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	11 a/	Balance of merchandise trade	30 362
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	6 a/	before official transfers 2002 1/	21 627
Physicians (per thousand people) 1/	1	after official transfers 2002 1/	35 422
Population using improved water sources (%) 2002 3/	75 a/	Foreign direct investment, net 2002 1/	46 790
Population with access to essential drugs (%) 1999 3/	80-94	Government Finance	
Population using adequate sanitation facilities (%) 2002 3/	40 a/	Overall budget deficit (including grants) (as % of GDP) 2002 1/	-3 a/
Agriculture and Food		Total expenditure (% of GDP) 2002 1/	11 a/
Food imports (% of merchandise imports) 2002 1/	3	Total external debt (USD million) 2002 1/	168 255
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	2 463 a/	Present value of debt (as % of GNI) 2002 1/	13
Food production index (1989-91=100) 2002 1/	192	Total debt service (% of exports of goods and services) 2002 1/	8
Cereal yield (kg per ha) 2002 1/	4 867	Lending interest rate (%) 2002 1/	5
Land Use		Deposit interest rate (%) 2002 1/	2
Arable land as % of land area 2002 1/	15 a/		
Forest area as % of total land area 2002 1/	17 a/		
Irrigated land as % of cropland 2002 1/	35 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD ROM 2004

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2004

LOGICAL FRAMEWORK

Narrative Summary	Indicators	Means of Verification	Assumptions
Goal			
Results of pilot innovative approaches to poverty reduction applied on a large scale by government and other donors	<ul style="list-style-type: none"> - Millennium poverty goals increasingly achieved - Innovative poverty reduction programmes implemented - Poverty reduction issues integrated in Government policies - Poverty incidence in programme areas by gender - Improved household asset ownership by gender (RIMS indicator) - Reduced prevalence of child malnutrition by gender (RIMS indicator) 	<ul style="list-style-type: none"> - Policy statements - National statistics - Household surveys - Programme reports - Impact Assessments - Gender analysis 	<ul style="list-style-type: none"> - Continued policy support for poverty reduction - Continued overall economic expansion - Continued donor support for poverty reduction programmes - Increased incomes in poor households lead to higher asset ownership - Increased incomes in poor households lead to reduced child malnutrition
Objective			
Poverty incidence reduced in pilot programme areas	<ul style="list-style-type: none"> - Specific programme implementation indicators - Decrease in poverty incidence by gender (in %) - % of households with improved food security (RIMS indicator) - % child malnutrition reduced (RIMS indicator) - % asset ownership of poor increased, by gender (RIMS indicator) - Legal and policy framework facilitating poverty reduction 	<ul style="list-style-type: none"> - Programme reports - Impact assessments - Monitoring & Evaluation reports - Policy statements, laws, budget statements, etc. 	<ul style="list-style-type: none"> - Macro-policy framework remains favourable for development of sectors - Sector markets continue to provide incentives - Increased incomes in poor households lead to higher asset ownership - Increased incomes in poor households lead to improved food security

Narrative Summary	Indicators	Means of Verification	Assumptions
Outcome			
Access to innovative Micro-finance and micro-enterprise development by the rural poor is improved	<ul style="list-style-type: none"> - Loan portfolio performance micro-finance institutions (in %) (RIMS indicators) - No. of micro-enterprise support activities, by gender - Proportion of poor borrowers and microentrepreneurs by gender (RIMS indicator) - % increase in household incomes by gender - no. of new micro-enterprises , after three years (RIMS indicator) - micro-enterprises turn-over, profitability by gender 	<ul style="list-style-type: none"> - Programme reports - Impact assessments - Monitoring & Evaluation reports - Annual reports financing institutions - Annual reports micro-enterprise support agencies - Programme surveys - PRA analysis with stakeholders - MIX reports 	<ul style="list-style-type: none"> - Micro-finance legal and policy framework continues to be developed
<p>Gender programmes improved access to innovative income generating and social activities by women</p> <p>Local women associations strengthened</p>	<ul style="list-style-type: none"> - No. of women associations formed, economic activities undertaken - no. of income generating activities operated by women - Net returns obtained - no. of social activities undertaken by women groups - Participation of women in public offices at decision making level (in %;RIMS indicator) - Incidence of domestic violence (in no.) 	<ul style="list-style-type: none"> - Programme reports - Impact assessments - Monitoring & Evaluation reports - Annual reports of Women Federation 	<ul style="list-style-type: none"> - Positive gender policy framework is maintained and further strengthened - Institutional and policy framework for women' associations remains conducive
Organic farming improves livelihood of poor farmers	<ul style="list-style-type: none"> - % increase in yield in organic production - % organic marketing in total agricultural production. - Net returns for poor farm households by gender - % soil fertility enhanced - Biodiversity maintained - Employment creation (in no.) - % reduced chemical accident rates 	<ul style="list-style-type: none"> - Programme reports - Impact assessments - Monitoring & Evaluation reports - Annual reports organic operators - Export statistics - Local labour and health statistics 	<ul style="list-style-type: none"> - Demand for organic food continues to grow - Differential pricing for quality produce extends further to local markets and export markets

Narrative Summary	Indicators	Means of Verification	Assumptions
Outcome (cont'd)			
<p>Access to knowledge and technology sustainably improved through innovative pilot programmes:</p> <ul style="list-style-type: none"> - Agricultural extension services provide participatory support to poorest households - Cost-effectiveness of extension services improved 	<ul style="list-style-type: none"> - No. and range of technical improvements adopted by poor, by gender (RIMS indicator) - Net incomes of target group by gender - Gender specific extension programmes geared to needs of poor (in no.) - Net benefits of innovative farm operations as adopted by poor, by gender 	<ul style="list-style-type: none"> - Programme reports - Impact assessments - Monitoring & Evaluation reports - Annual reports Ministries involved 	<ul style="list-style-type: none"> - Output markets continue to provide incentive prices - Price differentiation according to quality extends to all local markets - policy framework remains conducive to organics
<p>Land degradation arrested and lands recovered;</p> <ul style="list-style-type: none"> - Integrated ecosystem management (IEM) approach widely adopted - Community natural resources management capacity strengthened 	<ul style="list-style-type: none"> - Areas recovered - % degradation rates declining - No. of households benefiting from improved environmental legal and policy framework including tenure rights (RIMS indicator) 	<ul style="list-style-type: none"> - Programme reports - Impact assessments - Monitoring & Evaluation reports - Annual reports Ministries involved 	<ul style="list-style-type: none"> - Increasingly erratic climatic conditions do not cancel recovery effects - Government support to recovery of degraded natural resources expanded - Collaboration with GEF established
<p>Marketing pilot programmes develop frameworks to improve farmers' margins:</p> <ul style="list-style-type: none"> - Contract farming has increased net margins for producers and reduced risks - Information networks have raised trade volumes of poor 	<ul style="list-style-type: none"> - Volumes traded (related to RIMS indicator) - Higher prices for quality differentiation of output (in %) - Number of operators, farmers by gender having signed forward contracts - No of forward contracts implemented, i.e. involvement of farmers by gender 	<ul style="list-style-type: none"> - Programme reports - Impact assessments - Monitoring & Evaluation reports - Annual reports Ministries involved 	<ul style="list-style-type: none"> - Rural terms of trade does not decline - Public support to private agribusiness and entrepreneurship remains
<p>Adjustments to National poverty reduction strategy produced.</p>	<ul style="list-style-type: none"> - Operational poverty concepts defined in terms of absolute and relative income levels (in no.) - Strategy statements adjusted (in no.) - Implementation of poverty reduction programmes (in no.) 	<ul style="list-style-type: none"> - Programme reports - policy statements - Impact and benchmark assessments - Monitoring & Evaluation reports 	<ul style="list-style-type: none"> - Government focus on poor maintained - Shift in concept of poverty from absolute to relative - Resources available for policy implementation

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Institution	Strengths	Weaknesses	Opportunities/Risks	Remarks
Poverty Reduction Office	<ul style="list-style-type: none"> - Responsible for nation-wide poverty reduction strategy design and implementation - Successful experience in poverty reduction - Strong coordination capacities, reporting directly to the State Council - Managing substantial poverty reduction resources - Competent staff - Decentralised organization, presence up to County level - Multi-sector coverage - Participatory village planning approach - Extensive donor support 	<ul style="list-style-type: none"> - Insufficient monitoring and impact assessment capacities - Previous shortcomings in targeting 	<ul style="list-style-type: none"> - Expressed need for adjustments in poverty reduction strategy - Request for IFAD support - High level of leverage for strategy support - Need for a shift in concept from absolute to relative poverty 	<ul style="list-style-type: none"> - Increasing costs to reach residual poor - Vulnerability of poor around the poverty line, resurgence of absolute poverty
China Banking Regulatory Commission	<ul style="list-style-type: none"> - Responsible for risk-based supervision of the whole financial sector - Promotion of both stability and innovation - Acting as apex organization of the RCCs - Outreach through 45.000 local RCC offices - Competent staff - Decentralised presence at province level 	<ul style="list-style-type: none"> - Short experience, established in 2002 	<ul style="list-style-type: none"> - Responsible for the IFAD supported RFSP - Implementing government sponsored pilot programmes for rural finance policy reform - Innovation oriented 	<ul style="list-style-type: none"> - Financial sector and RCCs Non-Performing Loans overhang
Organic food operators	<ul style="list-style-type: none"> - Expanding sales of food through supermarkets, ensuring one-third of urban supplies or USD 55 billion - Increasing organic sales through supermarkets - Trading companies promoting organic crop production, supporting transition - Local governments supporting organic production 	<ul style="list-style-type: none"> - Multiple scattered experiences 	<ul style="list-style-type: none"> - Strong growth in domestic and export demand - Low present input use in poor areas facilitates conversion - Important price differentials for organic output - Sustainable natural resources management 	<ul style="list-style-type: none"> - Competition from uncertified ecological foods - Competition from countries in the region

Institution	Strengths	Weaknesses	Opportunities/Risks	Remarks
	<ul style="list-style-type: none"> - Organic stimulates creation farmer groups or associations 		<ul style="list-style-type: none"> - Community development potential - Reduced financial risks - Conservation biodiversity - Increased use of rural labour - Reduced health and environmental risks 	
All-China Women Federation	<ul style="list-style-type: none"> - Promoting the interest of women in all fields - Federation structure from village up to State Council, strong field presence, 980.000 grassroots organizations - Strong poverty reduction focus - Competent and dedicated staff, NGO-style working environment - Effective innovative programmes in critical sectors 	<ul style="list-style-type: none"> - Limited resources - Lukewarm cooperation from other sector agencies, ministries 	<ul style="list-style-type: none"> - Undertaking pilot programmes with women associations - Established cooperation with IFAD funded projects at local levels 	<ul style="list-style-type: none"> - Use of loan funds for grant purposes
Ministry of Science and Technology	<ul style="list-style-type: none"> - Responsible for the nation's science and technology activities - Promoting rural and social development through effective technology transfer - Multi-sector coverage - Innovation oriented - Representations at province and county level 	<ul style="list-style-type: none"> - Limited resources 	<ul style="list-style-type: none"> - Undertaking pilot programme for technology transfer as instrument for poverty reduction 	<ul style="list-style-type: none"> - Overlap with sector agencies, ministries
Ministry of Agriculture	<ul style="list-style-type: none"> - Responsible for crop and livestock development - Important field presence, incl. Township level - Accumulated rich experience and knowledge - Experienced field staff 	<ul style="list-style-type: none"> - Research-led extension approach rather than demand responsive - No market orientation, production oriented - Focused on better-off lead farmers - No gender focus - Limited resources 	<ul style="list-style-type: none"> - Strong outreach and field presence 	<ul style="list-style-type: none"> - Competition from commercial extension and marketing

IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME

The proposed opportunities in the present COSOP are fully in line with the three strategic objectives of IFAD:

IFAD Strategic Objective	COSOP Opportunity
Strengthening the capacity of the rural poor and their organizations	Women associations, Farmer groups for marketing, Micro-finance group lending
Improving equitable access to productive natural resources and technology	Technology transfer, Community management of natural resources, Organic farming
Increasing access to financial services and markets	Micro-finance and micro-enterprise development, Marketing

They also correspond to the broad objectives of the Regional Strategy for Asia and the Pacific: IFAD support focuses on the poorest areas in China, it enhances women's capabilities, and it covers ethnic minorities who make up a large proportion of the poor, all main thrusts of the Regional Strategy.

The proposed lending volume reflects China's performance as evaluated in the PBA system.

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED

Donor/Activity	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
<p>World Bank</p> <p>The World Bank group is the largest multilateral donor to China. After the phasing out of IDA credits in 1999, World Bank annual lending programme has been declining.</p> <p>Lending in support of social sectors and pro poor rural development takes the form of IBRD lending (near commercial terms) combined with grants from DfID</p> <p>According to the Country Assistance Strategy (2003-2005), annual IBRD lending amounts to USD 1.25 billion. For fiscal years 2005-06 WB lending to China is expected to range from USD 2.4 billion to 2.8 billion for up to 25 projects. The 2006-2008 CAS is currently being developed.</p> <p>80 projects are currently under implementation with the portfolio concentrated in transportation (31%), urban development (25%), rural development (22%), energy (15%), and human development (6%).</p>	<ul style="list-style-type: none"> improvement of business environment and acceleration of the transition to a market economy addressing the needs of poorer and disadvantaged people and lagging regions through investment lending in rural development, transport and social sectors facilitating an environmentally sustainable development process through investment lending in water resource management, watershed rehabilitation and wasted water treatment, energy, global environment projects supported by GEF and Montreal Protocol 	<p>Focus sectors:</p> <p>Agriculture: Agricultural Technology Transfer Project, Jiangxi Integrated Agricultural Modernization Project, Gansu and Xinjiang Pastoral Development Project</p> <p>Social Sectors: Basic Education Project in Western Areas, China Tuberculosis Control Project</p> <p>Transport: Inner Mongolia Transport and Trade Corridor Project, Hubei Shiman Highway Project, National Trunk Highway System, Second National Railways project, China National Railway Project</p> <p>Urban environ. Mitigation: Guangdong Pearl River Delta Urban Environ. Project</p> <p>Water management: Water and Environment Management Project, Hai Basin Integrated Water and Environ. Manag. Project (GEF), China Hubei Hydropower Development in Poor Areas Project Energy</p>	<p>EB approved</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Not effective</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Not effective</p> <p>Ongoing</p> <p>Ongoing</p>	<ul style="list-style-type: none"> Interventions under present COSOP for the development of micro enterprises and income generating activities for women World Bank's investment in transportation could benefit access to markets and marketing for poor farmers in marginal areas PRC-GEF partnership on Land Degradation has been identified by IFAD as integral part of its NRM strategy Knowledge sharing and policy dialogue e.g. for the rural finance sector reform

Donor/Activity	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
<p>Asian Development Bank</p> <p>The Poverty Reduction Partnership (2003 – 2005) agreement, signed in September 2003, was revised by the Country Strategy and Programme Update (2005-2007). During 2005-07 ADB lending will be around USD 1.5 billion per year (same level as 2003).</p> <p>80% of lending will be in poorer inland provinces. Most of the programme (59%) is dominated by infrastructure lending, especially for transport. Funding for the TA programme has been reduced to USD 11 million from USD 13 million annually</p>	<p>ADB operations focus on four pillars:</p> <ul style="list-style-type: none"> Promoting equitable and inclusive growth: 65% of lending and 41% of non lending through infrastructure lending mainly for transport Making the markets work better: 26% of lending and 38% of non lending through knowledge-based products (TA on promotion of rule of law; financial sector reform and SME development) Promoting environment sustainability: 31% lending programme and 21% of non lending. PRC-GEF Partnership on operational programme 12 ADB supports the implementation of a China-GEF USD 150 million Partnership to address policy, institutional, technical and financing issues related to land degradation. Promoting regional cooperation: initiatives strengthening subregional cooperation in transport and trade (GMS and CAREC). Plus regional technical assistance Private sector development: ADB assistance focuses on infrastructure, financial sector environment 	<p>Sector focus:</p> <p>Transport: Central Sichuan Roads development/ Gansu Roads Dev. Projects; Dali-Lijiang Railway Project</p> <p>Agriculture and rural development: Jilin Water Supply and Sewerage Development</p> <p>Environment: Sanjiang Plain Wetland protection; Liaoning Environment Improvement Project</p> <p>Capacity building to combat land degradation project (GEF and ADB)</p>	<p>Ongoing</p> <p>Ongoing</p> <p>2005</p> <p>Ongoing</p>	<ul style="list-style-type: none"> Complementaries will be explored on access to markets and micro enterprises Within the GEF-PRC partnership, project development, policy dialogue and knowledge management on land degradation issues will be main areas of collaboration ADB enabling environment for private sector development could be linked up with IFAD support to micro enterprises and marketing systems

Donor/Activity	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
<p>JBIC-JICA</p> <p>Japan, through JBIC, is the largest source of bilateral financial assistance to China through infrastructure, water resource development, environment improvement projects. Assistance is decided on an annual basis. In fiscal year 2004 the ODA loan package for China totalled 85 billion yen (USD 800 million) for seven projects, down from 121 billion yen (USD 1.1 billion) in 2002.</p> <p>In 2001, the Ministry of Foreign Affairs of Japan released the “Economic Cooperation Programme for China” which has directed next five years (FY 2001-2005) of ODA policy for China.</p> <p>JICA provides about USD 100 million annually in grant and technical assistance</p>	<p>ODA policy priority areas were identified as follows:</p> <p>A. Cooperation towards resolving environmental and other global issues including infectious diseases</p> <p>B. Assistance for Open and Reform Policy through human resources development</p> <p>C. Promotion of mutual understanding through various programs such as dispatch of experts to China, acceptance of trainees from China, and support for Chinese students studying in Japan</p> <p>D. Assistance for poverty alleviation, especially in the field of health and education</p> <p>E. Support for private sector activities</p> <p>F. Promotion of multilateral cooperation.</p>	<p>Sector focus:</p> <ul style="list-style-type: none"> • Environmental conservation and protection: six environmental conservation projects, accounting for 94% of the total amount. • Human resource development and poverty reduction 		<ul style="list-style-type: none"> • As no previous partnership exist, a process of knowledge sharing through regular consultation will be initiated

Donor/Activity	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
<p>DFID</p> <p>Country Strategy (2002-2005) addresses extreme poverty, environmental sustainability, education and health.</p> <p>DFID provides funds entirely on grant terms. DfID's programme in 2003-2004 amounted to USD 60 million grants. In 2005/06 and 2006/07 it will amount to £35 (USD 66 million) and £40 million respectively.</p> <p>DFID's development strategy focuses on working with the government to meet the MDGs.</p> <p>DFID collaborates primarily with the World Bank and the UN system to implement projects and programmes and has introduced a new funding mechanism with the WB through blending of DFID grants with WB non concessional loans.</p>	<p>DFID focus on supporting government programmes on:</p> <ul style="list-style-type: none"> • health (which is the largest part of the programme): improvement of preventive services and basic health care. This includes major activities in HIV/AIDS prevention and care; support to rural and urban health sector reform; and to a national TB control programme • sustainable livelihoods: sustainable natural resource management, access to water and sanitation. • education: support to Government efforts on basic education 	<p>Projects are mainly based in Gansu, Sichuan and Yunnan provinces.</p> <ul style="list-style-type: none"> • £25 million committed to WB loan on access to education • Provides scholarship to 15,000 children every year • £25 million committed to HIV/AIDS work in China: HIV/AIDS Prevention and Care Project • £27 million provided to WB loan on TB diagnosis and cure • £31 million to strengthen the health system • £7 million to Yunnan province to develop an innovative way to tackle environmental management issues • Analytical support together with WB and ADB to the government of China on drawing the 11th Five Year Plan 		<ul style="list-style-type: none"> • Process of information exchange and lessons learning between IFAD funded South Gansu Poverty Reduction Programme and future DFID/WB funded Poor Rural Communities Development Programme on participatory approach to project planning and implementation (IFAD promoted participatory Village Development Planning). • DFID's focus on health and education is mirrored by the social sector development component (health, education, women in development) in ongoing IFAD funded projects • Knowledge sharing collaboration on thematic issues such as rural finance, participatory approach to project planning and implementation (Village Development Plan) and M&E • Informal donor meeting on pro poor financial services

Donor/Activity	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
<p>UN Development Assistance Framework 2006-2010</p> <p>UNDAF is a planning framework that aims to harmonize the operational activities for development of the UN in China</p>	<p>UNDAF priorities focus on:</p> <ul style="list-style-type: none"> • promoting growth with equity by helping the government develop social and economic policies that operationalise its Xiaokang vision • stronger focus on social development • better management of natural resources to ensure environmental sustainability • reducing HIV/AIDS, TB and malaria infection • strengthening China's role and contribution to regional and international cooperation 			<p>IFAD's commitment to the 2006-2010 UNDAF:</p> <ul style="list-style-type: none"> • Programme support to agriculture production in remote, marginal areas with a focus on most disadvantaged groups such as women and ethnic minorities and on increased access to sustainable rural financial services • Support to mainstreaming Participatory Village Development Planning for the promotion of economical and social development activities • Social sector developed through project support to ensure a more equitable and widespread access to health and education services in remote rural area • Efficiency in the use of fossil energy utilisation improved • Biodiversity measures including land improvement and conservation are promoted • Projects promoted in environment conservation, safe access to drinking water and water management in irrigation schemes

Donor/Activity	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
<p>UNDP</p> <p>UNDP mission is to make a critical contribution to reducing poverty in China by supporting initiatives to achieve growth with equity, gender equality and environmental sustainability.</p> <p>Scale of assistance totals USD 45 million in grants.</p>	<ul style="list-style-type: none"> • Democratic governance • Poverty reduction • Energy and environment: UNDP supports the Chinese government in integrating its environmental commitments with national development goals and microeconomic policies • HIV/AIDS and development 	<p>Integrity in Governance in China</p> <p>Human Resources Development for Governance and Institutional Reform</p> <p>On-going Subprojects in Democratic Governance</p> <p>Capacity Building to Support Pro-poor Fiscal Reform in China</p> <p>Institutional Strengthening for the Phaseout of Ozone Depleting Substances under the Montreal Protocol - Phase V</p> <p>Regional Empowerment & Action to Contain HIV/AIDS (REACH): Beyond Borders</p> <p>Community Based HIV/AIDS Care, Prevention and Poverty Reduction</p>		<ul style="list-style-type: none"> • Support to UNDAF • Knowledge sharing and policy dialogue on relevant issues including gender, PRA and rural finance

Donor/Activity	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
<p>GTZ</p> <p>Country Strategy developed in March 2003 focus on Economic Reform and Development of the Market System.</p> <p>Main focus areas:</p> <p>i) Economic and structural reforms</p> <p>ii) National resources protection and poverty alleviation</p> <p>iii) Environment protection and energy management</p> <p>IDA condition: Grant: USD 39.17 million (2002)</p>	<ul style="list-style-type: none"> • Economic & Structural Reform (Microfinance, Vocational & Technical Education & Employment; economic policy and control; Law, SME promotion,) • Natural Resources Protection & Poverty Alleviation • Environmental Protection and energy management 	<p>Economic reforms priority areas: economic policy, reform and transformation, legal advisory service assistance to SMEs and their financing, vocational training and job creation.</p> <p>On microfinance, GTZ provides technical assistance to financial institutions in rural areas to improve their management capacity, staff skills, lending procedures, information systems and strategies for mobilizing financial resources.</p> <p>Resource conservation and poverty reduction will be achieved through: integrated poverty reduction; sustainable land use, ecologically oriented agriculture and food security, water and soil conservation, water supply, conservation and sustainable management of forests, preservation and management of biodiversity.</p> <p>Renewable energies in rural areas</p> <p>Strategy for seam fire fighting in coal fields in PR China</p> <p>Research and training centre for wind energy.</p> <p>Protection and sustainable development of agricultural biodiversity in Hainan and Hunan. Quality assurance of agricultural products</p>	<p>Geographic coverage of projects is very wide</p>	<ul style="list-style-type: none"> • Establishment of a strategic collaboration between GTZ with IFAD whereby GTZ could act as a local advisor for knowledge transfer, policy dialogue and innovation • Strong synergies exist in the micro finance sector: GTZ technical assistance for capacity building, institutional reforms and product development in micro finance could be linked with the RFSP and to new programmes under the new COSOP related to rural finance and NRM. • Collaboration in the Natural Resources Management sector has been initiated. Technical cooperation between the ECPRP and the GTZ led PAAF project is piloted at field level in Ningxia and Shanxi province for participatory Natural Resources Management.

Donor/Activity	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
<p>AusAID</p> <p>The country strategy for China is currently under review. Focus on three main sectoral areas: governance, health (including HIV/AIDS) and environment, with a focus on water resource management.</p> <p>Scale of assistance amounts to USD 30 million grants</p>	<ul style="list-style-type: none"> Governance and policy reforms, including capacity building to enhance regional trade and investment Health, environmental management and assistance for regional security and stability 	<p>Human Rights Technical Assistance Programme</p> <p>China Capacity Building Programme</p> <p>Tibet Water Supply and Sanitation Project</p>		<p>IFAD promotes knowledge sharing and policy dialogue on trade and environmental and agricultural development</p>

