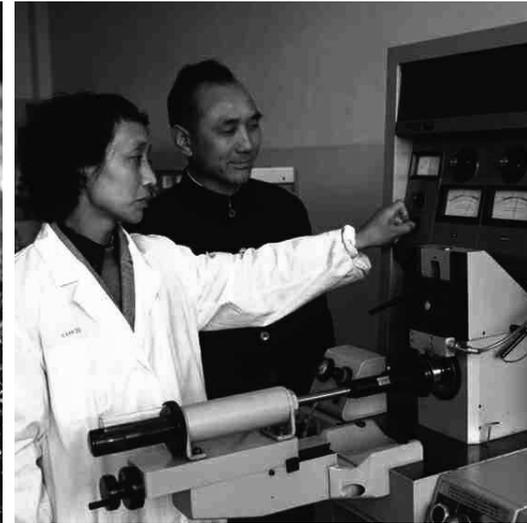




# COUNTRY EVALUATION: ASSESSMENT OF DEVELOPMENT RESULTS

# CHINA



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# Contents

<b>Foreword</b>	5
<b>1. Introduction</b>	7
<b>2. Governance</b>	13
<b>3. Poverty Reduction</b>	21
<b>4. HIV/AIDS</b>	33
<b>5. Gender Equality</b>	39
<b>6. Energy and Environment</b>	45
<b>7. Administration of UNDP Assistance</b>	51
<b>8. Conclusions</b>	55
<b>Appendices</b>	
1. Acronyms and Abbreviations	59
2. Persons Met by the ADR Mission	61
3. Terms of Reference	63
4. References	65



# Foreword

The Assessment of Development Results (ADR) report for China summarizes findings and recommendations by UNDP's Evaluation Office through the work of its ADR Evaluation Team, starting with a preparatory country visit by the task manager in April 2004 and continuing with preparatory desk research, culminating with the main mission by the ADR Evaluation Team in August and September of 2004. The ADR Evaluation Team was able to consult a large volume of literature—published documents, evaluation reports and financial statements—and were the beneficiary of numerous oral briefings at which discussion took place regarding individual projects, thematic programmes and broad policy issues. The Team also was able to make a few visits to the field where they could observe, first hand, a small sample of UNDP's projects.

The ADR exercise is an important tool forming part of part of UNDP's Results Based Management (RBM) system, which focuses on UNDP's contribution to broader development results and outcomes. The ADR for China represents an independent assessment by the Evaluation Team of the development results achieved in the recent past—roughly, the last five years. It is also forward looking, making suggestions about the role UNDP might play in China in the years ahead.

The report endeavours to focus on strategic issues and be forward looking, while retaining the independent judgment of the ADR Evaluation Team. It is suggested that UNDP's future work in China should be more coherent, less local, dispersed and more national in vision. At the core of the recommendations is the argument that the assistance programme should focus on three tasks: the creation of knowledge where information is deficient, more sophisticated social and economic analysis of the country's major problems, and greater emphasis on policy advice and informed advocacy in UNDP's areas of competence. The report further highlights important opportunities in the area of south-south cooperation for China as well as UNDP's potential contribution to development results.

For the preparation of this ADR, the UNDP Evaluation Office is greatly indebted to the ADR Evaluation Team Leader Professor Keith Griffin of University of California, Riverside, as well as Professor Azizur Rahman Khan, University of California, Riverside and Professor Jude Howell, London School of Economics and Political Science, University of London as members of the Team. Mr. Knut Ostby, from the UNDP Evaluation Office, played an important role as Task Manager as well as Team member, and Professor Zhang Shiqiu of Peking University made important contributions to the analysis on Energy and Environment. Another important contribution was made through the in-depth study on governance, submitted by Professor Fang Yan of the National Center for Science and Technology Evaluation. Important administrative support was provided by Mr. Anish Pradhan and Ms. Mahahoua Toure of the

UNDP Evaluation Office, and Ms. Tsolmon Tsatsralt provided key input through the desk research performed at the outset of the ADR exercise.

Crucial to the research and preparation of the report was the generous assistance and open sharing of information by the UNDP Country Office team in China, led by the Resident Representative, Mr. Khalid Malik. The administrative arrangements in China—scheduling meetings, assembling documents, organizing field trips, and providing transportation, interpreters and typists—were the responsibility of Mr. Lu Lei and Mr. Wu Peng of the UNDP Beijing office. The success of the mission owes much to their flawless work and they deserve much credit for their efforts as well as the results of their work. The strong interest and support from the team in UNDP's Regional Bureau for Asia and the Pacific—in particular, Regional Director and Assistant Administrator Mr. Hafiz Pasha and Division Chief Mr. Romulo Garcia—is also highly appreciated.

This report would not have been possible without the strong interest and support of the Chinese government. Of particular value was the involvement of the China International Centre for Economic and Technical Exchanges, Ministry of Commerce, led by its Director General Mr. Wang Yue. The ADR Evaluation Team also received excellent and highly appreciated collaboration from representatives of the Chinese civil society and private sector, donor representatives, and representatives of the UN Country Team. The work of the mission was greatly assisted by the numerous people in many walks of life in China who took the time to describe, explain and inform in an effort to increase the understanding by this external mission of a vast, wonderful and exciting country.

By providing an external critical assessment of development results at a strategic level, this ADR attempts to provide lessons learned as well as recommendations that may be used for enhanced support by UNDP to development results in China in the future. The report will be widely distributed, and through its findings and recommendations, it is our hope that it will offer help and advice not only to UNDP's own activities in China, but also to a wide range of other partners and stakeholders.



**Saraswathi Menon**

DIRECTOR  
EVALUATION OFFICE

## 1

# Introduction

Since 1979, China has been one of the most successful developing countries in the world and it has been by far the most successful of the transition economies. China has transitioned from a centrally planned economy to one that relies largely on market forces to determine the allocation of resources. Where once China was a closed economy, it is now becoming closely integrated into the global economy and its exports are highly competitive in international markets. Systemic change has been achieved without having to go through a “transition depression,” and in fact, in no year has output or average income declined. Living standards have improved dramatically and the decline in poverty, in terms of the number of people affected and the speed of the decline, has been the greatest in world history.

Despite this, China remains a relatively low-income country. According to World Bank data, in 2002, gross national income per capita was still less than USD 1,000 (USD 960 to be exact), although per capita income in purchasing power parity terms is said to be USD 4,520. In the period from 1990 to 2002, gross domestic product (GDP) has increased 9.7 percent per year. The population is growing slowly at 0.6 percent per year, and hence GDP per capita has increased exceptionally fast at 9.1 percent per year. However, rapid growth in average income has been accompanied by a sharp increase in inequality in the distribution of income. Inequality in China is now high by international standards and the rise in inequality has offset some of the beneficial effects of rapid growth on the incidence of poverty. Although, as we shall see in Chapter 3, the rise in inequality may have been reversed slightly in both rural and urban areas during the last few years, the high degree of inequality could cause social, economic, and ultimately, political problems in the future.

China's economic achievements (and failings) are of its own making. Rapid growth has been financed entirely by its own savings and, in fact, China is a net investor in foreign assets. It has not depended on foreign investment and foreign aid to fuel its remarkable development. In 2002, for example, World Bank data indicate that gross domestic savings accounted for 43 percent of GDP whereas gross investment was 40 percent of GDP. The excess of saving over investment, equivalent to 3 percent of GDP, indicates the extent to which China invested abroad. That is, foreign capital inflows into China were less than Chinese investments in the rest of the world and the increase in China's foreign exchange reserves. Far from China being dependent on foreign capital, the rest of the world is a net recipient of Chinese capital. China has financed its rapid growth in effect by restricting household consumption (in 2002) to only 43 percent of GDP.

Similarly, the economic, social and institutional policies that are responsible for the rapid growth, rising inequality and falling poverty are a Chinese

invention. Chinese policies were home-grown; they were not imported from abroad. China did not depend on aid-financed technical assistance nor did it borrow funds from international financial institutions that had policy conditions attached. Chinese development and transition policies grew out of Chinese pragmatism, Chinese experience and Chinese experimentation. The Chinese transition strategy, for example, was the opposite of the “shock therapy” adopted in most other transition economies, a “therapy” recommended by international financial institutions and aid donors, usually with highly undesirable consequences. China’s policy autonomy served its people well.

Foreign aid continues to be of little significance in quantitative terms. Official development assistance (ODA) is USD 1.00 per head of the population. This is equivalent to one-tenth of 1 percent (0.1 percent) of the country’s gross national income. In other words, if ODA were to fall suddenly to zero, the average person would not notice it and the effect on the country’s aggregate income would be undetectable. In quantitative terms, ODA makes almost no difference to the well being of the 1.3 billion Chinese.

UNDP is the largest United Nations system aid donor. In the peak year of aid (2003), total expenditure on UNDP projects was USD 60.1 million; prior to that year, core and non-core assistance varied between USD 28 million and USD 51 million a year (see Table 1.1). If one considers the peak year, UNDP aid was equivalent to 0.005 percent of China’s gross national income or less than USD 0.06 per head of the population. That is, UNDP’s aid was practically invisible, at least in terms of resources. It could be argued, of course, that a quantitative analysis misses the point and that UNDP’s aid plays an important qualitative role.

UNDP itself has claimed that (unlike other aid donors) UNDP is “politically neutral ... in policy work” and enjoys the government’s trust when discussing sensitive policy issues. This probably is true, but this can be used as an argument for reducing aid from donors that are not neutral and which the government doesn’t trust, rather than a justification for continued UNDP aid. It has also been claimed that UNDP plays a “catalytic role” in mobilizing domestic and external resources, but as we have seen, China has an unusually large savings rate and has no problem in mobilizing resources. Similarly, the claim that UNDP can play a “coordinating role” in rationalizing ODA loses some of its force if ODA is of little significance.

Even so, it is clear from discussions with the Chinese government that UNDP is seen as an “old friend” whose advice and activities are not guided by ideological considerations. UNDP has earned China’s trust and has been rewarded by being allowed to participate in discussions in sensitive areas such as governance, inequality, gender and HIV/AIDS. The Chinese also appreciate UNDP’s role in helping China become more “open” and more closely integrated into the rest of the world. Despite the decline in the size of the China UNDP programme, the government would like UNDP to continue to operate in the country.

As can be seen in Table 1.1, between 1996 and 2003, UNDP financing of projects from its core funds fell steadily. By 2003, core financing was only USD 8.6 million—a decrease from 77 percent of the total to only 14.2 percent of total project financing. Cost-sharing, mostly Chinese government funds, rose from USD 2.1 million in 1996 to USD 32.1 million in 2003, or from 7.6 percent of total funding to more 53 percent. Trust funds, mostly tied to

**TABLE 1.1 FINANCING OF UNDP PROJECTS IN CHINA, 1996-2003**

(USD MILLIONS AND PERCENTAGES)

	UNDP Core Funds		Cost Sharing <sup>1</sup>		Trust Funds <sup>2</sup>		Total
	\$	%	\$	%	\$	%	
1996	21.4	77.0	2.1	7.6	4.3	15.4	27.8
1997	26.8	62.2	6.8	15.9	9.4	21.9	43.0
1998	14.7	41.7	9.0	25.5	11.6	32.9	35.4
1999	15.6	38.0	15.6	37.9	9.9	24.1	41.1
2000	12.7	31.5	11.5	28.5	16.2	40.0	40.5
2001	9.4	19.9	18.5	39.3	19.2	40.7	47.1
2002	9.8	18.3	25.1	47.1	18.4	34.5	53.3
2003	8.6	14.2	32.1	53.1	19.8	32.7	60.5

Notes: 1) Mostly Chinese government funds.

2) Mostly Global Environment Facility Funds and Montreal Protocol funds.

energy and environment projects, are now much more significant sources of finance, in absolute and percentage terms, than UNDP's own core funds. Indeed, UNDP's funding of its own projects has become relatively insignificant.

This raises a series of questions for the Chinese government and UNDP management. Does China need ODA at all, and in particular, does it need continued assistance from UNDP? Even if the government says it continues to need UNDP assistance, UNDP must ask whether, given the scarcity of its resources, the needs of other countries exceed the needs of China. Although from a Chinese perspective UNDP assistance is small, from a UNDP perspective, its programme in China is very large—perhaps the largest in the world. Assuming UNDP will continue to have a presence in China, as the government wishes, one must ask in what broad sectors can UNDP contribute? What is UNDP's comparative advantage?

Budget allocations give some indication of what UNDP believes the comparative advantage to be. Table 1.2 lists the percentage allocations to five broad "priority" sectors for the time period 2001 to 2005, in the order in which the sectors will be discussed in subsequent chapters.

All five of the sectors are consistent with UNDP's global theme of "sustainable human development." Moreover, all five of the sectors would appear to be priorities for the Chinese government. Three questions, however, immediately arise when one examines the allocation of budgeted funds across sectors. First, 55.4 percent of all the funds are allocated to environment and energy. Does this sector deserve such a high priority? Does UNDP have such a strong comparative advantage in environmental and energy issues that it can afford to specialize so highly in one activity? In effect, UNDP is taking a large gamble: If the projects in the environment and energy sector are a success, this will ensure that UNDP's programme in China as a whole will be a success, even if the projects in all other sectors combined are a failure. On the other hand, if the outcomes in the environment and energy sector are a failure, the overall performance of UNDP's portfolio in China will

be severely damaged. To add to the dilemma, most of these funds are tied and could not be reallocated to other sectors because they are provided by the Global Environment Facility (GEF) and the Montreal Protocol for environment projects specifically approved by them.

Second, gender issues affect half of the population directly and the other half indirectly. Are these issues of such low priority that they merit less than 1 percent of UNDP's budget? One fact alone suggests the priority should be higher, namely, the highly unusual sex ratio of 117 men for every 100 women and the resulting millions of "missing women" and trafficking in young women. Of course, gender issues cut across all sectors and hence the budget allocation almost certainly understates the importance given to the subject, but on the surface, it would appear that UNDP is not doing full justice to a very important dimension of human development in China

Third, the allocation to HIV/AIDS is less than 1 percent of the budget. Is this enough? True, HIV/AIDS affects only a tiny portion of the population in China, but there is a danger that the disease could spread, and if it did, the consequences would be very serious. It is also true that the struggle against AIDS involves more than one UN agency and hence UNDP's budgetary allocation may give a false impression of the importance given to the prevention and control of AIDS by the UN system as whole, but the question still arises whether UNDP could do more in the area or if it should withdraw from the sector entirely.

These are some of the issues that will be addressed in the chapters that follow. There is one other issue, however, that we want to raise, namely, the most effective way for UNDP to contribute to sustainable human development in China.

The UNDP programme consists of a large number of projects, well over a hundred, most of them small and widely scattered throughout the country. Considered individually, these projects may have an impact at the local level, but they are unlikely to have a national impact. Few of them are replicated or reproduced elsewhere; few grow from a small

**TABLE 1.2 ALLOCATIONS OF UNDP FUNDS BY SECTOR, 2001-2005**

Governance	31.7 %
Poverty reduction and inequality	11.6%
HIV/AIDS	0.7%
Gender issues	0.6%
Environment and energy	55.4%
	100.0%

Note: Planned allocation included for the years 2004 to 2005.

project into a major undertaking; and few serve as national experiments that are closely monitored by the centre, modified and then adopted nationwide. These projects, often described as “pilot projects,” seldom lead very far, even when they are regarded as a success.

This may seem odd because the Chinese style of reform-mongering has been deliberately experimental. The rural institutional reforms of the late 1970s and early 1980s, for example, culminating in the adoption of the “household responsibility system,” were a direct result of a series of policy experiments conducted in several regions of the country. The international trade reforms of the 1980s began with the creation of “special economic zones” in several coastal areas, and lessons from these experiments led to policy modifications that were gradually extended to the entire country. Similarly, the industrial reforms of the late 1980s and 1990s were based on a series of experiments conducted in different parts of the country. Local initiatives and local experiments have been tolerated by the central authorities and sometimes encouraged, even when the experiments were technically illegal, and the evidence produced by these experiments has contributed greatly to national policy formation. Pilot projects and experiments financed by foreign aid, however, have been less influential than experiments designed and monitored by the Chinese themselves. This suggests that a UNDP programme that consists of a large number of small projects may produce disappointing results if the objective is to increase the well being of the average citizen by influencing national development policies.

This does not imply, of course, that China cannot learn from the experience of the rest of the world. Indeed, China has actively searched for useful knowledge abroad in a variety of ways: sending students to study in major foreign universities, creating opportunities for senior officials to participate in study tours and conferences abroad, translating foreign publications into Chinese, encouraging direct foreign investment in China and a transfer of technology by multinational corporations, using foreign consultants when local expertise is lacking, and so on. This approach has been fruitful and we believe that, in the future, UNDP may best be able to contribute to China's social and economic development by providing policy makers with information, knowledge and analysis that may not be available from domestic sources. This would include information and analysis of policies adopted abroad, in the advanced economies and in other transition and developing countries, as well as empirical analysis of domestic issues using techniques that may be novel or unusual in China. It would also include advocacy, especially bringing to the attention of Chinese policy makers new issues that have surfaced elsewhere but have yet to emerge in China.

UNDP already has begun to move in this direction and the success achieved so far encourages us to urge continued movement in the same direction. Examples of steps in this direction include publication of the national human development reports, careful monitoring of China's efforts to meet the Millennium Development Goals (MDGs) and periodic publication of analyses of poverty reduction policies and of statistical indicators based on a concept of poverty that goes beyond income deprivation. Additional possibilities that would give decision makers a stronger analytical basis for making policy judgments include working with the National Bureau of Statistics to disaggregate data by gender and to increase access of the public to existing gender data; the creation of an international Poverty Reduction Centre that would promote policy oriented research and encourage south-south cooperation on poverty related issues, particularly in Asia; and sponsorship of economic and social research on China's major environmental problems, including analysis of the distributional impact of pollution and environmental degradation, so that decision makers would have a stronger analytical basis for making policy judgments.

The thrust of UNDP's programme in China would then become the generation of statistical data and the collection of information needed by policy makers, the analysis of policy options, the advocacy of neglected issues and causes, and the “popularization” of complex issues in order to better inform the public and increase the voice of the people in policy discussions. UNDP, from its perspective of sustainable human development, can play an important role in offering the government and the general public a second opinion when other international agencies and foreign aid donors offer policy advice based on more conventional or orthodox frameworks.

The approach we recommend does not preclude small projects of the traditional type. The purpose of the projects would change, however, from being an end in itself to becoming a vehicle for research, a method of gathering data and information, and a policy “experiment” that potentially could have national implications. Small projects then become merely one component of a UNDP programme, the overall purpose of which is to increase knowledge and understanding of some of the major social and economic issues that face the country.

A UNDP programme centred on knowledge, research and advocacy would look different from a programme in which the main purpose is to provide funds for development. Monetary costs would be lower and we believe the ratio of benefits to costs should be higher. On the other hand, the skill-intensity of UNDP's programme would increase for foreign consultants and experts who would

undertake original research and advocacy, for national consultants who would work closely with UNDP in designing the overall programme, and for UNDP staff who would be responsible for selecting foreign and domestic collaborators and monitoring the quality of their work. Above all, a UNDP programme that concentrates on knowledge, applied research and policy advocacy would be aimed at senior government officials, policy makers and political leaders. The objective would be to contribute to the national debate on a range of policies that influence sustainable human development.

Such an approach would not necessarily be suitable for all countries where UNDP operates, but we believe that an innovative approach in China could be attractive both to the Chinese government and to UNDP. Indeed the likelihood of a successful “experiment” in China appears to be high. China does not need money; it needs ideas. UNDP does not have enough money to make a significant impact on resource availabilities in China, but it does have ideas of its own and its network of able and experienced people gives it easy access to many other good ideas. China has changed dramatically in the 25 years since UNDP began operations there and the time has come, we believe, to introduce radical changes in the way UNDP and the government work together. If, in the end, the “experiment” proves to be a success, as we anticipate, it could be modified and extended to other countries, demonstrating that the Chinese approach to reform-mongering can be applied not only domestically but also globally. This would be an example of south-south cooperation with Chinese characteristics.



## 2

# Governance

The introduction of economic reform during the past 25 years has led to fundamental changes in the structure of the economy and, in particular, to the growing importance of market forces and concomitant decline of central planning in the allocation of resources. With the decollectivization of agriculture, relaxation of controls over rural-urban mobility, and the expansion of the private sector, the social make-up of Chinese society has become increasingly diverse and stratified. The further opening up of China's economy and society to global trade, investment and culture, along with rapidly growing Internet usage, have increased exposure to international practices and ideas. Growing regional inequalities, more unequal distribution of income, environmental degradation, rapid migration, increasing social differentiation, and greater exposure to the outside world all pose significant challenges to governance in China.

Aware of the need to maintain social stability and ensure balanced development, the Chinese government has initiated numerous reforms during the past two decades aimed at enhancing the transparency, accountability, and legitimacy of governance processes. Most significantly, the government has been strengthening the legal system since the early days of economic reform. This has involved developing a cadre of legal professionals such as lawyers, judges, and auditors; introducing a wide range of legislation related to economic and social issues; raising popular awareness of the law through campaigns and the media; and ensuring access to justice for vulnerable social groups through the provision of legal aid and legal counselling.

The establishment of a legal framework around the economy, and especially in relation to foreign trade and foreign investment, has created a more predictable and stable environment for foreign capital, the success of which is in part reflected by the high levels of foreign direct investment in China. The fundamental principle of the "rule of law" was proposed and accepted at the 8th National People's Congress in 1996 and further endorsed a year later by the former President Jiang Zemin at the 1997 15th Party Congress. In preparation for and in the wake of China's accession to the World Trade Organization (WTO), the Chinese government has introduced a swathe of new legislation and regulation and established new institutions. For example, in August 2003, the 10th National People's Congress ratified the Law on Administrative Licensing, which reduced the number of licenses approved by the State Council from 3,984 to 500. Between 1999 and 2003, a series of reforms in the judiciary and legal system were introduced, including an open trial system; the separation of examination, execution and supervision systems; and the reform of the Supreme People's Court and Supreme People's Procuratorate. However, some of the reforms, such as the reform of litigation procedures and management practices, have yet to be extended beyond pilot

projects. The development of legal aid centres from 1995 onwards and the gradual development of a legal aid framework have helped in providing access to justice, though demand for aid well exceeds supply.

In order to give greater play to market forces, the Chinese government has reduced the role of government agencies in the management of enterprises, focusing instead on creating an enabling regulatory, legal and institutional environment for economic development. Numerous attempts have been made to reduce the size of government, although a cycle of contraction and expansion has tended to characterize administrative reform. The most recent attempt to cut down the number of government institutions occurred in 1998 when the State Council reduced the number of ministries and committees from 40 to 29, releasing half of all civil servants from their posts and redeploying 17,000. This reform initiated a further wave of downsizing in administrative structures from provincial to township levels.

Significant decentralization of administrative and economic authority to provincial-level governments and centrally governed cities during the past two decades has unleashed local initiative, leading to the rapid development of local economies, particularly in the coastal areas and in the private sector. While decentralization has been a cornerstone of the economic reforms, it has also undermined the capacity of the central government to raise revenue and develop an effective, redistributive fiscal policy. Taxation reforms carried out in 1994 and 2001 have helped increase the ability of the central government to levy taxes, improving transparency in the use of fiscal funds and reducing the potential for corruption. However, the tax revenue/GDP ratio remains low and problems of enforcement remain.

Decentralization has also exacerbated regional inequalities between coastal and inland areas, contributing to a stark process of uneven development. In the wealthier coastal areas of China, such as Shanghai and Guangdong, compared with poorer inland provinces such as Guangxi, Yunnan and Tibet, per capita income and per capita expenditure on education, public health and social security is considerably higher, affecting human development indicators such as maternal mortality rates, mortality rates for children under 5 years of age, access to safe drinking water and rural sanitation.

The Chinese government has sought to increase the accountability of government through a variety of means, such as civil service reform, local level elections and indirect elections at higher levels. Civil service reforms seek to recruit staff through competitive examination, thereby ensuring that staff are hired for meritocratic rather than political reasons and that the civil service becomes more professional and independent from the Party. Considerable

progress has been made on this front, although reports of the buying of positions and continuing political intervention in appointments to higher level posts potentially undermine these efforts. Competitive village elections are regularly held across China. Though there is considerable variation in practice, this initiative is significant not only because it introduces the principle of competition in the political domain but also because it reinforces the idea of rule from below rather than solely from above. It thus harmonizes with the Chinese government's adherence to people-centred development. Furthermore, the concept of transparency has been introduced at the village level through the requirement that village committees make public village revenue and expenditures. Following the successful introduction of village elections, the Party has experimented with both competitive township elections and competitive elections for the Party branch at the village level. In the last two years, the All-China Women's Federation has likewise piloted competitive elections for its village-level representatives in some provinces and counties.

The social effects of economic reform have required a change in the way the government relates to society. Aware that the old systems of social intermediation provided by the mass organizations were no longer adequate, the Chinese government has encouraged the formation of new intermediary organizations with some independence from the Party/government, particularly in the business, trade and professional sectors. Since the late 1990s, a new stratum of non-governmental organizations concerned with the interests of marginalized groups has begun to emerge, taking a variety of organizational forms such as registered social organizations; second-, third-, or fourth-level associations; networks; and centres. In 1989 and 1998, the Chinese government introduced a new regulatory framework for the registration of social organizations and non-profit people's enterprises and in 2004 enacted a new law on foundations.

Since the late 1990s, the Chinese government has taken a number of steps to improve the framework of human rights. In October 1998, China signed the International Covenant on Civil and Political Rights. In March 2004, the 2nd plenary session of the 10th National People's Congress formally wrote the article titled "The State Respects and Safeguards Human Rights" into the constitution. This was the first time since liberation in 1949 that the concept of human rights had been incorporated into the constitution and thereby underlined the responsibility of the state to safeguard citizens' human rights. The newly amended constitution not only guarantees the right to private property and its inheritance but also expresses a commitment to provide a sound social security system in line with economic development. These changes in the

constitution endorse the government's move towards people-centred development, and reflect ongoing changes in the nature of state-society relations. Although China has made considerable progress in its recognition of the importance of human rights, much still remains to be done in human rights advocacy, the development of an effective system and mechanisms for enforcing rights, and actual practice. Particular areas of concern are the right to associate, the death penalty, torture, use of prison labour for the production of export goods, Internet censorship, and the right to information.

### **FUTURE GOVERNANCE CHALLENGES**

Though there has been considerable progress in strengthening rule by law, creating an enabling environment and appropriate institutions for the market economy, and improving the accountability and transparency of government institutions, there is still considerable work to be done to improve the institutions and processes of governance. Moreover, addressing these governance issues will be crucial to China's success in meeting the MDGs, particularly in environment, gender equality and combating diseases such as HIV/AIDS and tuberculosis.

The key challenges for the future include the following:

- (1) The establishment of institutional mechanisms, such as independent monitoring agencies and citizens' watchdog groups, to ensure the implementation of law, regulations and policy
- (2) Further improvements in the fiscal system, particularly with regard to collection of taxes, redistribution and transparency
- (3) Enhancing the transparency of government through the public provision of information, legal sanctioning of the right to information, freer media, and the right to establish independent watchdog and monitoring organizations
- (4) Further separation of Party and government to ensure both clean government and the professionalization of the civil service
- (5) Strengthening the role of civil society in both advocacy and service-delivery roles
- (6) Improving access to justice, particularly for disadvantaged groups
- (7) Increasing participation in policy and decision-making processes, particularly those affecting poor and marginalized groups
- (8) Coordination of government agencies for effective policy design and implementation
- (9) Developing a sound knowledge base around social and economic issues to ensure evidence-based policy design

There are some grounds for optimism for progress on governance during the next decade. First, the Party leadership in China has become increasingly aware of the importance of governance in solving diverse issues, such as rural unrest, inequality, environmental degradation and public health. Second, the government's focus on people-centred and balanced development paves the way for greater participation of diverse social groups in policy processes and practical solutions, and therefore, for greater openness, transparency and accountability on the side of government. Third, researchers in China have increasingly been drawing attention to the need for governance changes in line with economic reform. Fourth, recent events such as the SARS (Severe Acute Respiratory Syndrome) outbreak highlighted the social, economic and political costs of non-transparency and poor accountability. Finally, the writing of human rights into the constitution makes a rights-based approach to development more feasible.

However, there is also some need for caution. The Chinese Communist Party and government express a deep concern about the dangers of social "chaos" in a context of rapid social and economic change. This will continue to overshadow the concomitant moves towards people-centred and rights-based development. Institutional change cannot take place overnight. Hence, problems of implementation, corruption and blurred institutional boundaries and functions are likely to continue. The sphere of more independent organizations that can play a watchdog role on government and the market, advocate on rights issues, and promote the interests of different groups in society, especially the marginalized and poor, is weakly developed, not the least because of the restrictive regulatory environment.

### **UNDP AND GOVERNANCE**

UNDP has a wide portfolio of projects within the governance programme. The starting-point for this programme is the recognition of the inter-related roles of government, civil society and business in development processes. UNDP projects thus are targeted respectively at change within the state, civil society and business.

At the state level, UNDP projects aim to promote a clean and effective professional civil service, improve fiscal and tax policy and management, improve trade efficiency, promote the rule of law, and support urban governance. To illustrate, based on the experiences of a previous project, UNDP is providing further support for sectoral managers and policy-makers to participate in overseas training so that they can adjust their policies, mandates and operations in the light of international best practice. To address corruption, UNDP is supporting the Ministry of Supervision at national and provincial levels to develop advisory reports and proposals on anti-corruption measures and to con-

tribute to the drafting of a Law on Clean Civil Service.

With regard to business, UNDP has focused on supporting small and medium enterprise development and start-up, and supporting the private sector's participation in trade, investment and economic cooperation.

As for civil society, UNDP has sought to support grassroots self-governance, build the capacity of the All-China Federation of Trade Unions, promote access to justice and rights protection for the poor and disabled, and build the capacity of non-governmental organizations (NGOs). To illustrate, the UNDP is supporting the China Disabled Persons' Federation to increase its ability to protect disabled people's rights. In particular, the project addresses rights violation cases and difficulties in the enforcing of court rulings. It has also sought to introduce grassroots workers who are engaged in rights protection to international standards and norms of rights for disabled persons, and to disseminate nationwide international experiences and best practices with regard to the legal protection of people with disabilities.

UNDP has adopted a three-pronged strategy for achieving these goals, namely, policy dialogue and advice, capacity development, and the pilot-testing of policy options. UNDP's achievements in the field of governance have been considerable. It has contributed in several ways to policy change through providing advice and engaging in dialogue. In the case of public sector and civil service reform, it assisted in developing a master plan for public administrative reform and advisory reports on issues, such as the prevention of corruption, and it provided advice on professional human resources development that was incorporated into a 10-year plan for the Western region. In the field of macroeconomic policies, UNDP contributed to developing some strategic fundamentals for pro-poor fiscal reform, such as a VAT reform plan, budget classification system, and provincial expenditure review, to the adoption of Silk Road development as a vehicle for Western development in the National Five Year Development Plan. In urban governance, UNDP contributed to a national policy for sustainable town development, the establishment of an integrated statistical system on labour markets in cities and towns, a national minimum living standard scheme for urban residents, and the formation of a policy framework for participatory urban community governance. In the legislative arena, UNDP support has assisted in forming working guidelines on legal aid services and a Law to Promote the Development of Small to Medium-sized Enterprises (SMEs), the revision of customs laws and their implementation in line with WTO rules, and various legislative proposals on anti-corruption and intellectual property rights.

UNDP has contributed in various ways to building the capacity of government officials, the private sector and civil society. It has assisted in increasing efficiency in the customs service; changing the mindsets of city and town planners; enhancing the capacity of judges, prosecutors and police officers to deliver fair administration of justice; and improving the ability of legal aid workers to help the poor and vulnerable. It has enhanced the skills of private sector business people to engage in regional trade in Lancang-Mekong and of government officials in Yunnan to cooperate with the Association of Southeast Asian Nations (ASEAN) countries.

Through its pilot projects, the UNDP has supported the development of a social security system for farmers who lost land through urban development, experimented with microfinance in an urban setting, and assisted in the implementation of the tripartite system for managing industrial relations. It has contributed towards the development of guidelines on direct elections to neighbourhood committees and to experimentation in criminal pre-trial reform so as to bridge the gap between China's practices and international standards.

As illustrated above, UNDP's stated achievements have been considerable. UNDP has been able to address sensitive issues, such as the protection of workers' rights, criminal pre-trial practices and anti-corruption. For example, UNDP is the only donor agency with a project supporting capacity-building of the All-China Federation of Trade Unions, the International Labour Organization (ILO) focusing more on engagement through regular training and activities than longer-term projects. The UNDP also has been innovative as reflected in its support to microfinance in an urban context, when the bulk of microfinance projects are in rural areas. It has shown its ability to work with government officials at both national and local levels, as well as with the private sector and civil society. Through its long presence in China, it has established relations of trust with its implementing agency, China International Center for Economic and Technical Exchanges (CICETE), and with the partners involved in projects. It also has cooperated with other donors such as the International Monetary Fund, the Netherlands, and Finland, to support its projects. Given the relatively limited resources available, the UNDP has made notable achievements on a number of fronts.

There are several points that should be considered in developing the governance programme further. First, the UNDP has contributed to a wide range of projects that are scattered throughout the country and across different sectors and themes, such as customs, judiciary, gender, trade, fiscal policy, trade unions, SMEs, disabled persons and supervision. Whilst the project portfolio has achieved

breadth, it is less clear how these projects have affected policies, institutional practices, and behaviours beyond the immediate projects. To what extent are these projects more than the sum of their parts? How are lessons from particular projects generalized? Given UNDP's limited resources, could resources be used more effectively if they supported a smaller number of projects?

Second, the UNDP has adopted policy advice and dialogue, capacity development, and pilot-testing as its key methods of intervention. The relative effectiveness of each of these methods needs to be considered. Under what conditions can successful pilot programmes be transferred beyond their immediate location? What kind of policy advice and dialogue is most effective in promoting changes in policy, legislation and approach? At what level is capacity building most effective and under what conditions? Is it more effective at national, provincial, or grassroots levels, or at senior, middle, or junior levels? Third, to what extent does the portfolio of projects reflect UNDP's comparative advantages compared with other donors?

## **FUTURE DIRECTION FOR UNDP IN GOVERNANCE**

Looking ahead at the future of UNDP's governance programme, three issues need to be considered: first, the key governance challenges facing China; second, the areas in which UNDP could most effectively contribute; and third, UNDP's capacity to intervene effectively. As the key governance challenges facing China have already been outlined, this section will focus on UNDP's potential contribution to particular areas and its capacity to intervene.

## **UNDP'S STRENGTHS AND WEAKNESSES**

First, unlike bilateral agencies, in which aid projects are often closely linked to the respective governments' foreign policy and trade objectives, the UNDP is a multinational organization that owes no affiliation to any particular government. It therefore has a degree of neutrality. Furthermore, it is also perceived in the Chinese context as being relatively neutral. This neutrality enables the UNDP to work in more sensitive areas where foreign intervention might otherwise be unwelcome.

Second, the UNDP has a long history of working in China, which dates back to 1979. In contrast, many bilateral donor agencies and international development NGOs only began to operate in China in the early 1990s. The UNDP has thus substantial operational experience as well as relationships of trust with a range of government institutions, research bodies, quasi-governmental agencies, and civil society organizations. Again, these relationships of

trust provide a sound basis for UNDP to engage in dialogue on more sensitive issues.

Third, the UNDP pioneered the human development approach, which starts out with a much broader understanding of development processes, indicators and goals than a growth-centred model. This is particularly relevant to China, which has experienced more than two decades of rapid economic growth and is now facing the challenges of growing inequality, environmental degradation and institutional change. Moreover, as the new leadership in China emphasizes the need for "balanced development" and the combined importance of growth, development and social stability, the experience of UNDP in working with a broader vision of development becomes particularly relevant.

Fourth, the UNDP was the first international development agency to recognize the contribution of NGOs to the development processes. Since the early 1990s, it has, like other donor agencies, embraced the concept of civil society, thereby acknowledging the significance of a broader range of non-governmental actors rather than just development NGOs in processes of development. Moreover, in May 2004, the UN acknowledged the important role of civil society organizations in global policy processes, particularly in relation to its own international agencies. Again, UNDP's wealth of knowledge in this field is particularly relevant to the Chinese government, which is seeking new ways of providing social welfare and social security and of mediating increasingly diverse interests.

Fifth, the UNDP was one of the first international development agencies to advocate a participatory approach to development and continues to promote this as a core element of the development processes. It has a considerable wealth of knowledge and experience about participatory methods and practices in development projects. Moreover, it has consistently underlined the importance of participation by poor people in decision-making processes and by citizens, more generally, in national and local government. UNDP's long experience in participation, as a concept, approach, and practice, are highly relevant to China today. The Chinese government has embraced the concept of "people-centred development," which suggests a mode of governance that starts from the needs of the grassroots. This is in contrast to its more dominant way of operating, which has tended to be top-down—a governance mode that has its roots in the Leninist institutional architecture of the planned economy.

Sixth, as the UNDP is a multilateral organization, it can draw on the wealth of best practice learned in its field offices across the world. This compares with bilateral organizations in which aid operations are often skewed

towards former colonies and/or areas of strategic and economic interest.

Finally, in some circumstances, the UNDP may be able to play an important coordinating role among donor agencies, even if the arrangements are informed and limited to well defined activities. It could do so legitimately, as its multilateral nature limits the perception of any particular national bias.

Having outlined some of the comparative advantages of UNDP and their relation to governance in China, it is essential to consider also its relative limitations. First, although UNDP's China programme is its largest in the world, in terms of both the resources of the Chinese government and other donors, UNDP funds are very limited. In a country as large as China, this poses important questions about the most effective way in which UNDP can intervene. Second, as a multilateral agency made up of government members, UNDP could face limitations in supporting civil society organizations directly and on a large scale. Though UNDP has supported some civil society organizations in China, namely the All-China Women's Federation, the China Disabled Persons' Federation, and the All-China Federation of Trade Unions, these are all well established, quasi-governmental agencies. Providing support to more local, independent organizations could prove more complex. Third, though the UNDP can play a legitimate, coordinating role amongst donor agencies, it is not always able to do this effectively, not least because of its relative power in relation to agencies with better resources.

## WHERE TO INTERVENE?

Against this background of UNDP's comparative advantages and weaknesses, we now turn to the question of which areas of governance should be the focus of UNDP's work in China. Given the importance of governance to the resolution of a range of socioeconomic, institutional and environmental issues in China, and more specifically to the meeting of the MDGs on gender equality, environment and combating diseases such as HIV/AIDS and tuberculosis, there is clearly a role for external support in assisting China in identifying and adapting international best practices.

Should then UNDP play a role in this, and if so, in which areas? In light of UNDP's comparative advantages, it is recommended that UNDP focus on the following areas of governance:

- (1) Participation
- (2) Civil society development
- (3) Advocating a broader approach to development that is people-centred, participatory and rights-based
- (4) Informal donor coordination around governance, enabling lessons to be drawn and best practices to be shared

## Participation

There are a number of dimensions of participation that UNDP could pursue. First, the UNDP could play a key role in advocating the importance of government responsiveness and participation to effective, people-centred and sustainable development. Second, there is a need for familiarization and training in the principles and techniques of participatory research, analysis and problem-solving to front-line government officials, community workers, civil society organizations, and relevant academics. Third, knowledge about best practices in participatory governance needs to be made available in China. This might include knowledge about gender budgeting, as in South Africa; participatory budgeting, as in Brazil; national and local policy forums, as in the United Kingdom; or deliberative policy processes, as in India. It would also necessarily entail advocacy to government and society about the right to information. Fourth, UNDP is well positioned to advocate, in particular, for the participation of marginalized and poor groups in decision-making processes at various levels. This might imply making more knowledge available in China about international best practices in enhancing the participation of marginalized and poor groups. This would include knowledge about affirmative practices aimed at the greater participation of women in government structures at village, local and national levels in India and South Africa and the principles of representation used in participatory governance in Brazil.

## Civil society development

The area of civil society development is extensive and UNDP would need to focus its efforts to maximize the effectiveness of its contributions. The following are possible areas of intervention. First, there is a need to develop a more effective enabling environment for civil society organizations. The current regulatory framework is too restrictive. There is crucial advocacy work to be done at high levels of government. It is recommended that UNDP focus on high-level policy dialogue with relevant policy makers. Second, there is a lack of understanding in China amongst some government officials and society about the nature, role and functions of civil society organizations, and especially the concept of an NGO. UNDP could make a contribution here in promoting understanding about the debates around the role of civil society organizations in development processes, focusing in particular on high-level leaders. Third, there is a need for some capacity building amongst NGOs, in particular with regard to internal management structures, fund-raising, needs analysis, accountability mechanisms, and understanding of complex policy issues and alternatives. An appropriate role for UNDP would be in relation to the broad policy issues and making available knowledge about policy alternatives.

Fourth, though the number of NGOs providing services to marginalized groups in society has been increasing since the mid 1990s, few seek to lobby government for policy change. There are very few advocacy-focused groups. There is a need for greater awareness of the importance and role of civil society organizations as watchdogs of the government and the market, and as advocates for social justice. Again, the UNDP can have a role in engaging in policy dialogue at high levels to promote understanding about the contribution of such organizations to effective and fair development. Finally, as China integrates even further into the global economy and politics, there is a need to enhance understanding about the role of global civil society. Given UNDP's extensive contacts throughout the world with civil society organizations and its recent report on UN-civil society relations, it is well placed to promote understanding, provide information and contacts in this area.

### Approach to development

The UNDP has long pioneered a human development approach that takes a broader perspective on development than a singular focus on growth. In this spirit, it annually publishes the human development report, which provides a broad set of indicators on the state of development in different countries. The UNDP has a unique role to play in promoting strongly such an approach to development and highlighting the governance preconditions for balanced, human and sustainable development. Given the government's current concern with balanced development, this is an opportune moment to emphasize the importance of a broader perspective on development. This will require a greater capacity on the part of the Chinese government to collect reliable data, particularly at sub-provincial levels. Furthermore, the UNDP can promote debates and discussion about people-centred and rights-based development amongst high-level government officials, researchers, donors and civil society organizations. This will call for a more solid base of policy-focused social science research in China. In particular, there is a need for a much stronger knowledge base about governance issues in China and for policy analysis that considers the impact on poor and marginalized groups.

### Donor coordination around governance

The UNDP needs to take greater advantage of its unique position to coordinate better donor initiatives around governance. At the moment, it may not be maximizing its potential. The UNDP should be leading the donor community on governance and development issues. This would contribute towards greater sharing of best practices, experiences and lessons learned. It would also prevent any

unproductive duplication of donor projects in China and would enhance UNDP's effectiveness in policy dialogue and influence.

### What is possible?

Compared to organizations such as the World Bank and the Department for International Development, UNDP's funds are quite limited. Therefore, it should not spread its resources too thinly by undertaking a large number of projects across China. Instead, it should shift its balance of activities towards policy influence and dialogue at national and provincial levels. Micro-activities, such as capacity building and pilot projects, can largely be left to other donor agencies with larger funds and staffing. Where any such activities are undertaken, they need to be strategically and carefully linked to policy influence and dialogue. UNDP's role in donor coordination on governance issues, if done effectively, should enhance UNDP's role in policy dialogue with the government.

To achieve this, the UNDP will need to develop further its capacity to identify the movers and shakers in Chinese government, business and civil society; to identify key moments for, and channels of, access and leverage; to strengthen its understanding of policy and change processes in China, particularly as these affect poor and marginalized groups; and to develop an effective strategy for policy dialogue on governance issues based on informed analysis and research and coordination with other donor agencies. Finally, as discussed in Chapter 7, UNDP may have to adapt its working relationship with CICETE to promote effective policy dialogue on governance issues with a wide range of actors.



## 3

# Poverty Reduction

China's success in poverty reduction has been widely recognized by the international development community. The launching of economic reforms in 1979 witnessed the beginning of the decline in the incidence of poverty, which has continued, albeit at varying rates and with occasional vicissitudes, until the present day. The World Bank has estimated that between 1990 and 1998 the number of people living on less than constant 1993 purchasing power parity USD 1 (PPP\$1) a day decreased by 147 million in China. During the same period, the number of people in the rest of the developing world living on less than PPP\$1 a day increased by 70 million.<sup>1</sup> According to official estimates, China has already achieved its MDG by reducing poverty from 80 million people in 1990 to 28 million in 2003. Official Chinese poverty estimates have often been subjected to criticism, especially because of their inadequate adjustment of the poverty line over time for changes in the cost of living. However, it appears that more careful estimates of change in poverty in China are also consistent with the assessment that China is on target in meeting its MDG in poverty reduction. For example, the World Bank estimates also indicate that China has fulfilled its MDG in the reduction of poverty well ahead of schedule.<sup>2</sup>

It is not right, however, to conclude that China has overcome the problem of poverty. Indeed, a number of obvious blemishes characterize China's poverty performance to date. First, China appears to have a higher incidence of poverty than most countries at a comparable standard of living (as measured by per capita PPP\$ income). For the year 2001, the World Bank estimated China's per capita PPP\$ income to be 3,950. There were nine other countries within the per capita PPP\$ income range of 3,000 and 5,000 for which comparable poverty estimates were available. China had a higher proportion of the population below the PPP\$1 poverty line than any of these other countries. It also had more than twice the rate of poverty measured than Indonesia, a large Asian country that had a 28 percent lower per capita PPP\$ income.<sup>3</sup>

Second, China has experienced prolonged periods of rapid growth in per capita income when the proportion of the population in poverty remained unchanged or even increased slightly, with the number of people in poverty increasing. Thus, for example, World Bank researchers estimated on the basis of official household survey data that the proportion of the population in poverty remained unchanged or increased a little during 1996 to 1999, a period during which per capita real income grew at 7 percent per year.<sup>4</sup> During

<sup>1</sup> World Bank, "World Development Report 2000/2001: Attacking Poverty," World Bank, Washington, DC, 2000. Table 1.1.

<sup>2</sup> The World Bank estimate of rural poverty (those below PPP\$1 a day) was 42.5 percent for 1990. By 2001, it had fallen to less than 20 percent. In China, poverty is *officially* recognized as entirely a rural phenomenon.

<sup>3</sup> World Bank, "World Development Indicators 2003," World Bank, Washington, DC, 2003. Tables 1.1 and 2.6; and Khan AR, "Growth, Inequality and Poverty in China: A Comparative Study of the Experience in the Periods Before and After the Asian Crisis," Issues in Employment and Poverty Discussion Paper 15, ILO, Geneva, 2004. Table 2.

<sup>4</sup> Chen Shaohua and Wang Yan, "China's Growth and Poverty Reduction, Trends Between 1990 and 1999," The World Bank, Washington, DC, 2001; and Khan, 2004. Table 1.

this period, the actual number of people in poverty rose very substantially.<sup>5</sup>

Finally, while the above estimates of inadequacies of China's poverty performance are based on the work of the World Bank and outside researchers, China has recently officially acknowledged a reversal in its poverty performance: In 2003, the number of rural population in poverty has been officially estimated to have increased by 0.8 million, the first such increase since the beginning of reforms.<sup>6</sup>

China is thus continuing to face serious and persistent problems in its battle to reduce poverty. This calls for a careful analysis of the changing nature of China's poverty problem and of the evolution of public policy to deal with the problem. Like most developing countries, China's official system of statistical information concerning the measurement of poverty is imperfect and inadequate.<sup>7</sup>

Fortunately, however, a set of surveys under the auspices of the Chinese Academy of Social Sciences (CASS) provides information that allows one to make much more reliable estimates of poverty and related indicators. These surveys are available for only three years, 1988, 1995 and 2002. They make it possible to document the change in poverty during two periods: between 1988 and 1995, and between 1995 and 2002. By adding to this what can be ascertained about the change in poverty in the years immediately after the launching of reforms, one can construct a stylized picture of the evolution of the incidence of poverty, and of public policy to combat poverty, divided into three sub-periods. Since the CASS surveys are available for only selected years, it is possible to delineate the three sub-periods only approximately, not accurately. Since change in (income) poverty between two time periods is determined by changes in per capita personal income and the distribution of personal income, we will focus on changes in these two indicators and the factors causing these changes.<sup>8</sup>

The first of the three periods started immediately after the launching of reforms, which began with a complete restructuring of the rural economy and society. Collectives were replaced by a system of highly egalitarian distribution of individual access to land, which soon evolved into a de facto form of personal ownership. Simultaneously, the past system of compulsory procurement of agricultural output at

extremely adverse prices was replaced by greatly improved terms of trade for farming households. The result was a very high rate of growth of personal income in rural areas with no more than a modest increase in inequality of income distribution, thanks largely to the egalitarian access to land. There was a sharp reduction of rural poverty. Since 82 percent of the population lived in rural areas in 1978, this also meant that there was a rapid reduction in overall national poverty. Reasonably rapid urban growth, together with the retention of much of the egalitarian wage system inherited from the pre-reform period, also contributed to a reduction of urban poverty. This period, best described as one of agriculture-led development, which combined a high rate of growth with rapid poverty reduction, continued until the mid 1980s.

The next period, often characterized as that of China's integration with the global economy, started in the mid 1980s and continued until the Asian crisis of the late 1990s.<sup>9</sup> Its characteristics are best captured by the change shown by the CASS surveys over the period from 1988 to 1995 (Table 3.1). The growth rate in per capita GDP continued to be as high as in the immediate post-reform period, although the rate of growth in per capita personal income slowed appreciably. This was due to a change in macroeconomic policies: in rural areas, the previous improvement in the terms of trade for agriculture was halted and, for a period, reversed; and for the nation as a whole, incremental GDP was redistributed in favour of the government and business with a principal emphasis to increase the rate of capital accumulation. The rate of growth in personal income was nevertheless very high by any reasonable standard and would have permitted rapid poverty reduction if the distribution of income had remained unchanged. But there was a sharp increase in inequality in the distribution of income during this period so that the rate of poverty reduction slowed appreciably and was far smaller than the potential rate of poverty reduction. In rural China, every 1 percent increase in per capita personal income led to a 0.61 percent reduction in the headcount poverty rate. In urban China, where inequality increased at a faster rate, every 1 percent increase in per capita personal income led to a tiny 0.08 percent reduction in the headcount poverty rate. In

<sup>5</sup> According to Chen and Wang, 2001, the proportion of the population below 1993 PPP\$1.08 increased from 17.2 percent in 1996 to 17.4 percent in 1999. Applying these percentages to official population estimates, one gets an increase in 8.4 million poor over this period.

<sup>6</sup> *The Guardian* of July 20, 2004 reports this by quoting Liu Jian, the director of the Poverty Alleviation Office. It is noteworthy that the rise in the absolute number of poor has taken place despite a fall in the absolute size of the rural population, indicating a sharper rise in the proportion of rural population in poverty.

<sup>7</sup> Briefly, the reasons are that the official household surveys do not define income comprehensively and provide information only for highly aggregated groups not for individual households.

<sup>8</sup> At this stage, the analysis is being carried out in terms of income poverty—the most widely used indicator of poverty. A discussion of broader indicators of poverty occurs later.

<sup>9</sup> The details of poverty estimates based on the CASS surveys can be found in Khan, 2004. The poverty estimates refer to headcounts: those who have an income lower than what at 1995 prices would provide 2,150 (2100) kilocalories to each rural (urban) resident and the approximate non-food consumer goods and services that a typical household at the poverty threshold seemed to have.

**TABLE 3.1 A COMPARISON OF GROWTH, INEQUALITY AND POVERTY REDUCTION IN CHINA BETWEEN PRE 1995 AND POST 1995 PERIOD**

	Pre 1995 (Between 1988 and 1995)	Post 1995 (Between 1995 and 2002)
Growth rate in real per capita GDP in all of China (%)	8.12	7.22
<b>Rural Households</b>		
Annual increase in per capita income (%)	4.71	4.07
Change in the Gini ratio during the entire period (%)	+23.08	-9.86
Annual reduction in headcount poverty rate (%)	2.88	11.36
Gross elasticity of headcount poverty*	0.61	2.79
<b>Urban Households</b>		
Annual increase in per capita income (%)	4.48	6.44
Change in the Gini ratio during the entire period (%)	+42.49	-4.22
Annual reduction in headcount poverty rate	0.35	16.84
Gross elasticity of headcount poverty*	0.08	2.61

\* Gross elasticity of poverty reduction is defined as the percentage reduction in the headcount poverty rate divided by the percentage increase in per capita income. The estimates are based on the findings reported in Khan, 2004.

urban China, where inequality increased at a faster rate, every 1 percent increase in per capita personal income led to a tiny 0.08 percent reduction in the headcount poverty rate.

Broader indicators than income suggest the persistence of substantial human poverty and a significant worsening of some indicators of human poverty during the 1990s. The Food and Agriculture Organization (FAO) estimated that 11 percent of the population consumed less than 1,920 kcal/day during 1996 to 1998<sup>10</sup> and an independent study based on the CASS survey established that in 1995, 17 percent of the rural population consumed less than 2,100 kcal/day.<sup>11</sup> According to a survey by the National Bureau of Statistics (NBS), among the 170,000 administrative villages in designated poor counties, 20 percent do not have roads of acceptable standard, 8 percent have no electricity, two-thirds have no telephone and tap water, 14 percent have no primary schools, and one-fourth have no clinics or doctors.<sup>12</sup> National surveys by the Health Ministry found a 22 percent stunting rate among China's children in 1998 on average, with much higher rates in poor counties.<sup>13</sup> These

indicators of deprivation are larger than the official estimates of income poverty in China. There is evidence that some of these broader indicators have become worse over time, especially in poor areas.

For example, a World Bank study reports that the percentage of the population having access to government health facilities declined from 71 percent in 1981 to only 21 percent in 1993.<sup>14</sup> Another study estimates that 25 million Chinese fell below the official poverty line in 1998 because of the costs of "catastrophic medical expenses."<sup>15</sup>

Why was the increase in inequality so fast and the rate of poverty reduction so much lower than before the mid 1980s? Of the numerous reasons that careful research has identified, the following stand out as most important.

**Increase in inter-regional inequality.** China's economic growth has been regionally concentrated in the coastal and eastern provinces while the central and western regions have grown at a much slower rate. The eastern provinces had some natural advantage in attracting export industries and foreign direct investment in the period of

<sup>10</sup> FAO, *The State of Food Insecurity in the World*, Rome, 2000.

<sup>11</sup> Zhu Ling, "Food Security of Low-Income Groups in Rural China" in Riskin, Zhao and Li (eds.), *China's Retreat From Equality*, M. E. Sharpe, 2001.

<sup>12</sup> This is reported in UNDP, 2002.

<sup>13</sup> Park A, Wang S, "China's Poverty Statistics", *China Economic Review*, 12, 2001.

<sup>14</sup> World Bank, "China 2020: Development Challenges in the New Century," 1997, p. 25.

<sup>15</sup> Story by Martin Fackler in AP Worldservice, December 31, 2001.

China's rapid integration with the global economy since the mid 1980s, but the difference in the growth performance between the east and the rest of the country was at least partly an outcome of discriminatory public policy. Special privileges designed to attract foreign direct investment were long limited to the coastal region. The disadvantage of the underdeveloped regions in competing for investment resources was exacerbated by arbitrary administrative restrictions. In the past, artificial depression of producers' prices for grain was detrimental to the growth of the rural areas in certain provinces in the central and western regions, which had a comparative advantage in grain production. The pricing of natural resources proved more detrimental to poor provinces than to others. The mountainous areas of the poor provinces, in particular, suffered from a serious inadequacy of infrastructure and access to resources. The 1995 CASS survey established an important fact: While poverty is a more serious problem in western and central provinces, it also has a significant incidence in China's rural heartland.

#### **Slow growth and rising inequality in rural China.**

Poverty in China is overwhelmingly concentrated in rural areas because these areas still accounted for nearly 70 per cent of the population in the late 1990s and because of the very large difference between the average urban and the average rural incomes. Based on the NBS data, which in spite of numerous inadequacies is the best source available, the ratio of per capita urban household income to per capita rural household income increased from 1.86 to 2.71 between 1985 and 1995. This disparity was largely due to the slow growth of agriculture and the discriminatory terms of trade for agriculture during much of that time period. The widening of urban-rural inequality after the mid 1980s was exacerbated by declining public investment in agriculture, despite the growing need for public resources to combat emerging constraints to agricultural growth, and by the disequalizing effect of the fiscal system and transfer payment (see below). Relative stagnation of agriculture and the failure of agricultural earnings to rise also meant that, over time, an increasing proportion of rural household income came to be derived from non-agricultural activities. While equality of access to land has ensured a strongly egalitarian distribution of earnings from agriculture, rural household income from non-agricultural sources has been more unequally distributed because of the regional inequality and the failure of employment in these activities to increase as rapidly as in the past. A final obstacle to an improved living standard for agricultural households was the limitation of emigration out of rural areas (see below).

**Regressive transfer to households and reduced transfer from rich to poor provinces.** China's fiscal system

contributed to the growing inequality and exacerbated the problem of poverty. First, the system of taxation and transfers by the state is highly regressive. Findings based on the 1995 CASS survey established that an average household in rural areas was subject to the payment of a "net tax" to the state amounting to 0.5 percent of income, while an average urban household received a "net subsidy" of 11 percent of income. Within the rural and urban areas, these taxes and subsidies were highly regressive. Second, changes in the overall budgetary system since the 1980s have sharply reduced the ability of the poor regions to finance the delivery of essential services that are critical for the welfare of the poor. In the past, fiscal surpluses (deficits) of provinces were transferred to (met by) the central government, which implied a large transfer from rich provinces to poor provinces. By the early 1990s, China's state budget had come to face a serious revenue shortage. Surpluses of rich provinces had become very small and deficits of poor provinces were forced to decline, thereby sharply reducing the magnitude of transfers between rich and poor provinces. Many poor provinces had to curtail basic services, such as education and health, and reduce investment in economic development. The provinces, not the central government, pay external lenders and bear the foreign exchange risks for loans for many social-sector projects. As a consequence, the extremely poor counties are often not eligible to participate in the externally funded poverty-reduction projects.

**Slow employment growth.** Other things being equal, the poverty-reduction effect of economic growth is larger the greater is the labour intensity of growth. However, since the late 1980s, economic growth in China has created very little employment. The reason for the slow employment growth is complex. It has been alleged that strong biases against credit availability for small and private firms and government biases in favour of allocating credit and resources to large, capital-intensive enterprises have contributed to slow employment growth. Even so, there is little evidence to suggest that the industries in which growth was concentrated were, on the whole, not adequately labour intensive. The problem was that, in the past, China's state and collective enterprises, which accounted for an overwhelming proportion of total industrial employment, resorted to the creation of employment in excess of efficient labour requirement. In fact, this system of concealed unemployment insurance was the principal instrument for social protection. As these industries opened up to competition from industries under other forms of ownership and to global rivals, this concealed system of unemployment insurance became unviable. As a result, state and collective sectors began shedding labour. This phenomenon was particularly evident in urban China where, between 1995 and

1999, state and collective enterprises together reduced their employment by a total of 41.24 million people, or 29 per cent of employment in all such enterprises in 1995. Urban unemployment increased rapidly and became a major reason for the persistence of urban poverty. The phenomenon was not limited to urban China. Township and Village Enterprises (TVEs), which were a major source of output growth, sharply reduced their labour absorption. Since 1996 they too experienced a net reduction in employment. Between 1996 and 1999, employment in TVEs declined by 6 per cent. China was not able to replace the past system of concealed unemployment insurance in state and collective enterprises by an alternative, transparent and comprehensive system of social protection. As a consequence, a high proportion of the laid-off workers became poor.

**Discriminatory treatment of migrants.** The incidence of poverty among urban migrants is much higher than among registered urban residents. This is due in part to discriminatory treatment of migrants who have been denied access to health and education services and the opportunity to seek employment on equal terms as registered urban residents. Restriction on migration has also prevented an outflow of labour from rural areas in response to market forces and has contributed to the persistence of high urban-rural inequality.

The above five sets of causes probably account for the entire increase in inequality during the 1990s. If China's income distribution had not worsened during the decade, the entire benefit of its spectacular economic growth could have been devoted to poverty reduction.

The 1990s marked two major shifts in strategy. First, in January 1994, the State Council put into effect the National 8-7 Plan for Poverty Reduction, which aimed to move the officially estimated 80 million rural poor out of poverty in the remaining seven years before the end of the millennium. It identified 592 rural counties as poor, using per capita county income as the criterion, and focused on improving their average income through a package of micro-interventions, rather than interventions targeted to poor households.

A second restructuring of China's poverty reduction strategy took place around the turn of the millennium. A "National Poverty Reduction Conference" was held in June 1999, and an "International Conference on China's Poverty Reduction Strategies in the Early 21<sup>st</sup> Century" was held in May 2000, under the joint auspices of the government of the PRC, the World Bank, UNDP and the Asian Development Bank. Following these deliberations, the government issued a new programme in October 2001, called the "Outline for Poverty Alleviation and

Development of China's Rural Areas (2001-2010)." This plan emphasizes agriculture and farm production, the provision of education and training to the poor, the use of science and technology to promote the productivity of the poor, and the facilitation of out-migration and voluntary resettlement of people from ecologically disadvantaged areas. The focus of targeting was lowered from poor counties to poor villages. In February 2000, the State Council adopted the "Great Western Development Strategy," which initiated a new approach for the promotion of economic development in all the western provinces and the relatively poor provinces in the central region. The Leading Group for Western Region Development was established, with the Prime Minister as the Chair; its executive body is the Western Region Development Office, with the State Development Planning Commissioner as the Chair. The programme has led to a large increase in investment in infrastructure development in this region. While the strategy is not directly focused on poverty reduction in the western region, increased public expenditure in these poor provinces has started to benefit the poor and, more importantly, has served as the impetus for reduced inter-provincial inequality.

A third element in the redirection of the poverty reduction strategy in the late 1990s was the adoption of a programme for the protection of the urban poor. The programme included: (1) A living allowance for laid-off workers; (2) Unemployment insurance; and (3) The Minimum Living Standard Scheme (MLSS), which is a subsistence allowance paid out of the general revenue of the government.<sup>16</sup> The living allowance is a transitional scheme that is being replaced gradually by unemployment insurance. The CASS survey of 2002 suggests that the increase in the share of these items in urban household income and the improved distribution of this source of income have been a significant factor behind the reduction in urban inequality between 1995 and 2002.

Significant improvements have also taken place in reducing the disequal effect of the subsidy and tax system and at least a de facto promotion of migration. The problem of employment growth in rural areas has eased, largely due to migration, but the problem of urban unemployment still remains serious, though some of its worst consequences have been partly alleviated by the system of protection mentioned above.

These policy responses appear to have improved the poverty-alleviation effect of growth since the late 1990s by reversing the trend of increased inequality, significantly for rural China and modestly for urban China. The outcome is captured by the changes estimated between 1995 and 2002

<sup>16</sup> Asian Development Bank, "Final Report, Urban Poverty in PRC, TAE:PRC 33448," ADB, Manila, 2002.

on the basis of the CASS surveys (Table 3.1). Per capita personal income growth was extraordinarily rapid for urban China but not for rural China. The weighted average rate of growth of personal income was faster during this period than in the preceding period, although the rate of GDP growth was slower. Macroeconomic policies were changed to liberalize personal consumption by allowing a higher proportion of incremental GDP to be diverted to personal income. Rural inequality fell significantly, both due to a reduction in interregional inequality and due to a reduction in inequality within rural areas in most provinces. Urban inequality fell slightly due to a reduction in interregional inequality. However, inequality within urban areas of most provinces actually increased.

Reduced inequality made growth in personal income highly poverty alleviating: In rural China, each percent increase in personal income led to a 2.8 percent reduction in the headcount rate of poverty while in urban China, each percent increase in personal income led to a 2.6 percent reduction in the headcount rate of poverty.

As noted at the beginning of this section, despite the favourable outcome since the late 1990s, China's poverty performance remains fragile. This is evident from the officially reported increase in poverty in 2003, something that happened after the most recent CASS survey. China's fragile poverty performance is related to the fact that recent changes in poverty strategy have failed to reduce China's massive disparity between urban and rural income. It is noteworthy that despite the reduction in the rural and urban Gini ratios between 1995 and 2002, the Gini ratio for China as a whole remained virtually unchanged at 0.45 during the same period. This is due to a rise in urban-rural inequality.

While the reduction in urban-rural inequality is the most important unresolved issue in China's poverty reduction strategy, there remain other important issues that need attention: Social protection for the urban unemployed is inadequate; migrants are still strongly discriminated against; and public finance still has an overall regressive effect.

## THE ROLE OF UNDP ASSISTANCE IN CHINA'S POVERTY REDUCTION

To judge the relevance of UNDP assistance for China's poverty reduction, this review seeks answers to two questions: (1) What role did UNDP assistance have in helping China redesign its poverty-reduction strategy in the late 1990s, a change that substantially improved the poverty-alleviation effect of economic growth? and (2) How is current UNDP assistance helping China deal with the remaining problems that beset its continuing struggle to reduce poverty? The two questions are addressed in reverse order.

## Current UNDP assistance: Project portfolio

Let us begin by identifying the UNDP's current assistance for China's poverty reduction. UNDP's country project portfolio for China during the five years ending in 2003 includes 15 projects that can be considered as poverty-alleviating activities, listed in Table 3.2.<sup>17</sup> In addition to these projects, we considered the UNDP's contribution through other analytical, advisory and research work related to poverty reduction in China in recent years. This will be discussed in more detail later.

A rigorous demonstration of the impact of each project activity on the welfare of China's poor is beyond the scope of this review. Not only are most of the projects ongoing, but also an analysis of the completed projects would be a daunting, if not impossible, task, as has been demonstrated by evaluation reports on similar projects in the past.<sup>18</sup> Instead, the projects' design and monitoring were reviewed to determine if they would plausibly benefit the poor and if, together, the projects address the major factors behind China's continued problem of poverty that were identified above.

Table 3.2 classifies the ongoing poverty projects into a number of clusters. The first cluster refers to the umbrella project on microcredit, which has spread to dozens of rural locations after starting as a pilot project in three rural locations. Lack of credit has been a major cause of low productivity of poor households in rural China. UNDP has served as a pioneer by initiating this important programme to improve access of the rural poor to credit. While UNDP's own project on microfinance was concluded at the end of 2003, the programme has taken root and has been growing. It has built a bridge with successful microcredit programmes in other developing countries, for example, the Grameen Trust of Bangladesh provided financial and technical support to the original three UNDP-funded projects. Another innovative feature of UNDP's microcredit programme in China is its extension to urban areas (see below). By the end of 2003, the UNDP-sponsored microfinance institutions had an outstanding loan of RMB 50.1 million, an average repayment rate of more than 81 percent, and 37,873 clients, of which 66 percent were women.

The second cluster consists of four projects that try to protect the poor from the newly emerging vulnerabilities created by China's accession to WTO. The first is a broad policy-oriented study aimed at ascertaining what WTO accession means for China's food security for the poor and possible solutions to problems that may arise. The next two projects try to promote productive efficiency through restructuring of production and technology to help the poor better cope with the consequences of WTO accession.

The final project is a broad study of policy and advocacy for the protection of women as producers and consumers in post-WTO China. These projects constitute a complex area for public policy and the present review has been limited to a perusal of the bare descriptions of the projects. But it is obvious that these are all priority areas for the protection of the poor. The emphasis on promoting productivity and restructuring of agriculture in the aftermath of WTO accession is important. While the failure to maintain improved terms of trade for agriculture after 1996 appears to be an immediate cause of lagging rural income, WTO accession has limited

the sustainability of producers' high price for farm products. High prices were introduced in 1994 but could not be sustained. With the exception of rice, domestic prices of grains are currently the same as or higher than the world price. It therefore seems that improving agriculture's *net barter terms of trade* by raising producers' price is not a sustainable policy. Some possibility of reducing input prices may exist in so far as the domestic price of fertilizer appears to be higher than the world price. Future improvement in farm income must however be based on improved *single factorial terms of trade* for agriculture by way of increased productivity.

TABLE 3.2 RECENT POVERTY-RELATED UNDP PROJECTS IN CHINA

Code	Title	Amount* USD (thousands)	Start Date	End Date
<b>Microfinance</b>				
CPR/01/210	Micro-finance	1,000	6/01	12/03
<b>World Trade Organization (WTO) Accession</b>				
CPR/02/123	Poverty Reduction, Food Security, WTO Accession, Policy Reform	150	2002	2003
CPR/01/122	Agro-processing within WTO Framework	1,100	12/01	Cont.
CPR/01/120	Restructure Seed Industry into Market Economy after WTO	2,200	2001	Cont.
CPR/01/409	Accession to WTO: Challenge to Women	315	12/01	1/04
<b>Artisan Development</b>				
CPR/02/404/ A/01/99	Integrated Artisan Development in Tibet	541	7/02	Cont.
<b>Re-Employment of Laid-off Female Workers</b>				
CPR/98/091	Re-Employment of Laid-Off Women (Venture Creation)	740	10/98	12/02
<b>Education and Information and Communications Technology (ICT)</b>				
CPR/96/401	Improving 9-Year Compulsory Education in Poor Areas	3,500	10/96	2001
CPR/01/403	Distance Education & ICT to Improve Teacher Quality in Poor Areas of Western China	1,200	2001	Cont.
CPR/00/202	Poverty Reduction Through Access to ICT	650	2/01	12/02
<b>Poverty Reduction Strategy and Poverty Monitoring</b>				
CPR/01/201	Comprehensive Approach to Poverty Reduction	1,035	8/01	7/04
CPR/03/M02	Converging MDGs to Build Xiao-Kang (Well-Off) Society	100	11/03	Cont.
CPR/02/410	Participatory Rural Development & Poverty Reduction	1,500	5/02	Cont.
CPR/02/M02/99	Participatory Poverty Monitoring	300	7/02	12/03
<b>Environment and Poverty</b>				
CPR/99/193	Water Use Efficiency in Ningxia & Yellow River Basin	1,680	3/00	Cont.

\* Amount refers to UNDP funding.

Note: Cont. indicates that the project is still ongoing

<sup>17</sup> Seven other projects are listed in this cluster for administrative consideration. For example, some environmental and health projects are listed in this category because the current manager of the cluster used to have responsibility for these projects prior to her current assignment; she continued to be responsible for those projects in her new position and, thus, kept listing them along with the poverty projects. It is possible that some UNDP projects that are not listed as poverty projects have substantial benefits for the poor. This review relies on the UNDP country office's classification.

<sup>18</sup> These evaluation reports do not even try the impossible task of tracing the impact of the projects on the welfare of the poor.

The next two projects in Table 3.2 are aimed at improving the welfare of the poor by creating employment and thereby enabling the poor to make productive and remunerative use of their only resource—labour. Artisan development in Tibet is an integrated project combining the dissemination of training, design, management skill and market access within the framework of broader policy support through advocacy. The inclusion of the Women's Federation among the implementing agencies ensures a strong focus on female employment. The second employment project focuses on an area of high priority for dealing with the worsening urban poverty problem arising from the plight of laid-off workers. Furthermore, executed by Tianjin Women's Federation, it is concerned with laid-off women workers. Its innovative features include the use of micro-credit to support small enterprises and the creation of a business incubator that promotes prospective women-owned micro-enterprises. The box at the end of this section provides a closer look at some of the outcomes of this project.

The next cluster includes three projects using educational improvement and knowledge dissemination, including the use of Information and Communications Technology (ICT) to enhance the welfare and productivity of the poor. The first one is concerned with improving the curriculum and the retention rate in compulsory education in poor areas of poor provinces Gansu, Qinghai, Yunnan, Guangxi, Sichuan and Tibet, with a special focus on the retention of girl students. Another project improves the quality of 20,000 in-service primary teachers by using ICT to reach them from a distance in nine poor rural counties of Gansu, Sichuan and Yunnan. The third project uses ICT to meet information needs of poor producers in five poor rural counties and includes policy advocacy for the use of ICT to help bridge the information gap that inhibits productive efficiency of the poor.

The next cluster consists of strategies and monitoring of poverty alleviation. They are aimed at assisting implementation of the new national strategy for poverty reduction and development in the early 21st Century by broadening the focus on non-income dimensions of poverty; helping the Leading Group for Poverty Office (LGOP) develop a multidimensional system of poverty monitoring; and sustaining the continued development of households that have recently overcome poverty in rural locations in Inner Mongolia, Jiangxi and Xinjiang. One of the projects in this cluster is concerned with the strategy and monitoring system for China's poverty-alleviating development as China moves ahead from subsistence to a higher level of development (Xiao-kang). Some of these projects are more esoteric than the others and while, in principle, they all can

prove beneficial to the poor, assessing their contribution to the welfare of the poor would require more investigation.

The final project in Table 3.2 has the important objective of improving the productivity of the poor in rural Ningxia and the Yellow River basin, a very poor region, by improving the efficient use of scarce water.

The projects listed in Table 3.2 focus on the first three of the five priority concerns behind China's continuing problem of poverty discussed earlier: regional inequality, slow and unequal growth of the rural economy, slow growth of employment, regressive public finance, and discriminatory treatment of migrants. As will be discussed below, UNDP's other analytical and advisory work addresses all five areas of concern. Reduction of regional inequality by itself is not addressed by any of the projects. But most of the projects appear to have been chosen primarily because of their location in poor areas. Accelerating rural economic growth is a major focus of the projects. Three of the projects related to the WTO focus on preserving and restructuring rural growth during the difficult phase of adjusting to WTO conditionality. In addition, a variety of rural issues—water use efficiency, rural education and rural employment generation—are addressed by other projects. Finally, capacity strengthening and advocacy for poverty alleviating rural development is the principal purpose of several projects. Employment promotion, including the alleviation of the condition of the unemployed, has been the focus of a number of projects. An additional notable feature of the projects is their frequent emphasis on the gender dimension of poverty reduction.

### **Analytical, advocacy and advisory work**

Perhaps the most important and lasting contribution of UNDP to China's poverty alleviation consist of its analytical and advocacy work, of which some of the most important elements are listed in Table 3.3. While the first comprehensive and coherent UNDP view of the necessary adjustment in China's poverty alleviation strategy emerged from its contribution to the "International Conference on China's Poverty Reduction Strategies in the Early 21st Century" in May 2000, these ideas were disseminated earlier in UNDP-supported work on China's poverty policies. These ideas were later summarized in the 2002 report titled "Policies for Poverty Reduction in China." UNDP's National Human Development Reports and the most recent 2004 report titled "Macroeconomic Policies for Poverty Reduction in China" have provided further analytical work and advocacy in support of these views. UNDP's analytical and advocacy work is not limited to the reports and activities listed in Table

3.3. As noted above, some of the projects, especially the ones on the strategy and monitoring of poverty reduction, have made and are continuing to make similar contributions.

A summary of the main points of the UNDP approach would require far more space than the present review can afford. The following is no more than a mere enumeration of a few important points. While appreciating the stupendous magnitude of China's success in poverty reduction, UNDP has maintained that an even greater reduction in poverty could be achieved by making the strategy of poverty reduction an *integral* part of China's development strategy and ending the practice of treating poverty reduction as largely a separate activity. In this context, UNDP emphasized the critical importance of synchronizing macroeconomic policies with poverty-reduction policies because it is possible for many microeconomic poverty interventions to be offset by relatively innocuous macroeconomic interventions. UNDP noted that the Spartan standard used in the official estimates of poverty and the practice of considering poverty as an entirely rural phenomenon were not consistent with the protection of all the poor, especially the urban poor. It drew attention to the inadequacy of the statistical system on which the estimates of poverty for the purpose of monitoring are based and advocated a broadening of the criteria for measuring poverty by adding other dimensions of human capability in addition to income. While recognizing that much of the remaining poverty since the 1990s was in poor and inaccessible areas, UNDP argued that considerable poverty also existed elsewhere and that this poverty could not be dealt with by targeting poverty-reduction activities at the level of poor counties. Along with others, but perhaps more persistently than others, UNDP analytical work strongly emphasized the importance of dealing with two kinds of spatial inequality: rural-urban inequality and regional inequality. UNDP work has focused on the inseparable link

between inequality and poverty and emphasized that the two should be dealt with simultaneously.

Some of these ideas have been reflected in the change in the poverty-reduction strategy from the 8-7 Poverty Reduction Programme, launched in 1994, to the current Ten-Year Plan: The level of targeting has been brought down from the county to the village; a second and higher poverty line has been added to the traditionally used extreme poverty line for rural areas; policy makers have begun to help the urban poor, although this activity remains separate from the principal poverty-reduction strategy, which is concerned with the rural poor; there has been a distinct shift in favour of the promotion of greater regional balance in development; and the LGOP has started experimenting with multidimensional measurements of poverty. While UNDP can not claim to have provided the impetus for these changes, it can take satisfaction in being a partner in rethinking the strategy that led to these changes.

### THE MODALITY OF UNDP'S POVERTY-REDUCTION INTERVENTIONS

Total resources invested by the UNDP in poverty-related activities are small. UNDP funds for the 15 projects listed in Table 3.2 amounted to USD 16 million. These projects attracted USD 11.2 million of government funds and USD 7.7 million from bilateral donors, which added up to a total of USD 34.9 million for these projects.

Ten of the 15 projects attracted government financial participation. Only the research-oriented projects, including the two funded by Thematic Trust Fund (TTF) resources, were without government financial participation. All the operational project activities were financially supported by the government, which is a clear indication of the government's perception of the beneficial impact of these activities. Four of the projects had bilateral donor participation from the governments of Finland, Australia and Britain.

**TABLE 3.3 SELECTED POVERTY-RELATED NON-PROJECT ACTIVITIES OF THE UNDP IN CHINA**

1. Joint sponsorship with the World Bank and the Asian Development Bank of the International Conference in May 2000 on China's Poverty Alleviation in the early 21st Century. Its contribution to the Conference is included in World Bank's, *China: Overcoming Rural Poverty*, 2000.
2. A free-standing report in 2002 expanding the above: *Policies for Poverty Reduction in China*, 2002.
3. *China Human Development Report, 1999* and *China Human Development Report, 2002*.
4. *Macroeconomic Policies for Poverty Reduction in China*, 2004.

Projects can be broadly classified into two categories: analytical and advocacy work that supplements the large-canvas analytical activities listed in Table 3.3, and projects that are replicable prototypes consisting of operational activities to improve the welfare of the poor. In the latter category fall the projects on microfinance, artisan development, re-employment of laid-off women, an incubator centre for enterprise development, distance training of teachers in poor areas, and the use of ICT to improve the productivity and welfare of the poor. The success of UNDP involvement in these areas must largely be judged by their replication and wider adoption. In this regard, clear evidence of success is available for microfinance projects and venture centres, which have been widely replicated.

There are a number of reasons why microfinance must be regarded as UNDP's most successful operational project on poverty work in China. The project is based on technical cooperation among developing countries, as evidenced by support from the Grameen Trust in Bangladesh. Within China, the strategy has achieved important innovations (see below) and has been adopted by numerous government and non-government agencies. An indication of the further distance that remains to be covered is that it has not yet developed into a truly nation-wide source of capital for the poor.

### STAKEHOLDER PERCEPTION

While this review did not systematically survey stakeholders' views about UNDP's poverty work, some idea of their perceptions could be gleaned from numerous discussions with government agencies and bilateral donors and the field visit to one project. The principal government counterpart on poverty-related work is the LGOP, which was very openly appreciative of the analytical support that the UNDP has provided. Various implementing agencies, such as the Tianjin Women's Federation with which the ADR mission had intensive interaction, were eager to continue their cooperation with the UNDP. These counterparts clearly articulated the attraction of UNDP cooperation was not as much for the funds that were provided, which were small, as for the access to ideas and the flexibility of the framework within which cooperation took place.

The mission's only opportunity to evaluate the perception of the actual beneficiaries—the poor for whose benefit the activities are undertaken—was during the field visit to the project on the re-employment and venture creation for laid-off women workers in Tianjin. This experience is discussed in Box 3.1.

### FUTURE DIRECTION OF UNDP ASSISTANCE FOR POVERTY ALLEVIATION IN CHINA

China has achieved substantial poverty reduction in the 1990s, and since the late 1990s, China has succeeded in improving the poverty focus of its growth by containing and modestly reversing the past trend of rising intra-rural and intra-urban inequality. Performance in poverty reduction, however, remains fragile. This is most dramatically shown by the officially-estimated rise in absolute poverty in rural China in 2003, the persistence of poverty in poor regions, and the continued severity of urban unemployment.

UNDP's work has been important in helping China restructure its poverty-reduction strategy at the turn of the century. Ongoing UNDP projects for poverty reduction—assuming that the project outcomes reflect their intent and design—have focused on improving the welfare of the poor and assisting the implementation of a new strategy for poverty reduction. Based on this positive view of what has been achieved so far, what can one suggest about the future orientation of UNDP work in this area?

An important first step in designing future UNDP poverty work in China would be an in-depth review of several past UNDP projects. We recommend this because the present evaluation has not succeeded in answering critical questions concerning the nature of UNDP's contribution to the welfare of the poor, even for the one project that was most carefully examined during the course of a field visit. While the available evidence suggests that the project has used resources very efficiently, the trickle-down approach that it seems to adopt towards poverty reduction needs further analysis to ascertain if this is consistent with the broad strategy that UNDP advocates. Based on an in-depth evaluation, UNDP should concentrate on nation-wide replication of the most successful prototype projects by advocating their integration into the national development strategy.

A second important step for the organization of future work on poverty is to closely link UNDP's broad analytical work in the field with the design of future projects. This calls for a consolidation in both areas: more focused analytical work on the most important factors behind the continued incidence of poverty, and a concentration on projects that have the highest pay-off in terms of poverty reduction, as suggested by the analytical work. In this respect, two key areas have emerged from UNDP's recent analytical work as requiring attention.

The first of these key areas is improvement in the system of poverty monitoring in China. UNDP has recently provid-

<sup>19</sup> In the Grameen Bank of Bangladesh the interest rate, properly calculated, is more than 20 percent per year.

**BOX 3.1 RE-EMPLOYMENT AND VENTURE CREATION FOR LAID-OFF WOMEN WORKERS**

This UNDP project, financially supplemented by the government of PRC and the government of Australia, is implemented by Tianjin Women's Federation (TWF). It has two components: microfinance for laid-off women workers and venture promotion through the provision of services at Tianjin Women Business Incubator Centre (TWBI). The mission visited two beneficiaries of the microfinance component and the TWBI.

**Microfinance beneficiaries**

Ms. Huang and her husband were respectively employed in a State Linen Factory and a State Construction Company until 1996. Before being laid off, Ms. Huang had a monthly wage of 400 to 500 Yuan and her husband earned just more than 500 Yuan a month. They had one child. After being laid off, the two of them together received a total monthly pension of 470 Yuan from the state enterprises in which they previously worked. Ms. Huang found part-time work in a private nursing home where she earned 300 Yuan per month. Her husband continued to work as a decorator and earned an average of 600 Yuan per month. Thus their total income, including state pension, *increased* after being laid off. Ms. Huang liked her part-time work as a nursing home worker and rented a room to set up a nursing home of her own, which started with one tenant. In 2001, she obtained a loan of 4,000 Yuan from the microfinance programme of the TWF and expanded her business by moving into a bigger premise. She repaid her loan at the end of the year and borrowed 6,000 Yuan in 2002 and, since 2003, has been borrowing 8,000 Yuan a year—the ceiling for microfinance loans of the programme. Borrowing in a year is conditional upon the repayment, with interest, of the outstanding loan. Currently, Ms. Huang has 20 tenants, some with disabilities, and a workforce of six, all laid-off women, with the exception her own husband. Her monthly net income from the nursing home is between 2,000 and 3,000 Yuan and her husband has a monthly wage of 600 Yuan, the same as the other (female) employees.

Ms. Zhang worked in a State Clothing Factory and her husband was a primary school teacher. In 1996, Ms. Zhang was laid off. Her final monthly salary was slightly more than 300 Yuan and her husband earned between 800 and 1,000 Yuan per month. They had a daughter. After being laid off, Ms. Zhang stayed home for two years looking after her daughter. In 1998, she started to work from home as a tailor, making dresses for private customers. In 2000, she borrowed 4,000 Yuan from the TWF microfinance project and used it to rent a space to house her tailoring shop and bought machines and equipment. Ms. Zhang normally employs three laid-off women and, during peak season, hires a fourth worker. Since 2001, she has been borrowing 6,000 Yuan each year (repaying each year's loan fully before contracting a new loan). Her husband had cancer last year and has been cured after treatment and is currently recovering on a monthly pension of 600 Yuan. Her daughter is a student in the Arts Institute. Ms. Zhang's monthly net income from the tailor shop is between 1,500 and 2,000 Yuan. She is currently moving into a bigger shop because the old shop is being demolished by the City Administration.

Both Ms. Huang and Ms. Zhang had come to own their homes at the time of being laid off. They pay an annual interest rate of 3.75 percent on their loans.

It is noteworthy that neither Ms. Huang nor Ms. Zhang was poor at the time they applied for and received credit. As recently as 2002, the urban poverty line, which is nearly three times as high as the official *upper* poverty line, was 152 Yuan per month. These two credit-recipients were "rich" by this standard. The management of the programme told the mission that there were other borrowers who were in greater distress. Arguably, Ms. Zhang's family would have been thrown into poverty last year while coping with an estimated 20,000 Yuan co-payment of her husband's medical treatment costs if she did not have the tailor shop. But, if one goes by the example of the two beneficiaries, who were chosen by the management of the programme to meet the mission, then the logic of the programme that emerges is as follows: The principal criterion for credit allocation is not the poverty of the recipient but her entrepreneurial ability. And yet the programme can claim that it alleviates poverty in so far as the two borrowers provided employment to a total of nine laid-off women. The mission had no direct contact with these employees, but was told that wages were their exclusive or principal source of earning without which they would be poor. This was thus an example of the well-known Chinese strategy of trickle-down method of poverty reduction. By promoting two comparatively well-off entrepreneurs, poverty was indirectly reduced as others were pulled above the poverty threshold. This was also an amazingly efficient method of employment creation, assuming the mission got the full story correctly. By this model, a regularly-serviced, albeit moderately subsidized, perpetual loan of 14,000 Yuan would create productive and remunerative employment for 12 persons, a per capita capital cost of employment creation of merely USD 140! It is possible that the two borrowers also put in some of their own assets, but it is hard to see how that could have been much.

Another notable feature of the programme is the very low rate of interest—3.75 percent per year. This is much lower than the cost of credit in successful micro-credit programmes elsewhere.<sup>19</sup> This covers the administrative cost of the programme only because the salaries of the officials are paid by the City Government. The repayment rate for the programme is nearly 100 percent.

**Tianjin Women Business Incubator Centre**

The incubator centre supports small business entrepreneurs by providing them premises for their office (the production enterprise itself, where it exists, is located elsewhere) and a variety of services including training, access to communications and help in dealing with the bureaucracy. While rent is charged for office accommodation, other services are heavily or fully subsidized. Enterprises can get microcredit with an upper limit of 8,000 Yuan at an interest rate that is the same as that charged by the Bank of China. Enterprises must normally be headed by laid-off women. If male headed, at least 60 percent of their employees must

**BOX 3.1 RE-EMPLOYMENT AND VENTURE CREATION FOR LAID-OFF WOMEN WORKERS**

be laid-off women. So far, approximately 50 enterprises have been supported of which seven or eight have graduated—that is, moved out of the centre and are now succeeding on their own. Currently, the 40 odd enterprises located at TWBI employ 3,000 workers of whom 80 percent are laid-off women.

The criterion for support was, once again, entrepreneurial ability. It is possible that there is a good deal of indirect poverty reduction in so far as the employees—especially those who are laid-off workers—would have fallen into poverty without this employment opportunity. This is something that the mission could not ascertain. If this is true, then this is another example of the trickle-down method of poverty reduction.

The programme receives a substantial subsidy from the city government since the original endowment of the UNDP project and the earnings from rent and other services sold are not enough to cover costs. The success rate at the incubator centre is extremely high—so far, no enterprise has failed outright and only two are facing serious difficulties.

All the beneficiaries—the individual loan recipients and the entrepreneurs at TWBI—were deeply appreciative of the benefits of the programme. To quote their typical reaction: The programme completely transformed their lives.

ed important assistance to broaden the measurement of poverty on a multidimensional basis. This is important, but will continue to be only “a pilot effort” for as long as the principal indicator guiding action continues to be income/consumption poverty. UNDP has often pointed out the serious inadequacy of the existing NBS estimates of poverty. It needs to do something to improve them. The first important task is to get the NBS to make its household-level survey data available both to development agencies such as UNDP and to independent researchers in China so that estimates of poverty become more accurate and transparent and a plurality of estimates can be used to promote healthy debates and open discussions. There is also a need for an improvement of definitions of income and expenditure, and a corresponding improvement in the NBS data collected by the surveys. A third important need is to extend the survey to cover the floating urban migrants who have been excluded from the NBS household surveys in the past.<sup>20</sup> A substantial UNDP

project to enable the NBS to bring about these changes would serve as a powerful incentive to make these changes.

The second key area requiring support concerns the floating migrants. UNDP and others have highlighted that this population suffers a higher rate of poverty, as compared to permanent urban residents. Their exclusion from the more formal labour market and from public health and education services has been identified as the major cause of the higher incidence of poverty among them. There should be a serious study, drawing upon international experience, of how these discriminations could be eased, without creating an incentive for a politically unacceptable rate of acceleration in the rate of migration. Simultaneously, pilot projects for the creation of health and education services, as well as training and other services needed for employment and enterprise promotion among migrants, could be designed drawing upon the experience of the Tianjin Re-Employment Project for the laid-off workers.

<sup>20</sup> A phased beginning to include the migrants in the annual NBS surveys may already have started.

## 4

# HIV/AIDS

Secure good health both contributes to human development and is a consequence of human development. Epidemic disease, in contrast, undermines human development, increases poverty and usually accentuates inequality. In extreme cases, epidemic disease can “shock” the entire social and economic system. Fortunately, China has not experienced a severe shock from epidemic disease, and most people in China continue to enjoy reasonably good health security. But the HIV/AIDS epidemic is spreading and is causing a health crisis and a poverty crisis, and if it is not contained, it will create a development crisis.

HIV/AIDS first appeared in China around 1985. The initial reaction was to deny its existence, then to understate the size of the problem, discriminate against those who became infected, and underestimate the speed with which the disease could spread to the general population. UNDP was among the few agencies that recognized the seriousness of the situation, advocated on behalf of those who became ill and pressed the government to act. Advocacy paid off, and today, HIV/AIDS is high on the agenda of the central government. UNDP deserves much credit for raising the issue at a time when HIV/AIDS was an unmentionable subject.

The outbreak of SARS last year was an early warning that health security in China was not as good as it was generally assumed to be. SARS also produced an international outcry because it threatened to become a global epidemic. Thus, it was the combination of SARS and the growing domestic threat from HIV/AIDS that helped make advocacy effective and pushed the government into action.

## MAGNITUDE OF THE PROBLEM

Accurate information on the magnitude of the HIV/AIDS problem does not exist. The outbreak of SARS, combined with higher awareness of HIV/AIDS, has exposed the vulnerability of the Chinese healthcare system to a sudden outbreak of disease. It has underlined the point made in Chapter 1 that a UNDP assistance strategy based on knowledge, analysis and advocacy can play an important role. Much work needs to be done in the future on producing reliable health statistics, conducting economic and social analysis of the impact of disease, exploring the benefits and costs of alternative prevention and care strategies, and more generally, re-examining the size and structure of the public health sector in China. UNDP can make a valuable contribution to this effort and combine it with its demonstrated skills in policy advocacy.

The official estimate of the number of people living with HIV/AIDS in 2003 is 840,000, of which 80,000 people are AIDS patients. The incidence of HIV/AIDS is thus less than 0.1 percent of the population. This is a low level of incidence, but it is rising rapidly—the number of HIV/AIDS cases is

thought to have doubled between 1999 and 2002. There is roughly a 12 year lag between an HIV infection and the onset of AIDS; hence, China can anticipate that the number of people suffering from AIDS will rise rapidly and that the problem will persist for a long time even if containment policies are introduced quickly and are effective.

HIV/AIDS initially was geographically concentrated in two border regions, Yunnan and Xinjiang, but now has spread to every part of China. It began in the rural areas, but the distribution of the disease between the countryside and the cities now approximates the distribution of the population as a whole. The incidence of HIV infections is highest among adults of prime working age. Indeed, 82 percent of all infections occur among those between 20 and 39 years of age.

HIV/AIDS initially was a marginal phenomenon both in a geographical sense—occurring mainly in border areas and poor rural areas—and in a social sense—more than 51 percent of all cases occurred among drug users, caused by sharing infected needles among heroin addicts, and another 21 percent of the cases arose among blood donors and those who used contaminated blood or plasma for transfusion. During the 1990s, many private enterprises pooled blood from paid donors, mostly poor villagers. The plasma was separated from the blood and the red blood cells were returned to the donors so that they could sell blood more frequently. In this way, the poor were converted into blood donor machines. Unfortunately, safety precautions were ignored, the blood became tainted, and both donor and user became exposed to infection. The market in blood continued largely unchanged until this scandal was exposed in the press and the government was forced to deal more aggressively with the AIDS epidemic.

Poor migrants from rural areas and the resulting “floating population” in urban areas, another socially marginal group, have been another source of HIV/AIDS infection. These workers—mostly male and mostly young—have been customers for the thriving sex industry in China’s cities. Female prostitutes in the cities have become infected and have passed their infections on to the general population. The migrants, in turn, have transferred HIV/AIDS to their wives and children when they return to their villages. Approximately 7.5 percent of all HIV/AIDS cases occurred as a result of sexual activity.

## THE LESSONS OF EXPERIENCE

Several lessons can be learned from China’s experience so far with the HIV/AIDS epidemic.

First, it is not possible to limit HIV/AIDS to marginal regions and marginal groups. HIV inevitably will spread to the general population.

Second, HIV/AIDS should not be seen as an isolated disease, to be contained and eventually eradicated, but as part of a more general public health problem in which various diseases are interconnected. Heroin addiction and AIDS, for example, should be tackled simultaneously and a policy that increases the availability of clean needles to those who inject heroin would help to slow down the spread of AIDS. If this were combined with a programme of methadone substitution for heroin, the spread of HIV/AIDS would be slowed further.

Third, markets can produce “bads” as well as goods. A poorly regulated market in blood reduced the health security of the population rather than increasing it. Moreover, reliance on paid blood donors may actually reduce the number of voluntary donors. Thus, a switch from social solidarity to cash payments as a motive for giving blood may adversely affect both the quality and the quantity of blood that is obtained.

Fourth, migration from rural to urban areas has health consequences as well as economic consequences. Discrimination against migrants in the cities and the difficulties of bringing their families with them has affected their behaviour and contributed to the rapid growth of the commercial sex industry. Commercial sex, in turn, has helped to spread HIV/AIDS to the general population. This suggests that policies towards migrants should be reconsidered from a public health point of view. This would include reconsideration of urban residency requirements and access to public health services by migrants.

Fifth, although prostitution is technically illegal, this has not prevented the rapid growth of a commercial sex industry. Perhaps the time has come to consider a change of strategy from prohibition of commercial sex to regulation of the industry. This could include providing sex workers with knowledge and information about HIV/AIDS and sexually transmitted disease, encouraging the use of condoms, and providing free health services to sex workers to reduce the risk of disease to them and their clients.

Sixth, measures to prevent the spread of AIDS are complementary to measures to cure AIDS. It is not a choice of one or the other. Prevention of HIV/AIDS cannot be separated from testing and treatment. For example, if people know that AIDS drugs exist and are freely available, at least to the poor, there will be a greater incentive for people to come forward for testing and, when necessary, treatment. It is also possible that if infected people know that society cares about them and will assist them, they in turn will have a greater incentive to take precautions to prevent transmitting the disease to other members of society.

Seventh, public education has a vital role. Victims and people who face a high risk of becoming a victim of HIV/AIDS need information about the disease, what treat-

ments are available, where to go for assistance and what changes in behaviour would help most to prevent infection. Education of the general public is needed to correct misinformation and prejudice, to eliminate discrimination against those infected by HIV/AIDS, to create a more positive attitude of sympathy and support, to create an environment in which a constructive policy debate can occur, and to give people the knowledge they need to make rational decisions about their own behaviour. The entire society—from a drug addict in Yunnan to the senior political leadership in China's most prosperous provinces—would benefit from a well organized public education campaign on HIV/AIDS.

A public information and education campaign must be led by the state, but it should also mobilize the efforts of civil society, notably, schools, factories, the trade unions and women's organizations. Special efforts will have to be made to reach high risk, marginal groups in society, including injected drug users, sex workers, the "floating population" and workers in the informal urban sector. National and international advocacy groups (NGOs and UNDP) clearly can contribute to public education and, as we saw in the blood donor scandal, a vigilant and critical press is essential. This brings us to issues of governance, a topic discussed in Chapter 2.

Eighth, after an agonizing delay, the struggle against HIV/AIDS has become a priority for the central government, and it is evident from Chinese experience that political leadership from the very top is essential for success. Strong support from Premier Wen Jiabao and Vice-Premier Wu Yi, while necessary, is not sufficient. The next step is to create equally strong support from senior leadership in all 31 provinces, autonomous regions and municipalities. The struggle against HIV/AIDS is a national struggle that encompasses all areas of the country and will require sustained commitment from all layers of government and several ministries. The struggle will test China's institutions of governance.

There is reason to be hopeful that China will pass the test and that the AIDS epidemic will not become the "titanic" disaster that some have feared. China has a long history of mass mobilization to achieve national objectives. It also has a long history of successful campaigns against disease, pests and contagious infections, including the recent campaign against SARS. China also has an enviable record of experimentation and pragmatic reform. Once the country decides on an objective, ideological considerations are unlikely to be allowed to stand in the way of success. It is still the case that "the colour of the cat," whether black or white, is less important than its ability to "catch the mouse."

Some steps, in fact, have already been taken to address the threat to China's society and economy from HIV/AIDS. Much more, however, needs to be done. In particular, the multidimensional nature of the threat must become more widely recognized. The AIDS epidemic is not just a health emergency. If it is not contained, it will also become a poverty and development crisis.

## THE LINKS TO POVERTY

In its early stages, as we have seen, the HIV/AIDS epidemic threatened groups who were living in poverty. In its later stages, the epidemic threatens to reduce to poverty many people who are accustomed to prosperity. Thus, AIDS could become part of the story of poverty that was discussed in Chapter 3. This section addresses some of the links between AIDS and poverty.

AIDS, like any disease or illness, can be highly debilitating. If it strikes people in the labour force, as it does in China, it will reduce the productivity of labour. This, in turn, will reduce the income of the worker and his family. A debilitating disease also will force workers to take more days off from work to rest, seek treatment and recover. This, too, will tend to result in lower incomes. Where medical care is not free, as is often the case in China, the cost of treatment can be a heavy burden on a family's budget, forcing the family to reduce its expenditure on food and other essential items and possibly putting the health of the other members of the family at risk. HIV/AIDS can cause changes in income and expenditure that push a family into poverty and reduce the well being of everyone in the household.

HIV/AIDS also is likely to have an effect on the asset position of the household. Financial pressures may force the family to reduce its rate of savings and hence assets required to produce future economic security, including security during old age, will be smaller than they would have been in the absence of disease. Worse still, financial difficulties may force the family to sell assets or to borrow money, thereby increasing its liabilities. The economic consequences of AIDS may thus be felt by the family for a long time. Even the next generation may be adversely affected. HIV/AIDS is not an issue just for the infected generation; it has multi-generational effects.

A family that loses a breadwinner because of AIDS may try to compensate for the lost income by increasing the workload of the remaining members. Spouses of the ill or deceased may seek multiple jobs in order to support other members of the household. Because of stress and exhaustion, this can put their own well being at risk. Similarly, children may be withdrawn from school and forced to enter

the labour force prematurely, thereby affecting their educational attainments, career opportunities and long-term well being. In this way, HIV/AIDS can lead to a sacrifice of long-term human capital formation and human development in order to obtain urgently needed short-term increases in income.

HIV/AIDS is not like a broken arm. In the case of a broken arm, the economic consequences are limited to the victim and his or her immediate family. There are no significant effects on society as a whole. In the case of a contagious disease such as HIV/AIDS, however, infection can easily and quickly be passed from one individual to another, one family to another, one region to another. Thus, society as a whole has a strong interest in prevention and care of the disease. Everyone in society potentially benefits from the good health of everyone else. Collective self-interest reinforces social solidarity and compassion as a reason for vigorous collective action.

Unfortunately, quantitative evidence on the economic impact of HIV/AIDS in China is not available. We do not know how many families are living in poverty because of the disease, how many children have become orphans because their parents have died, or how many elderly people are living alone because their adult offspring have died. We assume that HIV/AIDS has contributed not only to increased poverty but also to an increase in inequality in the distribution of income and wealth, but we are unable to measure the effects. Nor do we know how many people have lost employment because of AIDS or how many children have been withdrawn from school. We are terribly ignorant; there is much to be learned. A UNDP assistance strategy based on knowledge, analysis and advocacy could be exceptionally useful.

Fragmentary evidence, however, suggests that some of the possible effects noted above can be observed in China. One study indicates that average family income falls by approximately 30 percent after one positive diagnosis of HIV/AIDS infection. Another study estimates that the annual cost of treatment, before including the cost of anti-retroviral drug treatment, is eight times the average per capita income in rural areas. Yet another study argues that in some counties severely affected by HIV/AIDS, the number living in absolute poverty tripled between 2000 and 2001 to approximately one-quarter of the population. If the incidence of HIV/AIDS were to rise well above the present low level, these fragments of evidence suggest that the macroeconomic consequences could be significant.

## CHANGING ATTITUDES, REGULATIONS AND POLICIES: A PRELUDE TO A SOLUTION

The HIV/AIDS problem is multidimensional and a solution to the problem will require multisector cooperation. One point we wish to emphasize, however, is that changes in attitude across a broad front, both by government and the public at large, will be necessary to win the struggle against AIDS. This is an area where UNDP can be helpful.

Let us consider several examples where changes in attitude, followed by changes in regulations and policies, would be a prelude to a successful campaign against the disease.

- (1) In the balance between the use of "moral incentives" and "material incentives," there is much to be gained by giving more weight to the former, where people do things because it is right rather than because it is profitable. In the struggle against AIDS, more emphasis will have to be placed on state provision of public health services and less emphasis on the supply of medical services by the market. The treatment of the poor with HIV/AIDS will never be commercially profitable, but if the poor are not treated, the infection will spread and everyone will be at risk. We have here a case of massive market failure.
- (2) A similar point applies to the commercial blood market. One can, of course, introduce measures to increase the safety of blood and blood products, and this certainly should be done. But the market in blood is prone to failure because those with contaminated blood who are ill and desperately need money have a greater incentive to sell their blood than healthy members of the population. A simple and cheap solution is to place less reliance on the market and greater reliance on voluntary blood donations motivated by a wish to contribute to the general good of society.
- (3) Migrants have carried HIV/AIDS from the countryside to the cities and back again. Changing the behaviour of migrants is one key to controlling the spread of the disease. Migrants are unlikely to change their behaviour, however, unless the rest of society changes its attitude toward them. The hope would be that if government improves the status of migrants and provides them with information about AIDS and medical assistance, they would reciprocate by cooperating with the anti-AIDS campaign.
- (4) The markets for addictive drugs and commercial sex have contributed in different ways to the HIV/AIDS epidemic. Both markets are illegal and drug use and

**TABLE 4.1 RECENT UNDP HIV/AIDS PROJECTS IN CHINA**

Code	Title	UNDP Contribution (USD Thousands)	Date
CPR/01/405	Promotion of an Enabling Policy Environment and Quality Legislation for HIV/AIDS Prevention and Care	403.9	2001-04
CPR/01/406	Community Based HIV/AIDS Care, Prevention and Poverty Reduction	810.0	2003-06
CPR/02/M01	Support to Greater Involvement of People Living with HIV/AIDS, and the Country Coordination Mechanism for HIV/AIDS	150.0	2002

prostitution have been viewed as crime problems rather than as public health problems. The criminal justice system has not succeeded in eliminating either crime; surely, the time has come for a change of attitude—switching from a posture of repression to a posture of compassion and support for the victims. In the case of heroin addiction, this implies a policy of promoting needle exchange and methadone substitution, and in the case of prostitution, this implies a policy of promoting the distribution and use of condoms.

- (5) The government has launched a programme that promises free anti-HIV drugs to all poor people who need them, both in rural and urban areas. One problem is that the supply of drugs is not yet sufficient to meet the need. Another problem is that the four generic drugs that, in principle, are available under the programme have serious toxicities, and if the dosage regime is not adhered to carefully, patients can easily develop resistance to the drugs. There is, however, one drug—GlaxoSmithKline's (GSK's) 3TC—that would help to overcome this problem, and this drug is a key component of the most effective drug "cocktail" used in other countries, including developing countries such as Thailand, India and Brazil. The problem is that GSK has a patent monopoly on 3TC and charges a very high price for the drug. The policy of the Chinese government so far has been to respect GSK's patent monopoly on grounds that it is a valid "intellectual property right" while declining to use 3TC in its drug programme because of the high cost. An alternative approach, which would imply a change in attitude, would place less emphasis on protecting GSK's intellectual property rights and more emphasis on protecting public health. This could be done legally under international rules if the government would invoke what is called a compulsory license. China could then produce the drug generically.

None of these changes in attitude by themselves would prevent or cure HIV/AIDS. They are only a prelude to a solution. Attitudes, however, are important, and the attitudes discussed above illustrate the scope of changes that may be required in the struggle against epidemic disease. We hasten to add that attitudes in China have begun to change, experiments are being conducted in different parts of the country and, no doubt, national policies too will change in due course.

### THE CONTRIBUTION OF UNDP

UNDP has been widely praised for addressing the sensitive issue of HIV/AIDS, for presenting the facts insofar as they are known, for initiating a public discussion, and for stressing the multiple dimensions of the AIDS threat and the multiplicity of actions that will be required to meet the threat. The praise is entirely deserved.

The budget allocation to HIV/AIDS has been minuscule, less than 1 percent of the total. The amount achieved has greatly exceeded the resources committed. A UN Theme Group on HIV/AIDS was created in 1996 to bring together all the interested parties—national and international—to discuss a range of issues and to coordinate support by the UN system to the national AIDS programme. In addition, UNDP has sponsored several small projects concerned with changing the legal environment and adopting legislation related to HIV/AIDS; training government officials in Shanxi province on how to provide assistance to communities with a high incidence of HIV infection rates and a consequent high level of poverty; and containing the impact of HIV/AIDS by promoting gender equality, poverty reduction and good governance (see Table 4.1). These projects and the associated documents and publications can perhaps best be seen as forms of advocacy. As such, they have served a useful purpose, but they are much too small to make a meaningful contribution to the prevention and cure of HIV/AIDS.

Ideally, the next phase should be to increase the scale of operations considerably and to implement a coherent programme centred on three components: an increase in the volume of information available to policy makers, more sophisticated economic and social analysis of that information to determine more accurately the causes and consequences of the HIV/AIDS epidemic, and exploration of a range of policy options that can be used for better informed policy advocacy.

UNDP has a unique advantage: It is able to address sensitive issues because it enjoys the trust of the Chinese government. We believe that trust should be put to good use by expanding UNDP's commitment to a national programme to prevent and eradicate HIV/AIDS.

## 5

# Gender Equality

The Chinese Communist Party has many reasons to be pleased about its achievements in moving towards gender equality during the past fifty years. Even before coming to power in 1949, the Chinese Communist Party established the All-China Women's Federation (ACWF). This had the dual goals of representing women's interests and reflecting these up the vertical line of command, and communicating Party/government policy downwards. The ACWF is a large organization, employing more than 52,529 full-time cadres throughout the country and down to township level, and with a network of 611,734 women's committees in villages across the country in 2003. There are few nations that can boast a national women's machinery with such a long history and extensive outreach.

In the 1950s, the Chinese government enacted a range of legislation aimed at prohibiting social practices that were highly unfavourable to women such as footbinding, polygamy and child marriage. It also made the possibility of divorce for women much easier. Drawing upon Marxist, Engels and Maoist theories of gender oppression, the Party and government mobilized women to participate in waged labour both in the urban and rural areas. Women's economic participation was seen to be fundamental to women's emancipation. The Chinese Communist Party's commitment to gender equality as reflected in Party ideology has been, and continues to be, an important factor in the progress toward gender equality in China.

The Cultural Revolution period was less favourable for women in some respects. The ACWF became dormant, rarely meeting or organizing activities at either national or local levels. The discussion of women's issues was stymied as radical Cultural Revolution activists condemned such matters as bourgeois. The emphasis on equality meant that women began to enter occupations that had previously been primarily the domain of men, such as furnace-workers, labourers employed in the Da Qing oilfields, tractor drivers and so on. Cultural Revolution propaganda popularized androgynous images of women—defiant, strong and full of revolutionary zeal.

## NEW CHALLENGES IN THE REFORM PERIOD

With the onset of economic reforms in 1978, the ACWF began gradually to resume its activities. The socioeconomic effects of market reforms posed new challenges for the ACWF and the Chinese government. Social differentiation meant that the category of "women" encompassed an increasingly diverse range of needs and interests. Whilst foreign investment and the growing private sector has created employment opportunities for female migrant workers, it has raised new issues around poor employment conditions; denial of various rights guaranteed in the state sector, such as maternity leave and breast-

feeding periods; and sexual harassment. The shift from the allocation of graduate positions in the state sector to competitive recruitment opened the doors to new forms of sexual discrimination, which left qualified women unemployed or at the bottom of the hierarchy. Similarly, with the expansion of a labour market, enterprises in both the private and state sectors found reasons not to employ women. Moreover, women's average income in 2000 was only 80 percent of men's. As state enterprise reform accelerated from the mid-1990s onwards, women were disproportionately made redundant. In rural areas, the family planning policy reinforced social preferences for boy children.

With growing access to sexual predetermination technologies, albeit illegal, and declining fertility rates, discrimination against girl children has led to a striking imbalance in sex ratios. National average figures point to an imbalance of 117 boys to 100 girls, though there is considerable variation at lower levels (those areas where the imbalance is the greatest), with reports in some areas of a 2:1 imbalance. Linked to this, the marketisation of education in rural areas has contributed towards the withdrawal of girl children from schooling, resulting in gender differences in school entry, completion and attainment rates. The girl/boy ratio in primary school nationwide is currently 90 percent and in secondary school it is 85 percent, though there is considerable regional unevenness. In some provinces, target-driven family planning led to abusive practices such as enforced abortions and sterilization, though during the past five years or so there has been a shift, at least in national policy, towards a less aggressive approach using methods of counselling. The excess supply of men has led to a growing illegal industry in the trafficking of children, mainly girls, but also, to a lesser extent, boys—where families seek a boy to care for them in old age. Domestic violence remains a critical problem. Available evidence suggests this occurs in 30 percent of families and is an important factor in the very high suicide rates amongst women.

Women's participation in politics has declined during the reform period at all levels, even though the economic participation rate of 45 percent is above the world average of 35 percent. There is currently only one female member out of a total of 25 members in the powerful Politburo and only one out of five State Councillors is a woman. Women make up only 20.2 percent of delegates in the 10th National People's Congress. Similarly, in other key institutions such as the Chinese Communist Party Central Committee, the China People's Political Consultative Committee, the Discipline and Inspection Committee, as well as in the Party itself, women are consistently under represented. This pattern is repeated at provincial, county and township levels. Women make up 36 percent of all Chinese government

officials, with representation declining further up the hierarchy. With the introduction of competitive elections to village committees, women's participation at the grassroots has declined. Though exact figures are difficult to obtain, it is estimated that, as of 2003, women make up only 1 percent of village committee heads and 16 percent of village committee members.

## THE CHINESE GOVERNMENT TAKES ACTION

In response to these challenges, the Chinese government, in conjunction with the ACWF, have introduced a range of legislative and policy changes. In 1992, the National People's Congress enacted a law on the Protection of Women's Rights and Interests with the goal of protecting, amongst other things, women's rights in the workplace. Since 1978, the Marriage Law has undergone a number of revisions. Most significantly, the issue of domestic violence has been formally recognized and prohibited in the latest amendments to the law. The ACWF has published studies on discrimination against women in the labour market and challenged recommendations by leading economists that women should return to the home so as to enable men to take up the limited positions in the economy. More specifically, the ACWF challenged the attempt to include the term phased employment in the draft of the National 10th Year Plan in 2001, which would have legitimized the idea of women returning to the home. The ACWF also has raised the issue of equal retirement age for female public servants.

The ACWF has taken up the issue of declining representation in politics by publishing local studies, organizing workshops, and experimenting with ways of increasing women's role in politics, particularly in rural areas. On the educational front, the government has launched the "Education for All" target of nine years of compulsory education, with the aim of enhancing participation in primary and secondary school education, particularly for girls. It has also endorsed and implemented the Programme for the Development of Chinese Women 2001-2010. The ACWF has also brought to public attention the problem of discrimination against women in land rights.

## ROLE OF CIVIL SOCIETY

The advances made in gender equality owe much to the efforts of the Chinese government, the ACWF and to new opportunities emerging through economic reform. However, the contribution of a growing stratum of more independent women's organizations has also been significant. This stratum includes women's studies centres and groups, women's salons, non-governmental women's counselling centres, women's hotlines, and networks, such as the domestic violence network or women and development

network. These organizations have introduced new perspectives on the analysis of women's oppression, and in particular, the concept of gender and gender analysis. They have brought sensitive issues, such as domestic violence, into the public agenda. They have pioneered new practices, such as psychological and legal counselling, exposed stereotypical images of women in the press and educational materials, and experimented with hotlines and self-help groups. They have also contributed to debates on gender and proposals for gender-related legislative and policy changes. Many of these organizations have relied upon support from donor agencies for their activities.

### KEY CHALLENGES FOR THE FUTURE

Gender equality is one of the three MDGs that China is in danger of not reaching. Key areas of concern are as follows:

- High sex ratio imbalance
- Gender disparity in primary and secondary school, particularly in remote and minority areas
- Creating a policy environment that is supportive of the enrolment of girls in school
- Discrimination against women in employment
- Exploitation of women and girls, reflected in commercial sex and trafficking, and potential risk of HIV/AIDS
- High female suicide rates
- Equal access to basic social services for elderly women
- Protection of women's property and inheritance rights, particularly regarding elderly women and rural women

Other key related areas include the following:

- Under representation of women in decision-making processes at all levels of government and business
- Reproductive rights of women
- Domestic violence

### OPPORTUNITIES AND CONSTRAINTS

The Chinese government is strongly motivated to meet the MDGs. It also has an ideological commitment to gender equality. It has a well-established national women's machinery with extensive outreach and with some degree of policy influence, albeit limited. There is also a growing sphere of more independent women's organizations, which offer additional ways of providing services, identifying and analyzing issues, and experimenting with new approaches. Women's organizations have, through the 1995 Fourth World Conference, donor support and exchange with women's groups in other countries, become increasingly exposed to different practices, autonomous gender organi-

zations, and alternative analyses. All this provides grounds for some degree of optimism in addressing gender inequality during the next decade.

However, there is room for some caution. Addressing issues of discrimination in the workplace, under representation of women in politics, and the preference for sons require significant changes in deeply entrenched attitudes towards the value and capabilities of women. Given the decline in the power of ideology in the reform period, it is important to find new ways of tackling such attitudes through, for example, more creative use of the media and the rewriting of basic textbooks and training materials. This, in turn, needs to be backed up by a statistical base that provides reliable indicators on a range of gender issues, such as employment, education, wages and health. The last comprehensive set of gender statistics was produced in 1995. Tackling social attitudes will also require a more comprehensive analysis of "women's problems." In particular, an approach is needed that not only takes gender as its conceptual starting point but also pays attention to the structural and institutional factors that affect the position of women in the economy, society and politics.

As changing social attitudes takes time, it is crucial that prohibitions on sexual predetermination are enforced with vigour, that the existing legislative and regulatory framework protecting women in the workplace is properly implemented through regular inspection and reporting, and that women's land rights are secured in practice through promotion of awareness about women's land rights and enforcement of the law. Ensuring that existing legislation and regulations are implemented requires efforts not only on the part of government but also on the part of civil society, which is currently weakly developed.

### UNDP AND GENDER EQUALITY

Gender has been a constant theme in UNDP's work in China, as in other countries. It played an important role in facilitating the 1995 Fourth World Conference on Women and contributed to the publication of the seminal "1995 Gender Statistics Yearbook," as well as other gender publications. It has assisted in the evolution of more independent women's organizations, such as the East-West group, which flourished in the time leading up to the 1995 Conference.

In the past five years, the UNDP office has adopted a mainstreaming approach to its gender work and, concomitantly, supported only three gender-specific projects. It has a designated gender focal-point person and another staff member who manages the gender projects. The first of these projects is the re-employment and venture creation

for laid-off women workers in Tianjin sponsored jointly by UNDP, AUSAID and the Chinese government (CPR/98/091). This has proved, in many respects, to be successful—drawing the attention of national government and international donor agencies, although it faces, like other microfinance projects in China, the problem of sustainability. Its business incubator is the only one in China to focus on employment creation and the empowerment of disadvantaged communities as opposed to nurturing technology enterprises. Moreover, unlike other microfinance projects, it focuses on urban rather than rural poverty. Its microcredit beneficiaries were all laid-off women workers, and approximately 80 percent of incubated businesses are owned by women. As the project completion report from June 2003 rightly pointed out, it was lamentable that the heads of both the microcredit fund and the business incubator were all men, the latter having had three directors within a three year period. The project also involved gender-awareness training for government officials and laid-off women, though the final report gives no details on the content or outcomes of this. Similar to this is the second project, a microfinance project in Chifeng, Inner Mongolia. The third project is the study of the impact of WTO entry on women, an area that had hitherto received little attention either in the Chinese government, research community or amongst donor agencies. Other initiatives include a training programme on gender budgeting. However, UNDP has not been able to implement this idea, as it has not identified an institute that is willing to develop it.

Apart from these specific gender projects, there are other sectoral projects that have a gender element to them. For example, UNDP is working with the Ministry of Education on distance education programmes for primary school teachers in Sichuan, Yunnan and Gansu. This requires the percentage of female teaching trainees to increase from 30 percent to 50 percent. In another poverty project concerned with retention rates in compulsory education in poor areas, particular attention is given to the retention of girl school children. In its project on artisan development in Tibet, UNDP has involved the Women's Federation to ensure a focus on female employment. In the trade union capacity-building project in the governance cluster, laid-off female workers are a key beneficiary of the microfinance sub-project in Henan province. Similarly, in the other sub-project in Xiamen, the development of a strategy for organizing workers in foreign-invested enterprises and Chinese private enterprises will potentially benefit female migrant workers, who constitute a significant portion of the labour force in these enterprises.

Mainstreaming is reportedly carried out at three levels, namely, project, office and policy influence. Gender issues

are taken into account in the project cycle. At the design stage, the potential implications for gender are considered; in the assessment process, gender impact is included; and during implementation, gender is supposed to be given serious attention, although without carrying out a detailed evaluation, it is not clear how this is realized in practice. At the office level, an assessment is made of the amount of resources going to gender projects, training and staffing. It is the policy level that UNDP recognizes as its weakest link in the mainstreaming process. This is, not least because the government considers gender issues to be the territory of the ACWF and the State Commission on Women and Children and, therefore, not of direct relevance to line ministries. The lack of readily available gender disaggregated data is also a factor.

### PRELIMINARY OBSERVATIONS ON UNDP'S GENDER WORK

The UNDP has again demonstrated its skills in supporting innovative and sensitive work. The training programme in gender budgeting, the support of an urban-based microfinance programme for laid-off women workers in Tianjin, the replication of this through the trade union structure in Henan province, and the study on the effects of WTO membership on women illustrate well UNDP's potential to be at the cutting-edge.

However, there are some pending issues that need reflection. First, UNDP devotes less than 1 percent of its resources to gender issues, despite the prominence of the theme in its public documentation. Though this may relate to the fact that work on gender falls under other sectoral projects, such as environment, governance or poverty reduction, it still does not seem to any degree in proportion to the problem of gender inequality, especially as this is one of the three MDGs in which China is not on track. Second, it is not clear how gender mainstreaming works in practice, apart from the ubiquitous check-list in project design or evaluations that enumerate female beneficiaries. If UNDP sees this as one of its successes, then it would be of enormous benefit to the Chinese government, Chinese women's organizations, donor agencies and civil society organizations to give greater profile to the methodologies for achieving and assessing this. This is particularly important given that, more often than not, mainstreaming can lead to complacency and the bypassing of gender issues. Third, UNDP seems to be losing the opportunity to play a much stronger role in policy influence. Though there is an awareness that more needs to be done in the area of gender equality, there needs to be a strategy that is also backed up with resources.

## WHAT SHOULD UNDP DO NEXT?

First, UNDP needs to increase the amount of resources it is devoting to the theme of gender. Second, whilst maintaining a mainstreaming approach in its project work, it should give far more attention to mainstreaming gender issues into policy dialogue and influence. This involves not only putting gender-specific issues such as reproductive rights, sexual discrimination in the workplace, and discriminatory land practices onto the agenda but also contributing to a gender analysis of other policies, such as fiscal, financial, land tenure, poverty alleviation, migration, health and education, to name a few. Third, given its world-wide network, UNDP is well placed to promote open debate and make available information on alternative policy options and practices. Fourth, given its cooperation in the past on the production of gender disaggregated statistics, UNDP is well positioned to advocate forcefully for a stronger knowledge base to underpin gender equality work. This would encompass not only statistical data, but also qualitative gender analysis and research, particularly in relation to policy processes. Fifth, given the importance of governance to the future of China's economy and society, UNDP could capitalize upon its relatively neutral position to promote more strongly the representation of women in positions of power and authority in China. Finally, the UNDP needs to play a much stronger role in the coordination of gender-related donor work in China and in leading the specialized gender-theme group.

The question that remains is how this can be done. Clearly, there needs to be greater investment in gender issues within UNDP's work in China. The sharper focus on policy influence will require much more strategic thinking, an understanding of the policy process in China, an appreciation of the complex relations amongst diverse institutions, the ability to identify opportunities for leverage and alliances within government and civil society, and a willingness to take gender issues seriously. Given its political neutrality, its long record in promoting gender issues, and its past cooperation with Chinese agencies on this theme, UNDP is well positioned to make a contribution in this area. It is not recommended that UNDP involve itself in multiple small projects nor engage in capacity-building to any great degree. Any initiatives on these lines should be left to other donors. This will give UNDP greater resources and space to develop an effective strategy for influencing policy.



## 6

# Energy and the Environment

Energy and environment problems represent major challenges for China's development. The large size of the population and the rapid increase in production place great stress on the country's natural resource base; pollute the air, water and soil; and threaten biological diversity. Studies have indicated that the losses due to environmental damage could amount to as much as 12 percent of the GDP. These issues are becoming more widely recognized and the government has responded by devoting more resources to environmental protection. In 2003, nearly 1.4 percent of China's GDP was spent on reducing damage to the environment.

Progress so far has been uneven. While many priority areas exist, several key areas deserve special attention: urban environmental problems, water availability and pollution, land degradation and biodiversity.

While urban environmental problems have many causes, one of the key pollutant sources is coal-generated energy. China's main source of energy is coal. Coal accounts for approximately 70 percent of domestic energy production, and because of rapid economic growth, the demand for energy, and hence the consumption of coal, is rising very quickly. While energy efficiency, i.e. the amount of energy required per dollar of GDP, has been improving, there is still much room for improvement. The efforts to switch to cleaner sources of energy are still in their infancy.

Wastewater discharge has continued to increase, but the increase has not been uniform in all sectors. While the discharge of industrial wastewater has slowly decreased, the discharge of domestic wastewater has increased rapidly, with a current estimated level of 46 billion tons of sewerage discharged every year. The emission of the main pollutants into the air from waste gas (sulphur dioxide, dust and smoke) has begun to decline while solid waste has continued to accumulate. China's seven major river systems continue to be highly polluted. In addition, large areas of the country, mainly in the north and east, face serious shortages in water supply. Urban air quality in many cities continues to be poor. In rural areas, more intensive use of agricultural chemicals has polluted the land and drinking water. All of this creates health risks for the population.

Land degradation and desertification are growing problems, with approximately 37 percent of China's land area suffering from soil erosion. The annual increase in desertification is approximately 3,400 square kilometres, according to a statement by Zhou Shenhxian, Director of the State Forestry Administration (SFA) in June 2002. This causes irreversible loss to ecosystems, resulting in loss of biodiversity, loss of productive land, and an increase in flooding and landslides among other things.

Since 1979, China has introduced a series of policies intended to reduce

environmental degradation. These include the following:

- (1) An environmental impact assessment is required to accompany proposed projects.
- (2) The design, construction and operation of pollution treatment facilities is supposed to be coordinated with the design, construction and operation of proposed projects.
- (3) Pollution charges have been introduced on industrial water discharges, air pollution, solid waste and noise.
- (4) Discharge permits are required for waste discharges greater than a certain amount, and experiments in emission trading are underway.
- (5) Responsibility for overall environmental quality has been assigned to province, municipality and county levels.
- (6) National environmental targets are being established to provide overall control of major pollutants.
- (7) Annual monitoring of environmental quality is occurring in major cities.

A number of institutions at national, provincial and local levels are responsible for policy making, supervision and implementation of environmental programmes. The main national institution is the State Environmental Protection Administration (SEPA), a ministry formally created in 1988.

Coordination of environmental priorities within the government is conducted by SEPA. This ministry level agency is responsible for advising the government on environmental programmes for inclusion in the five-year plans, and in many cases, advises UNDP on key project priorities for environmental issues. SEPA also acts as the secretariat for the China Council for International Cooperation on Environment and Development (CCICED). This is a high-level, international forum that meets annually, chaired by the leader of the State Council. It serves as an advisory board to the government on the environment and development, serving as a platform for high-level policy dialogue. UNDP is a member of CCICED, but it appears that UNDP has yet to use the full potential of its membership to engage in upstream advocacy.

In the energy sector, project priorities are determined in consultation with several government agencies and ministries, among which the National Development and Reform Commission (NDRC) is the main counterpart for UNDP. In the energy sector as well as in the environment, technical ministries may also be involved in both project development and implementation.

In regards to formal approval of projects on behalf of the government in the energy and environment areas,

CICETE is responsible for UNDP core funding, the Ministry of Finance is responsible for GEF funding and SEPA is responsible for Montreal Protocol funding. Project execution and implementation arrangements are conducted through a number of different channels, depending on funding source and the technical content of each project.

## MILLENNIUM DEVELOPMENT GOALS

While China is making very rapid progress in achieving the MDGs in several sectors, the environmental objectives are not yet on track, according to the report "Millennium Development Goals—China's Progress."<sup>21</sup> The pressure from population growth, inappropriate land use, and economic development policies pursued over many decades without due consideration to pollution and exhaustion of non-renewable resources have created a situation of serious environmental degradation. While technological and other developments are continuing to improve efficiency and therefore reduce the cost to the environment for each unit of activity, the scale of growth is such that these improvements are dwarfed and the overall pressure on the environment continues to rise. The "China Human Development Report—Making Green Development a Choice"<sup>22</sup> raises the question of a choice between a "Perilous Path" and a "Green Reform" as two possible scenarios for the future. In an effort to reach the MDGs, experiments are underway to test the desirability of calculating a "Green GDP" and, if it proves to be desirable, how best to do so. "Green GDP" accounts could then be used as a framework for measuring the consumption of non-renewable natural resources, estimating the depreciation of the stock of "natural capital" and assessing damage to the environment in economic terms.

The MDG report highlights the following problems:

- Lack of access to water sources of acceptable quality by urban and rural users, particularly in northern areas, causing competition among stakeholders.
- Increasing demands on the environment and natural resources caused by rapid economic growth, industrialization and urbanization.
- Land degradation, pollution, land reclamation, logging and other activities causing destruction of biotopes and loss of biodiversity. China's biodiversity, which is among the richest in the world, is under severe pressure.
- Air pollution problems, particularly in large cities, having a severe impact on human health. Use of fertilizers, pesticides, the disposal of solid waste and other sources of pollution adds to this problem.

<sup>21</sup> UNDP, "Millennium Development Goals—China's Progress," UN Country Team, 2003.

<sup>22</sup> UNDP, "China Human Development Report—Making Green Development a Choice," 2002.

- A level of energy consumption at second place in the world, causing emission of greenhouse gases and various other air pollution problems.

As mentioned, significant action is being taken by the government, including increasing spending on environmental issues and developing a legislative and regulatory framework to encourage sound environmental practices. Furthermore, the Tenth Five-Year Plan includes a sustainable development strategy that introduces a number of important targets for environmental improvement. Environmental governance remains, however, an important challenge, and suffers from weak enforcement of laws and regulations, low capacity, lack of resources and lack of coordination among key agencies.

## UNDP PROGRAMME

Under the current Country Cooperation Framework for 2001-05, the UNDP concentrates its efforts on two areas: (1) Building national capacity in implementing environmental policies, including legal and regulatory measures and (2) Developing the capacity to negotiate and implement global environmental policy commitments. UNDP places priority on removing barriers to greater use of renewable energy, promoting the use of modern technologies that inflict less damage on the environment, and encouraging market-based measures and pricing structures to create incentives that favour sustainable development. The UNDP, however, contributes a relatively limited portion of its own resources to the environment and energy programme. More than four-fifths of the funds originate in the GEF (58 percent) and the Montreal Protocol (24 percent).

The energy and environment programme was evaluated in 2003. According to that evaluation, the main results achieved by the programme were the following:

- (1) A new national coordination mechanism for energy policy was established through an energy office in the National Development and Reform Commission.
- (2) Standards were established for the manufacture and installation of renewable energy technologies.
- (3) Pilot experiments with market-based incentives to promote energy efficiency led to greater acceptance and better use of market-based instruments.
- (4) The capacity to plan and implement market-based instruments increased.
- (5) The willingness of local authorities to experiment with market-based instruments increased.
- (6) Environmental sustainability as an objective became more closely integrated into national policy and its legal and regulatory framework.

Progress was achieved when the objectives of the programme coincided with national priorities. Results were disappointing, as in the wetlands initiative, when project activities were not sufficiently linked to China's mainstream development priorities and reform objectives. For projects in China to be successful, UNDP must ensure that the objectives are not imposed from outside, however idealistic and admirable they may be, and that solid, broad institutional support and ownership exist inside the Chinese government. This sometimes places the UNDP country office in a challenging position in trying to find an appropriate balance between national and global demands. The difficulty of striking this balance should be recognized, and UNDP should be given credit for its successful effort as an intermediary in a number of cases.

Among the areas where UNDP's environment programme is active, sustainable energy and ozone layer protection have seen the largest investment in funding and have demonstrated the most visible results so far.

Important non-project activities include advocacy, analysis and awareness raising, such as the work done in preparation for the 2002 China human development report focusing on the environment, and the 2003 MDG report, succinctly highlighting issues of national importance. These activities form an important basis for future work in knowledge management, capacity building and advocacy on national environmental issues. When building further on these initiatives, care should be taken that these processes are internalized within Chinese national institutions and that UNDP's activities are in support of a national process.

## SUSTAINABLE ENERGY

Many people in rural China continue to rely on wood, dung and agricultural residues for heating and cooking. These fuels contribute to indoor pollution and create health risks for low income families. UNDP has addressed this issue, trying to improve the situation of the poor and, in particular, trying to reduce the exposure of women in poor households to harmful fumes from inefficient sources of energy.

On the national level, UNDP has contributed to government capacity building through policy recommendations and reporting under international conventions. It has also helped introduce cleaner energy technologies and market-based instruments for clean energy and energy efficiency.

## OZONE LAYER PROTECTION

China is the largest recipient of assistance provided under the Montreal Protocol—an international agreement designed to protect the stratospheric ozone layer by reducing the production and consumption of substances that deplete it. Activities in China that are supported by the

Montreal Protocol are intended to phase out all ozone-depleting substances currently used in industrial processes. Nearly 80 percent of the objective has already been achieved. The remaining problem relates to the use of industrial solvents, which is the subject of a major sector plan, funded by the Montreal Protocol through UNDP for the period 2000-2010.

The solvent sector plan initiative (see Box 6.1) is a good illustration of three issues related to the UNDP energy and environment programme. First, the high level of dependency on GEF and Montreal Protocol funding often results in a lengthy project-development time and thus slow progress. Second, the funding arrangements impose the need to negotiate priorities that are external to the mainstream Chinese development agenda. Third, although individual projects may produce good results at a local level, their impact is limited unless the results are transferred to the national and policy levels. A sector-wide approach has the important positive effect of allowing government to focus on broader, policy level issues, rather than individual projects.

While the sector-wide plan is a step in the right direction, it is unclear to what extent UNDP's energy and environment programme has fully achieved this.

### UNDP'S COMPARATIVE ADVANTAGES

There is no doubt that UNDP has something to contribute in the energy and environment area. Isolated projects, however, are unlikely to have much effect on the environment or economic development unless the results of small projects are used to influence national policies and practices. This will be more likely to occur if UNDP's environmental portfolio reflects government priorities and is not determined primarily by the priorities of the Montreal Protocol or the GEF. There is also a need for UNDP to become more selective and focus on a limited number of larger scale, preferably sector-wide initiatives that are linked to government policies and development processes.

UNDP's contributions to the energy and environment sector are currently taking three forms: helping China obtain better access to improved technologies and methods of production and pollution reduction; helping China improve the structure of incentives, including the use of market-based mechanisms to address environmental problems; and supporting regulation and policy formulation and reform. Among these, we believe that assisting China in developing effective environmental regulations and policies will have the largest impact. UNDP has a comparative advantage here. It can draw on experiences in other countries and provide information on what has worked best elsewhere. It is impartial and politically unbiased.

UNDP has been praised for its ability to transfer state-of-the-art technology to China and adapt it to Chinese conditions. Some have argued that UNDP should expand its activities in this area, and in particular, it should help transfer improved technologies to the grassroots level. This has been the approach of the large projects financed by the GEF and Montreal Protocol. UNDP, however, is not a technology-based organization, but it does have comparative advantages as a custodian and implementing agency for the global trust funds, a broker for obtaining finance and an institution for providing technical assistance.

UNDP has made an important contribution in China by helping to introduce market-based mechanisms to manage the environment, instead of relying only on direct controls. The UNDP also has provided useful advice on standard setting in the environmental area. These contributions have been significant in both the state enterprise sector and in the private sector. Market-based approaches are very much in line with policy trends in China and represent perhaps the largest area of potential impact in the energy and environment sector in future.

Finally, UNDP has a comparative advantage in helping China enlarge its internal capacity in the environmental area. The design and implementation of good policies depends upon there being in place a critical mass of well

#### BOX 6.1 SOLVENT SECTOR PLAN

In 1996, UNDP was already implementing 14 solvent sector projects in China. The goal was, as it is today, for China to meet its international obligations under the Montreal Protocol for phasing out ozone depleting substances. Unfortunately, the multiple projects had had little or no strategic impact. Discussions between UNDP and the government in 1996 led to preparatory activities, funded by Sweden and the Montreal Protocol, to develop a sector-wide plan. The plan was intended to be a comprehensive effort to help China fully meet its obligations under the Montreal Protocol for phasing out solvents. These activities were led by a special government working group formed by SEPA and the Ministry of Information and Industry and involved experts from Peking University as well as technical assistance from UNDP. At the end of 1998, the China Solvent Sector Plan was completed and a proposal was submitted for funding to the Montreal Protocol. Following extensive deliberations and revisions to the plan, a final funding decision was made by the Montreal Protocol Executive Committee in March 2000, for USD 52 million to be released in tranches during a period of 10 years. The plan is now being implemented, and an intermediate evaluation concluded in January 2004 that the phasing out of solvent consumption is progressing satisfactorily under the plan.

trained, well informed, experienced people at several levels of government, in research institutions and in the private sector. UNDP initiatives to target key institutions and enhance the ability of those institutions to conduct applied research, identify suitable technologies, design incentive systems, and formulate national and provincial policies could have a large impact on Chinese development and the sustained well being of the Chinese people.

## LOOKING AHEAD

The energy and environment sector is, by far, the largest component of UNDP's programme in China, accounting for 55 percent of total expenditure. The contribution from UNDP's core budget, however, is small. UNDP is in the uncomfortable position of not practicing what it preaches, i.e., emphasizing the importance of environmental issues to sustainable human development while actually reducing its financial commitment. Admittedly, this is in part a result of the overall reduction in UNDP's core budget funds. But the fact remains that UNDP's funding commitment to energy and environment programmes is declining.

Meanwhile, China continues to move ahead. Its Tenth Five-Year Plan includes a sustainable development strategy—an attempt to achieve a better balance between man and nature and between economic growth and protection of the environment. There are targets to improve water quality and promote access to drinking water; improve the urban environment; reduce the emissions of major pollutants; and in the rural areas, to maintain the existing area of arable land, reverse deforestation and improve grasslands. Management of environmental policy is intended to improve, including disaster management.

Despite its limited financial contribution, UNDP has much to offer in terms of technical assistance, as a broker of international trust fund financing, and in policy advice based on international experience. Since the late 1990s, UNDP has carved out a significant niche in these areas, leading to a substantial volume of activity. This represents a good platform for future work. Nevertheless, expansion in this area carries with it several hazards. The main hazard is over ambition—a wish to play a prominent role and have a large programme and, in so doing, failing to focus on the specific areas where UNDP has its greatest comparative advantages. There is a risk of developing a dispersed, unfocused programme and of neglecting the opportunity to make a few, important, strategic interventions. UNDP could become lost among many narrow, localized initiatives that seem useful in their own right but have little or no national impact. The task ahead is to overcome these risks by identifying and concentrating on a small number of high-level policy related interventions. Examples of such

areas could be the further development of analytical and advocacy work undertaken in the context of the 2002 China human development report or the 2003 MDG report, being mindful of the need for national leadership and capacity building. Other areas could include sector-wide initiatives where UNDP may have a comparative advantage through knowledge management services and policy advice, such as in sustainable energy or biodiversity. It would be important, however, for UNDP to stay focused at the upstream level, where its comparative advantages would be higher, and avoid becoming diverted into a large number of direct implementation activities. The future programme should reflect mainstream policy objectives in China and focus on areas where UNDP support could be significant at a national level. UNDP could then use its skills in forming partnerships and mobilizing resources around limited but well defined objectives.



## 7

# Administration of UNDP Assistance

UNDP has been active in China since 1979. For the last 21 years, since 1983, the contact point between UNDP and the government of China has been CICETE. The purpose of CICETE is to work with UNDP in constructing an overall assistance programme that reflects China's development priorities and UNDP's areas of competence. It formally signs aid agreements on behalf of the Chinese government and then executes the agreed projects and programmes, supervises the implementing agencies (usually line ministries) and exercises financial control.

CICETE comes under the Ministry of Commerce. It works closely with the National Development and Reform Commission (formerly the planning commission) and hence is well informed about the needs of China as a whole. As an executing and monitoring agency, it is also in close touch with the individual line ministries and their areas of responsibility. In practice, it seems that UNDP's assistance programme has emerged out of discussions among CICETE, NDRC, relevant line ministries and, of course, UNDP itself. So far at least, this arrangement appears to have worked reasonably well.

From the perspective of the Chinese government, there is an advantage in having just "one window" to UNDP, that is, a single point of contact between the government and the aid agency. No doubt each aid agency would like to have access to senior ministers to "sell" their ideas, promote their favourite schemes and lobby for particular policy changes. This would put great demands, however, on the time of high-level officials and divert them from more important matters. This is especially true in China where foreign aid, in general, is insignificant and the average UNDP project, in particular, is tiny.

There is much to be said for centralizing the discussion of UNDP's assistance programme in one place (as in CICETE), aggregating the large number of small projects into a few relatively coherent packages or themes, and thereby, one hopes, reducing the possibility that foreign aid distorts the country's priorities in favour of the aid agency's priorities. This argument, from a Chinese perspective, is likely to gain weight if UNDP core financing continues to decline in comparison to government co-financing and third-party (usually bilateral donors) contributions to projects. At present, aid projects in China are largely demand driven. Unlike many other countries, there is national "ownership" of the aid programme. UNDP supports the national development strategy rather than determines it. This is as it should be, and it is what UNDP advocates worldwide. The existing administrative arrangements are, in part, responsible for this satisfactory state of affairs.

CICETE performs valuable services that would have to be performed by someone else if CICETE didn't exist. Each project that CICETE executes bears an overhead charge to cover the costs of CICETE's services, equivalent

to 3 percent of the project's budget. All UNDP projects are reviewed annually. If projects encounter difficulties in implementation, more frequent reviews are arranged and brainstorming sessions are organized to find solutions to the problems. This monitoring service could presumably be done by UNDP itself, but UNDP would then have to hire more staff and its monitoring costs almost certainly would be higher than those of CICETE. Alternatively, the implementing agency, i.e., the line ministry, could be given responsibility for monitoring its own projects. However, this would raise the question whether a line agency could be disinterested in evaluating its own projects. It could also increase the costs of implementation. This could be covered by transferring funds that now go to CICETE to the line ministry or by asking the government to absorb the costs of monitoring UNDP projects. However, the first solution would not reduce project costs while the second would merely be a ploy to shift costs from UNDP to the government, a manoeuvre that probably would fail and certainly would do UNDP's reputation in China no good.

What is true of monitoring services is equally true of financial administration. CICETE is responsible for the authorization and disbursement of funds, for ensuring that funds are used for their intended purposes, and for preventing fraud and corruption. As with project monitoring, in principle, UNDP could do this itself. But it lacks the capacity to do so at present and, hence, would have to recruit additional staff. It is doubtful that UNDP could provide financial services at a lower cost than CICETE. Again, responsibility for financial administration could be shifted to the implementing agency, but the advantages of doing so are far from clear—either in terms of cost savings or financial probity.

There are two exceptions to China's one-window policy. First, small technical assistance projects financed by the TTF are executed and implemented directly by UNDP. There are very few TTF projects and the sums involved are small. Second, environment projects approved by the GEF or the Montreal Protocol have separate "windows." In the case of GEF projects, the Ministry of Finance oversees the project and another government agency typically implements the project. In the case of Montreal Protocol projects, SEPA executes the project and a state owned company implements it. CICETE appears to be excluded, even though the sums involved in GEF and Montreal Protocol projects are large. There is thus an anomaly to the one-window policy when it comes to most environmental projects.

The one-window approach, in theory, gives CICETE a monopoly over discussions with UNDP. It could be argued that China would benefit if more people in government had direct access to UNDP staff members and could

learn first hand the types of assistance UNDP can provide. Equally, it could be argued that UNDP projects and programmes might be better designed to support China's development efforts if UNDP staff members engaged in exploratory discussions at an early stage with the staff of line ministries before projects were presented to CICETE.

While, in theory, a monopoly of contacts could be disadvantageous, in practice, there has been flexibility. CICETE has not raised strong objections to a direct dialogue between UNDP and line ministries, particularly when the purpose of the discussions is to exchange information and to become better informed about the needs of particular ministries. CICETE is sensitive to perceived attempts by UNDP to bypass them and it would strongly object if UNDP and a line ministry were to enter into financial commitments without CICETE's knowledge and approval. Such an objection, it seems to us, would be entirely justified.

The important point to recognize, however, is that CICETE has been flexible in the past and that it is becoming increasingly more flexible about informal discussions between UNDP, NDRC and the line ministries. We welcome this. Informal, exploratory discussions are likely to become more necessary in the future if UNDP's assistance programme shifts upstream, from microprojects to more macroprojects, from small pilot projects to larger, more comprehensive, multisector projects (such as the project on the MDGs). The broader a programme's objectives and the more the programme cuts across conventional sectors (as in programmes concerned with gender issues, HIV/AIDS, poverty and inequality), the more important it is to strengthen communications between UNDP and the key ministries.

Another objection that might be raised about the current arrangements for administering UNDP assistance programmes is that they stifle innovation, discourage creative thinking about new types of projects, and encourage unimaginative, conventional technical assistance projects of a type that is familiar to everyone. We have found little evidence to support this criticism. On the contrary, UNDP has been imaginative in adapting conventional microfinance projects (which are usually rural projects focused on raising people above the subsistence level) to reduce urban poverty and encourage female entrepreneurship. UNDP also has been uninhibited in exploring sensitive issues, notably in its small, but influential, HIV/AIDS projects and in several governance projects. Now, UNDP is working out the details of a highly innovative project that will provide training for senior members of the Chinese Communist Party in sustainable human development, the MDGs and the related Chinese concept of Xiaokang—a society that is well off and

well rounded. CICETE and the one-window policy cannot be accused of discouraging risk-taking or inhibiting innovation.

As China continues to change, however, national NGOs will become more prominent and institutions of civil society are almost certain to play more important roles. This raises the question whether the current arrangements for administering UNDP assistance to China will prevent the UNDP from cooperating with certain types of local institutions. It could be argued that UNDP is an inter-governmental agency and it is appropriate that its assistance is channelled through the government and is used primarily to support government programmes. This, however, is a rather narrow interpretation of UNDP's role and appears to be inconsistent with the way UNDP currently operates in China.

CICETE, in fact, is responsible for coordinating the work of international development NGOs in China and it would not be a big change if it were assigned responsibility also for coordinating UNDP assistance to national development NGOs and domestic institutions of civil society. We suspect that the government of China would be reluctant to allow any international agency, including UNDP, to provide financial and technical support to any local institution of the agency's choice, but CICETE might be willing to act as a filter when UNDP wished to enter into a project agreement with local organizations. Rather than raise this as an issue of principle, it might be better to discuss the issue on a case-by-case basis, creating precedents and gradually accumulating experience. There is no reason to think, however, that the government would be implacably hostile to experimentation with new forms of development assistance.

In conclusion, UNDP has an enviable reputation in China. It has not been forgotten that UNDP was the first UN agency to establish a presence in the country. It is regarded as an "old friend" and a safe partner. It is respected for its political neutrality and for being objective, and it is trusted. This has enabled UNDP to address politically sensitive issues and, occasionally, to act as a catalyst for constructive change. This has occurred despite the fact that UNDP's core budget has been shrinking and UNDP often has become the junior partner even in its own projects.

We have made a number of suggestions that, if implemented, we believe would improve UNDP's programme. Our suggestions revolve around three themes of expanding the knowledge base, increased sophistication of social and economic analysis, and more emphasis on policy advice and advocacy in UNDP's areas of competence. All of this can be achieved, we believe, without disturbing the present administrative arrangements that govern the aid relationship. The arrangements with CICETE are bound to evolve as circumstances change, but this should be allowed to occur

gradually. We have seen nothing to suggest that a major administrative reform is necessary, and an ill-considered reform easily could make matters worse rather than better.



## 8

# Conclusions

We have interpreted our task to be an assessment of development results in China. UNDP's programme in China consists of a large number of small projects, scattered throughout the country, loosely grouped into thematic clusters but usually not closely related to China's overall development strategy or to national debates on development priorities. We have not attempted an ex-post evaluation of the benefits and costs of these many small projects. The time available did not permit this. Moreover, ex-post evaluations of projects are costly—in some cases more costly than the project itself—so even if time were not a constraint, it would make no sense to spend a lot of money on formal ex-post project evaluations.

We did, of course, consult project documents, end-of-project reports, project managers in UNDP, and the executing agency for UNDP projects, CICETE, about the success of specific projects. As one would expect, our review of specific projects leads to the conclusion that the outcome is uneven. But in most cases, it appears that the projects were well designed and competently administered and hence, in this sense, they were successful. They were less successful, however, when viewed in the context of national priorities. This weakness in programme design arises, we believe, from the fact that the discussion between UNDP and CICETE has historically been on a project-by-project basis rather than on a strategic basis. Hence, projects may appear successful when reviewed in isolation but may appear less successful or marginal when reviewed in the context of national priorities.

Our assessment of development results is largely concerned with UNDP's strategic positioning. We have concluded that, although in general the projects sponsored by UNDP have made a positive contribution to China's development, their overall impact has been modest. More important, looking forward, we have concluded that it would be possible for UNDP to make a larger contribution to China's development, even with a diminished flow of financial resources, if it would structure its programme around three guiding principles.

First, UNDP can contribute to China's development by working with the NBS and others to improve the quantity and quality of information available to policy makers. Examples include data on the distribution of income and the incidence of poverty, improved methods for monitoring poverty, and the development of poverty indicators that go beyond measuring income poverty to address the broader issue of human poverty. Similarly, more comprehensive health statistics are needed to combat HIV/AIDS and SARS and to improve health security in general. Better data also are needed to address gender issues and data disaggregated by gender should be made more readily available.

Second, UNDP can contribute by increasing the capacity in China for more sophisticated analysis of policy issues. This would include deployment of

a wide range of statistical techniques, more frequent use of cost-benefit analysis and targeted sample surveys, as well as qualitative methods of analysis. The combination of more and better data plus more sophisticated methods of analysis could make a major contribution to policy formulation.

Third, UNDP should continue to provide informed policy advocacy in its areas of competence. This would include addressing sensitive and controversial issues such as governance and human rights, gender, health, poverty, inequality and sustainable development. Policy advocacy should be informed by quantitative evidence where possible and by rigorous analysis of policy alternatives. UNDP's policy advocacy should also draw on experience in other countries and thereby provide information to Chinese policy makers that otherwise might not be readily available.

UNDP core funding has fallen from USD 26.8 million in 1997 to USD 8.6 million in 2003. We believe it is possible "to do more with less" in China, provided there is a shift of emphasis in the programme from many small, unrelated projects to upstream activities centred on creating knowledge, improving policy analysis and policy advocacy.

## GOVERNANCE

Issues related to governance have been a high priority for UNDP, but there is some doubt about their effectiveness in changing policies and institutional practices. There are a number of areas that merit attention—such as democratic governance, administrative decentralization, human rights, and legal reforms—and UNDP's task will be to focus on one or two areas where rapid progress is judged to be possible and to ignore other areas for the time being. If one attempts to do everything at once, one may succeed in doing almost nothing.

## POVERTY

Poverty is another area that has been a high priority. Here, too, there has been a large number of small projects, most of them worthwhile and successful on their own terms, but it is doubtful that they have contributed significantly to the overall reduction in poverty in China. China does have a comprehensive strategy for reducing poverty. However, it regards poverty as essentially a rural phenomenon and, consequently, policy makers have tended to ignore urban poverty, the special problems of rural-to-urban migrants, and the huge gap between rural and urban incomes. UNDP could make a major contribution in several ways:

- (1) Helping the government improve the statistical base for poverty studies
- (2) Helping the government design a comprehensive poverty reduction strategy

- (3) Conducting an analysis of specific, important poverty-related issues
- (4) Continuing its work on policy advocacy through the national human development reports, monitoring of success in achieving the MDGs and other studies

The proposed International Poverty Centre could be the institutional mechanism that brings together the four strands of the programme described above. The International Poverty Centre could also be a vehicle for conducting comparative studies of poverty in a number of Asian and African countries, and the Centre could be the focal point in China for south-south cooperation. To achieve these objectives, however, the International Poverty Centre would have to be located in the heart of government policy making, e.g., in the National Development and Reform Commission. It would have to engage in serious research and analysis, drawing on Chinese scholars in the universities and the Chinese Academy of Social Sciences, foreign advisors and scholars, and counterparts in Asia and Africa. It would have to have access to a wide range of data, including disaggregated data from the National Bureau of Statistics, and it would have to be well funded. Ideally, the Centre should also engage in studies that cut across sectors, for example, environment and poverty, gender and poverty, health and poverty, and governance and poverty. Such an institution would be a major investment in upstream activities and could yield high returns, but anything less than this probably is not worthwhile.

Between 1988 and 1995, rural incomes increased an average of 4.7 percent a year, but inequality in the distribution of income (as measured by the Gini ratio) increased 23 percent during the period and consequently rural poverty (as measured by the headcount indicator) declined only 2.9 percent a year. Between 1995 and 2002, however, the growth of rural incomes declined slightly (to 4.1 percent a year), but inequality diminished by 9.9 percent, and hence rural poverty declined by 11.4 percent a year, i.e., more than three times more rapidly than in the previous period. The improvement in the distribution of income was decisive.

Broadly similar trends occurred in the urban areas. Growth actually accelerated in the urban areas (from 4.5 to 6.4 percent a year), but more importantly, urban inequality increased by 42.5 percent between 1988 and 1995 but declined by 4.2 percent between 1995 and 2002. As a result, while urban poverty declined hardly at all in the first period (0.4 percent a year), it declined dramatically in the second period (16.8 percent a year). Once again, the improvement in the distribution of income was decisive.

These examples illustrate the importance of distributional issues when analyzing poverty in China. Yet distrib-

utional issues have been sadly neglected and UNDP could help to remedy this by emphasizing the multiple dimensions of inequality in its future programmes.

## HIV/AIDS

HIV/AIDS is a case in point. UNDP has been prominent in addressing the delicate issue of HIV/AIDS, presenting the facts insofar as they are known, advocating on behalf of those who became ill, initiating a public discussion, and stressing the multiple dimensions of the AIDS threat and the multiplicity of actions that will be required to meet that threat.

AIDS is a cross-cutting issue. It is a health issue, a poverty issue and, potentially, a development issue. There are important distributional and gender implications of AIDS, and even issues of governance—human rights, provision of health security, and the role of the market. We believe UNDP should increase the scale of its operations in this area quite considerably and implement a coherent programme centred on the three guiding principles enunciated earlier: an increase in the volume of information available to policy makers, more sophisticated economic and social analysis of that information to determine more accurately the causes of the HIV/AIDS epidemic and its consequences, and exploration of a range of policy options that can be used for better informed policy advocacy.

## GENDER EQUALITY

The economic reforms introduced after 1978 have raised new issues for gender equality. These include growing social differentiation, new forms of employment and income discrimination against women associated with greater use of market processes, discrimination against girl children and a highly unbalanced sex ratio of 117 men for every 100 women, and a decline in women's participation in political life.

Although the allocation of resources to explicitly gender projects has been small, gender has been a constant theme in UNDP's work in China. In the last five years, UNDP has adopted a mainstreaming approach to its gender work with the intention that the gender dimension would be incorporated into the majority of UNDP's projects and programmes. It is not clear, however, that the results of a mainstreaming approach have been as good as hoped. In some respects, gender issues seem to have fallen through the cracks: if gender issues are the responsibility of everyone, they can easily become the responsibility of no one. In the future, there may be advantages in combining a mainstreaming approach with more projects and programmes that have an explicit gender focus.

Lack of gender-disaggregated data plus the cross-

cutting nature of gender issues has made UNDP policy advocacy difficult. It is recommended that, in the future, UNDP should devote more resources to gender issues: it should assist the government in producing the data needed for analysis of a broad range of gender relevant issues; it should encourage the publication of gender-disaggregated data and update the yearbook published in 1995 in connection with the Beijing conference on women and development; it should be active in policy analysis; and it should be a strong advocate for increasing the representation of women in positions of power and authority.

## ENVIRONMENT

China faces serious environmental problems. It is striking, however, that UNDP's energy and environment programme—by far its largest activity—is not integrated into its country programming. The programme on energy and the environment is largely funded by the Montreal Protocol and the GEF and, in contrast with the other programmes in UNDP's portfolio, the priorities of the energy and environment programme are strongly influenced by international rather than national objectives. This is true in other countries as well, but the anomaly is particularly glaring in China because, in general, UNDP assistance is demand driven rather than donor driven.

There is no easy remedy for this situation and China's commitment to meeting its international obligations is admirable, but the fact remains that the impact of UNDP's energy and environment programme on helping China achieve its development objectives is tenuous. We recommend that, in the future, UNDP redouble its efforts to ensure that its portfolio of environment projects more closely reflects mainstream government priorities. We also recommend that UNDP become more selective, focusing on a limited number of larger scale initiatives, each preferably covering an entire sector, that can have a nationwide impact.

## ADMINISTRATION

The contact point between UNDP and the government of China is CICETE, a part of the Ministry of Commerce. CICETE executes almost all UNDP projects, supervises the implementing agencies (usually line ministries) and exercises financial control. This arrangement appears to have worked reasonably well. Energy and environment projects, however, generally have separate administrative arrangements depending on the source of finance and CICETE has little or no role in those cases.

Unlike in many other developing countries, aid projects in China reflect the preferences of the recipient and the

existence of CICETE has helped to reduce the possibility that foreign aid distorts China's priorities in favour of an aid agency's priorities. CICETE performs valuable project monitoring and financial administration services and receives a very modest overhead charge to cover its costs. This arrangement has kept administrative costs low, has helped the government and UNDP to ensure that projects are implemented efficiently, and has helped to prevent fraud and corruption.

It could also be argued that CICETE has been successful in raising funds for UNDP projects. As noted earlier, UNDP core funding in China has been falling in absolute terms. The decline in relative terms has been dramatic. In 1996, core funds accounted for 77 percent of UNDP's programme. By 2003, core funds accounted for only 14.2 percent of the total. Cost sharing, mostly Chinese government funds, rose over the same period from 7.6 percent to 53.1 percent of total financing of the UNDP programme. The rest came from trust funds, mostly GEF and Montreal Protocol funds. In other words, the UNDP programme in China has been kept afloat by financial contributions from the Chinese government, and CICETE probably deserves some credit for this.

It has been claimed that CICETE has a monopoly over discussions with UNDP and that this hampers communications between line ministries and UNDP that would be mutually beneficial. In practice, however, CICETE has been flexible and communications among all interested parties have increased. Another objection that could be raised is that the current arrangements for administering UNDP assistance stifle innovation and discourage creative thinking about new types of projects. Again, however, little evidence was found to support this criticism and, in fact, UNDP has sponsored a number of innovative projects and has addressed many sensitive issues in its advocacy work. Examples include the urban microcredit scheme, the promotion of female entrepreneurship, projects concerned with HIV/AIDS, several projects in the area of governance, and the proposed new project to train senior national and provincial officials of the Chinese Communist Party. It is true that it takes patient negotiation and lengthy discussions to break new ground, introduce new concepts, and address sensitive issues, but this is normal and desirable and should not be seen as objectionable or obstructive.

The issue is whether CICETE and UNDP, both with a history of a project oriented approach in China, can go upstream together, as we recommend. The shift to upstream activities creates opportunities for both organizations and it also poses challenges for both organizations. We believe that the challenges can be met and the opportunities grasped. It would be premature to declare that the present

administrative arrangements are doomed to failure and unwise for UNDP to break away from CICETE. Much would be lost and little gained; new problems would be created, including deciding on a new contact point for the UNDP programme in China or on an entirely new way of conducting business. We recommend, instead, an evolutionary approach in which both CICETE and UNDP are encouraged to respond to changing circumstances in China and to adapt their programmes and administrative arrangements to the need for sustainable human development.

## APPENDIX 1: ACRONYMS AND ABBREVIATIONS

<b>ACWF</b>	All-China Federation of Women
<b>ADB</b>	Asian Development Bank
<b>AIDS</b>	Acquired Immune Deficiency Syndrome
<b>ASEAN</b>	Association of South-East Asian Nations
<b>AUSAID</b>	Australian Agency for International Development
<b>CASS</b>	Chinese Academy of Social Science
<b>CCICED</b>	China Council for International Cooperation on Environment and Development
<b>CICETE</b>	China International Center for Economic and Technical Exchanges
<b>FAO</b>	Food and Agriculture Organization
<b>GDP</b>	Gross Domestic Product
<b>GEF</b>	Global Environment Fund
<b>GSK</b>	GlaxoSmithKline
<b>HIV</b>	Human Immune-Deficiency Virus
<b>ICT</b>	Information and Communication Technology
<b>ILO</b>	International Labour Organization
<b>LGOP</b>	Leading Group for Poverty Office
<b>MLSS</b>	Minimum Living Standard Scheme
<b>NBS</b>	National Bureau of Statistics
<b>NDRC</b>	National Development and Reform Commission
<b>NGO</b>	Non-Governmental Organization
<b>ODA</b>	Official Development Assistance
<b>PPP</b>	Purchasing Power Parity
<b>PRC</b>	People's Republic of China
<b>SARS</b>	Severe Acute Respiratory Syndrome
<b>SEPA</b>	State Environment Protection Agency
<b>SME</b>	Small and Medium Enterprises
<b>TB</b>	Tuberculosis
<b>TTF</b>	Thematic Trust Fund
<b>TVE</b>	Township and Village Enterprises
<b>TWBI</b>	Tianjin Women's Business Incubator Center
<b>TWF</b>	Tianjin Women's Federation
<b>UK</b>	United Kingdom of Great Britain and Northern Ireland

<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>US</b>	United States of America
<b>VAT</b>	Value Added Tax
<b>WTO</b>	World Trade Organization

## APPENDIX 2: PERSONS MET BY THE ADR MISSION

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## APPENDIX 3: TERMS OF REFERENCE

### 1. Background

The Evaluation Office (EO) of the United Nations Development Programme (UNDP) launched a series of country evaluations, called Assessments of Development Results (ADRs), in order to capture and demonstrate evaluative evidence of UNDP's contributions to development results at the country level. Undertaken in selected countries, the ADRs focus on outcomes and critically examine achievements and constraints in the UNDP thematic areas of focus, draw lessons learned, and provide recommendations for the future. The ADRs also recommend a strategy for enhancing performance and strategically positioning UNDP support within national development priorities and UNDP corporate policy directions.

The overall objectives of the ADRs are:

1. Support the Administrator's substantive accountability function to the Executive Board and serve as a vehicle for quality assurance of UNDP interventions at the country level.
2. Generate lessons from experience to inform current and future programming at the country and corporate levels.
3. Provide to the stakeholders in the programme country an objective assessment of results (specifically outcomes) that have been achieved through UNDP support and partnerships with other key actors for a given multiyear period.

An ADR is planned for China beginning April 2004. It will focus on the period of the last five years but will cover earlier events that the evaluation team may find relevant. It will refer to UNDP activities under the CCF 1996-2000 as well as the CCF 2001-2005.

### 2. Objectives of the assessment

The purpose of the evaluation is to review the experience of UNDP in China, draw lessons learned and recommend improvements. The ADRs in China will:

- Provide an overall assessment of the results achieved through UNDP support and in partnership with other key development actors during the last five years.
- Provide an analysis of how UNDP has positioned itself strategically to add value in response to national needs and changes in the national development context.
- Based on the analysis of achievements and positioning above, present key findings, draw key lessons, and provide clear and forward-looking recommendations in order to make the necessary adjustments in the current strategy applied by UNDP and partners towards intended results.

The thematic focus areas for the evaluation will, to a large extent, follow those prescribed by the CCF 2001-2005, also drawing on the experiences from the CCF 1996-2000 period, as follows:

### 1. Deepening reforms and governance

- a. The Country Review 1999 stipulated this as an over-arching, lead theme for the UNDP programme. The ADR will consider what form this has taken in the overall UNDP programme since that time.
- b. Some main future themes within the area of governance have been stipulated as listed below and should be studied further in-depth by the ADR exercise:
  - i. Public-sector reform
  - ii. Fiscal reform
  - iii. Rights-based approach to development
  - iv. Civil society development

### 2. Poverty reduction

- a. The ADR should consider results from existing documentation, including the outcome from the recent workshop on macroeconomics and poverty.
- b. The ADR will explore existing links between poverty reduction and the environment.
- c. Microfinance has been a key component of UNDP's poverty reduction programme and should be considered as an important part of the ADR evaluation.

### 3. HIV/AIDS

- a. This theme needs to be considered by the ADR in an inter-agency context. A 2003 UNDAF review and part of the Resident Coordinator's 2003 report discusses this subject.

### 4. Environment

- a. The recent full outcome evaluation should be considered as key background documentation for the ADR.
- b. A very large volume of this portfolio consists of GEF and Montreal Protocol funding, and related documentation and processes should be considered specifically.
- c. The programme is in the process of moving from more individual project interventions on specific, technical issues, towards a more programmatic and strategic approach, offering strategic policy advice and capacity building. The ADR should study this process.

### 5. Gender

- a. The ADR should study the effectiveness of treating gender as a cross-cutting theme.
- b. An internal evaluation is underway and will form part of the basis for the ADR.

### 6. Millennium Development Goals (MDGs)

- a. The MDGs and the related Chinese national process are on their way to become the main strategic framework for the UNDP programme. The ADR should consider this strategic positioning.

## 7. Aid coordination

- a. This appears to be a high leverage area for UNDP in China, and the ADR should consider the effectiveness of various interventions in this area.

## 8. Implementation arrangements

- a. The ADR should study the long-standing implementation arrangements for NEX with CICETE, Ministry of Finance and other government agencies.

## 9. General

- a. The ADR should explore the degree to which the UNDP programme is focused on a select number of key strategic areas.
- b. The ADR should study the effectiveness of the widely used approach of initiating pilot projects, which thereafter are replicated and/or scaled up, as well as translated into policy guidance, in collaboration with government.

## 3. Scope of the assessment

The evaluation will undertake a comprehensive review of the UNDP programme portfolio and activities during the period of review, with more in-depth focus on specific areas. Specifically, the ADR will cover the following:

- a. Strategic positioning
  - Ascertain the relevance of the UNDP support to national needs, development goals and priorities, including linkages with the goal of reducing poverty and other MDGs. This may include an analysis of the perceived comparative strengths of the programme, a review of the major national challenges to development.
  - Assess how UNDP has anticipated and responded to significant changes in the national development context, affecting the specific thematic areas it supports. The Evaluation may, for example, consider key events at national and political level that influenced (or will influence) the development context, the risk management of UNDP, any missed opportunities for UNDP involvement and contribution, efforts of advocacy, UNDP's responsiveness versus concentration of efforts etc.
  - Review the synergies and alignment of UNDP support with other initiatives and partners, including that of the United Nations Development Assistance Framework (UNDAF), the Global Cooperation Framework (GCF) and the Regional Cooperation Framework (RCF). This may include looking at how UNDP has leveraged its resources and that of others towards results and the balance between upstream and downstream initiatives.
  - The Evaluation should consider the influence of systemic issues, i.e. policy and administrative constraints affecting the programme, on both the donor and programme country sides, as well as how the development results achieved and the partnerships established have contributed to ensure a relevant and strategic position of UNDP.

## b. Development results

- Provide an examination of the effectiveness and sustainability of the UNDP programme, by (a) highlighting main achievements (outcomes) at national level in the last five years and UNDP's contribution to these in terms of key outputs; and (b) ascertaining current progress made in achieving outcomes in the given thematic areas of UNDP and UNDP's support to these. Qualify the UNDP contribution to the outcomes with a fair degree of plausibility. Assess contribution to capacity development at the national level to the extent it is implicit in the intended results. Consider anticipated and unanticipated, positive and negative outcomes.
- Provide an in-depth analysis of the main areas mentioned in point 2 above, assessing the anticipated progress in achieving intended outcomes.
- Identify and analyze the main factors influencing results, including the range and quality of development partnerships forged and their contribution to outcomes, and how the positioning of UNDP influences its results and partnership strategy.

## c. Lessons learned and good practices

- Identify key lessons in the thematic areas of focus and on positioning that can provide a useful basis for strengthening UNDP and its support to the country and for improving programme performance, results and effectiveness in the future. Through in-depth thematic assessment, present good practices at country level for learning and replication. Draw lessons from unintended results.

## APPENDIX 4: REFERENCES

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