

Ministry of Finance, P. R. China
International Fund for Agricultural Development

**Evaluation Report on IFAD Country Program's Impact on Poverty Reduction in
Rural China
(1981-2006)**

**October, 2006
Beijing, China**

Contents

Contents

Monetary Exchange Rate, Weights and Measures, and Abbreviations

Executive Summary

Part I. Introduction

(I) Purpose and Scope of the Evaluation

(II) Methodology

Part II. Review and Assessment of IFAD's 25 Years in China

(I) Overall Assessment

1. A Brief Review

2. Benefit of IFAD funded projects

(1) Economic Benefit

(2) Social Benefit

(3) Ecological Benefit

3. Impact of IFAD funded projects

(1) Impact on food security

(2) Impact on farmers' income

(3) Impact on poor population

(4) Impact on poverty alleviation policy

(5) Impact on rural financial policy

(6) Impact on all-level government institutions, project offices and rural community-based organizations

(7) Impact on women and the marginalized groups

4. Project Management Efficiency

(1) Use of IFAD funded project fund

(2) Annual work plan and budget (AWPB)

(3) Monitoring and Evaluation (M&E)

(4) Project audit

5. Project Management Targets

(1) Pertinence between IFAD funded projects and government priorities

(2) Pertinence between IFAD funded project activities and demands of beneficiaries

(3) Pertinence between IFAD funded project adjustment and demands of beneficiaries

6. Project Sustainability

(1) Poverty alleviation and development

(2) Food security

(3) Management of environment and natural resources

(4) Capacity building

(5) Institutional building

(II). Strategy and Cooperation

1. Relationship between IFAD COSOP and poverty alleviation and development strategy of the Chinese government

- (1) IFAD country strategy (COSOP)
- (2) Poverty alleviation and development strategy of the Chinese government
- (3) Inherent relations between IFAD COSOP and the strategy of the Chinese government
- 2. Government input for IFAD funded projects
- 3. IFAD's co-operation with other institutions
- (III) Conclusions
 - (1) Outstanding project achievements
 - (2) Evident role in poverty alleviation
 - (3) Prominent demonstration effect
 - (4) Guaranteed sustainability
 - (5) Far-reaching social impact
 - (6) IFAD's improper way of ironing out differences in the cooperative parties by imposing pressure
The discrepancy between cooperative parties should not be eliminated by clamping down by IFAD
Further flexibility of project AWPB needed
 - (7) Further project management measures required for the rolling period

Part III. Experiences & Lessons

- 1. Major experiences of IFAD funded projects in China
 - (1) Great attention paid to IFAD funded projects by Chinese governments at all levels
 - (2) Complete project management mechanism
 - (3) New ideology of project design
 - (4) Strengthened capacity building and project sustainability
 - (5) Innovative project implementation in accordance with Chinese local conditions
- 2. Lessons learned from IFAD funded projects in China
 - (1) IFAD experts' project evaluation is incomplete
 - (2) On-lending modes of IFAD incremental credit need to be improved
 - (3) Systematic training is not enough for credit delivery and M&E
 - (4) Chinese project management institution needs to be readjusted

Part IV. Enlightenment & Suggestions

- 1. Enlightenments
 - (1) An integrated pattern for poverty alleviation and development
 - (2) A complementary and a win-win approach
 - (3) Democracy and acknowledgement in project design
 - (4) Equality of rights and responsibilities of project participants
 - (5) Policy orientation for rural financial market development
- 2. Some relations needed to be dealt with
 - (1) Policy-based finance versus development-based finance
 - (2) Risk avoidance versus project efficiency
 - (3) The sustainability of IFAD fund operation versus the sustainability of project management institutions
 - (4) Industrial development goals versus poverty reduction goals

- (5) Funds returned before production increase versus funds returned after production increase**
 - (6) Project sustainability versus project radiation**
 - (7) Direct household targeting versus IFAD's cooperation with government projects**
 - (8) Proportion control versus market orientation**
 - (9) Technical extension versus elements required for technical application**
 - (10) Scope and depth of project investigation in the project implementation period versus those of the rolling period**
- 3. Suggestions**
- (1) IFAD projects should further define project areas and ranges of project-related activities**
 - (2) IFAD should enlarge areas for demonstration of its poverty alleviation modes**
 - (3) IFAD projects should further promote sustainability of project management institutions and project targeting**
 - (4) IFAD projects should further improve design and management**

Appendixes

- 1. List of IFAD funded projects in China**
- 2. Name list of project officers participating expert investigation in project provinces**

Monetary Exchange Rate, Weights and Measures, and Abbreviations

Foreign Exchange Rate

Monetary unit: Yuan (RMB)

USD1.00 = 7.90 Yuan

RMB1.00= \$ 0.127

List of Weights and Measures

1 kg = 2.204 pounds

1000 kg = 1 mt

1 km = 0.62 mile

1 meter = 1.09 yards

1 square meter = 10.76 square feet

1 acre = 0.405 hectare

1 hectare = 2.47 acres

1 hectare = 15 mu

1 mu = 0.067 hectare

1 kg = 2 jin

1 jin = 0.5 kg

Abbreviations and acronyms

ACWF	All China Women's Federation
AsDB	Asian Development Bank
AWPB	Annual Work Plan and Budget
ABC	Agricultural Bank of China
BOF	Bureau of Finance
BOA	Bureau of Agriculture
BOW	Bureau of Water Conservancy
CNY	Chinese Yuan (RMB)
CO	Country Office
COSOP	Country Strategic Opportunities Paper
CP	Country Programme
FAO	Food and Agriculture Organization of the UN
FFT	Food-for-Training
FFW	Food-for-Work
GAD	Fender-and-Development
GEF	Global Environment Facility

GFP	Gender Focal Point
GTZ	German Agency for Technical Cooperation
GOC	Government of China
IAD	Integrated Agricultural Development
IFAD	International Fund for Agricultural Development
IRD	Integrated Rural Development
M&E	Monitoring and Evaluation
MOA	Ministry of Agriculture
MOF	Ministry of Finance
mt	metric tons
OPAD	The State Council Leading Group Office of Poverty Alleviation and Development
O&M	Operations and Maintenance
PAO	Poverty Alleviation Office
PBAS	Performance-Based Allocation System
PBC	People's Bank of China
PLG	Project Leading Group
PMO	Project Management Office
PRA	Participatory Rural Appraisal
RCC	Rural Credit Cooperative
RCCU	Rural Credit Cooperative Union
RIMS	Results and Impact Management System
RMB	Renminbi (CNY)
TOR	Terms of Reference
TOT	Training of trainers
UNOPS	United Nations Office for Project Services
USD	United States Dollar
SDR	Special Drawing Right
VAM	Vulnerability Analysis and Mapping
VDP	Village Development Plan
VIG	Village Implementation Group
WB	World Bank
WF	Women's Federation
WFP	World Food Programme
WID	Women-in-Development

Government fiscal year of the People's Republic of China:
(Jan. 1—Dec. 31)

Executive Summary

This report evaluates the effect of IFAD funded projects in China, especially their impact on the improvement of the government policies and patterns for poverty alleviation in rural China. The evaluation focuses on eight projects whose accounts were closed from 1996 to 2003. The report offers some suggestions on how to carry out future cooperation between IFAD and the Chinese government and how to accomplish IFAD funded projects in the recycling period and the new projects in accordance with the latest IFAD Country Strategic Opportunities Paper (COSOP), Chinese Poverty Alleviation Strategy in the new millennium and the Eleventh Five-Year Plan for poverty reduction.

The evaluation adopts the methodology of document review, on-the-spot investigation, individual interview, group discussion and case study, etc.

I. A Brief Review

The present report indicates that IFAD funded projects play an important role in the following three aspects: (1) IFAD funded projects introduce advanced views on poverty alleviation and successful patterns from other parts of the world; (2) IFAD funded projects positively supplement the poverty alleviation efforts in China; and (3) IFAD funded projects exert indirect influences on the overall strategy and policy improvement in rural poverty alleviation and development in China.

IFAD funded poverty alleviation in China over the past two decades can be generally divided into three stages. In the first stage, the projects are of small number and scattered widely; in the second stage, the projects are focused on the mid-west and; in the third stage, the projects are concentrated on the west, which shows that IFAD funded projects are gradually moving to the poor areas in China. The average scales of project loans remain almost unchanged in the three stages but the average number of beneficiaries becomes larger and larger, which proves that IFAD funded projects are more efficiently targeting poverty.

The implementation of IFAD funded projects has laid the foundation for the regular dialogues between IFAD and the Chinese government, and has strengthened the

relationship between the two sides. In the new round of poverty alleviation and development movement in China, IFAD will play a more important role in promoting rural poverty reduction and improving Chinese policies on rural poverty alleviation.

This report makes an evaluation on economic efficiency of IFAD funded projects by making a comparison between the accomplishment rate of IFAD investment plans, internal rate of return (IRR) and economic efficiency of IFAD funded projects. This report also makes an evaluation of the social impact of IFAD funded projects in the aspects of rural infrastructure, employment opportunities, women's family and social status, agricultural technical extension system and rural human resources. Furthermore, this report makes an evaluation on ecological effect of IFAD funded projects in the aspects of resources and environment. This report concludes that over the past twenty-five years, with the joint efforts made by the Chinese government, project management institutions at all levels and the beneficiaries in the project areas, IFAD projects have made great achievements in economic, social and ecological aspects, acted as an unsubstitutable catalyst in promoting the capacity building of the government project management institutions and community-based organizations, and encouraging the project managers and beneficiaries to remold their views.

II. Project Impact

Firstly, this report makes an overall evaluation on the impact of IFAD funded projects from three aspects: food security, farmers' income and the changes of impoverished population in the project areas.

Secondly, this report assesses the impact of IFAD funded projects on government policies in poverty alleviation from the following aspects: project targeting and helping the poor population, encouraging women to play positive roles, paying attention to project efficiency and beneficiaries' monitoring and evaluation, and strengthening the flexibility of the readjustment of project activities. This report also evaluates the impact of IFAD funded projects on China's rural financial policies in the aspects of establishing rural development fund for poor areas, developing rural financial institutions, building an anti-poverty mechanism with rural financial institutions and extending micro-credit projects.

Thirdly, this report evaluates the impact of IFAD funded projects on all-level government institutions, project management offices (PMOs) and rural community-based organizations in the aspects of strengthening the awareness of cooperation among government institutions, improving the project management ability and efficiency of all PMOs, cultivating qualified management personnel for agricultural foreign funded projects, remolding the views of project management staffs and project beneficiaries, encouraging the growth of rural community-based organizations and strengthening the farmers' awareness of self-management.

Fourthly, this report assesses the impact on women and the marginalized groups in the aspects of changing women's living conditions and the decision-making capacity, enhancing women's development ability and promoting professional standard of women's federations at local levels. Meanwhile, the report also points out the weaknesses of IFAD funded projects in this regard.

Fifthly, this report highly praises IFAD funded projects in the aspects of the scope and the degree to which IFAD funds cover poor households. The report makes a comparison between different credit on-lending modes, namely, the PMO mode, the BOF mode and the RCC mode in the following aspects: project targeting and clients, credit-line products and their quality, credit sustainability, safety of loan recovery, sustainability of on-lending institutions, operating cost of loan delivery, and sustainability of poor household targeting. Meanwhile, the report also analyzes and evaluates the interest rates of credit on-lending process and the risk of foreign exchange.

Sixthly, the report makes an evaluation of the effectiveness of IFAD funded projects' M & E system in the aspects of M & E institutions, M & E system, M & E priorities and methodology. It also points out the weaknesses in IFAD's monitoring and evaluation on the basis of affirming the positive aspects of the framework. The weaknesses include: incomplete application of M & E results and insufficient training for M & E personnel.

Seventhly, this report evaluates the relevance between IFAD funded projects and government development priorities from the following aspects: new rural development patterns, readjustment of agricultural production structure, improvement of farmers'

development ability, alleviation of rural poverty, the design and implementation of IFAD funded projects and their satisfaction of the needs of beneficiaries, readjustment of IFAD funded project activities and its fulfillment of the demands of beneficiaries.

Eighthly, this report makes a comprehensive evaluation on the sustainability of IFAD funded projects in the aspects of poverty alleviation and development, food security, management of environment and natural resources, capacity building and institutional building. It concludes that the project management institutions and personnel remain stable during the project implementation, the project management agencies of completed projects have been successfully transformed, post-project management has rules and regulations to follow, the follow-up management mechanism for the public assets of IFAD funded projects has been in place, and the new methodology and new views of IFAD funded project management will take continued effect. In the meantime, the report also points out problems such as a poor linkage during the transition of some PMOs after completion, a shortage of follow-up management funds for some projects, and a poor sustainability of the mechanism of women and poor farmer representatives in VIGs.

Ninthly, this report evaluates the internal connection between the COSOP of IFAD and the poverty alleviation strategy of the Chinese government from the aspects of coincidence of the overall goals, the synchronization of the strategic shifts, the complementarity of priorities, and the support of funds and policies for IFAD funded projects from the Chinese government.

Major conclusions drawn from this evaluation: IFAD funded projects have great economic achievements, excellent poverty alleviation effect, guaranteed sustainability, prominent demonstration role and far-reaching social impact; in the meantime, IFAD should not iron out differences between the cooperative parties by imposing pressure, flexibility of the project AWPB needs to be improved and project management in the rolling period should be further strengthened.

III. Experiences and Lessons

1. Major experiences of IFAD funded projects in China include: great attention paid to IFAD funded projects by Chinese governments at all levels; a well-developed

and complete project management mechanism; advanced ideology on project design; sufficient importance attached to capacity building and project sustainability; and the innovation during the project implementation according to China's local conditions.

2. Lessons learned from IFAD funded projects in China: IFAD experts' project evaluation is incomplete; on-lending patterns of IFAD incremental credit need to be improved; and systematic training is not enough for credit delivery and M & E.

IV. Enlightenment and Suggestions

The report points out that the most important enlightenment from IFAD funded projects is as follows: offering a poverty alleviation pattern integrating the participatory poverty reduction plan, technical training, loan support, monitoring & evaluation and flexible readjustment; offering a pattern for advantage complementary and win-win cooperation; improving the democracy and acknowledgement in project design and implementation through participatory method; enhancing the equality of rights and responsibilities of both male and female participants by gender mainstreaming approaches; working out a strategy for rural development fund in the poverty-stricken areas; differentiating policy implications between policy-based finance and development-based finance; and promoting the development of rural financial market.

The report proposes that some relations should be properly dealt with such as: policy-based finance versus development-based finance; risk avoidance versus project efficiency; the sustainability of IFAD fund operation versus the sustainability of project management institutions; industrial development goals versus poverty reduction goals; funds returned before production increase versus funds returned after production increase; project sustainability versus project radiation; direct household targeting versus IFAD's cooperation with government projects; proportion control versus market orientation; technical extension versus elements required for technical application and; scope and depth of project investigation in the project implementation period versus those of the rolling period.

The report suggests that: IFAD funded projects should aim at demonstrating advanced poverty alleviation patterns and give priority to promoting the transition of China's economic system. Specifically, IFAD funded projects should focus on China's

mid-west where the majority of the poor population inhabits; IFAD funded projects should focus on a limited range such as agriculture and fine-tune the rural community targeting; IFAD funded projects should cooperate with non-governmental organizations (NGOs) and the Chinese government, and cultivate demonstrative financial organizations at the grass-root level. IFAD funded projects should adjust project management institutions and improve project design and project management. And IFAD should participate in the experiment of the Poverty Village Fund in China.

Part I. Introduction

(I) Purpose and Scope of the Evaluation

The main purpose for this evaluation is to assess the impact of IFAD funded projects on the improvement of rural poverty alleviation policies and patterns in China. According to the results of IFAD funded project implementation in China for the past 25 years (1981-2006) and IFAD's latest Country Strategic Opportunities Paper (COSOP), the consultant group will offer suggestions on how to combine IFAD funded projects with China's poverty alleviation strategy and the country's eleventh Five-Year Plan in poverty alleviation in order to strengthen the dialogue between IFAD and the Chinese government for future cooperation. This evaluation will also summarize experiences and lessons learned from the implementation of IFAD funded projects and propose constructive recommendations for IFAD funded projects in the rolling period and other new projects in the years to come.

This evaluation is supposed to make an overall evaluation on IFAD funded projects in China. It is unfeasible, however, to make a complete evaluation on all IFAD funded projects in China due to a large time span, a wide range of project areas, and limited time and people. According to the suggestions of IFAD, this evaluation focuses on eight projects whose accounts were closed during the period from 1996 to 2003. These projects are:

- (1) L-I-254-CN: Yantai Integrated Agricultural Development Project in Shandong Province
- (2) L-I-281-CN: Shanxi Integrated Agricultural Development Project
- (3) L-I-300-CN: Baicheng Low-lying Land Development Project in Jilin Province
- (4) L-I-335-CN: Simao Agricultural Development Project in Yunnan Province
- (5) L-I-364-CN: Hainan Agricultural Development Project in Qinghai Province
- (6) L-I-395-CN: Ganzhou Agricultural Development Project in Jiangxi Province
- (7) L-I-424-CN: Integrated Agricultural Development Project in Northeastern Sichuan Province and Haidong of Qinghai Province
- (8) L-I-451-CN: Integrated Agricultural Development Project in Southwestern Anhui Province

(II) Methodology

This evaluation has adopted the methodology of document review, on-the-spot investigation, individual interview, group discussion and case study etc.

1. Document review

Members in the consultant group reviewed the related documents which include poverty alleviation and development strategy of the Chinese government, IFAD's COSOP, project evaluation reports, project mid-term evaluation reports, project monitoring and evaluation reports, project completion reports and some related policy documents.

2. Case study

In order to complement the desk review work, the consultant group went to some typical IFAD funded project areas in four provinces, i.e. Jilin, Qinghai, Shaanxi and Anhui to collect further information about poverty reduction, the situation of women, food security, management of resources and environment, capacity building,

institutional building and infrastructure sustainability, etc.

3. On-the-spot interview

The consultant group has also adopted the participatory approaches in the field work, such as key informant interview, focus group discussion, semi-structured interviews, and ranking etc. Different tools and approaches were adopted according to local circumstances.

4. Impact survey

Impact survey was used to conduct the assessment of the impact on and the effect of IFAD funded projects on poverty reduction.

This consultant group consists of three members:

Mr. Lizhou: group leader, expert on poverty alleviation and development and agricultural economics.

Ms. Sun Ruomei: expert on micro-credit and gender issues.

Mr. Shuai Chuanmin: expert on project management and capacity building.

During the period of September 5 - 23, 2006, the consultant group went to the project areas to make the on-the-spot investigation and studies in four provinces, namely, Jilin (Baicheng Low-lying Land Development Project), Qinghai (Hainan Agricultural Development Project, Integrated Agricultural Development Project in Northeastern Sichuan and Haidong of Qinghai Province), Shaanxi (Qinling Mountainous Area Integrated Agriculture Development Project, Shaanxi / Chongqing Rural Financial Sector Project) and Anhui (Integrated Agriculture Development Project in the South-western Part of Anhui Province). For the field visits of the consultant group, one county was selected in each of the four provinces visited, 1-2 townships were selected in each county, and 2-3 villages were selected in each township.

During the period of the consultants' field visit in the IFAD funded project areas, the consultant group was given great attention by, and received positive cooperation from, all-level project management institutions in the provinces visited. Therefore, the consultant group would like to take this opportunity to express their gratefulness to all the leaders and project managers who participated in and supported this evaluation and investigation.

Part II. Review and Assessment of IFAD's 25 Years in China

(I). Overall Assessment

1. A Brief Review

China joined IFAD in 1980. Since 1981, IFAD has offered or promised to offer preferential loans of 358.05 million SDR or 488.51 million USD for 19 projects in China. Chinese governments at all levels have also offered corresponding counterpart funds for these projects. These projects cover 130 poor counties in 24 provinces (cities/autonomous regions). The implementation of the projects has made important contribution to improving agricultural production conditions, upgrading agricultural production structure, promoting the economic development, social advancement and ecological construction in the project areas, to ensuring food security, increasing farmers' income and enhancing farmers' living standards in the project areas, and to assisting more than 15 million farmers to alleviate poverty.

IFAD funded projects in China play an important role in three aspects. Firstly, IFAD funded projects have introduced advanced views on poverty alleviation and successful poverty reduction patterns from around the world. Secondly, IFAD funded projects have positively participated in the poverty alleviation efforts in rural China. Thirdly, IFAD funded projects have exerted indirect influence on the overall strategy and policy improvement in rural poverty alleviation and development in China. IFAD funded projects in China can be generally divided into three stages:

The First Stage (1981-1986): in the first 6 years of IFAD's intervention in China, IFAD provided 4 projects, namely, Northern Grassland and Livestock Development Project (062-CN), Agriculture Development Project in Hebei Province (107-CN), Rural Credit Project (153-CN) and Integrated Freshwater Fish-farming Project in Guangdong Province (195-CN). For these projects, IFAD provided credits amounting to 86 million SDR, occupying 24.02% of the IFAD's total investment in China. These projects aim at alleviating poverty in the project areas through developing agriculture, livestock and fish-farming.

The Second Stage (1987-1998): during this stage of 12 years, IFAD provided 10 projects, namely, Livestock Development Project in Sichuan Province (233-CN), Yantai Agriculture Development Project in Shandong Province (254-CN), Integrated Agriculture Development Project in Shanxi Province (281-CN), Baicheng Low-lying Land Development Project in Jilin Province (300-CN), Simao Agriculture Development Project in Yunnan Province (335-CN), Integrated Agriculture Development Project in Hainan Tibetan Nationality Autonomous Prefecture in Qinghai Province (364-CN), Ganzhou Intergrated Agriculture Development Project in Jiangxi Province (395-CN), Sichuan/Chongqing/Qinghai Integrated Agriculture Development Project (424-CN), Integrated Agriculture Development Project in the South-western Part of Anhui Province (451-CN), and Integrated Agriculture Development Project of Wuling Nationality Minority Mountainous Area in Guizhou/Hunan Provinces (483-CN). For these projects, IFAD invested 175.02 million SDR, occupying 48.93% of IFAD's total investment in China. In this period, in order to cooperate with the development-based poverty alleviation policy of the Chinese government, IFAD made its first COSOP in 1987, in an effort to conduct large-scale land improvement, irrigation facilities and

integrated agricultural development, aiming at increasing grain production and income of beneficiaries in the project areas.

The Third Stage (1999-2005): in this period, IFAD provided five projects, i.e. Qinling Mountainous Area Integrated Agriculture Development Project (517-CN), Integrated Agriculture Development Project in West Guangxi (552-CN), Integrated Environment Protection and Poverty Alleviation Project in Ningxia Region/Shanxi Province (600-CN), Rural Financial Sector Project (643-CN), and Poverty Alleviation Project in South of Gansu Province (673-CN). For these projects, IFAD invested 96.85 million SDR, occupying 27.05% of IFAD's total investment in China. In order to cooperate with the West Development Strategy of the Chinese government, IFAD adjusted its COSOP in 1999. IFAD's new COSOP has provided positive cooperation with China's West Development Strategy and Rural Poverty Alleviation Strategy in the New Millennium, and made contribution to alleviating poverty in the rural project areas in West China by promoting the integrated agricultural development, water and soil conservation, human resources advancement of the ethnic minorities, gender equality, non-farm income generating activities and technical training.

From the perspective of project implementation, by the end of September 2006, of the total 19 IFAD funded projects, 5 projects approved after 1999 are still on-going, and the rest 14 projects approved before 1999 have all completed their first-round of project loan activities. From the perspective of the loan conditions, except Hebei agricultural development project and Guangdong freshwater fish-farming project that are intermediate loans, the remaining 17 projects are all high preferential loans. From the view of IFAD funded project cooperating institutions, except Hebei agricultural development project (107-CN), rural credit project (153-CN) and Guangdong freshwater fish-farming project (195-CN) which are supervised by World Bank, the remaining projects are all supervised by UNOPS. From the angle of the project investment channels, 12 projects are solely invested by IFAD and 7 projects are co-invested with WFP. In other words, except Rural Financial Sector Project (634-CN), all the projects that were approved after 1996 are co-invested projects between IFAD and WFP. The cooperation between IFAD and WFP is complementary, with the result of innovating rural credit investment system, widening the project coverage, and enhancing the feasibility and sustainability of IFAD funded projects.

The four projects in the first stage were scattered widely, stretching from Hebei and Guangdong in the east, Heilongjiang and Hubei in the middle to Nei Monggol in the west. The project loan recovery periods vary greatly. Some are as long as 50 years, while others are 20 years. The grace periods include five years, eight years and ten years respectively. Not many beneficiaries are covered, with an average of only 31,000 households per project. The projects in the second stage focused on the Mid-west. The average beneficiaries per project increased to 152,000, which is five times as much as that of the first stage. The projects in the third stage were concentrated in the West. The average beneficiaries increased up to 254,000, which is 67% higher than the second stage. The average loan scales of IFAD funded projects in the three stages remain stable, but the average beneficiary coverage becomes wider and wider, demonstrating that IFAD funded projects in China are doing a better job in targeting poverty and enlarging

beneficiary coverage (See Table 2-1).

Table 2-1 Area-targeted, Average Loan Scale and Average Beneficiaries of IFAD funded projects in Three Stages

	Area-Targeted	Average Loan Scale (\$10000)	Average Beneficiaries (Household)
First Stage	Nationwide	2425.0	30925
Second Stage	Mid-west	2438.5	152190
Third Stage	West	2644.0	254000

Sources: Website of IFAD (<http://www.ifad.org>) and “IFAD in China”

The implementation of IFAD funded projects has laid the foundation for the regular dialogue and the friendly relationship between IFAD and the Chinese government, facilitated the process of alleviating rural poverty in the project areas, benefited the improvement on China’s rural poverty reduction policies, and will play an increasing demonstrative role in the new round of poverty alleviation and development effort in China.

2. Benefit of IFAD funded projects

Among the 8 IFAD funded projects that the consultant group focused their attention for this evaluation in 7 provinces in China (Shaanxi, Hubei, Chongqing, Qinghai, Anhui, Jilin and Shanxi), all projects have been completed and entered the rolling period, except the project in Shaanxi and Hubei (517_CN). These projects have a total budgeted investment of 2,013.6 million yuan (RMB), of which, IFAD credit portfolio amounts to 43.86 million USD (equivalent of 1,094.87 million yuan), accounting for 54.4% of the total investment budgeted, and the Chinese government counterpart funds are 918.74 million yuan (RMB), occupying 45.6% of the total budget. By the end of October 2006, the total amount of investment completed for these projects have reached 133.71587 million USD (equivalent of 1,049.73 million yuan), representing 92.94% of the total investment budgeted. Except the project (IFAD_517) in Shaanxi and Hubei provinces that is still at the stage of first round of loan withdrawal and has completed about 70% of the total investment planned, all other projects have all been completed with the investment completion ratio varying from 91.2% to 104.33% (see Table 2-2).

This evaluation shows that for the past twenty-five years, with the cooperation between IFAD and the Chinese government, through the joined efforts of the government agencies and project management institutions at all levels, as well as the beneficiaries in the project areas, IFAD funded projects have achieved great economic, social and ecological benefit, and played an irreplaceable role as a catalyst in promoting the capacity building of the government, project management institutions and community-based organizations, and updating the ideology and views of the project managers and beneficiaries in the project areas.

Table 2-2 Investment Completed of Selected IFAD funded projects in China

	Total Investment Planned (10,000 RMB)	Of which: Government counterpart (10,000 RMB)	IFAD Budget		Project Investment Completed		Completed (%) of Total
			(10,000 USD)	(10,000 RMB)	(10,000 USD)	(10,000 RMB)	
Total	201360.77	91873.6	14386.58	109487.17	13371.587	104972.59	92.94
1. Shaanxi 517_CN	27606	12500	1820	15106	1268.2	10475.2	69.68
2. Hubei 517_CN	16217.3	7239.1	1086.18	8978.2	760.1	6272.7	69.98
3. Chongqing 424_CN	23422.14	12156.14	1133	11266	1033.3168	8475.34	91.20
4. Haidong in Qinghai 424_CN	4873.38	541.61	521.90	4,331.77	478.54	3,955.16	91.69
5. Hainan in Qinghai 364_CN	31753.65	14,353.65	2,000.00	17,400.00	1,885.33	15,599.47	94.27
6. Southwest Anhui 451_CN	48019.1	22304.1	2563	25715	2534	19639.7	98.87
7. Beicheng in Jilin 300_CN	26791.1	11983.9	2762.5	14807.2	2882.1	21876.2	104.33
8. Shanxi 281_CN	22678.1	10795.1	2500	11883	2530	18678.82	101.20

Sources: calculated based on data provided by the project completion reports and M & E reports of the provinces concerned.

(1) Economic Benefit

● Through the implementation of IFAD funded projects, the rural infrastructure in the project areas has been greatly improved, the agricultural production structure has been readjusted and optimized, agricultural products have been greatly increased, the farmers' income has been raised and good economic benefit has been achieved. From the economic results of the above-mentioned 8 projects, 1,245,700 households with 5,164,800 population has benefited in the project areas, the farmers' per capita net income has been raised from 589.25 yuan before the project to 1,231 yuan after the project, increasing by 108.91% (see Table 2-3). In Southwest Anhui Integrated Agricultural Development Project, for instance, the farmers' per capita net income has been increased from 521 yuan in 1995 (baseline) to 1558 yuan in 2003, increasing by 199% (see Table 2-6). After the project implementation, the internal rate of return (IRR) of the Southwest Anhui Project has reached 34.2%, exceeding the expected project goal of 22.8%.

(2) Social Benefit

With the implementation of IFAD funded projects, the project areas have also achieved good social benefit, which can be depicted from the following five aspects:

Table 2-3 Changes of Farmers' Net Income of Selected IFAD funded projects in China (A Comparison of Before and After Project)

	No. of Households (No.)	Project area Population (No.)	Net income before project (RMB)	Net income after project (RMB)	Added (RMB)	Increased by (%)
Total	1245737	5164761	589.25	1231	641.75	108.91
1. Shaanxi 517_CN	244730	938920	765	1375	610	79.7
2. Hubei 517_CN	181460	723936	777	1042	265	34.1
3. Chongqing 424_CN	93340	363429	709	1291	582	82.1
4. Haidong in Qinghai 424_CN	57,345	262,300	315	691	376	119.37
5. Hainan in Qinghai 364_CN	56,000	325,000	589	907	318	53.99
6. Southwest Anhui 451_CN	123410	514319	521	1558	1037	199
7. Beicheng in Jilin 300_CN	378252	1588857	748	1184	436	58.2
8. Shanxi 281_CN	111200	448000	290	1800	1510	520.69

Sources: calculated based on data provided by the project completion reports and M & E reports of the provinces concerned.

- *The infrastructure has been greatly improved in the project areas.* Firstly, the transport condition has been improved. Through the construction of rural roads, many project villages have eradicated the backwardness caused by the isolation from the outside world. The Southwest Anhui Integrated Agriculture Development Project, for instance, has built 68 km of new roads and renovated 252 km of existing roads, making every village accessible now, which has constructed a bridge between project beneficiaries in the rural areas and the cities and agricultural product markets. Secondly, safety drinking water for human and animals is guaranteed. In order to solve the drinking water problem for human and livestock, and facilitate the use of water for farmers and herdsman, Haidong Project in Qinghai Province has constructed water diversion pipes of 87.45 km, dug 188 wells connecting running water to the houses of farmers and herdsman, benefiting 6,638 people and 11,750 animals. The improvement of water facilities has enhanced the health of farmers and herdsman, reducing the endemic diseases caused by unqualified drinking water and liberating women from the heavy work of water collection. Thirdly, the housing condition of the farmers in the project areas has been improved. With the emergence of project economic benefit and the increase of farmers' income, more and more households have built new brick houses

and even storeyed buildings and the construction speed becomes faster and faster. Fourthly, villages in the project areas have taken on good looks. The project training activities have spread health knowledge and awakened the health awareness of the farmers, making villages appear tidier and cleaner. Fifthly, the telecommunications condition in the project areas has been improved. For example, in the Northeast Sichuan/ Chongqing Project areas, 60% of project villages have installed telephones.

● ***Work opportunities have been greatly increased in the project areas.*** With the development of rural enterprises, Nanpi County of Hebei agricultural development project offers jobs for 15,300 rural surplus laborers, of whom 11,000 are women. Guangdong freshwater fish-farming project has constructed 2,206 hectares of fish ponds, offering many jobs for the poor households in the project areas. There are 3,296 specialized households contracting fish ponds, solving the problem of jobs for 6,552 farmers. Hubei rural credit project has created 99,300 jobs, benefiting 287,000 farmers.

● ***Women's family and social status have been greatly raised.*** IFAD funded projects pay much attention to gender mainstreaming, i.e. the equality of men and women. In the project design, there are women-targeted literacy and technical training activities as well as income generating credit components specially designed for women. Through institutional arrangement, IFAD funded projects have increased women's participation in the project management and implementation. The implementation of IFAD funded projects has greatly raised women's family and social status. For instance, Southwest Anhui Integrated Agriculture Development Project has 1,224 project management officers, 286 of whom are women, occupying 23.4% of the total PMO staffs. The implementation of Jilin low-lying land development project has made women become direct participants and managers in handicrafts, business operation, livestock and poultry raising, green-house vegetable planting, and mountain local products collection. More than 20 women are awarded as "Experts on Farming" or "Champion for Income Generation and Poverty Eradication". According to incomplete statistics on Haidong Agricultural Development Project in Qinghai Province, for recent years, there are: 50,269 beneficiaries participating in various technical training programs on agriculture, forestry and animal husbandry, among whom 24,843 are women, accounting for 49.42% of the total number of beneficiaries participated; 7,714 people (person/times) taking part in literacy training, among whom 6,264 are women, occupying 81.20%; 6,955 women involving in the training programs on practical techniques and 5,300 women receiving training on medical and health care.

● Agro-technological extension system has been strengthened. The implementation of IFAD funded projects has reinforced the means and functionality of agricultural technical services and completed the agricultural technical extension system in the project areas. For instance, Southwest Anhui Integrated Agriculture Development Project has newly established and renovated 35 agro-technical extension and veterinary stations at the township level, and provided necessary technical expansion equipment for five agro-technical extension and veterinary centers at the county level. Through extensive training programs given by agricultural technicians, every household has grasped one or two practical techniques, promoting the transfer of technological achievements into productive forces.

● *The human capital of farmers has been enhanced.* The implementation of IFAD funded projects has greatly improved the development ability of the farmers in the project areas, strengthened the awareness of development and prosperity, inspired their enthusiasm for poverty alleviation and development, and reinforced their confidence to change the backwardness of the poor project areas when more and more people who have become prosperous by income generating activities based on the industries initiated by IFAD funded projects.

(3) Ecological Benefit

The implementation of IFAD funded projects has increased the forest coverage in the project areas and improved the ecological environment. For instance, through an integrated development of mountains, water, farmland, forest and roads, the Sichuan sub-project of the integrated agricultural development project of Northeast Sichuan has improved an irrigated area of 156,000 mu, recovered and increased cultivated land of 64,000 mu, and harnessed and developed an eroded area of 243,000 mu. As a result, soil erosion has been prevented, soil fertility conserved and ecological environment improved. The project areas have greener mountains, cleaner water and fresher air than before.

Integrated agricultural development project of Shanxi Province has increased the project area's ability to fight against natural calamities by way of land development. So far, through the improvement of 290,000 mu of low-yielding farmland, it has turned 83,000 mu of upland into paddy fields and 207,000 mu of land into high yielding fields. The project has also improved 189,000 mu of grassland to prevent soil erosion and effectively balance the development of livestock and pasture. The five counties in the project areas have increased 47,000 mu of farmland and 34,000 mu of forested land through land improvement, which has effectively improved the ecological environment.

Hebei integrated agricultural development project has reduced saline-alkali land from 246,000 mu (16,400 ha) to 76,000 mu (5,066.6 ha), decreasing by 70%; of which the most serious saline-alkali land has decreased by 83%. The irrigated area has been increased by 125%, and 350,000 mu (23,333 ha) of waterlogged lowland has been basically brought under control. Saline-alkali land in Quzhou County has been decreased from 11,067 ha to 3,552 ha; forestry coverage rate has been increased from 4.7% to 18.7%. The micro-climate of farmland has been improved, laying a good foundation for the agricultural ecological environment.

3. Impact of IFAD funded projects

(1) Impact on food security

IFAD funded projects are all scattered in the remote rural areas where poverty incidence is relatively high. The shortage of grain for households is one of the major problems in these areas. Therefore, raising the degree of household food security through grain production increase is the major target of IFAD funded project activities. IFAD funded projects have: effectively controlled water loss and fertility erosion through land improvement measures such as soil deepening; increased the utilization efficiency of water resources and enlarged irrigated area through perfecting water conservancy facilities; and provided support for the poor households in the aspects of improved crop seeds, additional fertilizer and plastic film mulching techniques through

delivering seasonal incremental credit. Through joint measures and efforts, the average per capita grain output in the project areas have increased from 243 kg before the project implementation to 359 kg after the project implementation, raising 116 kg (see Table 2-4), realizing food self-sufficiency with some surplus and reaching the designed project goal. If deducting data for Haidong, Hainan and Shaanxi project areas where grain production is not the main target, the household food security degree would be even higher.

Table 2-4 Changes of Average Grain Production in Project Areas

Unit: household, person, kg/year

	Households	Population	Before project	After project	Amount added	Increase rate
1.Shaanxi project	226960	918682	230.92	303.5	72.58	31.43
2.Hubei project	160852	626700	278	353	75.00	26.98
3.Northeast Sichuan project	93340	363429	369	448	79	21.4
4.Haidong project	54513	291024	140	270	130	92.9
5.Hainan project	63800	370300	130	256	126.00	96.92
6.Southwest Anhui project	123400	514319	135	281	146	108.1
7.Jilin project	101000	450000	233	581	348.00	149.36
8.Shanxi project	111200	448400	371.6	618	246.40	66.31
9.Simao project	94949	487417	435	527	92	21.1
Total			235.94	388.81	152.87	64.79

Sources: calculated based on data from project completion reports and M & E reports.

Although the per capita average grain production in Haidong and Shaanxi project areas is still low, the livestock output in these areas is increasing very fast. Table 2-5 shows that the amount of cattle, pigs and sheep that the farmers consumed in Haidong project areas increased by 320.6%, 36.4% and 119.0% respectively. As a result, food security has also been promoted in these project areas. Table 2-8 reveals that the farmers average meat consumption in Northeast Sichuan project area has changed from 44.1 kg in 1996 to 60.0 kg in 2002, increasing by 36.1%. At the same time, grain consumption has reduced from 325.4 kg to 293.0 kg, decreasing by 10%, showing that meat and grain are substitutes to a large degree.

Table 2-5 Changes of Farmers Livestock Sales and Self-Consumption in Haidong Project Area of Qinghai Province

		No. Sold			No. Self Consumed		
		Cattle	Pig	Sheep	Cattle	Pig	Sheep
2003	Ping'an	5018	25161	70457	488	4473	4837
	Hualong	18927	17727	126511	5260	13829	25357
	Xunhua	19661	407	47156	830	5108	4368
	Total	43606	43295	244124	6578	23410	34562
1997	Ping'an	928	4296	9137	93	2019	1016
	Hualong	2630	4480	29703	965	12073	13598
	Xunhua	9254	205	26164	506	3066	1166
	Total	12812	8981	65004	1564	17158	15780
Total of 2003/Total of 1997		240.4	382.1	275.6	320.6	36.4	119.0

Sources: Haidong project completion report 1-5-7, 2004

(2) Impact on farmers' income

Low average income is another major problem in the poor areas. Therefore, increasing farmers' income through improving the allocation of resources is another main target of IFAD funded projects. Since 1981, with the strong promotion of IFAD funded projects, agricultural production conditions in the project areas have been greatly improved. More importantly, the comparative resource advantages have emerged after the readjustment of agro-industrial structure. The increase of production and the functioning of the comparative resource advantages have raised the income of most farmers in the project areas.

In terms of 8 projects in 7 provinces that the consultant group focuses their attention, there are 1,245,700 households, 5,164,800 population benefiting from the projects, the farmers' per capita net income has been raised from 589.25 yuan before the project to 1,231 yuan after the project, increasing by 108.91% (see Table 2-3). In Southwest Anhui Integrated Agricultural Development Project area, the farmers' per capita net income has been increased from 521 yuan in 1995 to 1558 yuan in 2003, increasing by 199% (see Table 2-6).

(3) Impact on poor population

IFAD funded projects play a positive role not only in increasing the farmers' average grain production and average income, but also in promoting poverty alleviation. Generally speaking, poverty alleviation projects can cover 40-50% of poor households in the project areas. The income of the households selected is generally lower than the average income of the poor. By participating project activities, the income of all selected households has exceeded the average income of the project areas. What's more, IFAD funded projects also apply category and graduation system to the poor households. The village project implementation group (VIG) divides the households into three categories. Category A is the rich households; category B is the relatively poor households; category C is the poorest households. IFAD funded projects give priority to category B and category C. Through an annual selection and graduation system, the

projects can effectively target the poor households in need and offer more help for different categories. The generally accepted datum is that IFAD funded projects have made great contribution to poverty alleviation for 15 million farmers in all project areas in China.

Table 2-6 Changes of Average Income in Southwest Anhui Project Area (1995-2003)

Project Areas	2003	1995	Anticipated goal of project evaluation	Compared with 1995		Compared with project evaluation	
				Increase or decrease	± %	Increase or decrease	± %
Huoshan County	1660	596	1474	1064	178.5	186	12.6
Jingzhai County	1618	516	1463	1102	213.6	155	10.6
Yuexi County	1579	483	894	1096	226.9	685	76.7
Taihu County	1458	522	913	936	179.3	545	59.7
Qianshan County	1460	490	950	970	198.0	510	53.7
Average	1558	521	1139	1037	199.0	419	36.8

Sources: calculated based on data from the “Completion report of Integrated Agricultural Development Project in Southwest of Anhui Province”

Table 2-7 Changes of the No. of Poor Households before and after Project
Unit: No. of households

	Before Project				After Project			
	Total No. Households	Category A	Category B	Category C	Total # Households	Category A	Category B	Category C
Shaanxi project	164154	37294	56224	70636	168961	110840	10437	47684
Hubei project	182698	21957	132929	27812	181891	51662	117129	13100
Northeast Sichuan/Chongqing project	93340	10683	28489	54168	93340	76229	14018	3093
Haidong project in Qinghai Prov.	57,345	11,636	37,848	7,861	60,489	24,484	32,328	3,677
Southwest Anhui project	123410	18635	97124	7651	123410	3209	80093	40108
Shanxi project	111272	6672	93480	11120	40030	4000	33230	2800
Total	732219	106877	446094	179248	668121	270424	287235	110462
No. of poor households	625,342				397,697			

Sources: calculated based on data from project completion reports and M&E reports of relevant provinces.

Data from Shaanxi, Hubei, Chongqing, Qinghai, Anhui and Shanxi projects show that with the implementation of IFAD funded projects, the number of the rich households (Category A) has changed from 106,877 before project to 270,424 after project, increasing by 163,547 or 153%. The number of the poor households (Category B and Category C) has dropped from 625,342 before project to 397,697 after project, decreasing by 227,645 or 36.4% (See Table 2-7).

Data from Northeast Sichuan/Chongqing Integrated Agricultural Development Project reveal that the total income of the project area had changed from 341,522,000 Yuan in 1997 to 660,893,000 Yuan in 2002, increasing by 319,371,000 Yuan or 93.5%. The farmers' average net income had risen from 709 Yuan in 1997 to 1291 Yuan in 2002, increasing by 582 Yuan per capita or by 82.1%, with the average annual growth of 97 Yuan per capita.

Table 2-8 demonstrates that of all the 93,340 benefited households in Chongqing project area, there are 76,229 households who have alleviated poverty after the implementation of the project, occupying 81.66% of the total number of benefited households; there are 13,018 households who are basically free from poverty, accounting for 15.01% of the poor households. The number of the poorest households (Category C) had decreased from 54,168 in 1996 to 3,093 in 2002, and the percentage numbers of this category of households had dropped from 58.03% in 1996 to 3.31% in 2002. According to the poverty alleviation standards, 288 out of 509 project villages have alleviated poverty, occupying 56.6%. Table 2-9 shows that Northeast Sichuan project area has improved its economic and social conditions. The number of the poorest population had reduced from 432,000 in 1996 to 65,000 in 2002, decreasing by 85.0%. The number of poor population had changed from 308,000 in 1996 to 259,000 in 2002, decreasing by 16%.

Table 2-8 Changes of the Poor Households in Chongqing Project Area

Category of households	Category A		Category B		Category C		Total
	Number of households	Percentage on the total %	Number of households	Percentage on the total %	Number of households	Percentage on the total %	
1996	10683	11.45	28489	30.52	54168	58.03	93340
1997	13491	14.46	34213	36.65	45636	48.89	93340
1998	23324	24.99	34681	37.15	35335	37.86	93340
1999	34275	36.72	38811	41.58	20254	21.70	93340
2000	49499	53.02	29843	31.96	14028	15.02	93340
2001	58197	62.35	26239	28.11	8904	9.54	93340
2002	76229	81.67	14018	15.02	3093	3.31	93340

Sources: "Completion report of Northeast Sichuan/Chongqing Integrated Agricultural Development Project", 2004.

Table 2-9 Changes of Socio-economic Data in Northeast Sichuan Project

		1996	1997	1998	1999	2000	2001	2002
Total population of the project area	1000 person	796.4	802.8	812.1	818.3	822.5	825.5	826.6
Per capita grain production	Kg	380.4	408.9	450.9	498.4	508.2	496.0	515.1
Per capita grain consumption	Kg	325.4	316.4	311.8	314.4	305.2	301.6	293.0
Per capita Livestock livestock products per person	Kg	50.0	52.2	56.3	60.8	66.0	64.7	67.7
Per capita meat consumption	Kg	44.1	47.8	49.2	51.9	57.4	58.4	60.0
Per capita net income	Yuan	480.0	580	698	892	1106	1182	1291
Poorest population	1000 person	432.0	377.0	284.0	185.0	112.0	80.0	65.0
Poor population	1000 person	308.0	334.0	393.0	450.0	412.0	358.0	259.0
Non-poor population	1000 person	56.0	92.0	135.0	183.0	298.0	387.0	512.0

Note: The average income of the poorest is less than 530 Yuan; the average income of the poor is less than 750 Yuan; the average income of the non-poor is more than 900 Yuan.

Sources: Appendix 16 to Completion Report of Northeast Sichuan Project

(4) Impact on poverty alleviation policies

The improvement of the government policies on poverty alleviation in China derives from the independent decision-making of the government departments in charge. But there are many elements that exert indirect influences on the decision-making of this issue, including the experiences from international poverty alleviation organizations. IFAD is the earliest international organization that has participated in China's poverty alleviation. It has provided many successful experiences for poverty alleviation in China. IFAD's indirect impact on the poverty reduction policies of the Chinese government can be described in the following aspects.

— **To realize the goal of helping the poor.** The direct goal of all IFAD funded projects is poverty alleviation. And IFAD has many practical methods to carry out this noble goal. Firstly, in the project design, project areas are identified and defined according to the poverty incidence and vulnerability of townships. Secondly, the targeted households are selected by the village project implementation groups (VIGs), and the selected households usually have a lower income than the village average. Generally speaking, IFAD funded projects can cover 40-45% of the poor households in the project areas. Thirdly, project activities are defined according to the demands and ability of the poor households. Fourthly, through the integration of technical training, micro-credit and business cooperation, IFAD funded projects make it possible for the poor households to participate in the projects and become successful. The general

evaluation shows that the income of the poor households participating in the projects exceeds the average income of the project areas. Poverty reduction methods of this sort have been widely used in China's poverty alleviation in the new millennium, especially in the promotion of Whole-village Poverty Alleviation Initiative.

In addition, IFAD funded projects have two other pro-poor methods that are worth mentioning. Firstly, it offers micro-credit with no mortgage and guarantee, which helps poor households to get loans more easily. Secondly, it delivers micro-credit according to market interest rates so that to eliminate the possibility that some powerful non-poor households would get the loan if low interest rates were adopted. Although the Chinese project management personnel have not widely accepted the two methods, more and more people are beginning to accept these practices that are exerting more important influences on poverty alleviation policies in China.

— **To bring out women's role in poverty alleviation.** Generally speaking, rural women not only positively take part in IFAD funded projects, but evaluate the project impact on families more sensitively and more accurately. Therefore, IFAD concludes that if women are the ones who make the decision on whether or not to participate in the project and then sign the contract, the family-level project selection is more cautious, the implementation of the project is more effective and women's rights and responsibilities are more balanced. Although the Chinese government has been engaged in the equality of men and women, men-centered culture is still deeply rooted in the rural areas. IFAD funded projects highlight women's decision-making in family affairs, which once met with resistances. Some households and even some Chinese project management staff consider that since poverty alleviation projects target poor families and demand the cooperation between husbands and wives, it doesn't matter who signs the contract. And it is unnecessary to break the tradition of "men in charge of exterior affairs and women in charge of interior ones".

However, as a result of the excellent performances of project activities for women, the principle of bringing out the initiative of women is being accepted by more and more people. Especially in the aspect of poverty alleviation using micro-credit, the ideology of paying more attention to women has been widely recognized, which will exert more and more influences on poverty alleviation policies in China.

— **To give priority to monitoring and evaluation (M & E) of project efficiency and beneficiaries.** IFAD funded projects consider that monitoring and evaluation of the efficiency of poverty alleviation projects and the beneficiaries plays a very important role in discovering whether the implementation of the projects is in line with the goals of poverty alleviation and whether the project activities and the measures taken need adjustment. Under the influence of IFAD funded projects, Chinese government officers have realized the importance of monitoring and evaluation of the project efficiency and beneficiaries. Corresponding to this change, the establishment and completion of the M & E system for poverty alleviation and beneficiaries has become one of the important issues for the improvement of the existing policies on poverty reduction in rural China.

— **To strengthen the flexibility of project readjustment.** IFAD funded projects have a long lag period from planning to the implementation of the project. Despite the fact that much investigation and studies have been made during the period of project

identification and designing, plus the rapid economic growth, continual promotion of industrial structures and institutional transition, the planned project activities may become invalid due to the change of the supply-demand structure and China's economic reform. Therefore, IFAD gives more flexibility to the implementing institutions in readjusting project activities. The strategy of flexible readjustment of poverty alleviation projects also applies to the poverty reduction plans made by the Chinese government. This flexible strategy emphasizes that project activities must adapt to the changes of the market. If it takes the place of rigid and legalized strategy approved by the Chinese government, it will exert positive influences on promoting government policies on poverty alleviation in China.

(5) Impact on rural financial policy

IFAD pays most attention to two tasks in China: one is to promote the development of Chinese rural financial institutions, and the other is to provide micro-credit for the poor households in the project areas. Particularly since the middle of 1990s, IFAD funded projects have stuck to the goal of cultivating rural financial institutions in the project design and the principle of cooperating with the existing rural financial institutions. With the development of Chinese financial reform, the financial restrictions on micro-credit are being reduced, and IFAD has made great achievement in fulfilling its tasks. Generally speaking, the impact of IFAD funded projects on rural financial policies is revealed in the following aspects:

— **To set up rural development fund in poor areas.** The implementation period of IFAD funded projects (i.e. the first round of loan delivery) is usually five years. But the fund delivered needs to roll for about 40 to 50 years in the project areas. The idea and essence of this is to set up a rural development fund in the poor areas and to continuously promote anti-poverty cause in rural areas. In a sense, IFAD has become the first to establish rural development fund in poverty-stricken rural China. From the exploration of establishing such funds in China in recent years, the impact of IFAD funded projects on rural financial policies is beginning to emerge.

— **To cultivate rural financial institutions by providing low-interest loans.** In China, it is usually the financial institutions that provide low-interest loans to poor farmers, and the government financial department will subsidize the interest margin. The risk of this practice is that the low-interest loan is likely to be obtained by those rich farmers who are closely related to the government or to the financial institutions. What IFAD funded projects do is to provide low-interest loans for the on-lending financial institutions, which then deliver micro-credit for the poor households according to the market interest rates. Because the rich farmers need large amount of loans, the strict restriction on specified amount makes it possible to target poor farmers. To provide low-interest rate for the financial institutions not only makes up their extra cost in micro-credit delivery, but also helps them grow rapidly. The rapid growth of the rural financial institutions plays a very important role in promoting the development of the poor areas. Although the practice of IFAD funded projects does not make obvious effect due to its early appearance, it is certain that the influence of this practice on China's rural financial policies will come out with the development of country's rural financial reform.

— **To set up the mechanism for the rural financial institutions to participate in poverty alleviation.** Some people consider that the rural financial institutions pursuing for maximum profits are difficult to play a positive role in poverty alleviation. So, rural financial institutions are not expected to make great contribution to poverty alleviation. But the practice of IFAD funded projects shows that rural financial institutions can play the positive role in alleviating poverty as long as the strict interior regulations and the strict exterior audit system are set up and appropriate assistance is provided. Although Chinese project management staffs have not widely accepted IFAD's principle that rural financial institutions are important in reducing rural poverty, the influence of this principle on the rural financial policies will reveal eventually with the continuous development of the rural finance.

— **To ensure that poor households can make effective use of micro-credit.** From on-the-spot investigation, we have found that the project offices as well as the financial institutions are unwilling to provide micro-credit to poor households because they hold to the idea that the poor farmers are unable to make effective use of the loan. However, IFAD's experiences based on the delivery and return of micro-credit demonstrate that the poor farmers have the ability to accomplish the project and also the creditability to return the loan on time, if they choose proper production activities and are equipped with technical training and demonstration. In this sense, IFAD's successful experience of delivering loans for the poor farmers will help to eliminate the discrimination against poor households from government officials and project officers, and improve rural financial policies.

(6) Impact on all-level government institutions, project management offices and rural community-based organizations

The implementation of IFAD funded projects has exerted great influences on government organizations, project management offices (PMOs) and rural community-based organizations and greatly promoted the institutional and capacity building in these institutions.

— **To strengthen the awareness of cooperation between government organizations.** The Chinese government has great executive ability to adjust and control social resources. For a long time, the departments are used to doing their work independently, including the management work for various kinds of rural development projects. Since the beginning of 1980s, the cooperative ability of the government organizations has been challenged with the appearance and implementation of IFAD agricultural and rural integrated development projects aiming at poverty alleviation. The project leading groups at all levels are established led by the government executive leaders (governor of the province, city mayor, prefecture administrator, county/ district magistrate, head of township) and the provincial *Project Management Agreement* is signed to strengthen the cooperation between different departments, which sets up a framework for the government departments to offer help and cooperation in the implementation and management of IFAD projects. The effective functioning of this project management framework guarantees the smooth implementation of IFAD funded projects and also provides a model for other poverty alleviation projects in China. For example, Hubei set up a project leading group in 1984 to plan and implement Hubei

rural credit project (IFAD-153-CN). Late on, other project leading groups were set up one after another, such as the one in charge of integrated agricultural development project in the Wuling mountains, the one in charge of integrated agricultural development project in the Qinling mountains and the one in charge of foreign-funded agricultural projects. These project leading groups have worked efficiently and effectively in implementing and managing the related projects.

— **To increase the management ability and efficiency of PMOs at all levels.** In order to make sure that project management offices (PMOs) at all levels act as the directing and coordinating center, IFAD has carried out a lot of training on project management, including the annual project management workshop, the start-up workshop to launch every project, and several PRA and M&E training classes, in which there are over 1700 project management officers taking part. This has contributed a lot to the capacity building of PMOs at all levels. IFAD has also strengthened the construction of project management hardware, offering computers, printers, fax machines, photocopiers, digital cameras and vehicles etc necessary for project management and project monitoring and evaluation.

During the implementation of IFAD funded projects, advanced theories and management methods have also been introduced.

VAM method was introduced and implemented by IFAD funded projects from 1997. This method has greatly raised the accuracy to target the poor and vulnerable townships; it has also provided valuable experience for the new round of poverty alleviation and development as well as the progress of the Whole Village Poverty Alleviation Initiative in China.

PRA method was introduced and implemented by IFAD funded projects from 1998. PRA method encourages the peasants to make decisions by themselves. The beneficiaries will not passively accept the arrangement made by the project management staff. Instead, they can express their demands and select projects by participating in the making of VDPs. The implementation of PRA method has changed the Chinese traditional top-down decision-making pattern and enhanced democratic and scientific decision-making on project identification and selection. Nowadays, this self-reliant decision-making ideology has been widely accepted in the construction of the New Socialist Countryside in China.

RIMS was introduced and implemented by IFAD from 2003. RIMS has played a positive role in strengthening project efficiency and influence of M & E and improving management standard for IFAD funded projects in China.

The introduction and implementation of advanced management tools and methods, especially the introduction of new theories and methods on project management, has helped IFAD PMOs to improve their management ability, standard and efficiency and will continuously exert influences on the project management in the new round poverty alleviation and development in China.

— **To cultivate a lot of management personnel for foreign-funded agricultural projects.** For the last 25 years, a lot of versatile experts have been cultivated through participating in IFAD funded projects. They have technical and management knowledge and are familiar with the principles of projects with international cooperation. They

have become the important force in promoting the new round of poverty alleviation and the management of new foreign-funded agricultural projects. A lot of officers have got trained in IFAD funded projects. They have improved their professional and versatile ability and have been promoted for their work. According to the statistics of Jilin Provincial PMO for the IFAD funded project, there are 1,506 officers participating in the project management and implementation during the preparation, implementation and rolling period (1989-2006), of whom 116 officers have been promoted, occupying 7.7% of the total number of the officers. Out of 284 women officers, 21 of them have received promotion, occupying 7.04% of the total number of women officers. The proportion of men and women being promoted are roughly the same (See Table 2-10). Seven water conservancy engineers in Qinghai Province, by building up their ability and becoming more professional through participating in IFAD funded project, have been selected and sent to Nigeria as water conservancy experts by the Chinese government, making their contribution to worldwide south-south cooperation.

Table 2-10 Promotion of Project Officers in Jilin Project Area

	Project officers (full-time and part-time)			Officers who are given a promotion		
	Total	male	female	Total	male	female
Preparation period	470	397	73	28	21	7
Implementation period	559	474	85	43	37	6
Rolling period	477	351	126	45	38	7
Total	1506	1222	284	116	96	20
Promotion percentage (%)				7.70	7.86	7.04

Sources: calculate based on data from Jilin IFAD PMO, Sept. 2006.

— **To change the ideology of project officers at all levels.** The implementation of IFAD funded project has increased the sense of openness, the sense of market and the sense of competition of the project officers. In particular, the ideologies of bottom-up democratic decision-making, targeting the vulnerable groups, women and children have played an important role in changing the ideas of project officers at all levels.

— **To promote the growth of rural community-based organizations, and to strengthen the farmers' sense of self-management.** The implementation of IFAD funded projects has promoted not only the progress of agro-industrialization but also the growth of rural community-based organizations, especially the growth of farmers' associations for production in the project areas. Various kinds of farmers' associations emerge in the project areas. They connect scattered "micro-production" of the households with the changeable "macro-market", which not only solves the marketing problem of agricultural and by-products but also promotes the farmers degree of organization and increases the sense of self-management of the households. According to the statistics from Jilin IFAD PMO, there are 92 farmers associations in the project areas with 53,600 households, of which there are 5 women associations with 7,230 households (See Table 2-11).

Case 1. A Staff of PMO:

“I’ve greatly benefited from IFAD funded project”

-- Mr. Ying Guangwen, Director of Foreign Affairs and Foreign Trade Division of Anhui Agricultural Committee (Director of Anhui IFAD funded project Office):

I have learnt a lot and got many valuable experiences and lessons from IFAD/WFP project management work in over ten years. I’ve greatly benefited from the project. The most important reflection is that IFAD not only provides funds with favorable terms, but also improves the views on poverty alleviation for the project officers at all levels. In the past, we did not pay much attention to the participation of the underprivileged and women as well as the participation of the project beneficiaries in decision-making during the management of international cooperative projects. We thought that the project officers at all levels were superior to farmers and should decide for them on what projects were needed. After the participatory rural appraisal (PRA) in IFAD/WFP projects, I am surprised to find that the farmers in the project areas have higher ability and higher sense of participation in project decision-making than we had expected. I am deeply impressed by this discovery and I will benefit from it in my future work in the project management.

Hefei City of Anhui Province
September 10, 2006.

We paid a visit to the Soybean Product Processing Association in Qinlingpu Village in Heilongkou Town of Shangzhou Prefecture of Shangluo City in Shaanxi Province. There are 40 households taking part in the association which has regulations, the account number, the stamp, and the corporate body certificate. The aim of the association is to connect the households who make soybean products with the market in Xi’an City so that to reduce the market risk and increase the income of the members.

Table 2-11 Farmers Associations in Jilin Low-lying Land Improvement Project
(300-CN)

Project City (Prefecture)	Association Category	No.	Households Participated	Organization Form
Baicheng City	Rice Association	5	17600	Organized spontaneously by the households
	Cattle-raising Association	18	9100	Organized spontaneously by the households
	Sheep-raising Association	7	4800	Organized spontaneously by the households
	Chilli Association	10	6400	Organized spontaneously by the households
	Green Bean Association	5	3200	Organized spontaneously by the households
	Other Associations	20		Organized spontaneously by the households
Women Project Associations	White Geese Association	2	5200	Led by Women’s Union
	Brooms Association	1	700	Organized spontaneously by the households

	Steamed Bean Dumpling Association	1	970	Organized spontaneously by the households
	Wickerwork Association	1	340	United by big households
Yanbian Prefecture	Pollution-free Standardized Production Association	2	2736	Organized spontaneously by the households
	Soy Bean Sauce Association	1	100	Organized spontaneously by the households
	Bees-raising Association	2	156	Organized spontaneously by the households
	Sun-flower Production Association	1	249	Organized spontaneously by the households
	Soy Bean Production Association	1	826	Organized spontaneously by the households
	Cattle-raising Association	2	66	Organized spontaneously by the households
	Manual Pressing Flour Association	1	32	Organized spontaneously by the households
	Patty-field Duck-raising Association	1	135	Organized spontaneously by the households
Baishan City	Deer-raising Association	2	120	Organized spontaneously by the households
	Sheep-raising Association	1	70	Organized spontaneously by the households
	Cattle-raising Association	1	110	Organized spontaneously by the households
	Frogs-raising Association	1	60	Organized spontaneously by the households
	Chickens-raising Association	1	50	Organized spontaneously by the households
	Vegetable Planting Association	1	80	Organized spontaneously by the households
	Herbs Planting Association	1	100	Organized spontaneously by the households
	Ginseng Planting Association	1	240	Organized spontaneously by the households
	Mountain Grapes Planting Association	1	70	Organized spontaneously by the households
	Edible Fungus Cultivation Association	1	90	Organized spontaneously by the households
Total		92	53600	

Sources: data provided by Jilin IFAD funded project Office, September of 2006.

The Village Implementation Group (VIG) in the project village is the basic executive organization of IFAD funded projects. It is in charge of the mobilization of farmers, labor force organization and project implementation. A VIG is made up of the village head, other members of the village committee, and women and poor household representatives. The establishment of this basic executive organization with poor households and representatives of vulnerable groups gives the opportunities for the poor households and women to express their demands and participate in the project activities, which is also in agreement with IFAD's goal to alleviate poverty, and increases the sense of self-management of the farmers.

Case 2: President of Sericulture Association: The association paves the way to prosperity

Mr.Fan Qiaosong, president of Sericulture Association in Chashui Town of Qianshan County in Anhui Province (director of IFAD Town Project Office):

The Sericulture Association in Chashui Town of Qianshan County was established in 2000. There are 188 members and 500 purchase-contracted households. The association covers the sericulture areas of the town and spreads to the 6 surrounding towns. At present, there are 4 stretches of mulberry fields, each of which is more than 1,000 mu. There are 24 stretches of mulberry fields, each of which is more than 100 mu. There is a high-quality and high-yielding pilot mulberry garden with 280 mu. The association builds a bridge between the mulberry growers and the market, and helps the mulberry farmers to alleviate poverty and become rich. To be more specific, the association plays an important role in the following three aspects:

- (1) **The association helps farmers increase their income.** The association lowers the production and transactions cost for its members by offering unified production materials and unified silkworm cocoon sales. The association helps to increase the farmers' income by extending new variety and new technology with increased output. 40% of the association's profit is distributed to cash shareholders, 30% of it is distributed to products shareholders, 20% of it is distributed to the contracted buyers, and 10% of it is kept for development fund. In 2005, out of 188 households who participated in the association, the lowest annual income was 17,000 Yuan and the highest was 40,000 Yuan. Out of the households who contracted the purchase, there are 468 households whose annual income is over 10,000 Yuan, and there are 689 households whose annual income is over 5,000 Yuan.
- (2) **The association leads the growers to the market.** The most important function of the association is to build a bridge between the micro-business of the scattered households and the changeable macro-market so that the small households can share the benefit of the exterior economies of scale. There are 188 members in the association. Each member signs a contract with five households so that they can make progress together.
- (3) **The association helps the households to increase their ability to avoid market risks.** To protect the interest of its member households, the association purchases the products with the lowest protective prices. It carries out "basic price purchase, actual price sale, and classified reward", which greatly helps the members to increase their ability to avoid market risks.

Chashui Town of Qianshan County in Anhui Province
September 11, 2006

(7) Impact on women and the marginalized groups

■ **To change the living and business conditions of women beneficiaries.** IFAD funded projects have designed special loans for women and poor households, which offer opportunities for women and poor households to conduct income generating activities. IFAD projects demand that women sign their names when they get the loan so that they can make decisions independently in productive activities and business activities. Women-targeted loan overcomes the disadvantage that the production loans concentrate on traditional men-centered production areas. For instance, through the special micro-credit, women have become equal to men in the management, participation and contribution of the project. In Jilin Baicheng project, for example, the Women's Federation has developed 3,200 non-farm specialized households, and delivered loans directly to women with technical training. The total amount of the loan that women's federation delivered was initially 1,340,000 Yuan, and later it reached 3,000,000 Yuan, increasing by more than one fold. Women's projects pay special attention to cultivating model households during project implementation. In 2005, one of the National Top 10 Women specializing in agricultural production was from this project area. Southwest Anhui project area provided 62,818,000 Yuan of credit fund for women and 6,363 households have benefited from it.

Besides, IFAD funded projects try their best to provide job opportunities for poor women and poor households. For instance, poor women can get wages and food by participating in the project activities. For the poor women and the households who lack job opportunities, this is the important way to improve their economic conditions.

■ **To improve women's development ability.** The improvement of women's development ability can be shown through the following aspects: firstly, women's development environment has been improved. The environment improvement conducive to women's development includes medical condition, health and care, drinking water, education, trainings, etc. Table 2-12 shows that the percentages of women's disease incidence and illiteracy had decreased by 25.7% and 28.4% respectively, and women's income had increased by 62.5% in Haidong project in Qinghai Province from 1997 to 2000. Secondly, women's ability is greatly raised. This can be shown from two aspects: the first is that women's family management ability is raised, which enhances their influence on family decision-making. The second is that women improve their ability in participating in public affairs in the communities, which enhances their influence on community decision-making. These two kinds of abilities help to create a more sex-balanced environment in the rural communities. Thirdly, the female leaders' ability is raised. For instance, Gao Yanhua, chair of women's federation of Xinglongshan Township in Tongyu County in Jilin Province, applied for the project loan of 100,000 Yuan from the town financial division with her house as the guarantee in 1999. She used the money to carry out women development activities in Lianhuapao Village, the poor village she was assigned responsibility for poverty alleviation. She divided women in that village into several five mutual cooperative groups and then delivered loans to them. The loan of 100,000 Yuan, which should be returned by Gao Yanhua, made it possible for over 40 women to carry out production and business

independently. Two years later, most of the loan she had delivered was returned. Because of her excellent performance in the implementation of the project, Gao Yanhua was selected as vice-magistrate of the township government in 2001. After she became vice-magistrate, the remaining loan was transferred to a new township leader. Till now, all delivered loan has been returned.

Table 2-12 Women in Haidong project in Qinghai Province

Item	1997	1998	1999	2000
Women's net income (Yuan)	112	112	156	182
Women's diseases (‰)	55.0	55.0	49.0	29.3
Women illiterates (%)	67.3	64.3	52.1	38.9

Sources: "WFP 5717/IFAD 424 Project in Qinghai, China. 1997-2003"

■ **To promote professional standard of women's federation at the local level.**

In IFAD funded projects, local women's federations are the major organizations which provide guidance and services for women in the project participation and implementation. In this way, women's organizational ability, management ability and servicing ability are improved, and their professional standard is promoted. The continuous fund support of IFAD funded projects renews the activities initiated by women's federations, which used to be "two learnings and two competitions" (learning cultural knowledge and learning technology; competing for achievements and competing for contributions). And now it has added with new ideas (learning science and technology and learning management, competing for scales and competing for efficiency). In Baicheng project of Jilin Province, the white geese project launched by Tongyu County in 2004 is also called the women's economy. In order to promote the development of white geese industry, white geese association was established in the same year. There are 32,000 women white geese keepers taking part in the association. The director of the county women's federation is appointed president of the association, and the director of county bureau of animal husbandry is appointed the general secretary of the association. The main task of the association is to open up loan delivery channels, provide technical services such as disease prevention and marketing of products for its members. The association is supported and sponsored by the government. So it does not accept membership fees. IFAD provided a loan of 300,000 Yuan for white geese project in 2005 and the year-end number of white geese sold reached 2,300,000. IFAD investment has initiated the loan investment of the RCCs, which delivered a loan of 20,000,000 Yuan for white geese project in 2006. The year-end number of white geese to be sold will reach 4,000,000 in 2006, with a total output value of 160,000,000 Yuan (The measurement: Every goose weighs 5 kg and the average purchase price for every kilogram is 8 Yuan). The goal of the association is to have 10,000,000 white geese for sale every year. The cycling period of white geese keeping is 4 months. The white geese are fed with forage in the first fifteen days, and then they are bred on the grassland. White goose keeping is suitable for women because it can absorb large amount of labor

force and has low intensity of work. It also has comparative advantage with rich grass resources in the project areas.

During on-the-spot investigation, we have also found that IFAD funded projects have some weaknesses when dealing with women and the vulnerable groups:

■ **More opportunities should be offered for women and vulnerable groups in project management and decision-making.** The implementation of IFAD funded project activities for women makes great contribution to increasing job opportunities and income for rural women. But women's participation is mostly directed to production activities, less to project management and decision-making. This should be improved. For instance, we have made an investigation on a women's project in Huangbai Town of Qianshan County in Anhui Province. The project is implemented by a private firm which mainly produces surgical masks. The firm is located in the yard of the village committee. When we visited the firm, the boss was out. Only five or six women were working there. It was said that the firm had existed before the project. The boss was the village head. He employed about 10 women workers. The firm house was worn-out. With the help of the project loan, this firm repaired the house, enlarged the productive scale and employed as many as 30 women. Because of too many workers and too little work, every woman works in the firm for ten to twenty days every month and gets an income of 400-800 Yuan. For the remaining time, they stay at home taking care of family affairs and raising silkworms. The boss who used to be the village head becomes the Party secretary of the village committee now. He has given the firm to his brother. There are three men in the firm. One is the boss, and the other two are the salesmen. Although there are 30 women workers in the firm, it is the three men who control production and management of the firm. In other words, the development of non-farm businesses only brings women opportunities to find jobs and increase income, but not brings them opportunities to participate in decision-making.

IFAD funded projects have the same problem in project management. Women play a less important role in decision-making than in management. For instance, there are 1,224 management workers, among whom there are 286 women, occupying 23.4%. These women mainly carry out the work of administrative management, technical extension, food aid delivery and project assistance, which involves over 25% of women. Less than 10% of women act as director or vice-director of PMOs. Less than 15% of women act as member of the project leading groups (PLGs) (See Table 2-12).

Table 2-13 Women in project decision-making and management in Southwest Anhui Project

	Total	Decision-making (PLG)			Project Management (PMO)					
		Subtotal	Group Leader	Member	Subtotal	Director/Vice-director	Executive Staff	Technical Staff	Food Aid Staff	Supporting Staff
Total	1224	347	42	305	877	93	186	190	116	292
Male	938	302	36	266	636	84	138	126	71	217
Female	286	45	6	39	241	9	48	64	45	75
Women (%)	23.4	13.0	14.3	12.8	27.5	9.7	25.8	33.7	38.8	25.7

Sources: Project office of Integrated Agricultural Development Project in Southwest of Anhui Province; Completion Report of Integrated Agricultural Development Project in Southwest of Anhui Province, Dec. 2004.

■ **The project management officers should be trained to strengthen their sense of gender distinction.** From on-the-spot investigations, we have found that some project officers do not pay enough attention to IFAD's requirement and suggestion that the loan applied under the name of women must account for certain proportion. They consider that this requirement is unsuitable in China's practical conditions and is also meaningless. It is unnecessary to implement. So, in reality, the proportion of the loan applied under the name of women is quite small.

The fact that women express their own decisions or family decisions outside is indeed not in conformity with the traditional Chinese culture. In the traditional Chinese culture, it is men who express family decisions. But this tradition of "men in charge of exterior affairs and women in charge of interior ones" should not become the excuses for us to neglect women or refuse to change our attitudes to neglect women. In order to solve the problem of gender discrimination, project officers should be trained to strengthen their sense of gender distinction so that they will realize the importance and necessity to eliminate the tendency to neglect women. Through measures such as loans applied under women's name, women will gradually achieve gender equality with men in expressing their own decisions and family decisions, taking on family rights and responsibilities, as well as the right to know, the right to participate, the right to monitor and the right to make decisions.

■ **The project should satisfy more demands of poor women and vulnerable groups.** IFAD funded projects have specified micro-credit directed to women, which is very effective. For example, the director of women's federation in Xinglongshan Town of Tongyu County in Jilin Province has delivered a loan of 100,000 Yuan. But compared with the total scale of the project, the percentage of women's project is very low. Since only a small number of women can get micro-credit, the majority of women are unable to take active actions. Considering the importance of poor women's demands, especially the validity of women's project implemented, IFAD should increase the amount of loan

for women and meet more demands of poor women and vulnerable groups when it makes plans for the new projects and makes arrangement for the old projects in the rolling period.

In addition, the projects do not meet the medical demands of poor women. From on-the-spot investigations, we find that the medical apparatus of the town clinics in the remote mountainous areas is very bad. They cannot examine or treat women diseases. The patient women have to go very far to the county hospital for treatment. They have to spend more time and higher transportation fees. Therefore, IFAD should pay more attention to the medical problems of poor women in the mountainous areas when it makes plans for the new projects and makes arrangement for the old projects in the rolling period.

4. Project Management Efficiency

Based on the materials of the eight projects that IFAD requires for in-depth evaluation and the suggestions collected in on-the-spot investigation from the project beneficiaries, we come to the conclusion that the management of IFAD funded projects is strict and standardized, and project management efficiency is high. This conclusion can be shown in many aspects such as the use of IFAD fund, the annual work plan and budget (AWPB), M&E and project audit.

(1) Use of IFAD funded project Funds

- **The on-lending modes of IFAD funds.** For a single project, IFAD fund is divided into two parts: one part is the public expenditure on social services such as the rural infrastructure and training. The other part is the incremental credit for the increase of the farmers' income. The former part is delivered to the project implementing agencies by the government financial department. The latter part has three modes. For the first mode: PMO is in charge of loan delivery (e.g. Haidong Integrated Agricultural Development Project in Qinghai Province, 424-CN); for the second mode: BOF (Bureau of Finance) is in charge of loan delivery (e.g. Jilin Low-lying Land Improvement Project, 300-CN); for the third mode: RCC (Rural Credit Cooperative) is in charge of loan delivery (e.g. Southwest Anhui Integrated Agricultural Development Project, 451-CN). Fig. 2-1, Fig. 2-2 and Fig. 2-3 are flow charts of the three on-lending modes. The projects implemented before 1996 are mainly in the first and second modes, and the projects implemented after 1997 are mainly in the third mode. From on-the-spot investigation in different provinces, the consultants have found that different loan delivery modes have different characteristics in fund delivery, fund recovery, poverty targeting, executive efficiency and structure stability etc.
- **PMO mode.** IFAD fund is firstly transferred from the provincial financial department to the provincial project management office (PMO). And the fund will be transferred in the project offices from top down until it reaches the township PMO. Finally, the township PMO delivers the loan to the beneficiaries. In this mode, the implementation of the project has targeted poverty very well. The fund can be mostly delivered to the poor households, meeting the goal of

poverty alleviation of IFAD funded projects. The weakness of the mode is that PMO is not a financial institution and it is not familiar with micro-credit with the lack of professional experiences. As a result, the loan has low recovery rate. Since PMO is a temporary agency, the working staff in the PMO has to be resettled after the project is completed.

- **BOF mode.** IFAD fund is transferred directly from the provincial financial department to the city-level financial bureau, through county financial bureau all the way down to the township financial office. Finally, the township financial office is in charge of loan delivery to the beneficiaries. In this mode, the fund management efficiency is high. The government counterpart fund is easily allocated in place and can be concentrated on the project activities. With the unique fund guarantee system of the financial institutions at all levels, the loan has high recovery. There is no need resettling working staffs after the project is completed. With less participation of government departments such as agricultural, water conservancy and poverty alleviation, the poverty targeting and the technical services of this mode need to be further improved.
- **RCC mode.** IFAD fund is transferred from the provincial financial department to the city financial bureau and to the county financial bureau, which transfers the part of the incremental credit to RCC. RCC is in charge of the delivery of the loan to the beneficiaries. In this mode, there are stable project management institutions, professional loan-delivery workers with a strong sense of marketing and credit risks. The loan has high recovery and safety. Although RCC must deliver the loan according to the requirements of the PMO, as a financial profit-maximizing enterprise, RCC is more likely to divert from the project goal of poverty alleviation in credit delivery. As a result, the major problem for this mode is that RCC can not do a very good job in fulfilling the purpose of IFAD funded projects to offer micro-credit for the poor households in poverty targeting.

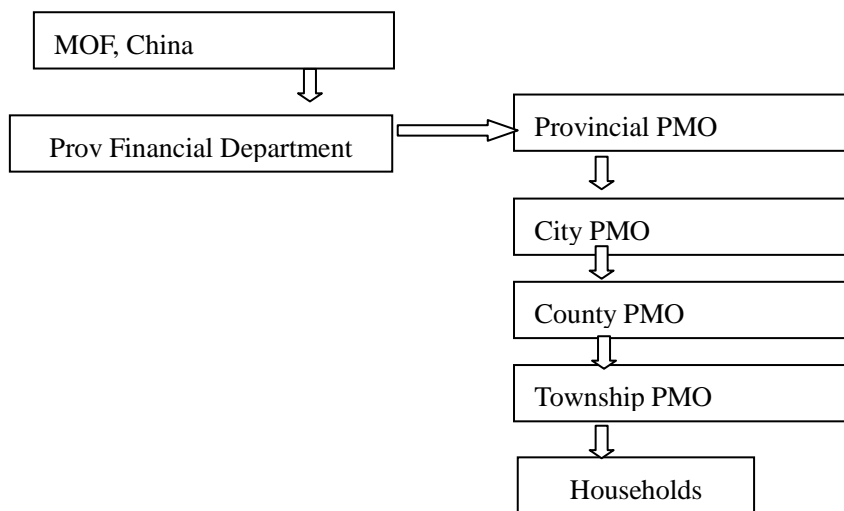


Fig. 2-1 On-lending of Haidong project in Qinghai Province (PMO Mode)

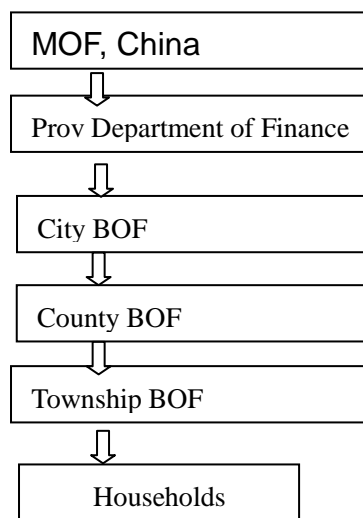
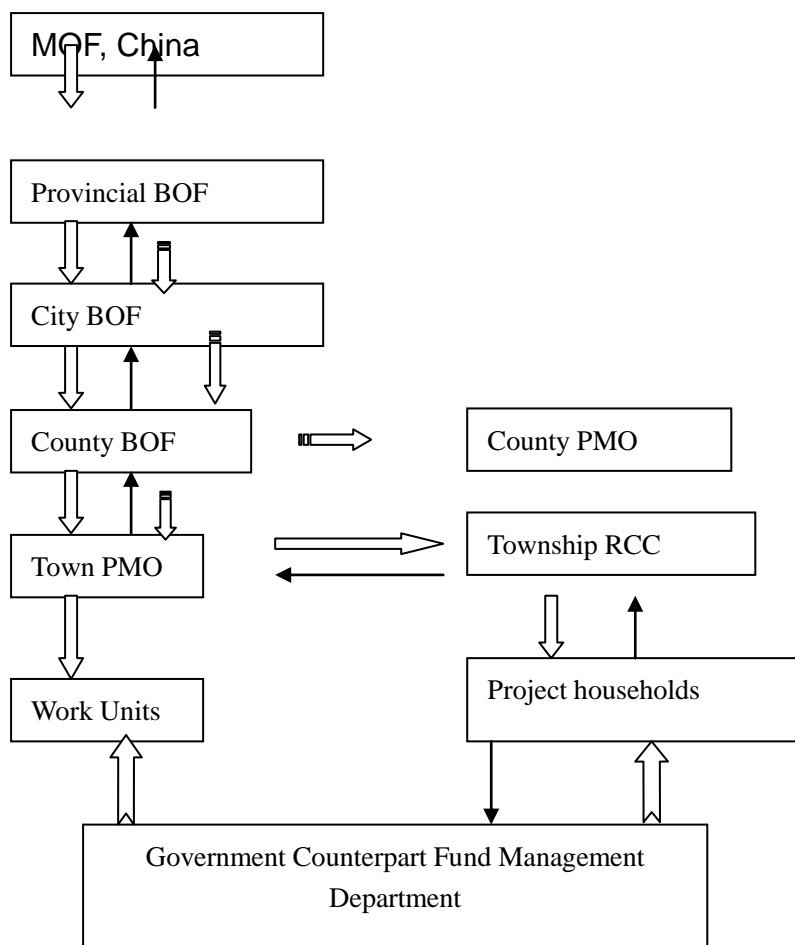


Fig. 2-2 On-lending of Baicheng Low-lying Land Project in Jilin Province (BOF Mode)



Legends:

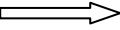
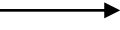


- Loan delivery 
- Loan recovery 
- Budget fund 
- Special fund 

Fig. 2-3 On-lending of Southwest Anhui Project (RCC Mode)

— **The range of loan delivered to the households.** Table 2-13 is the loan data collected from six projects out of the eight evaluated projects. From the data we know that the total loan scale is 1,014 million Yuan, of which the loan delivered to the households is 817 million Yuan, occupying over 80% of the total loan. Especially in Hainan-Qinghai Project, Northeast Sichuan/Haidong – Qinghai Project and Baicheng-Jilin Project, all the funds are delivered to the households, indicating that IFAD funds have targeted poor households very well. The loan delivered to the households covers 2,480 villages in 227 townships of 26 counties in 5 provinces.

There are 514,600 households getting the loan. From the total scale of the loan and the total scale of the household coverage, we conclude that in the past 25 years, IFAD funded projects have the widest loan covering range among the bilateral and multilateral international credit projects for poverty alleviation in China.

— **The depth of loan delivered to the poor households.** Direct and indirect indexes can be used to measure the depth of the loan delivered to the poor households. The direct index involves the poverty level of the households and the indirect index involves the loan quota of the loan delivered to the households. (The basic assumption: the poorer the households are, the smaller their loan quota will be. So, the poverty is targeted well if the average loan quota is small). The average loan quota is the more accurate datum that can be obtained with low cost. So it is widely used in evaluating the depth of the loan. From the result of the loan delivery in Simao-Yunnan Project (Table 2-14), we can see that this project delivers 110,600 items of loan with the average quota of 1,612 Yuan. The loans less than 3,000 Yuan occupy 93% of the items with the average quota of 777 Yuan, occupying 69% of the loan households and 45% of the total amount of the loan. Therefore, we conclude that the project covers a wide range of poor households.

Table 2-14. The range of IFAD loan delivered to the households

Projects	Total scale of the loan (10000Yuan)	Scale of Loan delivered to households (10000Y)	Covered areas			
			County	Town	Village	Household
Simao-Yunnan	22653.5	17836.6	4	35	284	95000
Hainan-Qinghai	15594.6	15599.5	5	36	330	56000
Northeast Sichuan/Haidong-Qinghai	4332	4332	3	34	522	49000
Northeast Sichuan/Congqing	11266	7488.4	4	36	509	93340
Baicheng-Jilin	21876	21876	5	52	397	125000
Southwest Anhui	25715.65	14606.1	5	34	438	96280
Total	101437.8	81738.6	26	227	2480	514620

Sources: based on the on-the-spot investigation and the completion reports of the related projects

Table 2-15. Loan items and household numbers of Simao-Yunnan Project

Loan quotas (Yuan)	Loan items		Numbers of loan households		Amount of Loan		Average quota for each item of the loan (Yuan)
	Number of items	%	Number of households	%	Yuan	%	
Less than 3000 Yuan	102800	93	65300	69	79853300	45	777
3001-10000	6600	6	11000	12	32366400	18	4904
More than 10000Yuan	1200	1	18700	20	66146200	37	55122
Total	110600	100	95000	100	178365900	100	1612

Sources: calculated based on the project completion report

The result of the loan delivery in Tongyu Town of Baicheng City in Jilin Province shows that the loan quota is highly relevant to small project activities. Table 2-16 reveals that the loan covers 3,746 households and the loan quota per household is 2,616 Yuan, of which the average quota for agricultural cropping industry is 1,334, the average quota for animal husbandry is 5,052 Yuan and the average quota for other use is 1,882 Yuan. The loan quotas of Southwest Anhui Project vary greatly. The average loan quota delivered to the households is mostly between 1,000 to 10,000 Yuan. But the loan for the local pillar industries reaches to 100,000 Yuan.

Table 2-16. Delivered loan quotas of Tongyu Project in Jilin Province

Units: No., Yuan

	No. of HH	Total scale	Average per HH	Crop Cultivation		Animal husbandry		Others	
				No. of HH	Average per HH	No. of HH	Average per HH	No. of HH	Average per HH
Xi'aoli	240	542200	2259	162	873	78	5137		
Zhanyu	444	679200	1530	338	962	27	3785	79	3190
Xinhua	75	145800	1944			53	2553	22	477
Wulanhua	259	198900	768	259	768				
Yangjing	422	794100	1882	230	987	100	4829	92	915

Xianghai	492	972600	1977	87	1657	5	2200	400	2044
Sijingzi	342	758300	2217	210	1901	132	2720		
Hongxing	465	1817600	3909	129	830	306	5524	30	670
Tongfa	405	960300	2371	283	2517	105	2171	17	1176
Xinglongshan	307	532000	1733	171	1082	136	2551		
Shuanggan	295	2397900	8128	40	2668	255	8985		
Total	3746	9798900	2616	1909	1334	1197	5052	640	1882

Sources: data in “Statistics of Village Loan Use” provided by Financial Department of Jilin Province during the evaluation and investigation

HH: households

Table 2-17 demonstrates that different institutions operating loan projects are offering different loan products, loan quality management, loan operation and the financial sustainability.

— Project goal and client

In terms of the project goal and client, all the three models of loan pay attention to poverty reduction which is the consistent objective of IFAD funded projects. Their differences are: PMO pursues the goals of regional agricultural development, agricultural structure readjustment, development of agro-industrial bases and leading industries; RCC pursues the goal of providing suitable financial services. Also, they have different clients: PMO serves not only the poor households, but also the rich households and leading industries who have potentiality and good influence on the local agricultural production. RCC provides financial services especially to those households who can afford to pay back the loans.

Table 2-17. Performance and sustainability comparison between different on-lending modes

Operation institutions	Government BOF	Government PMO	RCC
Goals	agricultural development, poverty alleviation	Structure readjustment, agri-production bases, poverty alleviation	Financial services, poverty alleviation
Loan clients	Households, firms	Big households, important agro-enterprises, households	Households
Loan cycle	1-2 years	3-5 years	3 months-3 years
Loan quota	20,000 Yuan	100,000 Yuan	8,000Yuan
Loan form	Cash; in kind	Cash; in kind	Cash
Loan quality	Fairly high	low	Fairly high
Time control for loan delivery			
Loan recovery rate	High	low	high

Institutional sustainability	Bad	bad	Fair
Financial sustainability	Bad	bad	Fair
Department participation	Medium	high	medium

Sources: calculated based on data from information and materials collected during the on-the-spot investigations in the related provinces.

— **The product and quality of loan.** The properties of the loan product can be described by its cycle, quota limit and form. Under the PMO loan mode, the cycle and limit of most loans are determined by the nature of production activities. In the preliminary project design, the loan products are made in details. The household can apply for the loan product if he is ready to start the relevant production. And some loans are provided by way of giving materials (seedlings, fertilizer). The loan product is provided according to the scale and kinds of production activities. This has the following advantages:

- First, it is convenient to be connected with technical training;
- Second, it is helpful for those households who have good technology, good labor and good land resources, to start a larger-scale project activity.

There are also some problems:

- First, the repayment of loan is fully relied on the benefit of production activity, which has a systematic loan risk.
- Second, there lacks flexibility for market change and household demands during implementation;
- Third, the households who have more land, more labor and good technology can get more loan by way of materials, but the households who have less labor and poor technology can get less loan by way of materials. That means that loan given in kind has a very big GINI coefficient.
- Fourth, in terms of the loan in kind, the characteristics of the loan are weakened, the loan interest rate is unclear with little awareness of loan repayment.

The loan products of RCC are all in cash, mainly designed by the market principles, according to the households' demands of living and its liquidity characteristics in living. This is useful to distribute the risk.

Loan quality is closely related with the management and system of the loan institution. If the loan institution is poor in management and its loan record system is not complete, the information of loan quality can not be collected correctly and transparently in time. In the implemented projects of IFAD, there exists very big differences between management capacity and loan recording system of loan institutions, and also there exists very big differences with the loan quality.

The investigation and evaluation shows that Qinling project in Shaanxi uses the micro-credit of RCC. The loan management system is in good order; its loan quality is good and this means that its financial institution has advantages in loan management.

The sustainability of micro-credit is related with the project scale, operational cost,

loan interest rate and institution category etc. The preliminary project implementation is over and the rolling period of the project will last for several decades, and these projects are facing with how to choose rolling development, therefore, we propose the sustainability issue of IFAD micro-credit.

— **Sustainability of credit.** From the analysis of fund scale, IFAD provides to each province (autonomous region) and city, with large-scale and long-term (40-50 years) credit. How to realize the safety of the credit and reach the sustainability of the expected goal is an issue which must be evaluated.

— **The safety of loan repayment.** At present, IFAD focuses only on the targeting in the first 5 years of project implementation. If IFAD fund is only 5 years for poverty reduction, for the rest of the loan period, put the re-collected fund into the bank. When the interest rate is 3%, the safety of repayment can be guaranteed if the repayment rate is no less than 34%. When the interest rate is 4%, the safety of repayment can be guaranteed if the repayment rate is no less than 22%. Therefore, the safety is not a problem for IFAD fund because of its 0.75% interest rate.

— **Sustainability of on-lending institutions.** The PMO is a temporary agency of government and cannot exist for a long time, so, it cannot be in charge of loan providing for several decades. The township financial office is an official agency of government and not allowed for financial transactions in the future with the deepening of China's economic reform. The RCC is a kind of financial institution, and it is most possibly to continuously develop the loan. It can be believed that, a group of new financial institutions which can start loan transactions in the rural areas will appear with the deepening of the country's financial reform.

— **Operational cost of loan delivery.** Up to now, the loan delivery of most projects is carried out by the government officials of the related departments. The operational cost is mainly based on the government subsidy. With further reforms of government streamlining, the above way of low project operational cost can not be used.

— **Sustainability of poor households targeting.** The investigation shows that, IFAD emphasizes poor households targeting for loan delivery in the first 5 years. In the rolling period of 35-45 years (with the grace period), loan delivery no longer targets the poor households. How to maintain fund targeting of the poor households in the rolling period is a serious issue which shall be resolved. IFAD should keep the principles of poor households targeting and describe a clear strategic positioning for future projects, so that to give strong support to the poor households for loan demand.

— **On-lending interest rate.** From the implementation of IFAD funded projects in different provinces and cities, the end-user interest rate of IFAD funded project is floating up and down with the Chinese macro economy and national financial policies. Noticeably, from 2001 the Ministry of Finance cancelled the on-lending interest gap of IFAD loan (MOF collects 3.75% interest gap annually before 2001). This has reduced the fund cost of IFAD funded project reaching the PMO of all the provinces

and cities on the one hand, and provided enough room of interest for setting up repayment ready fund by local project management institutions on the other. That is to say, this has created a good environment for IFAD funded project fund to choose a suitable on-lending institution. In general, the cost of IFAD funded project fund reaching each province or city is 4.5% (0.75% from IFAD and 3.75% from MOF) before 2001, and is 0.75% after 2001.

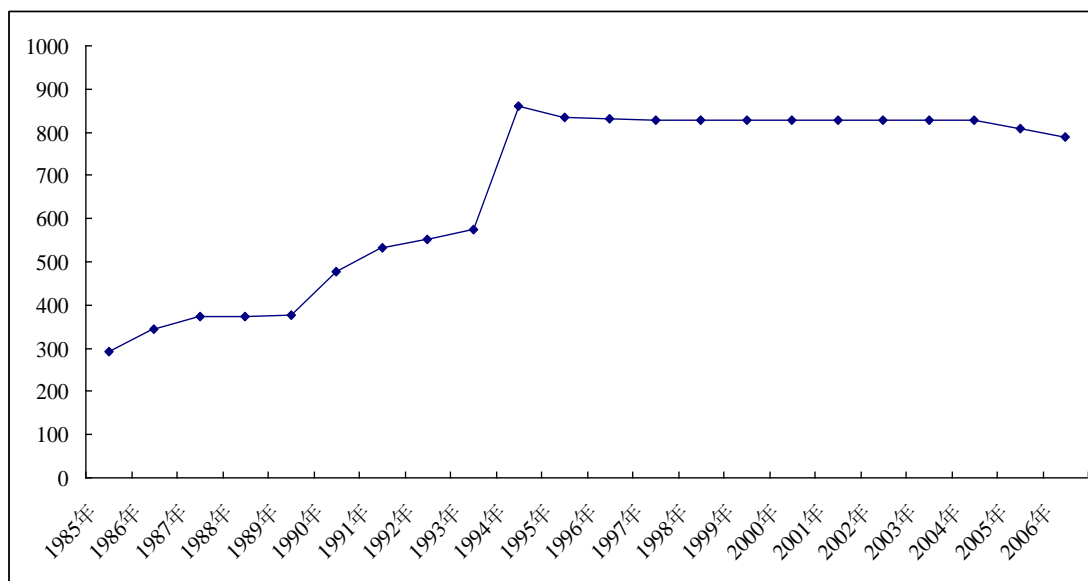
In term of end-user interest rate in different provinces and cities: the investigations show that in Jilin province the end-user interest rate is 1% lower than that of agriculture development bank in the same period and in the other provinces (Anhui, Shaanxi and Qinghai), the end-user interest rate is a little higher than the benchmark interest rate of central bank, but lower than the regular loan interest rate of RCC. Experts paid a visit to the Shangluo city of Shaanxi province. The IFAD loan delivery of its Heishankou Township RCC in Shangzhou district is based on the following conditions: 3 months interest rate: 7.905% per year; 1 year interest rate: 8.37% per year (People's Bank of China September 2006, current annual benchmark interest rate is 6.12%).

It must be pointed out that some projects used or are using the interest rate similar to the interest-subsidy loan of poverty reduction. From the on the spot investigation in the project areas, we see that the poor households hope to get low interest rate loan or even interest-free loan, but they can still accept the regular interest rate of the RCCs. Therefore, the way of distorting interest rate, and increasing the risk of those people who have good relationship with the loan delivering agencies for getting more loans, shall be amended.

— **Exchange rate risk.** The investigation demonstrates that, almost all of the project officials are emphasizing the exchange rate risk. The exchange rate risk of IFAD fund to China is influenced by the exchange rate between SDR:USD, also by the exchange rate between USD:RMB. Because of the different years of project approval and fund withdrawal in each province and city, the exchange rate risks are very different. The 1994's exchange rate adjustment by the People's Bank of China has had great impact (On January 1, 1994, exchange rate between USD and RMB was adjusted from 1:5.76 to 1:8.61) in special. The projects which were signed before and account was closed after, such as Animal Husbandry Development Project in Sichuan (233-CN), Agriculture Development Project in Shandong Yantai (254-CN), Integrated Agricultural Development Project in Shanxi (281-CN), Low-lying land Improvement in Jilin (300-CN), and Agriculture Development Project in Yunnan Simao (335-CN), the amount of RMB through actual fund withdrawal and reimbursement is greater than the amount expected. So, the project activity scale is expanded in its project area accordingly. For example, in the Low-lying Land Improvement Project in Jilin Baicheng, the exchange rate was 1 USD = 5.36 RMB and 1 SDR = 1.38124 USD during project evaluation and contract signing, and was 1 USD = 5.459-8.679 RMB and 1 SDR = 1.375-1.561 USD during project implementation. Total IFAD investment was 20 million SDR. It is planned to withdraw 147.998 million RMB and actually it has withdrawn 218.762 million RMB with the increase of 70.764 million, increasing by 47.81%.

On July 21, 2005, the Chinese government reformed the formulation mechanism of RMB exchange rate, and RMB came into the period of managed floating system. After that, the value of RMB against USD is increasing continuously, from 8.27:1 to 7.91:1 on September 29, 2006. The RMB value has increased by 4.6%. From the long term of IFAD funded projects in China, the value rising of RMB in the future can reduce our repayment pressure, and also has some bad influence on actual fund withdrawing scale for other new projects.

The exchange rate between SDR and USD also has influence on IFAD funded projects. IFAD funded projects used SDR as its reimbursement money unit. As a result, while withdrawal, if the value of USD against SDR is rising, the project resource is getting less, and vice versa. For example, in the Integrated Agricultural Development Project in South-west Anhui (451-CN), the exchange rate between RMB and USD is stable during the implementation period (1997-2004), but the value of USD against SDR is rising, causing a 4.5% reduction of the credit for the project (loan of project contract is 19.1 million SDR and it is planned to withdraw 26.53 million USD. In practice, only 25.34 million USD has been withdrawn).



Sources: Official website of PBC, <http://www.pbc.gov.cn>

Fig. 2-4 Changing trend of RMB exchange rate (1985-2006)

The spot investigation of the consultant group has found that: (1) All-level financial departments have added on-lending interest rate margins with the excuses of avoiding exchange rate risks. As a result, the interest rate of some IFAD funded projects is too higher to be accepted by the RCC. (In RCC's opinion, the interest gap of no less than 5% is acceptable). (2) The exchange rate risk of IFAD funded projects is under the bearable limit. For example, in the Low-lying Land Improvement of Jilin Baicheng, from the beginning of June 1992 to September 2006, the loss of exchange is 16.2305 million RMB in total in these 14 years, with annual loss of 1.1389 million or 0.52% per year. That is to say, up to now, the floating of exchange rate has minor impact on

the IFAD interest, only 0.52%. From these trends, with the continuous rising of RMB, the exchange rate fluctuation has less impact on the IFAD interest in the future.

(2) Annual work plan and budget (AWPB)

Among the IFAD funded project in China, most projects can be carried out according to the annual work plan and budget as per the project evaluation report. The basic method is that by the end of each October, the provincial PMO makes up the next year's project work plan and budget (AWPB) according to the annual plans checked and reported from the villages (village-level annual work plan is based on the VDPs), towns and counties, and submits them to IFAD for approval. IFAD annual plan has good flexibility. Without changing the category of project activities, the investment limit of project activities can be self readjusted within 30% up and down and only needs to be reported for file management. If the adjustment is more than 30%, it shall be submitted to IFAD for approval. IFAD flexibility also exists in the project mid-term evaluation and readjustment, which are used by most IFAD funded projects in China for timely readjustment of project activities within its latter 3 years, so as to comply with the goal of poverty reduction and produce a better economic, social and environmental benefit at the same time.

However, the experts have also found out through on-the-spot investigation that:

— **The annual plan of early projects have not been readjusted in time.** The implementation time of IFAD funded projects in China is in the period of China's opening up and reform period, and also in the rapid economic development period, the social, economic and living conditions of the people in the project areas are changing very rapidly. And IFAD funded projects generally last long time from evaluation to implementation (5 years or longer). Therefore, the feasibility and operation of project evaluation report is greatly discounted. The project activities, even the categories of activities have to be readjusted while coming into implementation. In the early years (before 1995), some unsuitable activities were carried out due to the emphasis on the designed project plan and models in the project evaluation report, causing some economic loss and bad debt (such as fish raising and reed plantation of Baicheng Low-lying Land Improvement Project in Jilin Province, Haidong pig raising of Integrated Agricultural Development Project in Qinghai Province).

— **Flexibility of AWPB readjustment in the later period is still not enough.** As mentioned above, due to the rapidly changing conditions of project areas and the rapid readjustment of the agricultural production structure, some activities in the later period of project evaluation reports are not necessary and they shall be greatly readjusted. But this readjustment cannot be done by PMOs in time because of the long time approval of IFAD's procedure. The PMO staff of Shangluo City in Shaanxi stated this opinion that due to the economic development and progress in the recent 6 years, most funds designed in the project evaluation report for buying equipment and training programs have been already arranged by the other internal projects, so they hope that 70-80% of these categories of resources shall be readjusted for basic infrastructure construction in the project areas (such as drinking water project and road building). In this way, it can not only expand the beneficiary population, but also

meet the needs of current movement of building the Socialist New Village. However, these readjustments are very difficult to be done due to the complicated procedures of IFAD approval.

— **The mid-term review has not been utilized properly.** The purpose of IFAD mid-term review (MRT) is to evaluate the first half of the project and readjust the second half of it, so as to better satisfy the changing social, economic and community environment. Because some working staffs are not well trained, project plans of some projects have not been well and timely readjusted in the mid-term review, such as the Poverty Reduction Development Project in Qinling Mountain Area (517-CN).

(3) Monitoring and Evaluation (M & E)

Generally speaking, the monitoring and evaluation (M & E) of IFAD funded projects in China has made important progress, demonstrated the project achievements and impact, and provided scientific basis for policy making. The establishment and completion of M & E system has promoted the management of IFAD funded projects in China to a higher level, and made staff members of PMOs at all levels acquire new and advanced project management methods. IFAD funded projects have done the followings regarding M & E:

— **To set up and perfect the M&E system.** M&E Sections of all-level IFAD PMOs have been set up, with 2-3 full-time staffs and one deputy director of the PMO in charge. 2 part-time staffs in the township PMO and 1 part-time staff in the village are designated in charge of data collection, so as to form a complete network of M&E from bottom up, providing reliable organization framework for the smooth M&E of the project (See Fig. 2-5).

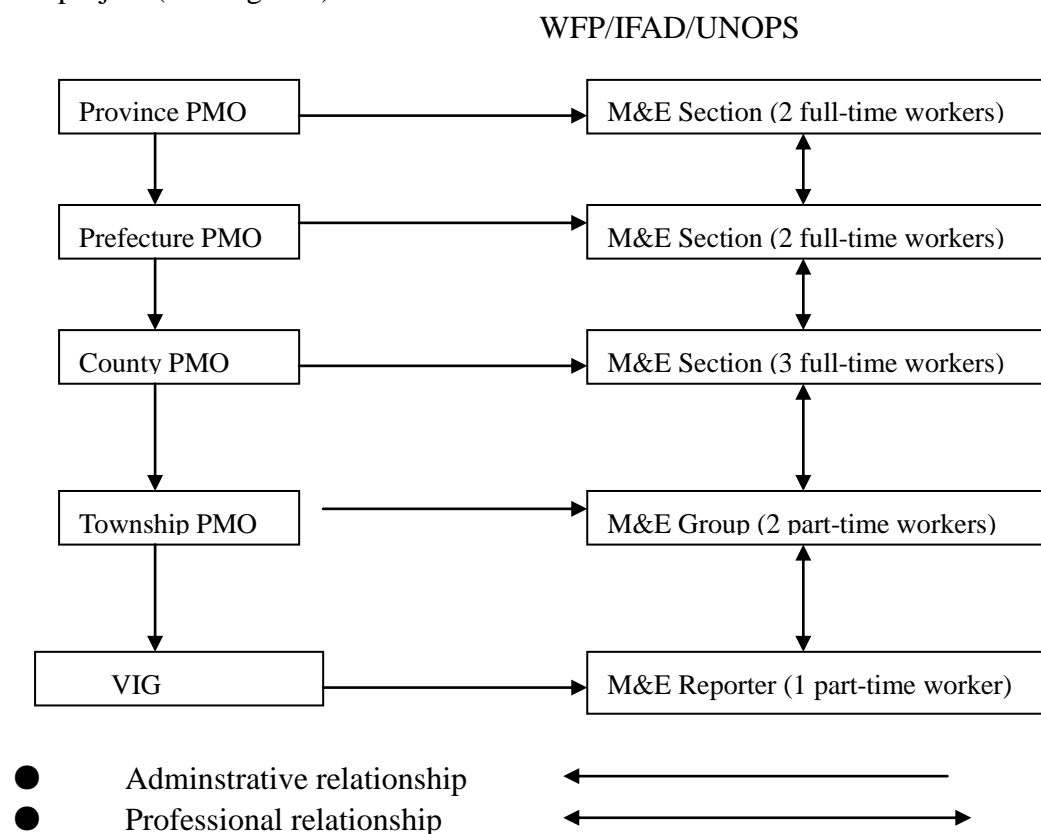


Fig. 2-5 The M&E System of IFAD funded project

— **To perfect the working system of M&E.** Based on the requirements of IFAD funded project Loan Agreement, PMO of each province makes up the M&E system and Working System of project, clarify the functions and duties of all-level M&E Units, M&E targets, content and working plan, format of M&E report and sheet, test and comparison of M&E, etc.

— **To determine the main points of M&E.** Main points of M&E include: base line investigation, engineering and financial progress, engineering quality, government counterpart fund allocation and arrangement, project beneficiary, women participation, loan fund operation, existing problems in implementation, and the economic, social and environment benefit of the project.

— **To adopt the advanced tools and methods.** In order to use the scientific M&E ways, clear M&E procedures and modern M&E methods, IFAD have trained the M&E staff several times. In all the provinces and cities, the M&E equipment are provided with, and IFAD loan management information system has even been developed for some projects (such as Low-lying Land Improvement Project in Jilin Baichen). About 50 households (project households and non-project households) in each project county (city) are sampled for baseline investigation and benefit tracking investigation. The M&E methods of participation and implementation results direction are emphasized and adopted. In the recent years, IFAD studied the RIMS system in order to better monitor and evaluate the project benefit and impact.

Through on the spot investigation in the provinces, the experts groups have found out that there still exist some shortcomings in IFAD funded project M&E.

— The results of M&E have not played its full role. The results of IFAD funded project have been reported to MOF and MOA mainly, but all-level project management departments have not made use of their results for their decision-making. In other words, all-level project management departments have not paid enough attention to the M&E result and have not used their results to improve project management.

— IFAD lacks enough training for M&E personnel. For instance, as to the RIMS system put forward recently, according to Shangluo PMO of Shaanxi Province, IFAD requires the PMO to fill in and report related contents without training, which leads to the confusion resulting from the different understanding about the same indicator.

(4) Project Audit

Chinese State Auditing Administration is the legal auditing unit of IFAD funded projects in China. Entrusted by the State Auditing Administration, the provincial or city department or bureau of auditing is in full charge of auditing IFAD funded projects in its local province or city. The project auditing includes the project finance, government counterpart fund, and the project output and benefit, etc. Each year, before June 30 the provincial or city department or bureau of auditing shall submit the project auditing report of the last year to IFAD. The report shall also be submitted to the State Auditing Administration, MOA and MOF. The regular project auditing is done by the county/city bureau of auditing entrusted by the provincial/city department or bureau of auditing. Auditing includes the project activities and project expenses, project loan operation, delivery and re-collection. The auditing investigation covers

all project sites and project households. The county/city bureau of auditing shall report the auditing results to same-level project leading group and higher-level auditing department, and also to the same-level PMO. Auditing has done an effective supervision on the project financial activities and amended the misleading of loan operation, so as to reduce the project fund abuse and illegal expenditures.

Through on the spot investigation, the experts groups also have checked the project auditing reports of recent years written by the provincial department or bureau of auditing. They have found out that

— The provincial/city government paid more attention to the auditing reports. For instance, in the Low-lying Land Improvement Project of Jilin Baicheng, the provincial head of project leading group/vice governor, director of the provincial department of finance have written the instruction to order the project units to amend the mistakes according to the auditing reports, and urge them to learn the lessons in order to avoid the same mistakes in the future.

— The problems written in the auditing report have been solved in time. PMO have in time solved the problems written in the annual auditing reports, such as illegal borrowing, misuse of project fund, extra interest getting from households, disorderly project finance management, and internal counterpart fund going slow, etc.

5. Project Management Targets

(1) Relevance between IFAD funded projects and government priorities

— *Relevance between IFAD funded projects and new rural development model.* In the traditional Chinese planned economy, the people's commune system was carried out in the rural areas. This system has obvious limitations that are revealed even more clearly in the poor areas. This is why the Chinese rural reform started in the poor areas at the end of 1970s. Household contracted responsibility system brought great changes in the Chinese rural areas, but did not fully solve the problem of feeding and clothing in the poor rural areas. Therefore, on the basis of household contracted responsibility system, the reform shall be further carried out, and the practical rural development model shall be explored. This became the urgent demands of the farmers in the poor areas, the development target of poor rural areas and development priority of the Chinese government. IFAD, by participating in and promoting the Chinese rural reform, has very clear target that introduces the successful rural development model from other developing countries into China and attribute choices for China to get its own new rural development model, so as to make contributions to the China's opening up and reform. The Chinese government has the willingness to know, compare and test other developing models which proved to be successful in other developing countries, and IFAD is very familiar with the rural developing experiences of other developing countries and IFAD can supply effectively. Therefore, on determining the new rural development model, there is a strong relevance between IFAD funded projects and development priorities of the Chinese government.

— *Relevance between IFAD funded projects and readjusting agricultural industrial structure.* Low efficiency and unsuitable way of resource utilization and insufficient resource development is a widespread problem in the poor areas, and also one of the main reasons for poverty. After determining the opening up and reform

policy, China did not regard food as the only area for agricultural development. All-level governments soon considered readjusting the agricultural structure as its priority. Once IFAD came into China in 1981, the implementation of projects was considered the most important thing and readjusting the agricultural structure in rural China was initiated. Among the first batch of projects, in North grassland project, how to reasonably use the grassland resources, how to protect grassland and avoid its serious degeneration, are mainly considered; in Hebei project, how to improve the effectiveness of resources usage, level the land, save water (build 470km anti-leakage ditch), plant trees and build fruit orchards in undeveloped land are mainly considered; and Guangdong fish raising project considers mainly how to make full use of resources. Therefore, there is high relevance between IFAD funded projects and development priority of readjusting agricultural structure by the Chinese government.

— *Relevance between IFAD funded projects and the improvement of farmers' development ability.* The development opportunities for farmers are seriously scarce. Many potential opportunities can not be obtained due to the lack of fund and technical skills, which is also the problem widely existing in the poor areas. After the general application of households contracted responsibility system in Chinese rural areas, the governments at all levels immediately set the priority to enlarge the opportunities for farmers to get more fund and technical skills so that the farmers' income will be increased. All of IFAD funded projects pay great attention to the accessibility of fund and technical skills for the farmers. IFAD funded projects are the first to make the experiment to benefit farmers by delivering micro-credit while many officers hold to the idea that farmers can be benefited only from large amount of money collected from the farmers. So, there is a high relevance between IFAD funded projects and the government priority of improving farmers' development ability.

— *Relevance between IFAD funded projects and alleviating rural poverty.* During the period of spreading households contracted responsibility system (1980-1984), rural poverty was greatly reduced. In 1985, the first year when the Chinese rural areas widely carried out households contracted responsibility system, the speed of rural poverty alleviation was very slow. In order to change the status quo as quickly as possible, the Chinese government set the priority to massively alleviate poverty in 1986. IFAD entered China before the launch of massive poverty alleviation and becomes the first international institution to participate in the poverty alleviation drive in China. During its 25 years in China, IFAD started from project implementation, extended a series of widely suitable models for poverty alleviation and makes a positive contribution to alleviating poverty in rural areas. In the middle of 1990s, in particular, with the decrease of the poor population and the increase of the cost in poverty alleviation, IFAD cooperated with WFP, exploring the way to combine credit fund with free assistance in poverty alleviation, which provides worthwhile experiences for poverty alleviation in the new millennium. So, there is a high relevance between IFAD funded projects and Chinese government's priority to alleviate rural poverty.

IFAD funded projects in China are ahead of the times. Although the ideas and patterns advocated in the first round of IFAD funded projects didn't exert great

demonstrative influence on Chinese reality, these ideas were accepted years after with the development of reformation. So, there is a high relevance between ideas advocated by IFAD funded projects and the targets of Chinese reformation. These ideas are in agreement with China's rural and agricultural reform.

(2) Relevance between IFAD funded project activities and demands of beneficiaries

IFAD funded project activities have the following features: (1) the project activities are in agreement with economic development of agriculture and villages as well as poverty alleviation and development plan in the project areas; (2) the project activities meet the demands of poor farmers and vulnerable groups in the project areas and highlight the aim of poverty alleviation; (3) the project activities have high participation and wide coverage of beneficiaries; (4) the project activities attach importance to the participation in and benefit of poor farmers and women.

— **IFAD funded projects are basically in agreement with economic development of agriculture and villages as well as poverty alleviation and development plan in the project areas.** IFAD funded projects are directed to rural infrastructure construction and social support service system construction, which are the weakest in the project areas. IFAD incremental credit is directed to planting, animal husbandry, aquaculture, small-scale processing and women's income improvement, which is the main measure for poverty alleviation in the project areas. So, to carry out IFAD funded project implementation and management is the principal economic task for the local governments in the project areas. The industries that depend on the projects have become pillar industries in the local areas. For instance, the project area in Xunhua County of Hainan Prefecture in Qinghai Province depends on IFAD funded projects to develop walnut orchards, chilli orchards and Chinese prickly ashes orchards. They have become the special industries in the local area with scale economic efficiency.

Case 3: The beneficiary: "I am very satisfied with the project."

Liu Xiaozhen (female), the peasant in Linmao Village in Xinglongshan Town of Tongyu County, Jilin Province: I am now 56 years old. I am not educated. There are five members in my family. I have two sons and a daughter. My elder son has graduated from the university and has found a job. My younger son got loan of 5000 Yuan delivered by Township Finance Office in 2004. Since then, he used the loan to buy sheep and fattened them. In summer, he planted green feed and in winter he fattened sheep. He learnt how to grow green feed from television programs. Besides my husband, my younger son and I, we employed one helper. After we got the loan, sheep fattening grew bigger and bigger. Now we fatten sheep three batches each year, each batch being about 1000. The annual net profit reaches 40,000 Yuan. The village leaders often pay a visit to my family, telling us the benefit of the poverty alleviation project. They also invite us to participate in making the village development plan so that we can have the right to express our ideas for the village development.

I really appreciate the concern of the leaders and I am very satisfied with the project.

Linmao Village in Xinglongshan Town of Tongyu County, Jilin Province

September, 11, 2006

— **IFAD funded project activities meet the demands of poor farmers and vulnerable groups in the project areas.** IFAD funded project activities fully consider the demands of poor farmers and vulnerable groups, which reveals the idea and goal of poverty alleviation. For instance, IFAD funded projects apply PRA method so that the farmers in the project areas can independently choose the village development project and make VDPs; IFAD funded projects stress that there must be women representatives and poor household representatives in the VIG so that the vulnerable groups can find a channel to express their demands for the projects. The consultant team visited the project households in the project provinces and found that the poor households and women have high satisfaction with IFAD funded projects. For the households visited, great satisfaction is 70%; satisfaction is 20% and basic satisfaction is 10%.

— **IFAD funded projects provide wide participation opportunities for poor farmers and vulnerable groups.** IFAD funded projects stress that the projects should provide equal participation opportunities for poor households and women so that their demands can be satisfied and the goal of poverty alleviation can be realized. For instance, Northeast Sichuan (424-CN) Chongqing project benefits 93,340 households, occupying 70% of the total households in the project areas. There are 363,429 beneficiaries, among whom women occupy 49%. Table 2-18 shows the beneficiaries of different sub-projects. 95% of the benefited households participate in the sub-project of increasing agricultural production and 25% of the project households participate in infrastructure construction. Female beneficiaries participating in project construction occupy 50.4%.

Table 2-18 Beneficiaries of Sub-projects in Northeast Sichuan/ Chongqing project areas

	Project Activities	Soil Improvement	Enlarging Agro Production	Economic Fruit Trees	Drinking Water and Roads	Women Development	Total (Maximum)
Households Benefited	Numbers of Evaluation	65615	87292	40509	15836	95714	113644
	Numbers of Completion	55885	88612	43066	23643	74765	93340
	Completion/Evaluation%	85.17	101.51	106.31	149.30	78.11	82.13
	Numbers of Women's Completion	24647	42138	19968	9941	74765	
	Women's Percentage%	44.10	47.55	46.37	42.05	100	
Beneficiaries	Numbers of Evaluation	244346	321307	143120	60428	241366	413471
	Numbers of Completion	215173	336945	154243	93299	183038	363429

Completion/Evaluation%	88.06	104.87	107.77	154.40	75.83	87.90
Numbers of Women's Completion	95934	143630	68960	42235	108651	177645
Women's Percentage %	44.58	42.63	44.71	45.27	100	50.4

Sources: based on the Completion Report of Northeast Sichuan Integrated Agricultural Development Project (Chongqing/Wanxian sub-Project), 2004

(3) Relevance between IFAD funded project readjustment and demands of beneficiaries

For a project whose implementation lasts for several years, it is normal to readjust part of the project activities during the project implementation. To evaluate the readjustment of IFAD funded projects aiming at poverty alleviation, what it matters is not what readjustment is made, but whether the readjustment is beneficial for the fulfillment of the demands from poor farmers and the vulnerable groups. In the field investigation, the consultants found that the readjustments of IFAD funded projects are basically beneficial for the demands of beneficiaries' income increase and poverty alleviation. For instance, Hainan Prefecture Integrated Agricultural Development Project in Qinghai Province makes the readjustment for the later 3 years' project activities according to the situations and problems found in the 2 years' implementation in the mid-term review in August of 1997. The readjustments include: to end the poor economic efficiency projects such as breeding boar raising and herbs planting; to end the large-scale township enterprises due to the difficulty of allocating profits to poor farmers; to change the large-scale township enterprises to family-based micro-enterprises and increase poverty alleviation projects.

6. Project Sustainability

The goal of IFAD funded projects is to provide successful experiences of quickly alleviating poverty and to act as a catalyst to further enhance poverty alleviation and development in China. Therefore, the evaluation of IFAD funded projects gives priority to the widely suitable experiences of project sustainability. The sustainability of IFAD funded projects in China is mainly revealed in the following aspects:

(1) Poverty alleviation and development

IFAD funded projects target the poor households that have potential productivity, not those without potential productivity. This poverty targeting lays a good foundation for the sustainability of poverty alleviation and development projects.

IFAD funded projects apply an integrated poverty alleviation and development method. Firstly, IFAD funded projects define poverty alleviation and development projects by using the cooperative and consultative method with all project stakeholders participated, and the demonstration method with all-around consideration of the economic, social and environmental requirements and the demands of the natural resources. Secondly, IFAD designs poverty alleviation and development projects by using the method that combines technical training, credit

services and infrastructure construction with the project activities of the poor households. Thirdly, IFAD carries out poverty alleviation and development projects by using the method that integrates technical training before the production with technical guidance during the production and marketing and information services after the production. Fourthly, IFAD uses the management method that unites systematic project monitoring with flexible project readjustment and popularizes the experiences based on successful experiments and modeling. With all these methods together, IFAD poverty alleviation and development projects have the interior function of correcting mistakes, perfecting themselves and rolling forward.

By integrating the poverty targeting method with the participatory tools and all-around consideration, coordinating the technology with fund and infrastructure, combining the pre-, mid-, and post-production services with monitoring and readjustment, IFAD funded projects possess the feature of sustainability in poverty alleviation and development.

(2) Food security

Food security is the most basic problem which needs to be solved for the poor households. During the period of the planned economy, the Chinese government put grain production as the top priority, complemented with the expenditure of resold grain and relief grain. But history has proven that this is not the most effective way to guarantee food security for the poor households.

IFAD funded projects pay much attention to food security of the poor households, but they do so not by expanding the grain planting areas to the maximum extent, but by increasing land productivity through changing sloped land into terraced fields and thickening soil, making full use of water resources through constructing water conservancy facilities to greatly reduce the risks of potential drought and flood disasters, and realizing stable and high yields through extending improved crop seeds and using modern productive elements such as fertilizer and plastic films. Besides, IFAD funded projects also pay much attention to making full use of the comparative advantages of the agriculture resources in the project areas. Some of IFAD funded projects locate in the areas that have changeable weather, highly sensitive ecological environment and strong development seasons where grain production is not the first or the second choice. In these areas, IFAD funded projects develop animal husbandry and others to avoid the comparative disadvantages in resources and make use of the comparative advantages in resources. IFAD funded projects also pay much attention to the production items which have high comparative returns and build food security on the increase of the farmers' income.

With the increase of unit grain yield and average production of the benefiting households, the increase of other kinds of food after the full functioning of the comparative advantages and the increase of food purchasing ability after the rise of the income, food security gets sustainability.

(3) Management of environment and natural resources

IFAD funded projects choose suitable production activities according to the protection of environment and the good use of natural resources. They build economic increase on the foundation of environmental protection and sustainable use of natural

resources.

In the initial period of the implementation of Hainan Project in Qinghai Province, the grassland exceeds the limit of 79.4%. In order to solve this problem, the project takes two measures. The first measure is to construct grassland. The concrete measures are: (1) to construct crossed fences, e.g. to divide the grassland into two parts with net fences. The two parts are used separately in spring and winter so that the grass has time to grow and the surface crusting is improved. With the good grow of grass, animal husbandry is developed with sustainability; (2) to recover the degenerating grassland. Through the measures such as fencing and closing hillsides to livestock grazing, irrigation and soil loosening, and grass planting, the tendency of grassland degenerating is changed; (3) to fertilize grassland and reduce over-wintering livestock scale. In every autumn and winter, in order to facilitate the sale of the livestock, the trade and business department increases cattle and sheep purchasing stations, the individual traders are invited to the pastureland to purchase livestock, and farmers are invited to the pastureland to purchase fattening livestock. In so doing, the average keeping cycle is shortened. The related investigation shows that after these measures are taken, the average keeping cycles of yak and sheep are shortened 1-1.5 years. One yak saves grass 2800-5600 kg and one sheep saves grass 700-1000 kg.

With the co-functioning of these two measures, the numbers of the livestock in the project areas changes from 6,020,200 sheep units in early 1994 to 4,907,300 sheep units in early 2000, decreasing by 26.75%. The monitoring information shows that the total dry grass output of the natural grassland is 2,087,082,400 kg in 2000. With artificial pasture and grain stems, the total output of dry grass is 2,173,928,900 kg, which can theoretically feed livestock 4,963,300 sheep units and actually feeds 4,907,300 sheep units. The dynamic balance between grass and livestock has been achieved.

Table 2-19 shows that the increase of grass output is mainly from natural grassland, which contributes 85.32%. The artificial pasture and grain stems only contribute less than 15%. So, it is the most important task to strengthen the management of natural grassland and improve the sustainability of natural grassland.

Table 2-19 Total dynamic structure of grass resources from 1996 to 2000 in Hainan prefecture (Dry matter, 10,000 kg)

	Total	Natural Grassland		Artificial Grassland		Grain Stems	
	Total Output	Total Output	%	Total Output	%	Total Output	%
Average from 1997 to 2000	313610	283281	90.33	18568	5.92	11761	3.75
1996	263019	240114	91.29	11816	4.49	11089	4.22
Amount Increased	50591	43167	85.32	6752	13.35	672	1.33
Percentage Increased %	19.23	17.98		57.15		6.06	

Sources: based on the Completion Report of Hainan Project in Qinghai Province.

Through the implementation of the project, the ecological environment of Southwest Anhui project area has been greatly improved and the project area goes into a virtuous circle. The construction of anti-flooding facilities and reservoirs and the improvement and equipment of irrigation canal system increase the ability to fight against flood disasters and effectively control soil erosion. The measures such as soil improvement, land formula fertilizing and fertilizer amount decreasing improve physical and chemical quality of soil and raise the output and quality of the yields. The economic fruit trees development project changes sloped land to terraced fields, using stone and grass to protect the slopes, which reduces the degree of incline and surface runoff, thickens soil layer, enhances soil ability to reserve water and fertilizer and conserves water and soil. The development of animal husbandry with the construction of bio-gas units provides new energy resources for villages, reduces the amount of fuel-wood and protects forest resources. The forest coverage rate changes from 69% before the project implementation to 75%, increasing by 6%. The bared mountains in the project areas have turned green, the soil erosion has been improved and the rivers have become clean.

Through the integrated development for several years, the natural resources in Northeast Sichuan project area are reasonably exploited. According to the monitoring of Wuxi County, after the change of slopes into terraces, the physical and chemical quality of soil is improved, the land productivity is raised and the agricultural ecology goes into a virtuous circle. The annual soil erosion figure changes from 4831t/k m² to 2540t/k m², decreasing by 47.4%. Soil erosion is effectively controlled. Through the construction of shelter forest and economic forest and through closing hillsides to facilitate afforestation, the forest coverage rate changes from 25.7% in 1996 to 29.8% now, increasing by 4.1%. The bared mountains in the project area have become green, the reservoirs and rivers on the lower reaches have been clean and the ecological environment has been effectively improved.

(4) Capacity building

IFAD funded projects strengthen the capacity building of management institutions at all levels, rural community-based organizations and the farmers. They will continuously play a positive role in rural poverty alleviation and development and management of other agricultural projects in the future.

In order to evaluate the sustainability of capacity building in IFAD funded projects, we apply the Delphi method (10 score, 5 levels) to evaluate every aspect of capacity building. The result is that the renewed ideas and the tools and methods of project management are of high sustainability; the development of community-based organizations, the sense of self-management of the beneficiaries, and the standard and efficiency of the project management are of relatively high sustainability; the cooperation of the governments and the professional standard of RCCs are of fair sustainability; the hardware of project management is of weak sustainability. The results show that (1) the impact of IFAD funded projects on the capacity of China: the level of project management > the level of communities and beneficiaries > the level of governments; (2) it will take a long time for departments of the Chinese government to enhance their sense of cooperation (see Table 2-20).

(5) Institutional building

The impact of IFAD funded projects on institutional building is mainly as follows. The specialized project management institutions, the PLGs and the attached PMOs of IFAD funded projects, have been established in each province, city, county and township. VIGs have been established in the village. The sustainability of project management is very important for IFAD funded projects to continuously function efficiently. From the eight projects which the consultant team has focused its attention for evaluation, it can be seen that:

Table 2-20 Sustainability of capacity building of IFAD funded projects

Every aspect of capacity building	Score	Level	Remarks
1. Sense of cooperation in the departments of the government	6.5	3	
2. Hardware of project management (computers, printers, photocopiers, fax machines, cameras, projectors, vehicles, etc.)	2.5	1	Software of project management is not included.
3. Tools and methods of project management (VAM、PRA、VDP、M&E、RIMS)	9.2	5	
4. Standard and efficiency of project management	8.0	4	
5. Renewed ideas (paying attention to gender, weak groups, individuals, etc.)	9	5	
6. Development of community-based organizations	8.3	4	
7. Sense of self-management of the beneficiaries	8.1	4	
8. Professional standard of RCCs	5.6	3	Many projects do not involve RCC.

Notes: The full score is 10 and there are 5 levels. 1—very weak (0-2.9), 2—weak (3-4.9), 3—fair (5-6.9), 4—strong (7-8.9), and 5—very strong (9-10).

Sources: based on the evaluation made by Delphi method, 2006

■ **Management institutions and personnel are stable during the implementation of the projects.** The management institutions and personnel are stable during the first round of all the IFAD funded projects, which lays a good organizational foundation for the smooth implementation of IFAD funded projects. The project personnel are collected from different work units in which they are considered excellent. They have the strong sense of responsibility for IFAD funded projects and make great contribution to the implementation of the projects.

■ **Management institutions of the completed and accepted projects are transformed successfully.** Most project leading groups of the completed and accepted projects (the projects which have entered rolling period and finished

implementation period) have been canceled or amalgamated, such as Southwest Anhui integrated agricultural development project (451-CN), Hainan agricultural development project in Qinghai Province (364-CN), Haidong integrated agricultural development project (424-CN), Simao agricultural development project in Yunnan Province (335-CN), etc. Some PMOs have been transformed and some have been canceled. The project follow-up management functions have been readjusted. For instance, the former PMO of Hainan project (which used to be attached to the Provincial Water Conservancy Department) has been transformed into Water Conservancy Office with Foreign Fund of Qinghai Province. The former PMO of Haidong project (which used to be attached to the Provincial Agriculture and Forestry Department) has been canceled and the personnel have been assigned to Human Resources and Education Division of that department. The post-project management functions of the two projects have been transferred to Foreign Debt Management Office of the Qinghai Provincial Department of Finance. After the project leading group and the project office of Southwest Anhui project are canceled, the post-project management functions are carried out by both the agricultural department and financial department. The PLG and the PMO of Baicheng low-lying land improvement project have remained. But the PMO acts as a division and is attached to the Integrated Agricultural Development Office, which is a vice-department level institutional agency under the Provincial Department of Finance.

■ **The post-project management has regulations to obey.** Before the projects enter the rolling period, the PLGs and PMOs in provinces and cities lay down management regulations for the follow-up rolling development of the projects. They make the arrangements for recovery and delivery of IFAD fund so that the project follow-up management has regulations to obey. For instance, the PLG of Jilin Province delivered *Management Regulations on Rolling Development of IFAD funded projects in Jilin Province* in 1998, which defines the principles, investment orientations, targeting groups, working procedures, organization and leading, goals and requirements and provides policies and criteria for the follow-up management of the projects.

■ **The follow-up management mechanism of project public properties has been established.** After the project implementation period, the project completion check-up is carried out, the management and property right of the public facilities, such as reservoirs, canals, roads, clinics etc, which have been constructed during the implementation period, are transferred and the follow-up management mechanism of these public properties is functioned. For instance, in Haidong integrated agricultural development project of Qinghai Province, the project reservoirs and canals are all transferred to the management bureau of the irrigation area after the project completion check-up. The management bureau is responsible for collecting reasonable water fees to maintain the completed or improved water conservancy projects. Taobei District Paddy field development program in Baicheng low-lying land improvement project transfers the project canal to the newly established management bureau of Tao'erhe irrigation area (county-level agency) for professional management after the completion check-up. The management bureau collects water

fees from the benefited households and applies for subsidy from local government to maintain the canal so that the construction can be used with sustainability.

■ **The new project management methods and ideas will exert continuous influence.** The sustainability of IFAD funded projects is revealed in the sustainable influence of new management methods and ideas that permeate through all management levels, an intangible asset which will play a positive role in the project areas for years to come.

In on-the-spot investigations, the consultant team found some problems in the sustainability of institutional building that cannot be ignored:

— **Some projects have a transition problem between new and old management institutions.** For instance, after the cancellation of Foreign Fund Office attached to Agriculture Department in Qinghai Province, the former project management functions are not transferred or amalgamated, which leads to the vacuum of management functions. The township level institutional reform in Qianshan County of Anhui Province greatly reduces the number of towns and administrative villages, which leads to the serious loss of project materials in the grass-root project agencies, especially at the village level. As a result, the sustainability of the local projects will be affected.

— **Some projects do not have enough funds for follow-up management.** Most projects do not have enough funds for follow-up management after they enter the rolling period. For instance, after the completion of water conservancy project in Qinghai Province, the operation fund does not come in place in the one-year transitional period. The provincial PMOs will reduce institutions and staff members after the projects enter the post-project management period. This will cause a transitional problem of staff placement.

— **The mechanism of representing women and the poor households established in VIGs of IFAD funded projects is difficult to continue.** During the implementation of IFAD funded projects, the important contribution of village institutional building is to establish a VIG that consists of village leaders, women representatives and poor household representatives. It represents the interest of the whole villagers, including the vulnerable groups. But the influence of the VIG fades away with the ending of the project implementation period.

(II) Strategy and Cooperation

1. Relationship between IFAD COSOP and poverty alleviation and development strategy of the Chinese government

IFAD has been in China for 25 years. During this period, China has made great progress in reforms and economic development. Chinese government has made great achievements in rural poverty alleviation and development. Considering the government strategies in poverty alleviation and development since the reform and development of IFAD priorities in China, we have found that IFAD and Chinese government have great similarities in general goals, strategic choices and priority areas on poverty alleviation and development.

(1) IFAD country strategy (COSOP)

The first IFAD China strategy was approved in October of 1987. Then this strategy

went through several revisions and renewal. The 1999 COSOP provides a framework for IFAD to support integrated agricultural development and target poor farmers in the remote mid-west part of China. The functioning COSOP absorbs many background studies and the achievements from expert advice meetings and discussion meetings. The key points are as follows:

— **Devoting to the development of remote areas.** IFAD will continue to support the poor and low-income families in the remote areas to stably alleviate poverty; to make full use of IFAD's comparative advantages formed from the practice in project design and implementation in the world's remotest and weakest regions and in the underprivileged.

— **The strategic elements.** IFAD emphasizes its role as the catalyst to alleviate poverty in rural China, stresses its cooperation with the government and other aid institutions to develop creative model projects and to spread the experiences from the model projects.

— **Strategic key points.** IFAD defines the aided areas on the basis of poverty cause analysis, strategic considerations of Chinese government and IFAD, the past lessons and experiences, and information transportation ability of the institutions. IFAD puts accessibility and creativity as the starting points, provides fund and support for the poor households with knowledge and information on sustainable use of natural resources, proper financial services and profitable marketing trade opportunities, and increases information, innovation and technology accessibility for the poor farmers. By improving agricultural technology expansion service system, such as Farmers Field School which is the participatory expansion system initiated by the villagers and is suitable for the demands of poor households, and by supporting the science and technology commissioner experimented by the Ministry of Science and Technology (MOST), the poor households can get market-based technical services. These activities are carried out at selected areas. The achievements of the selected areas are used in the readjustment of the policies and the PBAS becomes a national measure.

— **Flexibility of participation and implementation.** In 1998, IFAD took the opportunity of compiling the village development plan and introduced the participatory method. But it needs to do more things in the application of the participatory methods. It needs to enlarge the adjustment range with the change of market and social conditions. The project design and activity readjustment should be more flexible.

Priority fields of IFAD county strategy:

— **Policy analysis and evaluation.** IFAD will provide donate money for the related public and personal policy-favored institutions, support the strategic evaluation and policy analysis, hold high-level policy dialogues, form policy agreement and set up cooperation relationship.

— **Gender.** To continue to carry out rural integrated development pattern sensitive to gender and give priority to women's participation. The strategic goal is to put rural women as the main target group, to enhance gender equality to become mainstreamed, to support the establishment of women's associations and to launch income-generating activities and formal financial activities.

— **Development of micro-credit and small enterprises.** As an international institution participating in the rural financial reform, IFAD will offer support for the reform of RCC to increase the efficiency of rural financial work, enhance development of private-owned units and to spread the successful experiences to other selected areas. The rapid development of Chinese economy provides many opportunities for the villages to initiate a number of non-agricultural activities. In order to make the poor groups share these opportunities, IFAD will offer great support for the poor communities to develop small enterprises.

— **Organic agriculture.** A great number of agricultural products with different quality enter the same agricultural products market, which is one of the reasons that lead to poverty and low income of the farmers. With the rapid market development in China's coastal areas, the demands of organic products will be greatly increased. Considering that the poor households have the comparative advantages in producing organic products, IFAD will conduct poverty alleviation experiments at selected points to help the organic agricultural products to enter the top market.

— **To improve market system.** To support farmers' associations of different industries, to enhance the contract signing of the direct purchase, to link households with market, supporting system and private-owned agencies, to shorten the distance between small households and market, to reduce market risk caused by the changes of seasonal prices, and to help the households to launch income generating activities.

— **Management of natural resources.** Considering the reasons for the degeneration of the natural resources and by making use of community-based development pattern, IFAD will improve the natural resources in the poor areas and combine community development pattern with the making and implementation of village development plans (VDPs) involving households' participation. IFAD will use the systematic management method of comprehensive ecology to improve natural resources in the poor areas. IFAD will provide aids for the project concerning farmland degeneration in the dryland ecological system. Every project in the selected point will be supported by rural development fund.

— **Capacity building.** Considering that the project implementation capability in the poor counties is lower than in other areas, IFAD will put capacity building of project implementation institutions as part of project design so that it will play a more important role in spreading creative poverty alleviation methods in policy making. IFAD will continue to improve M&E system, offer M&E training for the project staff, and reevaluate and improve the forms of basic investigation tools and reports with the consideration of RIMS.

— **Enlarge cooperation with non-governmental organizations and private-owned enterprises.** Many international non-governmental organizations (NGOs) launch positive activities in China, but the Chinese non-governmental organizations have not been well developed. IFAD will cooperate with Chinese government to explore the possibility of enhancing NGOs to participate in IFAD country strategy. Private-owned enterprises have great potential in employment and income generation. They are the important force in economic growth. IFAD will go with government policies and support the private-owned enterprises to promote rural

development. The priorities are put in organic agriculture, marketing and technological transfer. IFAD will sponsor the establishment of family enterprises and income generating activities, and promote the link between private-owned enterprises and small households.

— **Policy dialogues.** To create more opportunities for policy dialogues with the government through implementing selected projects; to cooperate with aids institutions which share the same ideas and to enhance IFAD's ability of making the dialogue with the government through holding strategy and policy workshops, delivering project materials and research materials; to make IFAD's PBAS system carried out as a national policy; to promote the accessibility of effective supporting services, including technical expansion and rural financial system; to set up legal system for the grass-root organizations such as farmers' associations so as to promote production and product sales.

IFAD will favor poor farmers in policy, improve project target system, and absorb RCC to participate in project credit. The innovations in policy and project design include vulnerability analysis, participatory appraisal, etc.

— **To improve project management.** All the project stakeholders take the responsibilities and set up effective cooperation on the basis of mutual trust. IFAD will improve supervising system and launch the cooperation with the institutions such as German Agency for Technical Cooperation (GTZ).

— **Initial loan system and fund rolling plan.** The investment of IFAD focuses on poor areas, aiming at alleviating stubborn poverty widely existing in vulnerable ecological environment and vulnerable groups. The projects in selected areas can be complemented by national and regional strategic assistance. The range, amount and adjustment of the loan are flexible. By enlarging the coverage of the projects in selected areas and the influence of these projects on the village living, IFAD will highlight its role as the catalyst in creative poverty alleviation and the contribution to policies beneficial to the poor farmers. The experiences from the projects in selected areas and the creative projects can be expanded.

(2) Poverty alleviation and development strategy of Chinese government

— **The goal of rural poverty alleviation and development strategy of Chinese government.** Farmers will have enough food and clothes by 2010. They will become comfortably off by 2020. China will stick to the strategic policy which combines the government leadership with social participation and the farmers' self-reliance, respect the participatory right and beneficial right of the poor groups, pay much attention to the help for poor groups in women, the disabled and ethnic minorities. The detailed strategic measures are: to carry out the whole-village poverty alleviation and development; to strengthen fund management in poverty alleviation; to increase the efficiency of poverty alleviation fund; to encourage all the social parties to participate in poverty alleviation and development and promote the healthy development of the national economy; to give priority to the development of the poorest areas in minority regions and mid-west areas and enhance the national unity and social harmony.

The main tasks of poverty alleviation and development during the implementation of the eleventh Five-Year plan are:

— **To basically complete the whole-village poverty alleviation plan covering 148,000 poor villages.** In south China, the average basic land per capita is over 0.5 mu while in the north the average basic land is 1-2 mu. The administrative villages will be installed broadcasting and television devices. The natural villages will have electricity. The organizational villages with proper conditions will have roads. The safety of drinking water will be increased. Every administrative village will have a clinic and the nine-year compulsory education will be guaranteed.

— **To positively carry out labor force training.** To increase the proportion of fund for training of the total poverty alleviation fund; to positively carry out labor force training so that each household has one laborer or more to get technical training on labor output or agricultural applied technology; to enhance agricultural industrial structure improvement and promote labor force transfer so that the poor farmers can share the achievements in the same areas.

— **To cultivate leading industries and develop pillar enterprises.** To adjust agricultural structure, cultivate leading industries and develop pillar enterprises and contract agriculture so that the poor farmers can share the achievements in the same areas following the tendency of regional development.

— **To promote economic development in the poor areas.** To develop grain production and animal husbandry through variety improvement, technical promotion and expansion of measures with ecological sensibility; to increase the amount of poverty alleviation loan and support marketing and infrastructure construction through improving information, technology and market services; to strengthen the support for the private-owned enterprises.

— **To provide support for the participation of NGOs in poverty alleviation.** To provide financial fund for well-performed and well-credit NGOs to develop poverty alleviation activities and make the evaluations; to promote the functions of the national NGOs in poverty alleviation; and to promote development of citizen society.

— **To set up a comprehensive system which stresses development-based poverty alleviation and also considers relief-based poverty alleviation.** The relief targets include those who have lost productive ability and have no other income sources and those families whose income cannot reach the lowest living standard in the short run.

— **To promote the expansion of the micro-credit.** To set up related management system and framework to gradually loosen the micro-credit permit restrictions and loan interest rate limitations; to ensure that the micro-credit institutions make innovations, reduce cost and raise service quality through competition.

— **To set up formalized, systematic and regular M&E system for poverty alleviation projects.** To make the evaluation about the influence of other policies on poverty and to prevent or reduce the bad influence of other policies on the poor groups.

(3) Inherent relations between IFAD COSOP and the strategy of the Chinese government

In order to explain the inner connection between IFAD and the strategy of Chinese government, Table 2-21 makes a comparison between IFAD country strategy and

poverty alleviation and development strategy of Chinese government from time and content. The conclusion is:

— **The agreement of the general goals.** The goal in *Outlines on Chinese Rural Poverty Alleviation and Development (2001-2010)* implemented by the Chinese government is to pay attention to developing organic agriculture, to strengthen market and financial services for the poor population, and to encourage to develop private-owned enterprises, farmers’ associations and non-agricultural economic activities including population migration. IFAD (2002-2006) strategic framework puts forward three strategic key elements: the reasonable use and management of natural resources, the accessibility of financial services and marketing, and the promotion of grass-root organizations. The three elements are highly relevant to the strategy of the Chinese government. That is, the priority strategy of IFAD in China is highly relevant to the general goal of poverty alleviation and development strategy of the Chinese government, both of which aim to help the vulnerable groups to alleviate poverty.

Table 2-21 Comparison between IFAD country strategy and poverty alleviation and development strategy of Chinese government (1978-2010)

Years	Poverty alleviation and development strategy of Chinese government	IFAD country strategy
1978	Period when rural reform enhances poverty alleviation (1978-1985): to help farmers to alleviate poverty through spreading family contracted system, opening agricultural products market, developing township enterprises, etc.	Initial stage of IFAD in China (1981-1986): to offer credit for the farmers, help them to develop agriculture, animal husbandry and fresh water fishery, and to alleviate poverty through production growth in agriculture and animal husbandry.
1981		
1986	Period when development-based poverty alleviation is implemented (1986-1993): China establishes specialized poverty alleviation institutions, arranges specified fund, works out development-based poverty alleviation policies and helps the poor villages to improve infrastructure and develop production.	IFAD China strategy (I) (1987-1998): to help the farmers to alleviate poverty through improving land and irrigation conditions and promoting integrated agricultural development in the project areas.
1987		

1994	Period when poverty alleviation is in the critical stage	
1999	(1994-2000): to work out the Nation's Eighth Seven Poverty Alleviation Plan, to mobilize the whole society to solve food and dressing problems for the rural poor in seven years, especially 80 million poor farmers in mid-west and minority regions and the former liberation areas.	IFAD China strategy (II) (1999—2005): to give priority to mid-west regions; to stress integrated agriculture development, water and soil maintenance; to pay attention to ethnic minorities and gender equality; to enlarge support for women's income generating activities and rural human resources development activities such as technical training.
2001	Period of poverty alleviation in the new millennium: to build the better-off society	
2006 ~2010	(2001-2010): to work out <i>Outlines on Chinese Rural Poverty Alleviation and Development (2001-2010)</i> ; to strengthen the achievements of poverty alleviation, increase living standard and comprehensive quality of the poor farmers, strengthen infrastructure construction, improve ecological environment, gradually improve social, economic and cultural backwardness in the poor areas and create conditions for better-off society. Priority areas: ecological agriculture, agricultural products processing, rural infrastructure construction, poverty alleviation with the help of science and technology, technical training for the farmers, laborer output, volunteer migration, participation of NGOs in poverty alleviation, etc.	IFAD China strategy (III) (2006 – 2010) (made in 2005): to emphasize strategic design, micro-credit and development of small enterprises, organic agriculture, marketing of agricultural products, gender mainstreaming, technical expansion and the management of natural resources.

Sources: based on *Outlines on Chinese Rural Poverty Alleviation and Development (2001-2010)* and IFAD China strategy (2006-2010)

— **Synchronized key points.** For 25 years, poverty alleviation and development strategy of the Chinese government goes through four development stages: from the period when the rural reform enhances poverty alleviation to the period when development-based poverty alleviation is implemented, then goes to the critical period of poverty alleviation till the period when the better-off society will be constructed in the 21st century. IFAD's poverty alleviation in China is marked by the three COSOPs and four stages. The strategic readjustments of IFAD go synchronically with the general strategy of poverty alleviation and development of Chinese government. What's more, the implementation period (2006-2010) of the latest IFAD country strategy coincides with the period of China's poverty alleviation and development

plan in the tenth Five-Year Plan. The strategic plan of IFAD can be combined with that of the Chinese government.

■ **The priority areas are mutually complementary.** The Chinese government defines different goals and priority areas in different periods for poverty alleviation and development. IFAD China strategies also define different goals and priorities. Many IFAD priority goals coincide with the goals of the Chinese government such as providing financial services for poor rural areas, helping project households to develop agriculture, animal husbandry and non-agricultural income-generating activities, and paying attention to mid-west regions, minority regions and sustainable development. IFAD also complements poverty alleviation and development goals of the Chinese government in other aspects such as stressing gender mainstreaming, technical transfer and management of natural resources.

2. Government input for IFAD funded projects

In order to help IFAD to introduce the successful experiences of poverty alleviation into China, the Chinese government offers great help for IFAD funded projects, including policy support and the support in human resources, material resources and financial resources. Table 2-22 shows that the 35.9% of the total investment comes from the Chinese government for IFAD funded projects. It reaches almost 50% if the investment from beneficiaries (12.8%) and Agricultural Bank of China (1.0%) are also added. This is the general condition of the eight projects. Deducting the early projects, the domestic investment will reach beyond 50%.

Table 2-22 Investment structure of IFAD funded projects Unit: 1000 Yuan

	Total Investment	IFAD	Government Counterpart Fund	Money transferred from the labor investment of the benefited HH	Others
Hainan project	346972	157027	147248	42697	
Haidong project	280994	40848	150914	1510	
Southwest Anhui project	554882.5	257156.5	218613.8	49201.4	29910.8
Jilin project	412000	218000	119000	75000	
Simao-Yunnan project	428510	226535	124403	77572	
Shanxi project	289731	147493	142238		
Ganzhou-Jiangxi project	513006	250001	160876	102129	
Yantai-Shandong project	260708	139651	28715	58642	33700
Northeast Sichuan project	284840	86670	117320	24220	56630
Total	3371644	1523382	1209328	430971.4	207962.8
Investment structure		45.2	35.9	12.8	6.2

Sources: based on the project completion reports from the project provinces

3. IFAD's cooperation with other institutions

From 1996 to 2005, IFAD set up partnership with WFP and offered aids for poverty alleviation in China. IFAD projects in China approved after 1996 basically apply the pattern of co-investment with WFP, which is the first financial partnership in the two institutions of the United Nations. The two institutions combine free food aid with micro-credit to meet the demands of rural poor population so that the poor farmers have the ability to amass wealth for the future development.

The evidence shows that the combination of food aid from WFP with the fund from IFAD effectively targets poor farmers, increases their productivity and promotes their credit. The cooperation of WFP with IFAD exerts important influences on the improvement of poverty alleviation policies in China. For instance, to organize the poor farmers to make participatory village development plans has become a policy for poverty alleviation in China.

In order to launch cooperation with other aid institutions, especially those which are complementary with IFAD country strategy, IFAD has made great efforts. For instance, IFAD holds a good cooperation with German Agency for Technical Cooperation (GTZ) that can provide highly qualified technical service. UNICEF and ACWF are IFAD's strategic partners in gender mainstreaming area.

IFAD uses VAM to define the poorest townships in China. They are mainly located in mountainous areas where minorities are populated. VAM uses food security and other human development indexes. For example, it chooses the most vulnerable areas according to safe drinking water and electricity use. IFAD's PRA is then used to accurately define the poorest villages and families in these areas. WFP provides grain and income generating ability for the rural poor: food-for-training is a plan for functional illiterate removal and capacity building while food-for-work teaches farmers how to improve agricultural infrastructure and enlarge farmland.

Most of IFAD loan includes micro-credit support for RCC. Both PMO and RCC make the effort to help enlarge clients and cover the poorest areas in the rural communities. IFAD fund is also used to improve technical extension services in animal husbandry, cash crops and grain crops, and tree planting, and to recover rural infrastructure such as roads, water factories, hygienic and education facilities.

IFAD works out and implements its strategy to help the Chinese government to carry out poverty alleviation plan. IFAD also makes effort to enlarge its partnership with other countries, international and bi-lateral institutions and non-governmental organizations (NGOs).

(III) Conclusions

(1) Great project achievements.

Through introducing poverty alleviation patterns, developing technical training, providing credit fund, increasing efficiency of resources, promoting enterprise structure, increasing infrastructure, and enhancing the development of farmers' associations especially the specified cooperation organizations, IFAD makes great contribution to alleviating poverty for 15 million farmers and improving the development environment in the project areas. From on-the-spot investigations and

the project completion reports, we can see that IFAD funded projects have made great achievements.

(2) Evident role in poverty alleviation.

The role of IFAD funded projects in poverty alleviation can be summarized as follows: firstly, all the projects have fulfilled the anticipated goals of poverty alleviation; secondly, the poor farmers in the project areas have increased their ability and improve their way of life. The development environment in the poor areas has also been improved.

(3) Prominent demonstration effect.

IFAD funded projects involve poverty targeting and participation of poor farmers. They combine economic element with social and environmental element. They develop poverty alleviation patterns of integrating technology with fund and infrastructure, combining pre-production and mid-production with post-production, and coordinating monitoring with readjustment. They fulfill the goal to help the poor farmers, bring the initiative of women into full play, pay attention to the efficiency of poverty alleviation projects and M&E of beneficiaries, increase the flexibility of project readjustment, set up rural development fund for the poor areas and cultivate rural financial institutions. All these activities produce great demonstrative effect and can be copied to other areas.

(4) Guaranteed sustainability.

The achievements of IFAD funded projects are based on the functioning of comparative advantages of resources and the continuous income increase of beneficiaries. They are based on good environment and reasonable use of natural resources. They are based on the regulations of post-project management and the implementation of post-project management of public properties. So, the sustainability of the projects is guaranteed.

(5) Far-reaching social impact.

In fact, under the existing management system and with the design of project management system which cannot coordinate interests of every party, it is hard to avoid disagreement between domestic project management and international regulations. But what is expected is that with the development of China's reform and IFAD's cooperation with the government and with the improvement of project management system, IFAD funded projects will exert far-reaching social impact.

(6) IFAD's improper way of ironing out differences in the cooperative parties by imposing pressure.

It is normal that the two partners have different opinions. A good partner shall be good at listening to the opinions of the Chinese staff and can find a solution which can be easily accepted by the two parties. It is no good to use pressure to push its opinions, and the personal opinions in particular.

(7) Greater Flexibility of project AWPB needed.

China is in the stage in which the economic system and industrial structure are changing rapidly, and IFAD funded projects will be implemented for a long time. So, IFAD funded projects implementation should not strictly be restricted to the original design and the amended plans based on the mid-term evaluation. The AWPB of IFAD

funded projects should have more flexibility.

(8) Further Project management measures required for the rolling period.

At present, the key point of IFAD funded project management is the first round of loan delivery in the first five years. Certainly the management in the 35-45 years rolling period that follows is also very important in terms of project management in the rolling period. The establishment of post-project management institutions, the effective recycling of loan fund and project management, all these need to be strengthened.

Part III. Experiences and Lessons

1. Major experiences of IFAD funded projects in China

(1) Great attention paid to IFAD funded projects by Chinese governments at all levels.

The Chinese governments pay great attention to the government foreign debt projects and foreign-funded poverty reduction work such as IFAD funded projects. The government departments take the project on the agenda and consider the performance of project work as one of the main targets for evaluating PMO officials. During project implementation, governments at all level give full support to and care for the project on the management agency establishment, staff allocation and project counterpart funding. By using their public credit, governments at all levels carry on the achievement examination and performance evaluation with the project management units and staffs, so as to initiate their enthusiasm for doing a better job.

(2) Complete project management mechanism.

During its 25 years, IFAD has established a full complete project management mechanism in China, which includes management agencies, management systems, advanced M&E systems and modern project management tools and measures (VAM, PRA, VDP, RIMS etc.). In each project area, the PLGs and PMOs are set up, followed by a complete set of regulations. For instance, there are Project Management Regulations, Project Financial Management Regulations, Project Accountant Accounting Regulations, Project Fund Withdrawal and Reimbursement Rules, Project Accountant Accounting Regulations, Loan Manual and Households Loan Attentions, etc for IFAD funded projects. M&E system improves the project management and efficiency. Modern project management tools and measures play a good role in implementing IFAD funded projects and set an example for other poverty reduction projects in rural China.

(3) New ideology of project design.

The advanced project design ideology of IFAD includes:

— firstly, IFAD develops the human capital of the poor households, and carries out functional literacy training and technical training programs.

— IFAD has established a cooperation mechanism with WFP for input and coordination so that the two organizations are complementary for a higher benefit and better operation of the project. The free food assistance from WIP is helpful for the poor households to develop effective technical training, and get creative skills so as to get capability instead of capital. In this way, the poor farmers have become credit-worthy for the application of a loan, and the risk of loan is reduced.

— leveling and graduation system of poor households makes a better management of poor households in the project areas. The way it does is such that: to divide the project villages into three levels, A, B, and C for classified management and guidance. The establishment of the mechanism of upgrading and graduation from poverty is beneficial not only to increasing the targeting rate of poor households for projects, but also to improving the project management efficiency and scientific-wise.

— the human being centered conception for poverty reduction helps to solve the

basic problem of survival of the rural poor. In the IFAD funded project design, this conception is fully represented by solving the beneficiaries' major issues such as food and clothes, drinking water and health care and income increase etc.

— the concern for vulnerable groups, women and children has revealed the objectives of IFAD funded projects. In IFAD funded project design, there is a special loan for increasing women's income, and assistance to the drop-off children, showing that the IFAD funded project is designed to assist the poor and the weak for improving equality.

(4) Strengthened Capacity building and project sustainability.

During project design and implementation, IFAD pays more attention to the capacity building and project sustainability. What IFAD's capacity building refers to is not only the management capacity of all-level government departments and PMOs, operational capacity of micro-credit on-lending agencies, but also the self-management capacity of community-based organizations, and self-developing capacity of households after implementing the projects. The project sustainability refers to the sustainability of project management agencies, and those of the loan sources recycling, project long-term benefit and model replication in other areas, etc. This has given us better experiences for enriching our poverty reduction ideology.

(5) Innovative project implementation in accordance with Chinese local conditions.

All-level PMOs think of its local situations carefully and bravely explore new operational models of IFAD funded projects in China. This became one of the main factors that IFAD funded projects have achieved success in China. For instance, (1) to create new channel to deliver the loan: in Shiqiao tea garden of Qianshan County, Anhui, the elite person acts as head to get loan for the tea garden. The households can get land lease through land input and can get wages through labor in the garden. Each household can get 5,000 RMB increase each year; (2) to create loan guarantee system:

in Guide county of Qinghai, teachers and government officials act as guarantors for the poor households' loan, and the fund of returning cultivated land to forestry is also used as the guarantee. (3) to create the loan operation size: in Haidong area of Qinghai, the IFAD funded projects and agro-industrial activities are combined to set up a moderate scale of chilly gardens, prickly ash gardens, and watermelon gardens. This has helped the households of project area to get outer economic benefit by expanding their production scale.

2. Lessons learned from IFAD funded projects in China

(1) IFAD experts' evaluation is incomplete.

Most of the foreign consultants do not know much of the Chinese situation. It is very difficult for them to design the projects correctly after one-week-visit in China, causing some unfeasible loan arrangements. Besides, according to the IFAD design, there need a lot of counterpart fund from the Chinese government. It is too difficult to allocate such large amount of government input so that to cause a greater difficulty in implementing the designed project.

(2) On-lending modes of IFAD incremental credit needs to be improved

In terms of the on-lending modes of the incremental credit used currently in the

project area, none of them can both demonstrate the goal of poverty reduction of IFAD with highest project benefit, and comply with the Chinese current financial institutional framework. Obviously, the shortcoming of the on-lending system is an important reason for the problems of loan recollection, high risk, and targeting.

(3) Systematic training is not enough for credit delivery and M&E.

Through on the spot investigation, the consultants have found that in the beginning 1-2 years of the project, sudden and unplanned loan, irregular loan exist and this becomes the risk of recollecting loan fund safely. The main reason is that the project staffs are not well trained, especially the staffs in charge of loan delivery. They are not skillful, do not understand the aim and principles of the project correctly and can not estimate the risk of loan well.

According to the reports of project agencies of the provinces and cities, in comparison with WFP, IFAD training on M&E is not enough. RIMS system is used widely, but the PMO of provinces and cities are asked for filling tables without proper training. This leads to misunderstanding of data and low efficiency.

(4) Chinese project management institution needs to be readjusted.

Historically, the management of IFAD funded projects has been shifted from MOA to MOF. Before this change, the department of agriculture (or department of water resources) is in charge of the project management, and the department of finance acts as guarantor and debtor, being responsible for guaranteeing the loan fund and financial operation. The project management practices have proven that this project management system is not smooth. It needs great cooperation and it has low operational efficiency. In the newly designed project management system, this should be readjusted.

Part IV. Highlights and suggestions

1. Several Highlights

The most important highlights on the Chinese poverty reduction of IFAD in China are:

(1) An integrated pattern for poverty alleviation and development.

IFAD incorporate participatory planning, technical training, loan support, M&E system and flexible readjustment together to form a special model of poverty reduction. Firstly, IFAD adopts group participation to identify the poverty reason, to determine the urgent problems and potential development fields, and finally to choose the suitable project activities for poverty reduction; secondly, the skill needful to the activities will be trained in order that all participants can grasp relative capacity; thirdly, the fund for public goods in the community will be given and the loan for households to produce their private products are delivered; fourthly, experiences and lessons during implementation will be studied systematically through regular activity of M&E; fifthly, the projects will be improved through readjustment, and the experiences will be extended and problems amended. This includes five aspects: participation, training, loan, M&E and readjustment. The model of poverty reduction has a wide suitability and it is worthy to be learned and introduced to other Chinese poor areas.

IFAD model of poverty reduction appraises participatory democratic decision-making and the concept of equality of participants' rights and duties, and consider the labor capital investment as the priority. This is introductive for the Chinese poverty reduction system to make reforms in the future.

Our investigation also shows that some of the Chinese management staffs in the project pay far more attention to the materials and fund than to the model extension. Large amount of IFAD fund will be operated in the project areas for several decades. To amend this misleading, well incorporate the fund rolling, model extension and system reform will bring further impact in the fields of poverty reduction of IFAD funded projects in China.

(2) A complementary pattern and a win-win approach.

IFAD's complementary and cooperative win-win model can be divided into two stages. In the beginning, IFAD carried out the model of cooperative win-win approach through complementing intelligence with fund, in which investment was done by IFAD and the technical support is provided by the World Bank and UNOPS. Since 1996, IFAD began to adopt a new cooperation model, i.e. joint investment with WFP. These cooperation models make the participants bear common responsibilities and play joint roles, by setting up a cooperation platform in a cooperative atmosphere and spirit, and this is worthy of learning and copying to other projects in China.

Our investigation also shows that due to the lack of a stable cooperation platform and good cooperation spirit, the more departments participate the project management, the more conflicts will appear because of grasping benefit, pushing aside the duties and own risks. So, all departments have the same opinion that one department in charge of project operation is better than several departments. If fact, economic

monopoly leads to loss of efficiency and management monopoly leads to loss of efficiency, too. However, we cannot deny the importance and necessity of setting up the cooperation platform and nurture the cooperative spirit due to some conflicts between departments. IFAD model of advantage complementary and a win-win approach is very useful for us to study and learn.

(3) Democracy and acknowledgement in project design

Democracy and acknowledgement of project planning and implementation is improved by IFAD through the participation approach. Same as other international organizations of poverty reduction, IFAD fully believes that the poor groups know how to reduce their poverty better and we must rely on their full participation, so as to make up the most suitable project plan.

Our field investigation found that the participatory approach has not been fully used for plan-making and implementation. After coming into the rolling period, how to play the role of participatory approach is an issue which shall be paid attention to.

(4) Equality of rights and responsibilities of project participants

From the aspect of gender mainstreaming, IFAD tries to realize the equality of rights and duties of project participants. The conception of gender mainstreaming is put forward, based on the fact that women are neglected in the society and communities, and women's position and roles are not comparatively high in families. This conception tries to demonstrate that the person who bears high responsibility for the project will have more decision-making power, in order to realize gender equality on thinking, right to know, right to participate and right to monitor and right to make decisions, so as to realize the gender equality of rights and duties finally. This is also an issue we should attend to.

Our field investigation shows that IFAD funded projects measure the operation of gender mainstreaming by signature rate of women on the loan contracts. This approach shall be highly appraised. However, more important work should be: to let women enjoy the same rights in the project information sharing, project activity participation, monitoring and decision-making, so as to solve the problem that the women bear more responsibilities but the men keep more rights.

(5) Policy orientation for rural financial market development

Rural financial market development is a necessity for households in the poor areas to get suitable and sustainable financial system, and one of the key factors to transit the policy-based finance to development-based finance. Therefore, to perfect the policy and method of financial market development in rural China, including investment on capacity building of RCCs and giving policy support to developing new financial agencies, is a long-term goal of IFAD funded projects and it is also the goal of the financial reforms in rural China.

Above all, the concept of IFAD funded projects and the models adopted have a wide suitability. However, these good points have not been well carried out and did not play enough role. In the future, the improvement on these points shall be made attentively.

2. Some relations needed to be dealt with

(1) Policy-based finance vs. development-based finance

Most of IFAD loan projects adopt policy finance. It has the following characteristics: the government departments directly deliver and recollect the loan, and the loan aims at the poor households, the financial fund is used for compensating the operational cost and bearing the risk, and the households get seasonal production loans with government subsidy of interest. During the project implementation, these projects play an active role in reducing the rural poverty, increasing household income and improving the rural development. These loan delivering agencies also face some difficulties: the legal position of government delivering loan is unclear, outer technical support and monitor is weak and financial subsidy fund has not come in time. In some poor areas, the development finance policy shall be carried out and in some more remote poor areas, the policy finance shall be still used. Therefore, how to handle the finance issues, stabilize the policy finance and gradually induce the development the financial market, and perfect the rural financial market, is the issue which shall be considered carefully while implementing the IFAD funded projects.

From 2002, micro-credit transaction of RCCs in IFAD funded project is done based on the development finance. It has the following characteristics. It chooses the clients by market principle, provides loan products based on the households living and liquidity capacity, promises to provide sustainable financial services, and the subsidy from the government is used for the capacity building of the loan operating agencies. This kind of development finance transactions done by RCCs needs various policies to support its capacity building, and needs other policies to cooperate (for instance, agricultural insurance policy etc), in order to protect the healthy development.

(2) Risk avoidance vs. project efficiency

Our field investigation indicates that government departments did not choose the system of incorporating management quality with the investment risk (i.e. the better the project management, the less the risk of investment; or vice versa) when implementing IFAD funded projects, but chose the way of increasing loan interest margins for avoiding the possible risks. Under such circumstances, the managers do not have pressure, but their initiative and willingness to do the project well also escapes. We propose to adopt the system of incorporating management quality with investment risk in the project rolling period so as to make the project management agencies and participation households become mutually benefited enjoyers, so that the management agencies pay more attention to the efficiency improvement from risk avoidance.

(3) The sustainability of IFAD fund operation vs. the sustainability of project management institutions

Funds of IFAD funded projects have been rolled for several decades consistently in the poor areas, but the management agencies are withdrawn after the first batch of loan is delivered. Therefore, there appears a conflict between sustainability of fund operation and inconsistency of management agencies.

Our field investigation also demonstrates that a lot of work in IFAD funded project is temporary and done in a fixed period. For instance, loan delivery and recollection are done by a group of staffs employed by the township government temporarily in a short time, not done by a group of professional staffs. Their operation lack

consistency and regularity. Therefore, there arises a conflict between regular management and temporary operation.

It is impossible for the government to set up a professional agency for the micro-credit needed by the poor households, or for the micro-credit of one project. Therefore, the present agencies arranged for this work can not last forever. We consider that this kind of work shall be done by the local financial organizations or the grass-root farmers' community or corporate. If it is difficult for the time being, the government should entrust some institutions to do so. What the government should do is to choose the best institutions, financial organizations or best local farmers' community or corporate, and conduct cooperation with them.

Our filed investigation also found that in IFAD itself, the staffs and ways of operation are not stable either. Some ways of operation are changing with different staffs and this is also an issue which shall be attended.

(4) Industrial development goals vs. poverty reduction goals

In order to introduce the international successful experience into the Chinese practice, both partners of IFAD funded projects try utmost to make adjustment to suit the requirements of the other party. But our investigation also reveals that some Chinese project management staffs insist that the projects shall not be targeted to the poorest households let alone the poor households without labor force. There are three reasons: targeting the poorest households will affect the fund efficiency; the poorest households have more limits and risks, so it has less possibility to do better projects; and the poorest households have low creditability. From the point of view of developing an industry, it is better to deliver the loan to Class A and Class B households. But the problem is that, more emphasis on the industrial development and neglect the poverty reduction, will mislead the spirit of IFAD funded projects. It is imagined that if even IFAD funded projects that do not consider getting profit as the target can not support the conception of prioritizing equality plus efficiency, and can not support the poorest households, what other projects will? If even IFAD funded projects can not meet the urgent needs of the poorest households, how can they face and solve the limits and risks? In terms of the bad credit of the poorest households, it has been tested by numerous facts to be a false judge. Our field investigation shows that the bad debt is not caused by the household creditability. Low credit repayment rate of the IFAD funded projects under the charge of non-financial agencies is caused by the irregular and unhealthy channel of loan repayment. Therefore, we consider that IFAD funded project shall insist on the basic principle of targeting the poor household in the rolling period.

(5) Funds returned before production increase vs. funds returned after production increase

Generally speaking, while choosing the projects, IFAD not only considers the local advantages of resources, but also considers the suitable productive scale of project areas and suitable productive scale to which the households can reach. But there exist big differences between the household minimum scale decided by the project and that decided by the households themselves. For instance, in terms of sheep raising project activity, in Jilin project, 20 sheep per household are determined, but in Qinghai only 6

sheep are decided. Both of the data are 1/3 or even lower than that of the minimum number desired by the households.

That does not mean that the households want to reach the determined minimum suitable scale in the beginning, what they want is to postpone the time of loan repayment. They hope to start repayment after their project reaches the minimum suitable scale, so that they reach the minimum suitable animal-raising scale within a short period of time. For instance, Jilin farmers propose to postpone repayment for 2 years. In the beginning, they raise 50 sheep and produce 2500 RMB from sheep wool (50 RMB/per sheep X 50), and 7500 RMB from live sheep (200 RMB/per X 37.5), 10,000 RMB in total, then they begin to make repayment. In terms of the production projects with minimum suitable scale, which way is better, to make repayment first and increase second, or to increase first and make repayment second? This shall require further discussions.

In the project area of Tongyu in Jilin province, loan for buying 20 sheep is provided for the households participating in the project. Due to the too small a scale, it is not cost-effective to raise the sheep by each household. Then, the cooperation of raising sheep appears. Sheep from different households are collected into the big households, who get the cut-wool for the compensation of the raising labor. Therefore, the income gap is enlarged. For instance, in terms of a group of 20 sheep, 15 sheep can be slaughtered and get 3000 RMB, 1000 RMB for raising expenses (50 RMB/per X 20), covering 25% of the total income. The big household can raise 100 sheep, of which 40 sheep are owned by themselves, wool income 5000 RMB, 30 live sheep income 6000 RMB, with a total income of 11,000 RMB.

(6) Project sustainability vs. project radiation.

IFAD pays great attention to the radiation of the project experience by adopting three ways: to increase new projects, increase new project activities and increase new project areas in the rolling period. It should be supported that the larger the scope of project radiation, the more benefiting households, the higher popularity of IFAD. But in terms of specified amount of fund, larger scope of radiation means more project areas and more project activities, and produces more management cost and more difficult supervision, so as to weaken the sustainability of the fund operation.

In our opinion, in terms of IFAD fund whose amount is very small compared with the total amount of Chinese poverty reduction fund, to enlarge the project area and project activities shall not be its priority. It shall try to set a model which is sustainable for poverty reduction with Chinese characteristics, maintaining project suitability and sustainability.

(7) Direct household targeting vs. IFAD's cooperation with government projects

IFAD highly emphasizes household targeting, to produce the public goods in the way of producing the private goods, and enlarge the scale of private production from bottom up.

In IFAD funded projects of Taobei County in Helongjiang Province, the rice project has targeted the households. Each household has its own well, water pump, diesel engine, and pump water for planting rice. IFAD has invested 9.6 million RMB, each household plants 2 hectare in average, and loan is 11,600 RMB. The advantages of

this method is that all cost and benefit are internal, the organization and coordination cost is less, and is useful to avoid other households getting benefit freely. But some problems also exist, underground water is of low temperature which is not good for the rice growing and dry matter accumulation, leading to the low output of rice; with the reduction of underground water, the irrigation cost will be higher; with the lessening of underground water, the sustainability of rice production is becoming less and less. In order to handle these issues, the government started the national integrated agricultural development project in this area for improving the total irrigation. The activities of the national project are to lead the ground water into the irrigation area, make the well irrigation into canal irrigation, and make the underground water irrigation into the groundwater irrigation. The advantages of this change are that the ground water has higher temperature, which is useful for rice growing and dry matter accumulation, so as to get high output; irrigation water is mainly of self flowing water, power expenses are greatly reduced if compared with the well irrigation. So, the irrigation cost is less. The third advantage is that the ground water supply is more stable, so as to improve the stability and sustainability of production.

The cooperation and support of the integrated agriculture development project sponsored by the Chinese government is the key point to keep the IFAD last up to now. Therefore, the enlightenment is that IFAD funded projects shall be cooperated not only with the other international project like WFP, but also with the Chinese government project, in order to complement and assist each other.

(8) proportion control vs. market orientation

In IFAD funded projects, a lot of preparations have been made, but due to the long time of project planning and the China's rapidly changing economy, the chosen project activities and investment structure of the designed plan more or less deflects from the actuality while the projects come into implementation. And also, in the original project design, the proportion of investment for different activities was not determined by sufficient analyses. Therefore, regarding the investment structure in feasibility study and planning stage as the guideline of project implementation will make us possibly lose the market opportunity or meet with the market risks. In our opinion, the rate control shall comply with the market orientation as the Chinese economic structure is changing rapidly.

(9) Technical extension vs. elements required for technical application

Our field investigation shows that IFAD funded project pays attention not only to the technical training before implementation, but also to the technical instruction during implementation. This is why the IFAD funded projects are mostly successful. However, there still exists disconnection between technical instruction and the factors needed by the technical application. For instance, the pesticide which is not available in the market is used on the technical instruction meeting, and the farmers still cannot cure the plant disease and insect pests even if they know how to do so. This is one of the issues which shall be avoided in the future.

(10) Scope and depth of project investigation in the project implementation period vs. those of the rolling period

Our field investigation indicates that IFAD pays much attention to its project implementation, and arrange some regular investigation in this period, but pays less attention to the rolling period and does not arrange regular field visits. IFAD funded projects have a complete set of investigation arrangement and employ consultants of all fields. Although a lot of money is spent, the investigation is still not in-depth due to the short time investigation. We propose that even in the rolling period, some investigations shall still be arranged, especially some investigations with special missions, and the investigation time shall be a little longer, and more Chinese consultants shall be employed so that the information can be doubled without translation.

3. Some suggestions

IFAD funded projects in China shall aim at becoming the advanced model of poverty reduction and focusing on the promotion of the transition of the Chinese economic system. More specifically,

(1) IFAD funded projects should further define project areas and ranges of project-related activities

— **IFAD funded projects shall be done more in the mid-west area where there are more poor households living together.**

The reasons are the following: firstly, IFAD fund is limited, one project in one project area will maximize the social impact of IFAD, but it is difficult to produce sustainability of poverty reduction model and poverty reduction fruits. Secondly, our analysis shows that when the project aims at the more poverty concentrated area, the poor population benefiting from IFAD loan is larger. Therefore, IFAD shall carry out its projects in the mid-west poor-gathered area.

— **The choice of key fields of IFAD funded project activity shall be more flexible.**

The selection of project activities shall be based on the following three basic principles: (1) to meet with the requirements of poor farmers, (2) to meet with the resource advantages and industrial competitiveness of the project area and; (3) to meet with the key fields of national poverty reduction plans of the Chinese government. Among them, the most important principle is to meet with the requirements of the poor farmers. That is to say that the poor farmers shall be organized to adopt the participatory approach to choose the project activity fields. The duty of IFAD loan project is to provide fund, technology and market information for the project activity recognized by the beneficiary households in the project area, but not describe the key activity fields for them. The key fields in IFAD COSOP China are only for a guideline, more choices can be made by each project area. New IFAD funded projects in China shall let each project area to have more choices for the project activity. Project area shall develop its best suitable agriculture and non-agriculture income-generating activities based on its local circumstances.

— **IFAD funded projects shall lessen the scale of community targeting.**

After 30 years development in rural China, the poor population in rural China is more and more dispersed. Large scale of poverty does not exist any longer. Based on

this change, IFAD funded projects shall lessen the scale of community targeting. Targeting the township which has big differences shall be readjusted to targeting the village. On this basis, the project area-level loan shall be lessened into project village-level loan, so that the project village can develop several project activities consistently, not just the one activity as before.

(2) IFAD should enlarge areas for demonstration of its poverty alleviation model.

In terms of the poverty reduction in China, the most important work of IFAD funded projects is to set examples for poverty reduction. With the strengthening of poverty reduction by the Chinese government, the percentage of IFAD fund is becoming less and less compared with the government increasing investment. So, in the new era, IFAD shall set good examples and play a demonstrative role. We propose that IFAD shall set the following more examples.

— **To set an example of cooperation with NGOs.**

In the situation that the rural poor population lives together and poverty reduction activities aim at providing public products, the model of poverty reduction led by the government has comparative advantages. At this time, it is reasonable for IFAD to have cooperation with governments. In the situation that the rural poor population is living more and more dispersed and the poverty reduction activities aim at helping the poor households to develop production, the model of poverty reduction led by non-government organization (NGO) is more effective. Therefore, in the new era, on the basis of cooperating with the government, IFAD shall actively develop its cooperation with non-government organizations (NGOs).

25 years ago, it was not realistic for IFAD to have cooperation with NGOs. 25 years later, it must be not wise for IFAD not to consider cooperation with NGOs in China. In the long-term practice of helping the developing countries on poverty reduction, IFAD has got a lot of experiences of cooperating with NGOs. Certainly, IFAD can set an example in the field, including how to choose the non-benefit organization willing to deliver loans for the poor households, how to choose experienced and excellent poverty reduction agencies, how to improve the development of disciplined, warm-hearted and capable NGOs, and how to erase negative impact of mistaken choices soon.

— **To set an example of cooperation with the Chinese government projects.**

Although in IFAD funded project area, there exists some government project of poverty reduction, IFAD funded projects are relatively independent up to now, not cooperated with the government projects. For instance, the Chinese government by the way of Whole Village Push helps the poor villages to implement the village-level poverty reduction planning made with the participation of farmers. Due to insufficient fund, the government investment is mainly used for the public products of the village-level poverty reduction planning, the Whole Village Push will be more effective if IFAD gives support to the household production through micro-credit, so that the households will have guarantee of fund. IFAD has a lot of experiences with other organizations (such as WFP), and it is one of the best examples of cooperation. This example will further facilitate cooperation between all-level government departments and all-level local governments.

The cooperation between IFAD funded projects and the poverty reduction projects of the Chinese government, is an important channel for both sides to realize advantages and function compensation, is an important channel to realize the unification of COSOP of IFAD and poverty reduction strategy of the Chinese government in new century, is an important channel to improve the dialogue and communication between IFAD and the Chinese government, and is an important channel for IFAD to improve its indirect impact on the Chinese policy of poverty reduction. Therefore, on the basis of cooperation with MOF and MOA, IFAD shall actively develop the cooperation with the responsible poverty reduction departments.

— **To set an example to educate grass-root financial institutions.**

IFAD prefers rural financial institutions to operate its loan fund, this way is undoubtedly correct. But using the existing financial institutions shall be united with improving the growth of new rural financial institutions. As an international organization, IFAD shall make use of its special position to push the growth of new rural financial institutions.

The competition system shall play a role in choosing the cooperation partner. Our on-the-spot investigation shows that the maximum loan interest rate which can be accepted by the poor households in the project area is 10%. The cost of financial institutions operating the micro-credit is 5% of the loan, so the transaction is attractive for the financial institutions if IFAD delivers the loan at a favorable interest rate of 0.75%, even plus exchange rate risk of 1%. Therefore, IFAD shall use the way of tender to choose the best cooperation partner. For the potential cooperation partners, the fully competitive system is helpful for them to demonstrate their capacity and overcome their limitations. Therefore, competition is the most important market way of improving the growth of rural financial institutions.

(3) IFAD funded projects should further promote sustainability of project management institutions and project targeting

— **To adjust the management institutions of IFAD funded projects in China.**

In the past 25 years, IFAD funded project has been managed by the temporary agencies in the government departments. However, this way can not continuously meet the requirements of IFAD funded project rolling for several decades in China. For this issue, our proposal is to choose the best institution from GoNGO (government NGO) to carry out the project. The reasons are the following: in the recent 20 year, some NGOs appear, and some of them get the capacity to manage the individual project, but none of them can manage all the IFAD funded projects in China. So, the management institution can not be replaced all at one time. Secondly, during the government institution reform, some GoNGOs of good reputation, strong capability, and good achievements which can manage all IFAD funded projects in China have grown up. MOF shall choose the best of the institutions, and appoint them for the management and supervision of IFAD funded projects. MOF is responsible for the general administration, sub-contracting and supervision, especially for choosing the institutions and evaluating management and supervising their performances. In other words, the displacement can not be realized all at once, and an actual choice shall be made to comply with the gradual reform. Thirdly, from the developing trend,

government characteristics of GoNGO will become weaker, non-government characteristics will become stronger. Therefore, the result of this gradual reform is that the NGOs of stronger and stronger sustainability (or self-production) will surely replace the temporary government organizations of non-sustainability. Therefore, the successful cooperation between IFAD and non-government organizations (NGOs) will push the transition of the Chinese economic system.

— **To pay attention to sustainability of poverty reduction targeting.**

After IFAD funded projects come into the rolling period, the loan fund will possibly deflect its poverty reduction targets due to unclear regulations. Therefore, the poverty reduction targets shall be further described so as to realize the sustainability of poverty reduction targeting. This is one of issues to be handled urgently. In the first activity of IFAD funded project, the loan aims at the poor households, but the poorest households are neglected. So, the aim of poverty reduction shall be further emphasized after coming into the rolling period, and neglecting the poorest households in the first activity shall be overcome.

(4) IFAD funded projects should further improve design and management

— **Better preparation of new IFAD funded projects shall be made.** The design of new IFAD funded projects including the activities, scale and national counterpart fund etc, shall pay more attention to the actuality of China and the project areas. We propose the evaluation mission of new IFAD funded projects shall invite Chinese consultants to participate, and the national counterpart funds shall be within 15%.

— **Further flexibility of IFAD AWPB should be given.** China is in the stage of rapid economic changes, institutional transition and the increase of peoples' living standards, the flexibility of loan fund can ensure its better economic output. We propose that more flexibility of the annual work plan and budget (AWPB) shall be given to PMOs by IFAD, so that the annual plan of the project areas in each province or city can meet with the local actual changed situation and market conditions, and the project activities can satisfy the beneficiaries in the project areas. In terms of the funds for the social support system, there shall be also more flexibility on providing the equipment and training, some of which were arranged in the evaluation reports several years ago and do not meet the current circumstances in the project areas.

— **Training on M&E and loan transactions should be strengthened.** While doing new projects, the lessons learnt shall be studied to avoid sudden and irregular loan delivery. Before officially delivering the loan to the project beneficiaries, IFAD and all-level project management institutions shall adopt good method to strength training on loan transactions. Meanwhile, training on the project M&E shall also be strengthened, so as to further improve the effectiveness and benefit of the IFAD funded project management.

(5) IFAD should facilitate or participate in the experiment of the Poverty Village Fund (Micro-Credit)

For IFAD, which pays great attention to the development of rural financial institutions, the cooperation with the RCC in terms of fund operation with beneficiaries is undoubtedly a better alternative than with a government agency. Under circumstances of prohibiting non- governmental rural financing, the

cooperation with the RCC for IFAD was the only practical choice. However, the principal of IFAD loan portfolio in China is limited (about 1 billion RMB), which is relatively small in terms of the existing credit portfolio of the RCCs in China. Therefore, it is difficult for this small percentage of fund to exert obvious influence on the improvement of credit services in rural China. Secondly, our field visit shows that RCCs are not very interested in IFAD loan, and what they are interested in is to use this low interest IFAD loan to upgrade their own competitiveness through establishing management information system. This is a hidden danger for the deviation of poverty reduction goal. Thirdly, RCC is a profit-maximizing financial enterprise. Practices have proven that even if RCCs use IFAD loan for micro-credit, there are still problems in targeting poor households. Therefore, under the new circumstances of other alternatives available, IFAD should consider readjusting the cooperation partner.

At present, IFAD has other choices in China. In 2007, the Chinese government will have new improvement on rural financial policies, beginning to allow non-governmental rural financing to develop. In this case, IFAD should readjust its cooperation strategy and shoulder the responsibility of positively facilitating the development of rural financing, or at least participate in the process of the development of rural financing in the poverty-stricken rural China. Meanwhile, this will also become a new alternative for the sustainability of IFAD in China.

For the moment, the State Council Leading Group Office of Poverty Alleviation and Development (OPAD) and the Ministry of Finance (MOF) of the Chinese government are undergoing the experiment of Poverty Village Fund (Micro-credit) with the scale of 100,000 – 150,000 RMB per village in the poor rural China. If IFAD fund can participate and use its entire fund in this purpose, IFAD will be able to run 10,000 villages for this Poverty Village Fund experiment. In so doing, IFAD will become the strongest international agency of micro-credit in the poverty-stricken rural areas in China and will exert greater social impact.

Since the new millennium, the Whole Village Poverty Alleviation Initiative has become the prioritized strategy for China's poverty reduction. However, since the government input is only sufficient for the rural infrastructure in the participatory VDP, and other activities of the VDP will have problems to materialize due to the lack of production credit for the poor households. If IFAD participate in the Whole Village Poverty Alleviation Initiative as it does in its project areas for incremental credit, it will forcefully push the implementation of the Whole Village Poverty Alleviation Initiative and will impose greater impact on the Chinese poverty reduction policies.

IFAD has rich experiences in cooperating with both international agencies such as WFP, and China domestic government institutions such as MOF. Therefore, it will have no difficulty in cooperating with the OPAD. IFAD's cooperation with OPAD has three advantages: firstly, it will have a better dialogue with the Chinese government decision-making agency for poverty alleviation; secondly, it will be favorable for IFAD to demonstrate and extend its successful poverty reduction experiences accumulated in other countries of the world; thirdly, it will timely exert positive influences on the improvement of the poverty reduction policies in China.

Appendixes

1. List of IFAD funded projects in China

Names of IFAD funded projects	Cooperation Institutions	Loan Category	Approval Time of the Board	Loan Valid Time	Account Closing Time	Amount of Loan/Donate
Northern Grassland and Livestock Development Project	UNOPS	HC	19810422	19810720	19881231	28700000
Agriculture Develop Project in Hebei Province	WB	I	19820915	19830114	19881231	22900000
Village Credit Project in Hubei Province	WB (IDA)	HC	19840911	19850122	19890630	24250000
Integrated Freshwater Fish-farming Project in Guangdong Province	WB	I	19861203	19870324	19921231	10150000
Livestock Development Project in Sichuan Province	UNOPS	HC	19881130	19890516	19950630	13400000
Yantai Agriculture Development Project in Shandong Province	UNOPS	HC	19891207	19900710	19961231	16800000
Integrated Agriculture Development Project in Shanxi Province	UNOPS	HC	19910404	19910726	19980630	17850000
Baicheng Low-lying Land Development Project in Jilin Province	UNOPS	HC	19920414	19920615	19980630	20000000
Simao Agriculture Development Project in Yunnan Province	UNOPS	HC	19930915	19931210	20001231	18400000
Integrated Agriculture Development Project in Hainan Tibetan Nationality Autonomous Prefecture in Qinghai Province	UNOPS	HC	19941205	19950608	20010630	13500000
Ganzhou Integrated Agriculture Development Project in Jiangxi Province	UNOPS	HC	19951206	19960510	20011231	15950000
Northeast Sichuan /Qinghai Integrated Agriculture Development Project	UNOPS	HC	19960911	19970514	20030630	19100000
Integrated Agriculture Development Project in the South-western Part of Anhui	UNOPS	HC	19970911	19971212	20040630	19100000

Province							
Integrated Agriculture Development Project of Wuling Nationality Minority Mountainous Area in Guizhou/Hunan Province	UNOPS	HC	19980910	19990421	200412 31	21100000	
Qinling Mountainous Area Integrated Agriculture Development Project in Shaanxi / Hubei Province	UNOPS	HC	19991208	20010814	200803 31	21000000	
Integrated Agriculture Development Project in West Guangxi	UNOPS	HC	20001207	20020321	200809 30	23800000	
Integrated Agriculture Development Project in Ningxia Region/Shanxi Province	UNOPS	HC	20021211	20050211	200809 30	21950000	
Rural Financial Sector Project in Shaanxi/Chongqing	UNOPS	HC	20040421	20050913	201003 31	9950000	
Integrated Agriculture Development Project in Gansu Province	UNOPS	HC	20050908			20150000	

UNOPS= United Nations Office for Project Services

IDA= International Development Association (World Bank)

HC=High Category

I= Intermediate

2. PMO officers participating in the field investigation

Jilin Province:

Wang Li, Male, Integrated Agricultural Development Office of Jilin Financial Department Vice-director

Lian Hong, Male, International Projects Division attached to Integrated Agricultural Development Office of Jilin Financial Department, Director

Jiang Shurong, Female, International Projects Division attached to Integrated Agricultural Development Office of Jilin Financial Department, Section Chief

Sun Hui, Female, International Projects Division attached to Integrated Agricultural Development Office of Jilin Financial Department

Xu Hui, Female, International Projects Division attached to Integrated Agricultural Development Office of Jilin Financial Department, Interpreter

Li Chuntang, Male, Municipal Administration of Baicheng, Vice General Secretary

Li Qinglin, Male, Integrated Agricultural Development Office of Baicheng Financial Bureau, Vice Director

Li Chen, Male, Integrated Agricultural Development Office of Baicheng Financial Bureau, Section Chief

Wang Xiangming, Male, Integrated Agricultural Development Office of Baicheng Financial Bureau, Section Chief

Cui Zheng, Male, Party Committee of Tongyu County, Secretary

Gao Hongxian, Male, County Government of Tongyu, County Magistrate

Zhang Yonglin, Male, Party Standing Committee of Tongyu, Vice Magistrate

Zhong Weigang, Male, Party Committee of Tongyu County, Secretary of Legal Committee

Zhang Ruiwen, Male, County Finance Bureau of Tongyu, Vice Director

Zeng Xiandong, Male, County Finance Bureau of Tongyu, Vice Director and POM Director

Meng Fanwen, Male, Livestock Farming Management Bureau of Tongyu, Vice Director

Xu Shumei, Female, Women's Federation of Tongyu, President

Li Zhiyuan, Male, Agriculture Bureau of Tongyu, Vice Director

Zhang Deyuan, Male, Water Conservancy Bureau of Tongyu, Vice Director

Li Chunshui, Male, Civil Affairs Bureau of Tongyu, Vice Director

Zheng Qingxue, Male, POM of Tongyu, Director

Anhui Province:

Yin Wenguan, Male, Foreign Affairs and Foreign Economy Division of Agriculture Committee, Director

Zeng Cheng, Male, Foreign Affairs and Foreign Economy Division of Agriculture Committee, Section Chief

Wang Kun, Female, International Finance Division of Department of Finance,
Section Chief

Xu Yang, Male, Qianshan County Government, Deputy County Magistrate,
Deputy Chief of PLG

Cao Hongbin, Male, Qianshan County Government, Deputy County Magistrate

Huang Shengqian, Male, Qianshan County Agriculture Committee, Director,
Director of PMO

Fang Dewang, Male, Qianshan County Bureau of Agriculture Machinery, Director
(Former PMO Director)

Hang Qiang, Male, Statistics Section of Agriculture Committee of Qianshan
County, Section Chief (Former staff of PMO)

Zhu Xingqi, Male, Statistics Section of Agriculture Committee of Qianshan
County, Section Chief (Former staff of PMO)

Zhu Xunqing, Male, Economic Plants Station of Qianshan County, Vice Director
(Former staff of PMO)

Huang Cuiyun, Female, Finance Section of Agriculture Committee of Qianshan
County, (Former staff of PMO)

Xu Chunmiao, Female, Finance Section of Agriculture Committee of Qianshan
County, (Former staff of PMO)

Lie Yulan, Female, Bureau of Finance of Qianshan County, Director Member of
PLG

Yu Shaoying, Female, Bureau of Finance of Qianshan County, (Former staff of
PMO)

Fan Xiaodong, Male, Government of Chashui Town of Qianshan County, Vice
Head

Chu Gaorang, Male, Working Committee of Chashui Town of Qianshan County,
Vice Director

Xiao Binzhen, Male, Finance Office of Chashui Town of Qianshan County,
Director

Fang Qiaosong, Male, Agricultural Technology Station of Chashui Town of
Qianshan County, Director (Head of Silkworm Association)

Xu Yufeng, Male, Chashui Town of Qianshan County (Former vice Director of
Agricultural Technology Station of Nishui Town)

Zhu Dehui, Male, Government of Chashui Town of Qianshan County (Former
accountant of Nishui Town PMO)

Chu Wenglian, Female, Government of Chashui Town of Qianshan County
(Former Women Head of Nishui Town)

Jiang Zhihua, Male, Agricultural Technology Station of Chashui Town of
Qianshan County, Director, and PMO Director

Wang Haixia, Female, Finance Office of Chashui Town of Qianshan County,
Accountant

Chu Jingping, Female, Chashui Town of Qianshan County, Village Women Head

Feng Jiating, Male, Chashui Town of Qianshan County, Village Director

Shaanxi Province:

Li Peng, Male, International Finance Division of Department of Finance, Section Chief

Peng Hui, Male, RCCU Section Chief

Ji Junwei, Male, RCCU Director

Fu Weizhong, Male, Business Development Department of RCCU, Vice GM

Meng Suishan, Male, Planning Division of PAO, Deputy Division Director

Zhu Zongli, Male, Social Insurance Division of Bureau of Civil Affairs, Deputy Division Director

Wang Bo, Female, Finance Section of Bureau of Agriculture of Shangnuo City, Section Chief (PMO)

Ji Enquan, Male, Bureau of Finance of Shangluo City, Section Chief

Song Zhifeng, Male, Bureau of Finance of Shangluo City, Deputy Section Chief

Wang Yan, Female, PMO of Bureau of Agriculture of Shangnuo City, Supervisor

Li Congjun, Male, Shangzhou District of Shangnuo City, Vice Head

Chen Shuanliang, Male, Bureau of Poverty Alleviation of Shangzhou District of Shangnuo City, Deputy Section Chief

Wang Fang, Female, Women's Federation of Shangzhou District of Shangnuo City, Vice Chairman

Fan Chaozheng, Male, Bureau of Investment Attraction of Shangzhou District of Shangnuo City, Director

Guo Huanxiao, Male, Bureau of Civil Affairs of Shangzhou District of Shangnuo City, Deputy Director

Cheng Yajun, Male, Bureau of Agriculture of Shangzhou District of Shangnuo City, Director

Meng Xiangjun, Male, RCCU of Shangzhou District of Shangnuo City, Deputy Director

Song Junming, Male, Bureau of Finance of Shangzhou District of Shangnuo City, Deputy Director

Qinghai Province:

Li Falong, Male, Government Foreign Debt PMO of Department of Finance, Director

Ma Xiaochao, Male, Irrigation Development with Foreign Capital PMO, Director (Former Director of PMO of Qinghai Province)

Wang Haikui, Male, Irrigation Development with Foreign Capital PMO, Deputy Director (Former Deputy Director of PMO of Qinghai Province)

Ma Fuying, Male, Statistics Division of Water Leading Office of Irrigation Department, Division Director (Former Deputy Director of PMO of Qinghai Province)

Zhu Gengsheng, Male, Government Foreign Debt PMO of Department of Finance, Section Chief

Chang Dexi, Male, Government Foreign Debt PMO of Department of Finance, Section Chief

Li Lihua, Female, M&E Section of Foreign Debt Office of Irrigation Department, Section Chief

Qiu Jihui, Male, Foreign Debt Office of Irrigation Department
Wang Hui, Female, Project Management Center of Animal Husbandry Department,
Section Chief
Li Jianqi, Male, Finance Bureau of Hainan Prefecture, Vice Director and Head of
Foreign Debt Office
Feng Zhanting, Male, Credit Section of Finance Bureau of Hainan Prefecture,
Section Chief
Huang Yinglin, Female, Credit Section of Finance Bureau of Hainan Prefecture
Kan Cuoji, Female, Credit Section of Finance Bureau of Hainan Prefecture, Credit
Staff and Interpreter
Sun Yulin, Male, Finance Bureau of Guide County of Hainan Prefecture, Vice
Director and Head of Foreign Debt Office
Zhang Yaping, Male, Foreign Debt Office of Finance Bureau of Guide County of
Hainan Prefecture, Vice Director
Wan Maduji, Male, Changmu Town of Guide County of Hainan Prefecture, Credit
staff