

**China**  
**Southwest Poverty Reduction Project**

**Field Visit Report**  
**March 15-20, 2004**  
**Beijing, Guangxi and Guangdong, China**  
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**I. Introduction and Summary**

The first field visit to China which took place from March 15 to 19, 2004 as part of the Global Learning Process on Scaling up Poverty Reduction, started in Beijing and covered two counties in two provinces and over 4000 kilometers. The field visit focused on the Southwest Poverty Reduction Project in the context of China's National Poverty Reduction Program, started in 1995 and completed in 2001. The event was opened in Beijing by Mr. Li Yong, Vice Minister of Finance, Mr. Jeffery Goldstein, Managing Director of the World Bank, and Mr. Yukon Huang, the Country Director; and concluded by Mr. Wang Guoliang, Deputy Head of LGOPR and Ms. Frannie Léautier, Vice President of the World Bank, in Dongguan, Guangdong province. Over 30 participants from 11 countries attended the field visit including senior officials from donor agencies and representatives from Bangladesh, India, Georgia and Yemen, in addition to Chinese and World Bank officials.

The field visit was successfully organized jointly by the Government of China and The World Bank, thanks to the tremendous efforts by the MOF, LGOPR, two provincial governments and the World Bank Beijing Office. The first part of the field visit consisted of a two-day visit to the picturesque DuAn County in Guangxi provinces, including a hike up to several mountainous villages and a visit to two rural enterprises. And the second part, a seminar on the labor mobility component of the project and a visit to the destination of the migrant workers –in Dongguan County in Guangdong province.

The event achieved its objectives of providing a rich south-south and south-north learning experience for participants from both developing and industrial countries, and exchanging ideas and exploring ways of scaling up poverty reduction efforts around the world. Based on feedback from participants, this field visit was considered a success in the following sense:

- Participants were deeply impressed by the large-scale poverty reduction impact of SWPRP achieved through an innovative multisectoral and participatory approach with a labor mobility component; the driving factors of this being scaled up nationally; and the sharp contrast between the remote regions and rapidly growing coast regions. This case study and field trip were a terrific demonstration that scaling up is possible.
- Many useful experiences have been summarized by participants on what has worked and how. Some Donor representatives said that this field visit allowed them to see the extreme poverty in western China and may widen their

development assistance agenda in the poor regions in China. This will have tremendous impacts on the future development aid to China.

- “Mutual listening and learning” was cited as one of the factors for aid effectiveness. For projects to be successful both sides (country and donor) needed to listen to, and learn from, each other. And this field visit is indeed one activity that strengthens this South–North learning process [Ms Zou Jiayi, MOF].
- Both successful experiences and not so successful lessons were discussed openly and frankly, which proved to be beneficial not only to the participants but also to the host government: Mr. Wang Guoliang of LGOPR stated firmly that he had learned a lot and wished this kind of learning activity could be organized more often.
- Ms Tumava, Deputy Minister of Economy, Georgia said that the World Bank should consider such field trips in lieu of Technical Assistance as she had learned much more from this field trip than she had in other past experiences of advisory work or classroom lectures.

## **II. The SWPRP in the Context of China’s National Poverty Reduction Program**

This is only a brief introduction to the SWPRP project, focusing on its linkage with the National Poverty Reduction program. For details see the Case Study and the Implementation Completion Report.

**The Background** China achieved rapid growth and poverty reduction in the early phases of reforms starting in 1978 but poverty reduction slowed in the early 1990s. By 1993, the population in absolute poverty had dropped from over 250 million to 80 million according to the official poverty line.<sup>1</sup> Measured by the \$1/day income measure, the number of poor have declined from about 490 million in 1981 to 266 million in 1993. However, using the \$1/day consumption expenditure measure, the number of poor remained high at 350 million in 1993.<sup>2</sup> Between 1990 and 1993, poverty changes were insignificant if using lower poverty lines, and more significant using higher poverty lines. This is consistent with the fact that there was a significant increase in inequality during the same period (Chen and Wang 2001). A joint study conducted by the Government of China (GoC) and the Bank found that poverty was now heavily concentrated in rural upland areas of China’s interior, where agricultural growth had stagnated and there was limited access to education and health services. The report proposed to reduce poverty through a multi-sectoral and participatory approach targeted at households with support to public health, basic education, rural infrastructure, and increased inter-regional labor mobility. The recommendations of this study were reflected in the National Seven-Year Plan for Poverty Reduction (1994-2000), also known as the 8-7 Poverty Reduction Program. The Southwest Poverty Reduction Project (SWPRP) was undertaken as part of the 8-7 National Program.

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<sup>1</sup> The official poverty line was about \$0.67/day.

<sup>2</sup> The gap between the \$1/day income and the \$1/day consumption measures suggests that rural households accumulate savings, reflecting the need to cover agricultural taxes and relatively high fees for schooling and health care. Source: World Bank and Chen and Wang (2001).

The SWPRP was implemented in the period 1995-2001 in the Guangxi Autonomous Region, as well as in Guizhou and Yunnan provinces. The Project covers 35 of China's poorest counties with a population of 2.8 million (50 percent of whom was minorities). The project areas are dominated by the karst topography that features limestone mountains marked by sharp peaks and ridges with sinks and underground caverns. The karst landform makes harsh conditions for the poor since cultivable land is found only in the sinks and valleys. Implementation of the project under LGOPR leadership began in early 1996, jointly supported by the World Bank and the GoC, with a total cost of US\$464 million (including a WB loan of \$47.5 million and IDA credit of SDR 128.6 million).

The principal objectives of the project were to: (a) demonstrate a multisectoral rural development project approach to poverty reduction, (b) facilitate an increase in labor mobility from the poor areas to better off rural and rapidly growing urban areas, (c) upgrade poverty monitoring at the national and local levels, and (d) significantly reduce absolute poverty in 35 of the poorest counties in Southwestern China.

**The Impacts.** While people lived in desperate poverty in these areas before the project was implemented the project has made fundamental changes in people's lives, reflected not only in increased income levels, better access to rural infrastructure and increased agricultural productivity, but also in the overall well being of the majority of the poor. Per capita net income increased from RMB 939 to RMB 1422 and the incidence of absolute poverty in the project area declined from 32 percent to 13 percent between 1995 and 2001. The labor mobility component was remarkable in benefiting the absolute poor and having significant policy impact at the national level. Overall, about 280,000 people were assisted to secure seasonal and long-term off-farm jobs, thus increasing the rate of labor mobility from about 8 percent to 12.5 percent and providing remittances to the home villages totaling about RMB 1,590 million. The Project demonstrated the effectiveness of a multisectoral poverty reduction model in China's poorest areas, and directly involved senior policy makers in the design and implementation of this new model. Many approaches used in this project have now been incorporated in the implementation of the 8-7 National program, and scaled up nationwide. [See below]

### **III. SWPRP: Why Was it Innovative and How was it Scaled Up?**

The SWPRP achieved its objectives through a multisectoral and targeted approach consisting of the following eight components: (1) social services, including education and health; (2) labor mobility; (3) rural infrastructure, including roads, drinking water systems, electrification, and other small rural works; (4) land and farmer development, including support for grain and cash crop, tree crop, and livestock production; (5) development of town and village enterprises (TVEs); and (6) institution building and poverty monitoring.

Participants asked why the SWPRP succeeded in China while similar multisectoral projects have failed in other countries. What is unique and innovative about this project that led to its success? They found that:

- The most innovative and unique feature is the labor mobility component that has benefited so many directly and indirectly through a demonstration effect. Remittance has become an important source of income for the poor, for their housing, children's education and medical care. The project, and later the government-run labor exchange, provided information and connected farmers to job opportunities. In India, the investment in education does not work without this connectivity to jobs. (Vivik Rae Joint Secretary, MOF India). However, this achievement was not possible without the rapid growth in the coastal regions, which created job opportunities.
- Ownership by all levels of government, farmers and other stakeholders has been key. Central government placed great importance on poverty reduction and the LGOPR coordinated many different ministries and agencies, and all stakeholders including farmers were involved in the project design and decision-making. A village-level multi-year program design and implementation structure was conducted with wide participation. These were new approaches in China at the time, and worked well.
- Institutional capacity building has played an important role from the beginning, - and this is why Guangxi is more successful than the other two provinces. From the beginning, the objectives were set to "establish a set of institutions and regulations; build a strong and capable work team, and lift a large population out of poverty." See below for details.
- The poverty monitoring and evaluation (M&E) established in the project areas was impressive, -- and this is another reason why Guangxi is more successful than the other two provinces. Project Management Offices were established in several levels of government and officers were well trained to use computerized systems for monitoring. This makes the management more transparent with strong accountability for officials in charge.
- At a more practical level, practitioners took note of the following features: that the technology used was appropriate, that the cost of construction was low thanks to wide participation and voluntary contribution of stakeholders (reflecting ownership and was considered by the field trip participants as a feature to be insisted in all development projects); and that many services are fee-based, which was seen as good to demonstrate willingness to pay for services, but participants cautioned that there may be some negative effects depending on the kind of service. In rural water and electricity, charging a fee makes the service more sustainable. But for basic education and health, a relative high tuition/fee may increase the burden on farmers, reflecting the lack of public financing for these social services.

- Participants appreciated very much the dedication and risk-taking behavior of the World Bank task manager, Alan Piazza, who “stayed with it” over 10 years, adjusted the project according to the needs of the client and introduced a new labor mobility component. This continuity is key to project success. The Bank should encourage the flexibility in project design and this risk-taking behavior.

Linking this field trip to Scaling Up, participants asked what scaling up means and how has this project been scaled up? By discussing these issues with the Chinese officials we found that:

- Many of the ideas and methods were new at that time. Some ideas were brought in from outside and others came as a result of listening to the demand from the client. The GoC was open to new ideas, to embrace these new approaches and practices. In particular, the multisectoral and targeted approach was adopted in other projects, and labor mobility, village development and poverty monitoring were implemented nationally.
- **Labor Mobility has been scaled up.** The SWPRP was the Government's first attempt to organize and support a voluntary system of labor placement for the upland poor in secure off-farm jobs. SWPRP convincingly demonstrated that labor mobility is an extremely effective poverty reduction measure. The Government at all levels now actively supports labor mobility, and labor mobility has become an important element in China's overall poverty reduction program. A new project is being proposed to scale up labor mobility.
- **Village Development Plan went nationwide.** The Village Development Plan model advanced under SWPRP has now been extended to 146,000 poor villages in China.
- **Poverty Monitoring was adopted by NBS.** The SWPRP Monitoring Component had an impact that goes far beyond the project itself. A national poverty monitoring system draws heavily on the experience of the SWPRP in questionnaire design, sampling and data collection, and builds on methods developed under the SWPRP. Since 1997, China has conducted a national poverty survey that covers all nationally designated poor counties, and the National Bureau of Statistics (NBS) now publishes an annual *Poverty Monitoring Report of Rural China*.

#### **IV. Driving Factors to the SWPRP's Success in Scaling Up Poverty Reduction**

The issue of why SWPRP has been scaled up cannot be separated from the question of why China has succeeded in scaling up. This section attempts to address both issues.

**1. Policy reforms and openness are key to achieve successes on a national scale.** SWPRP is not only successful at the project level but also achieved scaling up nationally.

Why? Since 1978, economic reform (*gai ge*) and openness (*kai fang*) are two main strategies for growth and poverty reduction, which have been consistently and forcefully implemented for over 25 years. There is a strong leadership and commitment for change: reforms on property rights and other institutions provide incentives for millions of people, led to better efficiency and productivity growth, and gradually increased accountability and governance. The openness to trade, to investment and to new ideas has changed people's mentality – there is a hunger for knowledge, for new ideas and approaches. Political leaders and officials have been learning and absorbing international best practices like sponges. Without the commitment for reform and openness, without the eagerness in learning and adaptation, scaling up is difficult.

Specifically for Southwest, the policy recommendations in the World Bank 1992 report was adopted in the *State Seven-Year Plan to Help 80 Million People Get Out of Poverty*, known as the National 8-7 plan. The project was truly owned by the government as reflected by the strong leadership shown at all levels, from the Leading Group for Poverty Reduction to provincial and county level governments. During the project preparation some new approaches were absorbed into China's own plan. This provided the legitimacy or political support to scale up the ideas and approaches of the project.

**2. Constant and continuous institutional innovation and learning from own experiences.** China has used a pragmatic and experimental approach in its institutional reforms and its transition to a market economy. This has prevented major interruptions in the production process and avoided economic downturns. This reform approach is effective because it is focused on learning by doing which is a dynamic and continuous process. This led to a virtuous circle of self-reinforcing reform steps and established a habit of learning from own experience. In other words, learning and innovation have been happening in all population groups, and China has become a learning economy/society. Experimentation and learning from experiences are common practices in China.

Deng Xiaoping's strategy was "crossing the river by touching the stone at the bottom". An experimental approach was adopted nationally, 4 special economic zones (SEZs) were established in 1981-82. The successful experiments in the non-state sector increased the employment of rural workers by 25 million during 1990-97, which accounted for above 50 percent of the new off-farm job opportunities in the rural areas. This culture of learning from experimentation is crucial to the process of piloting and scaling it up if successful. Risk-taking behavior is encouraged, not penalized That is why LGOPR or Guangxi officials were so keen to learn and adopt new approaches, even though it is risky.

**3. A strong focus on rural issues [or lack of it] can "make it" or "break it".** There was a strong and long-term commitment for rural poverty reduction among the top leaders, which was deeply rooted in the Communist Party's history. However, the focus shifted over time, which had a large impact on poverty reduction results. Economic reforms started from rural reform, which benefited the majority of poor residing in rural areas. There were also rural-focused, broad based policies to support the poor's income directly in 1979-84 and 1994-96. The strategy was not "trickle down" from overall

growth to the poor, but “bottom up” from supporting agriculture, lifting the income of the poor by providing opportunities for entrepreneurs. The incidence of poverty declined dramatically during these two periods. However, in two periods (1985-93) and (1997—2002) this rural emphasis was lacking, leading to worsening terms of trade and lowering income levels for farmers, and worsening income inequality.

Therefore, rural-focused pro-poor policies aimed at raising the income of the poor are key to large-scale poverty reduction. Poverty reduction was rapid when there was a rural reform and a strong policy support to agriculture (1979-1984, and 1994-1996). Poverty reduction stalled when this focus was lacking. SWPRP was successfully scaled up in part because of the renewed emphasis in the 1990s on rural poverty reduction when political leaders suddenly found that poverty reduction had slowed down. They were thinking about and exploring new approaches—which was the driving factor for the project and its related innovations. Now there is rightly a renewed focus on three “rural problems” under the new leadership, and a new emphasis on “putting people first”<sup>3</sup>, which holds promise for another great era for poverty reduction and sustainable development.

**4. Institution building and capacity enhancement are hallmarks of the success of SWPRP in Guangxi.** Why was the project more successful in Guangxi than in the other two provinces? Institution building is the key. Starting from the beginning, the objectives were set to “establish a set of institutions and regulations; build a strong and capable work team, and lift a large population out of poverty.” According to Mr. Huang Chengwei the director of PMO in Guangxi, they established Project Management Offices/stations at several levels--in the province, counties, and townships, and established a set of behavioral standards and regulations which is publicly posted—this increased the accountability of PMO officials. The computerized poverty monitoring system helped reduce fraud and increased transparency and accountability. And the project organized training of 10,000 person/times. With a PMO team of 169 in the counties, and 487 in the townships, this means training opportunities of 10-15 times per person. Through training, new approaches and behavioral standards were implemented. Without this tremendous effort to build a strong team and strong institutions, the objective of “lifting a big population out of poverty” can only be empty promises.

**5. Monitoring, evaluation and accountability.** Special efforts were made to increase the transparency and monitoring system in SWPRP. A computerized Farmers Monitor and Management system for Comprehensive Poverty Reduction Project was developed to track and evaluate project benefits. In 1995 with WB support, The National Bureau of Statistics and LGOPR jointly set up a poverty monitoring and project impact evaluation system in the SWPRP area. From 1995-2001 the Rural Survey team of NBS conducted annual surveys and overall independent evaluations were made on the poverty reduction performance in 35 project countries in three provinces. This has greatly increased the

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<sup>3</sup> Under China’s new leadership there is a renewed emphasis on rural policy support, including measures to clearly define land tenure right for farmers, to abolish the household registration system which restrict rural-urban migration, to encourage “self-governance by villagers”, to reduce farmers’ tax burdens, and to invest more in rural basic education and rural infrastructure.

transparency and accountability of project officials. Participants commented that “sectoral governance” worked in China.

More generally, incentives, merit and accountability are gradually being improved in China. Through institutional innovation, China is able to align the incentives for central, provincial and local government officials with its development goals, and establish a merit system with accountability. Officials are made responsible for the performance of the local economy and welfare of the people. We have anecdotal evidence that officials were fired due to poor performance –not reaching certain goals. This is a result-oriented system with reward and penalty clear and credible, which made the administrative system effective. Information within the system is transmitted quickly and policies can be implemented effectively.

#### **6. Openness and improved investment climate have led to rapid growth in coastal regions, which is key to the success in labor mobility.**

Why has the labor mobility component been scaled up? Growth and job opportunities in the coastal regions are crucial. Reforms on property rights have provided incentives for people to get rich first through entrepreneurship and better utilizing resources. Investment climate continued to improve which led to a boom of both domestic and foreign investment, faster growth, and hence more job opportunities. Thanks to the openness to FDI, 14,000 foreign enterprises have located in the Dongguan county alone, and 5 million migrant workers are now employed in the county. Under the SWPRP labor mobility component 100,000 laborers came from Guangxi Hechi city to Dongguan, with remittances of around RMB300 million. Nationally over 100 million rural migrant workers are working in urban cities and sending remittances worth more than RMB10 billion to their rural homes. This has changed the entire landscape of urban and rural communities. Field Trip Participants visited two factories and saw migrant workers happy with their lives in the cities, earning wages (700-900 Yuan a month, half of which was sent home) that were 10 times higher than they earned before, with a much brighter future than their relatives in the home villages. The group also visited a labor exchange, which helped workers to find jobs, a demonstration of a real labor market in action. Participants also were able to visit townhouses being built by local Dongguan farmers themselves, whose main income comes from renting their land to foreign investors (20,000 Yuan a year per person). These visits made all participants realize how important it is to improve investment climate and attract domestic and foreign investment, in order to have an impact on poverty reduction.

#### **V. Policy Weakness and Remaining Issues**

After visiting project components in two counties, the field trip participants identified some policy weaknesses and remaining issues –nationally and locally. There were heated discussions on replicability in other countries during the wrap up sessions. For example

- Tuition for rural primary schools is relatively high compared with income levels, reflecting lack of [central government] financing for social services. Farmers'

- burdens from taxation and various fees plus tuition are high.<sup>4</sup> User charges for water and electricity are also high for some farmers. There is a need for policy review on the issues of affordability for some income classes.
- Rural micro credit is lacking. For example, until the late 1990s, Wenzhou's non-state or collective enterprises received no more than 7 percent of aggregate bank loans, even though they were generating more than 90 percent of GDP. Micro credit is not so successful in China for many reasons and one of them is over-intervention and subsidization by the government. Useful experiences can be learned from other countries such as Bangladesh.
  - The labor Mobility component was very successful but it can only be replicated in countries/regions where there is a booming area with many job opportunities.
  - Project sustainability. After the project was completed, some farmers became richer and others remained poor and could not afford to repay the loans. Continued support and intervention at the household or village level are needed. Roads and other infrastructural projects need maintenance and the source of funding becomes an issue. PMOs played an important role but after project completion, there is a remaining challenge of how to integrate them with existing government institutions so that capacity won't be lost.
  - Two of the project components which were not so successful were discussed frankly. The TVE development component was adversely affected by the cumbersome procedures and requirements at the World Bank for clearance of TVE proposals, and the uncertain ownership of the enterprises, as well as inadequate counterpart financing, and changing market conditions over time.
  - The GX-MED was a large scale experiment in creating employment opportunities for the upland poor in labor intensive enterprises in three cities in Gangxi. It performed poorly due to shortage of counterpart financing and inadequate support from the Beihai Municipal Government. The funds were later transferred to other components.

## **VI. What can be learned for Visiting Countries, Donors and the Bank**

Participants from developing, and industrial countries as well as from donor/multilateral agencies summarized what can be learned from China.

- China's experiences are very rich and it will take time to completely understand and digest them. For example, economic transition was well managed to avoid any turmoil. How to manage the economic transition with the "human at the center" was a key lesson that other countries can look to.
- Leadership at several levels of government is key to success: there is a real country ownership in China. Government by the people and for the people.
- Financing for development is well organized in China in the sense that government can mobilize resources from the whole society. High saving and

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<sup>4</sup> The government has recently announced to reduce the Agricultural tax by 1 percent a year and eliminate it in five years.

- investment played an important role in improving the connectivity of rural communities to the outside. Donor efforts are harmonized under the government's own programs –implications for harmonization.
- The project clearly shows the importance of a balanced multisectoral approach – the issues of bringing development to people versus bringing people to where development is, --ie. labor migration.
  - Institution and capacity building are crucial to development.
  - The importance of life-long learning, learning from experiments, participatory approaches, and monitoring.
  - A catalytic role by external donors requires donors and countries to listen and learn from one another. One example is that during project design the task manager was able to shift the Chinese officials original focus on raising agricultural productivity to concentrate on what villagers wanted.
  - Risk taking is critical to discovering new ways of scaling up results: The Bank should encourage risk-taking behavior and we should celebrate risky decisions that succeeded but also learn from not so successful experiences and encourage more risk taking.
  - Commitment and passion from the people working on the project is key
  - Several donor representatives said that this field visit allowed them to appreciate the “ life in extremely poor villages in China” and China’s needs to get a balanced growth between eastern and western regions [Adrian Davis]. Some of them will propose to strengthen the development assistance agenda to the western part of China, and shift from current focus on human capital and vulnerable groups.

## VII. Next Steps

There was a consensus on the usefulness of this learning experience, as Mr. Wang Guoliang, LGOPR pointed out, “The meaning of the Shanghai conference has just been deeply understood. Now that we have a globalized economy and integrated economy, **global poverty requires consensus building and concerted efforts.**”

Participants appreciated very much the design of field visits as a part of the learning process on scaling up, and hope that this kind of exchanging of practical experiences can continue. According to Mr Wang, “We have got a lot of inspiration from the field visits to Indonesia and SWPRP. Scaling up is not replication mechanically but learning rich experience by adopting it to the specific conditions of a country. The Global conference on scaling up poverty reduction is an important process of achieving the MDGs, it should be a continuous process of learning.”

The World Bank should look at the following key areas that were identified as being obstacles to scaling up:

- Disbursement against output rather than against objectives, that results in slow speed of resources getting to the poor
- Procurement of goods in bulk which is inhibiting for smaller scale projects

- Ability to design projects in ways that are flexible, and speeding up the process of approving changes in design inside the Bank is critical
- Strict requirements for counterpart funds are a bottleneck. Perhaps that Bank can consider counterpart funds in a portfolio rather than project setting
- Changing the culture to allow more risk taking at both the project design level but also in the implementation arrangements
- This project was preceded by heavy investments in economic and sector work (\$1 million PHRD fund and support from the Ford Foundation) and also focused on training and knowledge sharing. A key demonstration of the importance of upfront capacity building work to support successful implementation
- Encouraging task managers to work with local experts who understand the culture is key

This field trip also demonstrated the following global lessons for the development community that need to be brought to other audiences:

- Scaling up is possible and clients can accomplish development projects at scale
- Harmonization of donor practices in design as well as implementation is key
- Exchanges and discussions among practitioners is a critical process of learning that cannot be substituted by classroom learning or external consulting advice
- Financing for development is key. This project would not succeed if it had not been financed adequately to scale up.