

China's 8-7 National Poverty Reduction Program

During the post-1978 reform period, China dramatically reduced large-scale poverty through specific government reform policies and rapid economic growth. Using the official poverty line, the number of poor people is estimated to have fallen from about 200 million in 1981 to 28 million in 2002. Alternatively, using the World Bank's \$1/day income measure, the number of poor is estimated to have dropped from about 490 million to 88 million over the same period, a decline in poverty incidence from 49 percent in 1981 to 6.9 percent in 2002.

China's large-scale poverty reduction has been achieved mainly through rapid economic growth. Real GDP grew at an average of 9.4 percent per year in the period 1979–2003. This increase was realized through continuous reform and structural changes that included shifts from central planning to markets and from agriculture to manufacturing and services, and opening up to international trade and knowledge transfer. Poverty in China is a rural phenomenon (at the beginning of the 1980s, absolute poverty in the urban population was 0.3 percent vs. 28 percent of the rural population.) Because rural-urban migration is limited, growth in rural areas has been most important to reducing poverty. In the early 1980s, when fast rural growth emerged from institutional reforms—including institutional changes in land holding, production, distribution and procurement prices—the poverty rate in China rapidly halved from 49 to 24 percent at the \$1/day income level, and the number of rural poor declined from 250 million in 1978 to 125 million in 1985, measured at the official poverty line.

After rural economic growth slowed, once the poverty effects of the early rural reforms were realized, China saw relatively slow progress in poverty reduction, and widening inequalities. By 1994, the poverty rate was at 18 percent at the \$1/day level. Measured at the official poverty line, 80 million of the rural population remained poor. Since the mid-1980s, overall progress in poverty reduction in China has been slower and even reversed in some years, coinciding with stagnation in the rural economy. The growth rate of per capita net income fell from 12.2 percent in the period 1978–85 to 2 percent in 1986–93.

In 1994, the government introduced the “8-7 Plan” (National Plan for Poverty Reduction), aspiring to lift the majority of the remaining 80 million poor above the government's poverty line during the seven-year period 1994–2000. Originally, the 8-7 Plan targeted poor counties, emphasizing the responsibility of local leaders for the effectiveness of poverty reduction work in their jurisdictions. The objectives of the 8-7 Plan were to: (1) assist poor households with land improvement, increased cash crop, tree crop and livestock production, and improved access to off-farm employment opportunities; (2) provide most townships with road access and electricity, and improve access to drinking water for most poor villages, and (3) accomplish universal primary

education and basic preventive and curative health care. Since 1997, funding for poverty reduction jumped by over 50 percent in real terms annually, reversing a decade of decline in real funding for poverty reduction in China.

The 8-7 Plan focused on three main programs: subsidized loans, food-for-work, and government budgetary grants. Subsidized loans—over half of the total funds under the plan—at first covered mainly enterprises and later households with activities in industry and agriculture. The food-for-work program, representing almost 30 percent of total poverty funds, used surplus farm labor mainly to develop infrastructure. Government budgetary grants, accounting for less than 20 percent of the total poverty funds, supported investment in poor areas across sectors. In total, about 30 percent of poverty funds went to agriculture and industry each, and 35 percent to infrastructure. Given its short-term horizon and low returns to education in the then still very distorted labor market, the 8-7 Plan placed less emphasis on rural education and health. Under the 8-7 Plan during 1994–2000, central government funding on poverty programs totaled RMB 113 billion (US\$ 13.6 billion equivalent) and annually accounted for 5–6 percent of total government expenditures, a significant amount given the government’s tight budget constraint. Central government funding required matching from provincial and lower-level poverty funds. This was difficult to provide from the limited fiscal resources available in poor localities.

Analysis indicates that the 8-7 Plan assisted China’s poverty reduction, and contributed to both the social and economic development of China’s poor areas. Empirical analysis indicates that the allocation of poverty funds across the officially designated “poor” counties under the 8-7 Plan was correlated with their level of poverty incidence. During 1994–2000, officially designated “poor” counties delivered higher than average growth in grain and agricultural production, and in household net income. The growth rate of agricultural GDP in the officially designated “poor” counties was 7.5 percent, compared to the national average of 7 percent. Household net income per capita increased from RMB 648 to RMB 1,337, growing at an annual rate of 12.8 percent, 2 percentage points higher than the national average. Analysis suggests that RMB 1 investment in agriculture increased household net income by RMB 0.17, and RMB 1 investment in commerce, restaurants, and services increased household net income by RMB 0.76. The effect of poverty reduction investment on the number of poor, however, does not appear strong. Our analysis indicates that special poverty reduction investments had negligible impact on the actual number of poor in the short term, which indicates that non-poor residents of poor counties may have enjoyed a greater share of the growth in household income.

The 8-7 Plan benefited from continuing macroeconomic and political stability, sustained economic growth, and sustained government efforts to seek effective institutional and policy measures to reduce poverty. The government’s capacity for resource mobilization was a critical factor, bringing together its established administrative system with numerous enterprises, financial institutions, and nongovernmental and international organizations to work on poverty programs. Institutional innovation refocused China’s poverty reduction method from relief to development,

moving from government-led to a broadly based effort. Continuous learning and experimentation permitted China to learn from its own and international experience, and to work toward improving the participation and effectiveness of a large number of projects at village and household levels. The implementation of the 8-7 Plan, for instance, revealed the relatively weak poverty reduction effect of the subsidized loans and the complexity of the needs of poor villages. This prompted the government to launch multisectoral rural development projects, such as the Southwest Poverty Reduction Project (SWPRP, which is analyzed in another case study for the Shanghai Conference) as well as conduct various incremental changes within the ongoing poverty reduction programs.

The poverty reduction effect of the 8-7 Plan could have been strengthened by greater clarity in government objectives, better targeting, and more participatory approaches at the local level. A combination of different goals, namely the goal of the subsidized loans program both to reach the poor and promote economic development, led to sometimes conflicting objectives for local officials trying to carry out the program. Targeting could have been improved by considering poor villages (or at least townships) instead of poor counties and by complementing this geographic approach with specific household targeting to reduce leakages to non-poor as well as reaching poor households outside the officially designated “poor” localities. The selection of programs, project design, management, and evaluation could have been conducted in a more participatory manner to minimize instances when villagers saw poverty project investments as contradictory to their needs and failed to achieve the desired poverty reduction effect. Recent experience with multisectoral rural development projects indicates that community participation can be high when programs credibly seek to address the villagers’ needs.

Drawing on important lessons learned from the 8-7 Plan, the Chinese government launched a New Century Rural Poverty Alleviation Plan for the period of 2001–10. In addition to poor counties, the new plan targets 50,000 poor villages. This will particularly benefit poor villages in non-poor counties excluded from the 8-7 Plan. The new plan also emphasizes participatory village poverty reduction planning and multisectoral approaches. Furthermore, sickness has been recognized as a principal factor contributing to rural poverty, and China is now experimenting with basic health and social security schemes in rural areas. Importantly, the new plan is complemented by policies to further reduce the existing obstacles to rural-urban migration and strengthen education services in rural areas.