

China's Poverty Alleviation Policy and Management

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Since the early 1980s, mechanisms and policies for fiscal poverty alleviation have become an integral component of China's poverty alleviation programs. These fiscal policies have been implemented at all levels of government, from the Party Central Committee and the State Council to the local party committees and local governments. Financial authorities at all levels of government are the implementing agencies and have been actively involved in providing a series of innovative inputs and strengthening the capacity of fund management and monitoring. Hence, they have played a positive role in poverty alleviation and development in China.

The Framework of China's Fiscal Poverty Alleviation Policy

The Chinese government has invested heavily in infrastructure, education, and other public goods in areas where poverty is concentrated and has created targeted policies to help the most vulnerable people nationwide. According to preliminary statistics, 25 different preferential policies and almost 50 specific investment projects had been implemented in poverty-stricken areas by 2006. All of these policies and projects required financial support, which totaled more than 200 billion yuan in 2006, excluding preferential tax cuts.

There are four main types of fiscal poverty alleviation policies and corresponding public spending:

1. *Poverty alleviation funds targeted to poor people.* Since 1980, China's central government has established fiscal poverty alleviation funds through its financial authorities. The amount of these funds increased from 500 million yuan in the early 1980s to 14.4 billion yuan in 2007. Poverty alleviation funds totaled about 160 billion yuan between 1980 and 2007. Local governments, including provincial and other lower-level governments, have also increased their allocation of poverty alleviation and development funds during the same period.
2. *Direct financial transfers to poverty-stricken areas.* Although financial transfers to lagging regions have been implemented for a long time, the central government has gradually shifted the focus of such transfers from production only to overall social and economic development. Transfer payments have also gradually increased, and projects have covered rural education, health, environmental reconstruction, social security, disaster relief, and other types of social development in the rural areas. In addition, special attention has been given to poverty-stricken rural areas, especially in the ethnic minority regions.
3. *Preferential policies and tax relief for economic development in poverty-stricken areas.* The government implemented full or partial tax "holidays" for the first three years for newly established enterprises in poverty-stricken areas. The agricultural tax was first eliminated in poverty-stricken areas, together with other reforms of rural taxes and administrative charges, in 2000 and was abolished nationwide in 2006.
4. *Interest subsidies for poverty alleviation and development loans.* Between 1986 and 2007, the central government, through its financial authorities, provided more than 70 billion yuan in interest subsidies to poverty alleviation and development loans. Through these subsidies the government has encouraged commercial financial institutions to increase their lending for poverty alleviation and development, and such lending totaled nearly 200 billion yuan by 2007.

The Provision of Special Funds for Poverty Alleviation

The allocation of poverty alleviation funds in China has been guided by a series of plans for meeting poverty alleviation targets set by the government. The Outline for Poverty Alleviation and Development in China's Rural Areas for 2001–10, provided by the central government in 2000, is a general guide for fund allocation for both the central government and provincial governments. Financial authorities at both the central and provincial levels have also gradually increased the funds allocated to poverty alleviation, taking into account region-specific conditions, including their financial situations. Between 1980 and 2006, the poverty alleviation funds

allocated by the central government (through different ministries) grew at a rate of 14 percent annually, totaling 147 billion yuan. Of this amount, 71 billion yuan came directly from the central budget—that is, they were allocated directly through the Ministry of Finance. The central budget funds allocated to poverty alleviation grew by 6 percent annually in this period. Allocations through the central budget increased significantly, however, in the 2000s. The total poverty alleviation funds allocated from the central budget from 2001 to 2006 were equivalent to the total amount allocated from 1990 to 2000. In 2007, the allocations reached 14 billion yuan in one year. Between 2001 and 2006, the poverty alleviation funds allocated through provincial budgets also increased significantly, totaling about 18 billion yuan, with an average annual increase of 12 percent.

The Management of Poverty Alleviation Funds

Diversified Fund Management Channels

Poverty alleviation funds include funds allocated by the central government and by local governments at multiple levels, under different categories, and through various government agencies. Poverty alleviation funds from the central government include funds in the following five categories: (1) development funds, (2) food-for-work funds, (3) development funds for ethnic minorities, (4) funds for poverty-stricken state-owned farms and forestry farms, and (5) interest subsidies for discounted loans. These funds are managed by various relevant management authorities.

Gradually Standardized Funds Allocation

Before 1997, poverty alleviation funds were allocated only through the central government. After 1997, provincial and other local governments took a greater role, and provincial governments took more overall responsibility for poverty alleviation, especially in rural areas. In 2001 the central government also changed its method of allocating funds, moving from a system based on projects to one based on a series of poverty measurement indicators. These indicators include the number of poor people, the annual per capita net income of farmers, the local financial situation, and the need for policy adjustments.

Although some provinces have started to adopt the central government's poverty indicator method, most provinces still examine and approve funds based on new and ongoing projects, taking into account the previous year's allocation. The funds are further allocated to county governments through the provincial governments. Some counties, especially those with high concentrations of poverty, and some very poor townships depend entirely on the poverty alleviation funds approved for and allocated to them.

Procedures for Disbursing Poverty Alleviation Funds

To acquire poverty alleviation funds, township governments and various county government departments submit project applications, and then, at the county level, the Leading Group of Poverty Alleviation and Development makes final submission decisions after viewing the total demand from its county. A report summarizing the application at the county level is then submitted to the relevant authorities at higher levels, all the way up to provincial authorities. The provincial authorities examine these project plans and estimated budgets and submit them to the provincial-level Leading Group of Poverty Alleviation and Development for final approval. Funds are then allocated to the approved projects. Project plans for food-for-work funds, however, must be submitted to the National Development and Reform Commission for examination and approval. The approved projects are implemented through the relevant county-level government authorities and township governments. Their financial departments are responsible for allocating or reimbursing funds.

Since 2001, the key poor villages and counties in each province, autonomous region, and municipality have started to adopt poverty alleviation plans, which have been entered into a database. Projects for applying the poverty alleviation funds submitted by the counties are usually taken from this database.

Transfer and Payment of Funds

The central government's poverty alleviation funds are allocated from the central government to the provincial governments after the Ministry of Finance announces its budget allocation plan every year. The funds transferred to the provincial governments are then allocated to lower levels of government or to special accounts for poverty alleviation funds. A system of centralized collection and payment by state treasuries at the province level will gradually be adopted.

At the same time, a reimbursement system is used to allocate poverty alleviation funds. It requires that funds and payments be linked to projects. In practice, when projects are launched, the financial departments preallocate funds to implementing organizations as initial capital; this fund preallocation is made according to the project's budget plans and actual needs. In the process of project implementation, the implementing organizations submit their applications for the rest of the project funds together with accounting vouchers.

Inspection and Supervision of Fund Use

At the national level, the National Audit Office and Resident Financial Supervision Offices of the Ministry of Finance audit and conduct special inspections on the use and management of poverty alleviation funds. At or below the provincial level, the

supervision of poverty alleviation funds may be accomplished through self-checks by implementing organizations and departments, selective checks and audits by supervising administrative and audit departments, cross-checks between administrative departments, special investigations, and supervision and inspection by the Resident Financial Supervision Offices of the Ministry of Finance.

Some Problems in Poverty Alleviation Fund Use and Management

Several problems arise in using and managing poverty alleviation funds. The first problem relates to the indicator used for fund allocation. The principal indicator applied in allocating poverty alleviation funds is a headcount of the number of poor people in a region. Although this method seems to have improved the fairness of fund allocation, it reduces local governments' incentive to cut the number of poor because the more poor people a region has, the more funds it receives. Consequently, governments of some counties that were once poverty-stricken but are no longer do not want their counties removed from the list. At present, most provinces, autonomous regions, and municipalities still allocate funds to counties according to their original poverty status, and the counties acquire their funds through project applications. This practice does not allow for timely adjustment in fund allocation to reflect changes in the degree of poverty across counties and townships. At the same time, because provinces hold the power to approve projects, lower-level governments have incentives to lobby the provincial authorities to get projects within their county or township approved.

The second problem relates to the multiple objectives of poverty alleviation activities. It often happens that the main objective of lower-level governments becomes regional development instead of providing assistance to the poor population within the region. Moreover, there is a lack of coordination between different government departments at each level, resulting in the lack of an integrated plan for the overall use of poverty alleviation funds.

In addition, in China government has a dominant role in poverty alleviation, and civil society and nongovernmental organizations (NGOs) play only weak roles. This system does not empower poor people to use their voices to influence fund allocation and use. Within government, decisionmaking power is often concentrated among certain authorities at the provincial level, and the power of local governments below the provincial level is limited. Furthermore, although there are many self-checks by government departments themselves, there is little examination and supervision by civil society. Finally, the project examination and approval processes are lengthy, and funds are often not disbursed on time.

Innovative Approaches to Poverty Alleviation

In recent years, financial departments at all governmental levels have made many efforts to improve the effectiveness and efficiency of the use and management of poverty alleviation funds. Some innovative approaches have been created. First, to address the problem of red tape at the provincial level, the Ministry of Finance suggests that all provinces, autonomous regions, and municipalities arrange for selecting projects at the county level and then reporting them to the provincial level. Through this approach, the power to examine and approve projects is partially transferred to lower levels of government. Hebei, Henan, Hubei, and Jilin provinces have adopted this approach.

Second, the Ministry of Finance now allocates most of the poverty alleviation funds before the annual session of the People's Congress to ensure the timely implementation of poverty alleviation projects.

Third, the interest subsidy was reformed to make better use of subsidized loans for poverty alleviation. In the past, some interest-subsidized loans were not used for poverty alleviation, and some poverty-stricken rural households could not obtain the loans they urgently needed. Reforms were made to grant these poverty alleviation loans directly to households. At the same time, provincial and local governments and local financial institutions took more responsibility for administering these loans.

Fourth, pilot projects for incentive and interest subsidy funds were set up in four provinces and municipalities in 2005 to further address the problems of poverty-stricken rural households in obtaining loans. The objective was to set up a risk-sharing mechanism to encourage financial institutions to be more actively involved in supporting impoverished people in developing their productive capacities and to give financial institutions a role to play in achieving maximum returns on minimum investments. In 2006 the pilot projects were expanded to eight provinces.

Fifth, a performance appraisal system has been established. Poverty alleviation tasks and responsibilities were not in place when funds and more managerial power were transferred from the central government to the provincial level. To overcome this weakness, beginning in 2006 the central government established procedures for evaluating each province's performance in its use of fiscal poverty alleviation funds.

Sixth, the information system for managing and supervising poverty alleviation funds was improved. Before 2003 it was difficult to collect information on poverty alleviation fund use and follow-up. Starting in 2003, five central government ministries and commissions jointly established an information system for managing and supervising poverty alleviation funds. This system is still in its initial stage, and there is much room for further improvement.

Seventh, village development mutual aid funds were launched as pilot projects in 14 provinces. These pilot projects have received positive feedback; hence, similar projects were launched nationwide in 2007.

Fiscal Poverty Alleviation in the 21st Century

China's poverty alleviation and rural development efforts have undergone some major changes in the 21st century. Although the government's agricultural assistance policies are gradually being strengthened and the rural subsistence allowance system—which provides allowances to the poor to meet their basic needs for food and clothing—has been established nationwide, the number of poor people in China's rural areas is still large. The income gap between the poor and the nonpoor continues to widen. The ability of poor people and poor areas to effect their own development is still limited, and they depend heavily on help from outside. With the rural subsistence allowance system, it is expected that the desire for development in poverty-stricken areas will grow even stronger.

The next steps for fiscal poverty alleviation are not only to intensify financial inputs and strengthen fund management but also to work out a clear strategy, improve policies and measures, adopt innovative poverty alleviation mechanisms, and improve efficiency.

Add New Dimensions to Development-Oriented Poverty Alleviation

Although future poverty alleviation work should follow the basic principle of development-oriented poverty alleviation, new dimensions and concepts should be applied to this principle. Poverty alleviation and development policies should shift from being piecemeal to comprehensive. Special efforts should be made to promote the ability of poor people and poor areas to develop their abilities to fight poverty through their own efforts. The focus of development should shift from key locations to the entire area.

Reset the Tasks and Objectives of Poverty Alleviation and Development

Traditionally, the work of poverty alleviation and development consisted mainly of providing food and clothing to the poverty-affected population. Now, with the subsistence allowance system, the focus should shift toward helping the poor to solve food and clothing problems by themselves by promoting economic development, increasing incomes, and lifting people out of poverty permanently.

Clearly Define the Focus of Poverty Alleviation and Development

A realistic approach to poverty alleviation and development should be in accordance with local conditions. These efforts should focus on addressing the most urgent problems of poor people and areas, with different approaches for different conditions. Currently infrastructure construction, industrial development, resettlement, and labor training are key areas of poverty alleviation and development, and they should be further strengthened.

Adopt Innovative Poverty Alleviation Mechanisms

Reform and innovation are inevitable in advancing the work of poverty alleviation and making it more effective and efficient. More innovations are required, including the following: First, coordination should be strengthened between poverty alleviation and development policies on the one hand and other agricultural assistance policies on the other hand. There should be an overall management plan for the use of all funds related to poverty alleviation. Second, the project selection process should be reformed. Instead of keeping the same list of key poverty-stricken counties for years, China must set up an incentive mechanism to encourage poverty-stricken counties to shake off poverty by, for instance, linking poverty alleviation to political achievement and promotion of leaders and cadres. The central government should transfer the power to adjust the list of key counties to the provinces. Third, a results-oriented incentive mechanism for allocating poverty alleviation funds should be set up. Poverty alleviation funds should be divided into two parts: most of the funds should be allocated according to the scale and degree of poverty, and a smaller share should be allocated according to performance in alleviating poverty.

Strengthen Fund Management to Ensure Effectiveness

The central government should introduce an incentive mechanism to promote local responsibility in poverty alleviation. At the local level, provinces should adopt the indicator method of fund allocation and transfer responsibility for examining and approving poverty alleviation projects to lower levels.

The practice of making direct payments of poverty alleviation funds—first to county fiscal departments and later possibly to project implementing units and households—should be explored, and the reimbursement system for poverty alleviation funds should be improved. To improve tendering and bidding procedures, all tendering and bidding applications submitted by subordinate sections should be examined by independent government departments.

A monitoring system with clearly defined responsibilities should include the relevant government authorities at all levels. Suitable government institutions or NGOs should conduct inspections, and a system should be established for rewards and penalties based on inspection results. Finally, the information system for managing and monitoring poverty alleviation funds should be improved, and a mechanism for reporting and cooperation between departments should be created.