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IMPLEMENTATION COMPLETION REPORT
(IF-N0280 SCL-41870 TF-29450)

ON A LOAN

IN THE AMOUNT OF US\$30 MILLION

AND A CREDIT

IN THE AMOUNT OF SDR108.5 MILLION

TO THE

PEOPLE'S REPUBLIC OF CHINA

FOR THE

QINBA MOUNTAINS POVERTY REDUCTION PROJECT

June 24, 2005

**Rural Development and Natural Resources Sector Unit
East Asia and Pacific Region**

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 2005)

Currency Unit = Yuan

Y1.0 = US\$ 0.12

US\$ 1.0 = Y8.27

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

8-7 Plan	National Seven-Year (1994-2000) Poverty Reduction Plan
CAS	Country Assistance Strategy
CFPA	China Foundation for Poverty Alleviation
CWHRDC	China Western Human Resources Development Center
EMDP	Ethnic Minorities Development Plan
ERR	Economic Rate of Return
FCPMC	Foreign Capital Project Management Center
FRR	Financial Rate of Return
HRDC	Human Resources Development Center
IPMP	Indigenous Peoples Mitigation Plan
LGPR	Leading Group for Poverty Reduction
NPV	Net Present Value
PADO	Poor Area Development Office
PMO	Project Management Office
QAG	Quality Assurance Group
Qinba Project	The Qinba Mountains Poverty Reduction Project
QSA	Quality of Supervision Assessment
RSO	Rural Survey Organization
SAR	Staff Appraisal Report
SSB	State Statistics Bureau
SWPRP	Southwest Poverty Reduction Project
TVE	Township and Village Enterprises

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CHINA
QINBA MOUNTAINS POVERTY REDUCTION PROJECT

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<i>Project ID:</i> P003590	<i>Project Name:</i> Qinba Mountains Poverty Reduction Project
<i>Team Leader:</i> Guo Li	<i>TL Unit:</i> EASRD
<i>ICR Type:</i> Core ICR	<i>Report Date:</i> June 24, 2005

1. Project Data

Name: Qinba Mountains Poverty Reduction Project *L/C/TF Number:* IF-N0280; SCL-41870; TF-29450

Country/Department: CHINA *Region:* East Asia and Pacific Region

Sector/subsector: General agriculture, fishing and forestry sector (62%); Other social services (17%); General education sector (9%); Central government administration (9%); General transportation sector (3%)

Theme: Other social protection and risk management (P); Poverty strategy, analysis and monitoring (P); Participation and civic engagement (S); Other rural development (S); Other environment and natural resources management (S)

KEY DATES

	<i>Original</i>	<i>Revised/Actual</i>
<i>PCD:</i> 03/20/1996	<i>Effective:</i> 10/19/1997	10/16/1997
<i>Appraisal:</i> 01/10/1997	<i>MTR:</i> 06/04/2000	06/06/2000
<i>Approval:</i> 06/10/1997	<i>Closing:</i> 01/31/2004	12/31/2004

Borrower/Implementing Agency: The People's Republic of China/Sichuan, Shaanxi, and Ningxia Provinces
Other Partners:

STAFF	Current	At Appraisal
<i>Vice President:</i>	Jemal-ud-din Kassum	Jean-Michel Severino
<i>Country Director:</i>	David R. Dollar	Nicholas C. Hope
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2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: HS
Sustainability: HL
Institutional Development Impact: H
Bank Performance: S
Borrower Performance: HS

Quality at Entry: QAG (if available) ICR
S

Project at Risk at Any Time: No

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

The Qinba Mountains Poverty Reduction Project (the Qinba Project) had the following development objectives: (a) to demonstrate the effectiveness of a focused multi-sectoral rural development project approach to poverty reduction; (b) to significantly reduce absolute poverty in 26 of the very poorest counties in Sichuan, Shaanxi and Ningxia provinces; (c) to facilitate increased labor mobility from the poor areas to better-off rural and rapidly growing urban areas; (d) to establish a new micro-finance mechanism to provide credit services to poor households; (e) to stabilize or even reverse upland environmental destruction; (f) to encourage greater local community participation; and (g) to upgrade poverty monitoring at the national and local levels.

These objectives were carefully examined and jointly chosen by the Government and the World Bank to ensure their consistency with the Government's National Seven-Year (1994-2000) Poverty Reduction Plan (the 8-7 Plan) and the Bank's Country Assistance Strategy (CAS). **First**, there was an adequate and effective involvement of the Leading Group for Poverty Reduction (LGPR) under the State Council in the whole project life; therefore, to a large extent, the Qinba Project was part of the Government's overall strategy to explore new models of poverty reduction. The development objectives, therefore, were highly consistent with the 8-7 Plan which called for innovative measures to address issues in the following key areas: rural infrastructure, farming activities, improved access of the poor to off-farm employment opportunities, human capital development, rural industrial development, and institutional building, including setting up an independent and objective poverty monitoring system. **Second**, these objectives were also highly consistent with the Bank's CAS, directly addressing two of the Bank's top operational priorities in China -- poverty reduction and environmental protection. **Third**, the selection of these objectives built upon the strength of the Southwest Poverty Reduction Project (SWPRP, Project ID P003639). The successful implementation of SWPRP confirmed that the multi-sectoral model of poverty reduction represented a significant advance over previous poverty reduction mechanisms in China and was worthy of widespread adoption. The Qinba Project focused more on the components which were most warmly received by the project's primary beneficiaries (e.g., land and farmer development, rural infrastructure, labor mobility) under SWPRP.

3.2 Revised Objective:

The original objectives remained unchanged throughout the project's life.

3.3 Original Components:

The project's objectives were to be achieved through the implementation of the following components:

1. Labor mobility (13% of appraisal total project cost). This component was designed to provide employment to about 155,000 upland laborers over six years and to provide an important testing ground for assisting the organized flow of rural laborers into China's fast-growing regions. The goal of the component was to be achieved through: (a) establishing a voluntary system of enhanced rural labor mobility for the upland absolute poor; (b) providing skill training through an enterprise reimbursement system; and (c) building a computerized demand-driven job placement system emphasizing local markets, monitoring of worker safety and living conditions, and reporting of abuses and grievances. This was a highly innovative component.

2. Rural infrastructure (11% of appraisal total project cost). This component was designed to improve the poor's access to basic infrastructure including rural roads, human and animal drinking water supply, small-scale irrigation, agricultural drainage works, biogas digesters and rural electrification. Rural

infrastructure construction has been regarded as the foundation for improving the poor's basic living and production conditions.

3. Land and farmer development (54% of appraisal total project cost). This was the biggest component in terms of investment and was designed to create a substantial and sustainable increase in agricultural productivity and incomes for project households. The component also intended to stop (and in some cases to reverse) the trend of environmental degradation. A menu of crop and livestock activities was developed on a participatory basis, from which the project households were to select their favored activities. In addition, the component supported: (a) extension of improved agriculture and smallholder livestock management techniques and inputs; (b) establishment of tree crop nurseries and provision of saplings and tree crop management extension; (c) intensification of staple crop production on the modest amount of available flatland; (d) terracing for improved water and social conservation; and (e) the support of provincial and regional applied agricultural technology research.

4. Township and village enterprises (TVE) development (17% of appraisal total project cost). The component was designed to provide credit for labor-intensive commercially viable agroprocessing, mineral, service and handicraft industries that had strong backward linkages to poor households and met environmental safeguards. The enterprises were to be selected according to a set of criteria which would maximize benefits to the poor: (a) cost per job created; (b) commercial feasibility; (c) work safety and environmental risks; (d) skill training; and (e) backward linkages to products produced by project households. The selected enterprises were to be financed under sub-loans made by the project provinces on the Agricultural Bank of China's standard interest terms for similar activities.

5. Micro-finance (1% of appraisal total project cost). This was a pilot-based component with the objective of establishing a sustainable financial system to provide working capital loans (initial loans ranged from RMB400 to RMB700, and larger loans no more than RMB8000) to micro-enterprises run by poor households in project areas. The main methodology was to employ an adaptation of the Grameen Bank model (emphasizing a joint liability lending).

6. Institution building and project management (3% of appraisal total project cost). This component was designed to improve the capabilities of the Foreign Capital Project Management Center (FCPMC) and project management offices (PMOs) at all levels in project design and implementation, procurement, accounting, and internal monitoring and evaluation.

7. Poverty monitoring (1% of appraisal total project cost). This component intended to use improved State Statistics Bureau (SSB) survey instruments to provide a credible and comprehensive poverty profile, analyze the accuracy of the targeting of benefits to the absolute poor, and measure and evaluate the impact of the project's individual components. There were four main elements of this component: (a) to upgrade the existing poverty monitoring system developed under SWPRP in order to adapt it to the conditions of the Qinba mountains region and more fully exploit the potential of the survey instruments for project evaluation; (b) to undertake baseline and annual follow-up surveys; (c) to process and analyze the collected survey data; and (d) to disseminate findings and information.

3.4 Revised Components:

The TVE component performed poorly during the initial years of the implementation and was revised during the mid-term review, which was conducted in 2000. The size of the component was significantly reduced, from about 17% of total project cost in the Staff Appraisal Report (SAR) to around 6%. The funds released from the TVE component were used for more pro-poor programs, such as rural infrastructure and agricultural components which were most warmly welcomed by the beneficiaries.

Many reasons explain the poor performance of the TVE component, but there are two factors worth special attention. **First**, there was a high degree of government intervention in the implementation of this component. The selection of enterprises, therefore, was not strictly based on the predetermined the set of criteria (see Section 3.3). **Second**, all the enterprises suffered from a serious lack of equity which resulted in a lack of working capital. It was impossible, therefore, for these enterprises to create job opportunities for the poor in the project area. In addition, the expected prosperous market for the locally produced raw materials did not emerge. Instead of generating tax revenue for the local governments, in many cases these enterprises became new fiscal burdens to the local governments and hence worsened local fiscal crises. All these results were contrary to the original component expectations. Useful lessons should be drawn from the implementation of the TVE component (see Section 4.2).

The significant reduction in the scale of the TVE component, on the other hand, clearly demonstrated the flexibility of the project design and advantages of a multi-sectoral project. The funds released from the TVE component were mainly used for the Rural Infrastructure component and the Land and Farmer Development components, which were among the most welcomed components of the Qinba Project. For example, by the end of the project implementation, the size of the rural infrastructure component increased by about 74% (see Section 4.2), which was hailed by beneficiaries and PMOs at different levels as an unexpected huge success.

3.5 Quality at Entry:

The project design predated the existence of the Quality Assurance Group (QAG) and hence there was no official assessment of the project's quality at entry. However, it is believed that the quality at entry of the project was satisfactory for the following reasons. **First**, there was a high degree of conformity of the project objectives with the CAS priorities and with the Government's strategy for poverty reduction. **Second**, the design incorporated lessons learned from previous broad-based rural development projects, particularly experience from the successful implementation of SWPRP. **Third**, the design paid adequate consideration to the challenges facing this project, including its high degree of complexity and number of innovations. This consideration was fully reflected by the features of the project design, including choice of project management and organizational structure. **Fourth**, the design was fully consistent with the Bank's safeguard policies. **Finally**, and perhaps of most importance, the project achieved a profound development impact by the end of the implementation period without modification of its original objectives or any major revision of the project component structure (see Section 4.1).

Quality at entry, however, could have been even higher had the following issues been scrutinized and addressed more carefully. First, the probability of the assumptions employed for designing the TVE component should have been assessed more carefully. Second, a mechanism for ensuring even stronger participation from beneficiaries at the early stage of the implementation should have been established. Third, more user-friendly and appropriate procurement methods with greater community participation should have been employed at the early period of the project implementation.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

The achievement of the objectives and outputs of the Qinba Project was **highly satisfactory**. The Qinba Project is an excellent example of achieving the intended development impact. **First**, the project generated a significant and profound policy impact. In its statement of nominating the World Bank as the recipient of the China Poverty Eradication Award on September 6, 2004, the Government made the following strongly positive evaluation of the Qinba Project:

“... In Southwest and Qinba projects, the World Bank adopted several innovative approaches, such as village development planning and project based multi-sectoral methodology, which have generated great impact on developing China’s poverty alleviation policy. *Particularly, the village development planning, labor mobility, and project-based multi-sectoral approach have already been incorporated into the China Poverty Alleviation Plan (2001-2010) by the Central Government, which will have profound impact on China’s poverty alleviation efforts in the twenty-first century.*”

In addition, the World Bank became the first international organization to receive the China Poverty Eradication Award on October 17, 2004. In an article published in the Guangming Daily on March 9, 2005, the Ministry of Finance summarized the Qinba Project’s policy impact in highly favorable way:

“... Southwest and Qinba projects, through introducing project based multi-sectoral methodology and participatory approach, *have made significant contributions in helping the Government to develop ‘a scientific approach to development’ which is characterized by ‘putting the people first’.*”

Second, the project brought about remarkable economic and social improvements. The SSB’s independent monitoring of the project provides detailed information on these benefits (see Table 1). For example, the incidence of poverty was drastically reduced from 26.7% (1997) to 4.6% (2003). The current level of poverty incidence in the project area is now almost the same as the national average. However, at the beginning of the project in 1997, the incidence of poverty in the project area was five times as high as of the national average. In 2003, 100% of project villages had road access compared with only 72% in 1997. By the end of 2003, per capita income in the project area had on average increased about 64% compared with that of 1997, an annual growth rate at 8.1%. By comparison, the national average growth rate of farmers’ per capita income was around 4% during the same period of time. The poor farmers' ability to deal with risks, as measured by the degree of food security and per capita cash at hand at the year-end (see Annex 1 for all key performance indicators), was also significantly strengthened. SSB’s independent monitoring and evaluation also showed that, after seven years of project implementation, the project villages are evidently less vulnerable than non-project villages to natural disasters.

Table 1. Selected Indicators of Economic and Social Benefits

Year	1 Poverty incidence (%)	2 Food security* (kg)	3 p. c. income (yuan)	4 Villagers w/ access safe water (%)	5 Villages w/ access roads (%)	6 Labor migration (%)	7 Remittance (billion yuan)	8 proportion of meat sold in market (%)	9 Gender gap** (%)
1997	26.7	190	854	n.a.	71.8	15	n.a.	38.7	89.8
2000	17.9	331	1087	75	91.0	22	n.a.	42.7	96.7
2003	4.6	387	1398	86	100	25	1.7	55.9	98.2

* Food security is measured by per capita grain storage at the year-end.

** Gender gap is measured by the ratio of girls enrollment rate over boys’ enrollment rate for the age group of 7-15.

Third, poor farmers’ access to off-farm employment opportunities was significantly improved. The labor mobility targets were exceeded in all project counties and the overall quality of implementation was excellent (see Section 4.2). Households which participated in labor mobility not only realized rapid and substantial increases in income from worker remittances, but also significantly expanded their knowledge and views about the outside world and strengthened their self-confidence, which will have a lasting

development impact. Interviews and project data confirmed that the labor mobility component was widely considered to be one of the most successful and well received components of the project.

Fourth, the goal of piloting micro-finance was also successfully achieved, particularly in the areas of institutional capacity building and reaching the poor. However, given the current status of the overall financial sector in China, there is still a long way to go to achieve financially sustainable micro-finance institutions.

Fifth, the project also generated significant environmental and ecological benefits, which were confirmed by an independent environmental monitoring report in 2003. The forest area increased by 49%, the irrigated area by 20%, and the terraced area by 22%. The ratio of households with difficulty obtaining daily fuel materials, an indicator used to measure the change of ecological environment, decreased from 62% in 1997 to 41% in 2003.

Sixth, participation levels of the Qinba Project's farm households and communities increased over time, particularly in the second half of the project implementation period. In the later stage of project implementation, participatory monitoring and evaluation was introduced to evaluate outcomes and impact of the project. It was evident that the targeted groups started to influence and share control over priority setting, policy-making, resource allocations and access to public goods and services. Nevertheless, the participatory work could have been better had an even more efficient mechanism been established at the early stage of the implementation.

Finally, in its 2004 monitoring report, SSB concluded that, compared with the SWPRP, "...Qinba poverty monitoring component improved the sampling methods, questionnaire design, training, and field interview," and this had helped upgraded poverty monitoring at the national and local levels, and hence had an impact which went far beyond the project itself.

4.2 Outputs by components:

1. Labor mobility (\$48.6 million SAR, \$46.1 actual)

The labor mobility component is rated **highly satisfactory**. This was a very challenging and highly innovative component, and the first step was the establishment of a capable implementation system with offices and staff at all levels in both originating and destination areas. The initial institution building effort was fully successful and facilitated the achievement of about 133% of the SAR planned component output. More importantly, extensive and rigorous analysis has convincingly documented that the labor mobility component was extraordinarily effective in achieving its development objective of expanding the upland poor's knowledge of and access to off-farm employment. The outflow of migrant laborers from the project's upland villages has continued to expand following project completion, and this clearly shows that the favorable output and development outcome are fully sustainable.

The China Western Human Resources Development Center (CWHRDC) spearheaded the institution building at the central level, and played the crucial role in: (a) establishing the implementation organization at all levels; (b) identifying employment opportunities in the destination areas; and (c) monitoring the location and well-being of the very large number of migrant laborers spread across a wide geographic area. The Sichuan and Shaanxi Human Resource Development Centers (HRDC) worked closely with the provincial PMOs to establish the implementation organization at the county and township levels and to supervise the work of these lower level organizational units during project implementation. The county and township level units played the key role during implementation of identifying appropriate candidates for the labor mobility component and to provide them with orientation training prior to departure for their new

jobs. This highly capable and extensive implementation organization made it possible to achieve the component's planned output targets. Nearly 200,000 upland poor found off-farm employment through the labor mobility component, including roughly 110,000 inter-provincial migrant laborers. The labor mobility monitoring system in combination with the pre-departure orientation training kept work related accidents and employment disputes to an absolute minimum. CWHRDC found that less than 0.04% of all project migrant laborers experienced serious accidents (27 reported) and disputes (40 reported).

CWHRDC has conducted a careful and extensive assessment to understand the cost and benefits of the component (see Document No. 9 of Annex 7). The assessment provides estimates (based on sample surveys) of the incomes received by the labor migrants, their remittances sent home to their extended families, and the ways these incomes were utilized by the migrants and their families. These estimates show that the labor mobility component was a very powerful poverty reduction measure: total remittances are estimated to have been about RMB1.7 billion (or about RMB7300 per migrant on average), with most of these funds being used for the purchase of agricultural production materials, improved housing, family medical care, educational expenses, and debt repayment. More importantly, all of the documentation and participatory evaluation indicates that the most significant outcome has been the improved outlook on life and greater aspirations of the migrants. This was clearly the case for migrant women (comprising about one quarter of all migrant laborers), who gained greater self esteem and confidence, reduced work burdens (upon return to their home villages), and increased economic independence.

The component's policy impact is also evident. Based in part on the highly successful experience of the Southwest and Qinba Mountains Poverty Reduction Projects with labor mobility, China's poverty reduction program for 2001-2010 includes a major focus on labor mobility and vocation training. The vocational training program seeks to further improve the upland poor's access of higher-paying off-farm employment. Expanding on their successful experience with labor mobility under the Qinba project, for example, the Shaanxi Poor Area Development Office (PADO) provided vocational training opportunities for some 30,000 upland poor during 2004. Based on contractual relationships with the vocational training schools, most of these upland poor were placed in better paying jobs following three to six month training periods (final payment to the vocational schools was dependent upon successful placement of the trainees in new jobs).

2. Rural infrastructure (\$40.5 million SAR, \$70.6 million actual)

This component is rated **highly satisfactory**. The rural infrastructure component was one of the most warmly welcomed components. In response to the farmers' demand, the size of the component was increased significantly to \$70.6 million actual, an increase of 74% over the estimated cost at appraisal. The funding for increasing this component mainly came from funds released from the TVE component, increased counterpart funding, and the original unallocated funds. Most of the increased funding was used for constructing access roads, rural energy supply, and small irrigation systems. Implementation of the component significantly improved the project beneficiaries' basic living and production conditions.

Project information from Sichuan and Shaanxi showed that 2,258 km of roads were improved and constructed to Class IV Road standards, as compared with 892 km of new and improved roads envisaged at project appraisal. In addition, 7,493 km of village access roads were constructed. Road access coverage has now been extended to about 1.9 million people, more than three times the originally planned number of beneficiaries. Village access roads, generally varying from several km to 15 km in length and accessible to tractors and light vehicles, have been effective in linking many natural villages and hamlets to existing rural road networks, drawing them for the first time into the local main stream of rural economic activities. Project households demonstrated great enthusiasm for this component, particularly for road construction,

with a very active participation. Beneficiaries' contributed labor far exceeded in value the amount of cash injection by the project.

Construction of drinking water facilities was also one of the most welcomed activities. By the end of the implementation, the project has successfully solved the drinking water problem for about 650,000 people, compared with the SAR target of 466,000. These are low cost, simple facilities which have effectively relieved tens of thousands of project households from the daily hard labor of fetching drinking water from remote sources, thereby setting free numerous labor-days to be profitably utilized for food production and income generation activities. In addition, small irrigation systems constructed through the project were very effective in stabilizing and increasing production of paddy and other food crops for home consumption and animal feed where there is surplus.

One useful lesson from the component implementation is that infrastructure construction, particularly road access, should be implemented first so that the benefits of activities under other components (e.g., agricultural component and labor mobility component) can be maximized due to improved access to input supplies, services, information, and markets.

3. Land and farmer development (\$ 194.8 million SAR, \$232 million actual)

This component is rated **highly satisfactory**. This is the largest component in terms of investment and focused on solving the food security and cash income generation problems. As shown by the SSB's independent monitoring report, both of the two major goals were fully achieved through activities such as farming, raising livestock, improving land quality, and applied agricultural research. For example, average per capita income increased by about RMB544 (from RMB854 in 1997 to RMB1398 in 2003), which exceeded SAR target (RMB400). The per capita amount of stored grain at the year-end was more than doubled from 190 kg/person in 1997 to 387 kg/person in 2003 (see Table 1, Section 4.1). Project area field visits consistently confirmed that the food security is no longer a problem for almost all farm households. In addition, the general living standard of the poor households has been significantly raised. Another powerful indicator is the consumption structure, as measured by the Engel coefficient, which was significantly improved. By the end of 2003, the project villages' Engel coefficient--the ratio of expenditures on food consumption out of total expenditures--declined from 64% to about 53%, and this decline for the project villages was greater than that of non-project villages. The poor households' ability to deal with risks and degree of market participation were also significantly strengthened (see Annex 1, Key Performance Indicators). Technical quality of project implementation has generally met the project's technical standards. In response to the farmers' demand, the size of the component was increased from \$195 million to \$232 million, an increase of about 19%. The funding for increasing this component mainly came from the funds released from decreasing the TVE component and unallocated fund.

This component also included supporting activities of applied research (total about \$0.5 million). About 75% of applied research investment was in Shaanxi Province. The applied research program was a notable success for three principal reasons: (a) it was carefully focused on specific production bottlenecks in the farming system; (b) the research was done at the beginning of the project so that the results could be applied through the extension activities in later years; and (c) many of the research results was also applied to other parts of the project provinces. As a result, the applied research program had a much wider impact than originally anticipated.

The coverage rate (i.e., the proportion of project households which participated in the Land and Farmer Development Component) was basically 100% in all three provinces, with an average investment intensity of RMB1988 per household. In addition to the investment, the project also provided technical training to

the project households. Women made up about half of those who received training; this represents significant progress compared with the beginning of the project implementation when women were only about 20% of the total. There were many factors which contributed to the success of the component's implementation. First, there was a synergy between the development of diversified farm structures and labor mobility cash income diversification, since both helped to reduce income risk and reduce households' vulnerability to falling back to poverty. Second, there was a strong participation in terms of activity selection by project households, which led to increased profitability of component activities and increased repayment rates. Third, the provision of series small support (ranged from RMB500 to RMB1200 per year) enabled farm households to build their asset base gradually over time with minimal risk and debt exposure. Fourth, the development of farmer human resource capacity through training programs and the building of farmer self-confidence had a major impact and provided the human capital base for long-term economic development in the project areas. Finally, there was high degree of integration of rural infrastructure with land and farmer, and labor mobility activities, which was a major catalyst to economic development through providing access to inputs, markets, services and information.

There were some factors which constrained the component from achieving an even higher degree of success. First, tree crop activities did not fully achieve the expected benefits due to the long period (usually 4-5 years) before production and harvesting began, often weak training and extension, variable seedling quality, market changes, and seedling vulnerability to drought. In future poverty projects, tree crops should generally be included as part of an integrated, diversified farm investment approach rather than as single project investments for poor households. Second, an inappropriate choice of procurement methodology (i.e., time-consuming distribution process and a shrinking price difference between domestic and international markets of international competitive bidding procured fertilizer, chemicals, and plastic mulch, etc.) at the early stage of the project implementation caused delay of the activities.

4. TVE Development (\$62.2 million SAR, \$24.5 million actual)

This component is rated **unsatisfactory**. Although the design of this component incorporated the lessons learned from initial implementation of the similar component in SWPRP, it turned out that the component was still too ambitious and underestimated the difficulties associated with the TVE sector as well as the rapid progress China was achieving in transforming its economy from a central-planned one to a market-oriented one. Following the mid-term adjustment, the total amount of investment for the component was cut down from US\$62 million to US\$25 million (i.e., from 17% to around 6% of the total project investment). The greatest reduction was in Sichuan. Investment in Shaanxi for this component was moderately adjusted down from US\$28 million to US\$20 million. The released funding was reallocated to the activities which were warmly welcomed by the beneficiaries (such as the rural infrastructure component, land and farmer development component).

At the time of appraisal, the Qinba Project was expected to support 150 enterprises. At the time of the project completion, only 22 enterprises had been completed. Of these, 12 were operational, 3 were in trial production and 7 were either not operational yet or had stopped operation, mostly because of a lack of working capital for operation. All of the enterprises which were not-operational are in Shaanxi Province. Of 23 small farmers market, 20 were operational, a much higher proportion than that for the enterprises.

It should be pointed out that, while most of the medium and larger TVEs supported by the project were eventually found not to be financially viable or to have had significant poverty reduction impacts, small scale enterprises and small scale farmers' markets were typically far more successful. These enterprises, which were often privately owned, provided goods and services for the local market and relied on simple technologies. Most of these enterprises were found to be financially viable, to have had favorable poverty

reduction and local fiscal impacts, and to have provided marketing channels for farm and other products produced by the poor. Another indicator of success of the farmers' markets construction is that Sichuan Province, while significantly reducing the size of the component as a whole, doubled the number of markets constructed from 6 to 12.

The implementation of the TVE component has provided the following lessons. **First**, the experience of the component in Shaanxi indicates that it was unwise for the project to invest in large-scale enterprises, given the natural and economic conditions and the level of government intervention in these counties. Moreover, the project should have mitigated the risks by not focusing the investment in the six enterprises of the three project counties. The investment in large-scale enterprises suffered from moral hazard problems when the enterprise owners did not have sufficient capital funds, as no individuals are finally responsible for the loan repayment. **Second**, the time-consuming process of selecting enterprises and the relatively high rates of interest charged to them may have an adverse effect on the performance of the component: those enterprises which are able to access commercial loans (interest rates were around 5.5 per cent per annum) would not be interested in the project loans. This meant that it was the enterprises without commercial sources of finance which were most likely to apply for the project's funding. **Third**, the small plants and small farmers' markets performed better than the large-scale enterprises. This is because these activities require less capital investment and working capital, and less complicated technology and hence take less time to prepare. All these fit the poor areas better. **Finally**, agroprocessing plants do not necessarily add value to the farm products produced in the project areas. A money-losing processing enterprise could have an adverse impact on the incomes and welfares of poor farmers in the project areas, as the local governments may have to collect more taxes and fees to make up the loss and/or persuade farmers to grow the raw materials for the plant which may not be in the best interest of farmers.

5. Micro-finance (\$4.1 million SAR, \$6.8 million actual)

The component is rated **marginally satisfactory**. In terms of the number of borrowers and the total amount of loans disbursed, the program has attained its targets and has so far provided almost RMB60 million of micro-loans to more than 40,000 borrowers in two project provinces. By the end of June 2004, the program had a loan portfolio of over RMB10 million in Langzhong and Tongjiang counties of Sichuan (the program in Shaanxi was completed in September 2002).

The program targeted the poor in the project counties and both the micro-loans and the training program provided by China Foundation for Poverty Alleviation (CFPA) to the program beneficiaries have impacted positively on the poor in the project counties. Of all the micro-loans, more than 70 per cent has been used by the project beneficiaries for cropping and animal production and the rest mainly for transportation and agroprocessing.

The program was responsible for a number of innovations, including group lending, dynamic incentives and emphasis on women's participation. Project beneficiaries decided on loan uses, and loans were provided in cash rather than in kind. In addition, the program established basic loan disbursement and repayment procedures, an accounting and reporting system, and an internal control system. The program is more transparent than other government channels in fund use and able to detect and trace the funds diverted by the county and township governments from the component. Consequently, most micro-finance funds did reach the poor households in the project areas, and the program has achieved a much higher overall loan repayment rate compared with the agricultural component.

The micro-finance program in the project counties, however, will have a difficult time achieving financial sustainability, because (a) the program has no capital funds and almost all the funds for the micro-finance

operation are from the Bank loan that need to be repaid; (b) the rate of interest charged by the program (7% nominal and about 11% effective) barely cover the operational costs and the cost of funds (around 3.2 per cent per annum); and (c) the start-up cost is higher and is not covered by the grant funds. Moreover, the county governments in Ankang and Langzhong have been reluctant to use the project funds for the micro-finance component, and this led to frequent conflicts between the county governments and CFPA, the implementation agency in Beijing. The program's major loan quality and financial indicators are shown in Table 2.

Table 2. Key Performance Indicators for the Micro-finance Component

	Langzhong	Ankang	Tongjiang	Total
Loan Portfolio (RMB10,000)	487.2	743.58	626.66	1857.44
Loans past due at close (RMB10,000)	195.7	557.68	128.35	881.73
Overall Loan Repayment Rate (%)	83.45	72.27	92.77	82.26
Loan Arrears at close (%)	40.17	75.00	20.48	47.47
Total Income (RMB10,000)	152.36	166.3	164.84	483.5
Operational Income (RMB10,000)	99.66	148.78	134.31	382.75
Donations (RMB10,000)	52.7	17.53	30.53	100.76
Total Expenses (RMB10,000)	176.66	212.17	217.48	606.32
Interest Expenses (RMB10,000)	62.5	116.66	53.31	232.48
Provisions for Bad Loans (RMB10,000)	8.91	3.16	18.8	30.87
Operational Expenses (RMB10,000)	105.25	92.35	145.37	342.97
Profit or Losses (RMB10,000)	-24.3	-45.87	-52.65	-122.81
Total Income/Total expenses (%)	86	78	76	80

Some valuable lessons can be drawn from the implementation of the micro-finance pilot. **First**, some of the innovations, such as the loan disbursement and repayment procedures, group loans, the basic accounting, reporting and auditing system and participation of women, can be applied to the agricultural component with loans to individual households under the World Bank projects. **Second**, the micro-finance programs funded with the Bank loans in China can hardly achieve operational and financial sustainability without alternative sources of funds to replace the Bank loans, as the program counties have to repay the loans to the Bank. So far all the program counties have failed to obtain alternative funds to replace the Bank loans. **Third**, since the county governments provided the guarantee for the repayment of the Bank loans, the governments have a strong incentive to intervene in the operation of the micro-finance institutions and micro-loans, which has resulted in a high proportion of non-performing loans for the program. The county governments in all the three program counties have intervened in staff appointments and in the operation of the micro-finance institutions, and at least two program counties have diverted the funds from the micro-finance institutions for use in the non-program townships. The intervention from local government in the uses of micro-finance funds has led to frequent conflicts between the local governments and the implementation agency at the national level, CFPA. **Fourth**, in the program design, virtually no grant funds were designed to cover the start-up costs and the training of the micro-finance programs, which, in combination with the relatively low rate of interest, has resulted in financial losses of the program. **Finally**, the program should have set up a computerized management information system at the early stage of the pilot.

6. Institution building (\$8.6 million SAR, \$7.6 million actual)

This component is rated **highly satisfactory**. The design and implementation built upon SWPRP's successful experience. To cope with the above-average complexity of the project, a five-level project management system was established including the central, provincial, county, township, and village levels. With adequate project support, strong leadership from the central government, and a high degree of commitment from the project staff, a highly capable, dedicated, and complete PMO system was formed.

The PMO system is justifiably regarded as one of the project's greatest legacies and it was responsible for the successful implementation of the project. The project provided adequate support in terms of training, spacious working space, office equipment and vehicles. In terms of training, about 200 person/time participated abroad study tours and training, domestic training covered about 1200 person/time. Project provinces also organized study tours, training among themselves, which in total covered about 3200 person/time. Full time project staff numbered about 11000.

Effective institution building was the foundation for the successful implementation of this highly complex project in a very challenging environment. Throughout the implementation period, there was a progressive build-up of institutions with a strong capacity to deliver results with accountability and use methods and procedures that are transparent and verifiable. The benefits of successful institutional construction have gone far beyond the immediate results of poverty reduction in the project area. Many project counties decided to retain and further strengthen the project teams developed under the project.

7. Poverty monitoring (\$2.0 million SAR, \$1.3 million actual)

The component is rated **satisfactory**. Based on the experience of SWPRP, the component improved the sampling method, questionnaire design, training and field interview procedures. All these ensured the quality of the survey and the full achievement of the component objectives. The survey program was designed on the basis of experience and lessons of SWPRP, and was reviewed by national specialists (Chinese Academy of Social Sciences) and international specialists (the World Bank's Research Department). The independent monitoring and evaluation continued for six years, following the baseline survey in 1997. It covered 26 project counties and 2600 households in the baseline survey, 13 project counties and 1300 households in the following four years, and all 26 project counties and 2600 households again in 2002. The data were collected through the visits of interviewers as well as the diary-book kept by the sample households.

The SSB's Rural Survey Organization (RSO) held a series of training session including both the central and provincial PMO staff. The SSB also held training sessions in all project counties. In addition, the Provincial Rural Survey branches had annual training courses for interviewers at the county level, and there was annual training for assistant enumerators from sampling villages. Well organized field surveys promoted the data quality. Careful data editing and analyzing further improved the quality of the data.

There are two ways in which the performance of this component could have been improved. **First**, the duration of the monitoring period was not long enough to capture the full effects of the project. The impact of some project activities could not appear in a short period and therefore were not captured by the survey, which lasted for six years. **Second**, the survey did not capture villagers' direct assessment of the project, which would have made the impact evaluation more reliable and comprehensive. It is believed that more qualitative indicators and participatory indicators should have been included.

Status of Women and Female Participation

The project generated a variety of significant benefits which strengthened women's social status. There are three important and tangible benefits worthy of particular attention. **First**, rural infrastructure construction, particularly the construction of drinking water facilities, effectively liberated women from a heavy workload of water fetching, so that women have more time to participate in other social and economic activities. **Second**, there was significant progress in terms of increasing women's participation in applied technical training. In the early stage of project implementation, women only accounted for about 20% of those who received training. However, by the end of the project implementation, the proportion

reached 50%. **Third**, the labor mobility component improved women's access to off-farm jobs. Women accounted for about 25% of all migrant laborers who found an off-farm job through the project. All these benefits significantly strengthened women's social status since they gained greater self esteem and confidence, had reduced work burdens, and achieved increased economic independence.

Impact on Ethnic Minority People

The project has generated a significant positive impact on ethnic minority people. In the project area, these are mainly Hui nationalities who concentrate in Ningxia. In the four project counties of Ningxia, Hui nationality accounts for 96% of the population in Jingyuan, 81% in Tongxin, 69% in Haiyuan, and 51% in Xiji. In the SAR there was no independent Indigenous Peoples Mitigation Plan (IPMP) or Ethnic Minorities Development Plan (EMDP) since the whole project design in Ningxia could be treated as an IPMP or an EMDP. A review conducted by the Bank's Social Development Specialist confirmed that the Hui nationality people had equal opportunities to participate in the project, and had benefited from project activities such as livestock raising, terracing, as well as cropping. The living standards of those who took part in the project were clearly improved. In addition, productive conditions as well as the residential environment in project villages were greatly bettered. In sum, there is no doubt that Hui nationality farmers have benefited from the project.

4.3 Net Present Value/Economic rate of return:

Data from different sources consistently confirm that the project achieved remarkable economic, social and environmental benefits. These data (see Document No. 9 of Annex 7) demonstrated a steady improvement of a series of key monitoring indicators. The incidence of poverty, for example, declined from 26.7% in 1997 to about 4.6% in 2003; per capita income increased from RMB854 to RMB1398 during the same period (Annex 3, Table 3.1). The beneficiaries obtained more development opportunities as shown by the enhanced market participation, strengthened ability of managing risks, increased girls' enrollment rate, and reduced gender disparity. Project villages, in many aspects, out-performed non-project villages which generally enjoyed much better initial conditions. For example, SSB's independent monitoring of the project convincingly shows that project villages are less vulnerable than non-project villages to natural disasters.

A traditional methodology is used for estimating the economic rate of return (ERR) of the project. Data for calculating the ERR comes from provincial village surveys (conducted by PMOs) and a series of Poverty Monitoring Reports for the project (State Statistical Bureau, 1997-2004).

Project benefits have been quantified for four major components: (a) labor mobility; (b) rural infrastructure (for the irrigation subcomponent); (c) land and farmer development; and (d) TVE development (for the rural market construction subcomponent). Investment in these four major components accounts for 96% of total project investment. The benefits of other components (institutional building, poverty monitoring and micro-finance) are difficult to quantify and hence ERRs have not been calculated for them. It should be pointed out that given their small share in the total project cost, their exclusion does not have a significant impact on the conclusion. To get the ERR of the project as a whole, the individual ERRs are weighted by the investment proportion of corresponding components in the total project.

The overall economic rate of return to the project as a whole, under several conservative assumptions, is estimated to be 37%. The following table presents estimated ERRs for the whole project as well as for specific components.

	Project as whole	Labor mobility	Rural infrastructure	Land and farmer development	TVE
ICR	37%	More than 50%	27%	36%	13%
SAR	40%	43%	n.a.	43%	47-71%

4.4 Financial rate of return:

No calculation has been made of the financial rate of return (FRR) of the project or of any of its components. After twenty five years of market-oriented economic reforms, price distortions resulting from government intervention in the economy have largely been eliminated. An integrated domestic market has been established and it is increasingly integrated with the international market. Against this background, there is essentially no additional value to calculate the ERR and the FRR separately to capture the impact of price distortions. The SAR found no significant difference between the economic and financial rates of return for the two components examined, with only exception of TVE component. On this basis, it is believed that the estimated ERRs are representative of the FRRs.

4.5 Institutional development impact:

The project's institutional development impact was **high**. An efficient, capable, and dedicated project management system was established from the central level to the village level, with strong support from the central government (i.e., the LGPR under the State Council) as well as from the provinces (with the establishment of provincial project-based Leading Group, comprising by all relevant agencies). The performance of the PMO system is remarkable in almost all aspects of the project, including planning, implementing, monitoring, and evaluation (as discussed in Section 4.1 and 4.2). For example, the Central PMO developed a set of regulations covering loan management, implementation plan, procurement, reimbursement management, accounting and financial management, and monitoring and evaluation areas. All these regulations were also adopted by most poverty reduction projects financed by domestic resources. One of the strongest indicators of the high institutional development impact is the decision of many counties and provinces to retain, instead of dismantling, the project management offices at the completion of the project implementation. These counties and provinces are planning to channel domestic resources through the existing project management system. The project's significant and profound policy impact should also be regarded as a lasting institutional development impact (see Section 4.1). This policy impact has received highly favorable reviews from the Shanghai conference participants. The successful experience of the Qinba Project in institutional development also provided a good model for other countries to learn from. For example, Vietnamese Government sent a delegation to the Qinba Project area to conduct a study tour in 2004. In short, the Qinba Project significantly improved the poverty alleviation system's ability to make effective use of its human and financial resources.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

Factors which were beyond the control of Government and the implementation agency had a very positive impact on the project's implementation and the achievement of its objectives. **First**, in the past decade, China's continuing strong economy growth provided a very favorable macroeconomic environment for project implementation. For example, the high speed of urbanization and industrialization created a large amount of off-farm job opportunities for the migrant labors from the poor areas. **Second**, market-oriented economic reform removed the constraints on the flow of most production inputs and outputs, which also positively contributed to the effectiveness of many project components (e.g., the Land and Farmer Development component). **Third**, the implementation of the Great Western Development Plan brought a

large amount of investment in large-scale infrastructure in the project provinces, which provided a favorable environment for farmers to access to better transportation and energy services. All these factors had significantly favorable impacts on the project implementation and its outcomes.

Two factors adversely affected project implementation. First, several natural disasters affected project implementation. For example, a drought of four years' duration in Ningxia reduced the effectiveness of the agricultural activities. However, from the perspective of the Qinba Project as a whole, the impact of these natural disasters was generally modest. Second, rapid and profound changes in the macroeconomy and associated market risks invalidated many assumptions made for the TVE component, which contributed to its unsatisfactory performance.

5.2 Factors generally subject to government control:

Factors which are generally subject to Government control also had a favorable impact on project implementation. The Government maintained a high degree of commitment to poverty reduction throughout the project's life. This high degree of commitment was essential to overcoming many obstacles which confronted the project and which were beyond the control of the PMOs. One indicator of the commitment was the establishment of the project-based Leading Groups at provincial and county levels. These Leading Groups, which served as multi-agency coordinators, provided strong support to project implementation in terms of ensuring timely provision of counterpart funding, preventing reimbursed project funding from being diverted to other uses, and other key roles.

The Government's over-emphasis on cost recovery, however, generated some adverse impact on project implementation and outcome. The over-emphasis on cost recovery resulted in a bias at the project design stage in favor of those activities which were assumed to be able to generate direct cash returns and against those activities which were perceived not to have that ability. This bias at least partially explains why, at the time of appraisal, the TVE development component accounted for 17% of the total project cost and rural infrastructure only for 11%. However, it should be pointed out that the Government has begun to recognize the negative impact of emphasizing cost-recovery and started to emphasize the lasting benefits of public goods provision through projects.

5.3 Factors generally subject to implementing agency control:

The Qinba Project's management system was a very strong and capable system which was indispensable to the project's successful implementation with lasting development impact. The PMO system effectively took advantage of most factors which were under their control to improve the performance of the project. In this aspect, the performance of the Central PMO and the Sichuan and Shaanxi provincial PMOs were excellent and worthy of particular congratulations. For example, by noticing the unsatisfactory performance of the TVE component and realizing that the factors which contributed to it were generally beyond the control of the PMO system, the Central and Sichuan PMOs significantly scaled down the size of the TVE component and shifted the resources to the most welcomed activities such as rural infrastructure and agricultural components (See section 4.2). The project results showed that this timely readjustment significantly contributed to the successful achievement of the project's development objectives. Another example was the introduction of a provincial level cross-supervision arrangement (*jiaocha jiancha*) for improving the implementation quality. Sichuan sent a team to supervise the implementation quality of Shaanxi, Shaanxi sent a team to supervise the Ningxia's work, and Ningxia supervised the performance of Sichuan. The cross-supervision was conducted about once every year and had two positive impacts: (a) it strengthened the project monitoring and supervision in addition to the Bank's twice-a-year regular supervisions; and (b) it provided a good opportunity for the timely scaling up of good practice in one area to another area. In the final years of project implementation, the PMOs introduced the participatory monitoring methodology on a pilot basis which not only upgraded the project's

internal monitoring and evaluation work, but also strengthened the effectiveness of the project's implementation.

In a limited number of cases, however, county PMOs were inadequately staffed and their record keeping work needed to be strengthened. This was the case particularly in Ningxia.

5.4 Costs and financing:

The change in total project cost was modest. The total project cost estimated at appraisal was \$360 million, and the actual cost was about \$389 million, an increase of 8%. The increase mainly comes from surpassing the counterpart funding target. Based on the data from the central PMO, the final counterpart funding utilized was about 18% above the estimate in the SAR.

6. Sustainability

6.1 Rationale for sustainability rating:

The sustainability of the project's development impact is rated **highly likely**, based on the following reasons. **First**, the policy impact has greatly exceeded what was anticipated at appraisal, and the many innovative approaches tested through the project (such as labor mobility, participatory approach, household and project based multi-sectoral approach) have been mainstreamed into national policy and are now widely applied. The most recent indicator of this sustainability is a new poverty project concept, proposed by the Government for the Bank's consideration, which fully incorporates these innovative approaches. **Second**, the establishment, stability, and continuity of a strong project management system have also contributed favorably to the project's sustainability. As discussed in previous sections (Section 4.1, 4.2, and 4.5), many project counties have already decided to retain the PMO and will channel new resources through the Qinba Project management system. **Third**, the significant improvement of beneficiaries' participation in the project implementation, self-confidence, and general human capital level will also contribute to the sustainability of the project's outcomes. Many farmers told the Bank's supervision missions that the most important benefits they received from the project is their strengthened capacity to deal with risk, knowledge about new technologies, and better engagement in the market economy. In short, the project set up a good platform for long-term sustainable development and improvement of their livelihoods.

The Bank's sixth round of Quality of Supervision Assessment (QSA6), conducted in September 2004, also rated the sustainability of this project as "likely" (the highest rate of the QSA). The QSA report states:

"The progress of the project is now well advanced and it is possible to assess with some confidence that the project's results will be sustainable. Given the high level of support from the Chinese authorities for the project activities and strong indications that key project activities will be scaled up, there is a good likelihood that sustainability will be achieved."

6.2 Transition arrangement to regular operations:

Given the specific but effective institutional arrangement (e.g., the project based Leading Group for better coordination among different line bureaus), most project activities have been integrated into the regular operations of relevant departments. This has significantly minimized the need for special transition arrangements, and ensures the appropriate technical and financial provisions to sustain project effectiveness in the post-implementation era. As the implementation period approached its conclusion and during the final series of Bank supervision mission, the Bank put additional emphasis on these transitional arrangements to ensure regular operation. Many measures have been discussed and agreed with the Government, such as improving the record keeping, re-flowing the project funds, and ensuring institutional

stability and continuity. All these measures included technical, financial, and institutional provisions to ensure effective project operation in future.

7. Bank and Borrower Performance

Bank

7.1 Lending:

The Bank's performance in identification, preparation assistance, and appraisal of the project is rated **satisfactory**. The identification of the project was fully consistent with government's poverty reduction strategy and in accordance with the Bank's CAS. The design was made on the basis of success of the SWPRP. During the stage of preparation assistance and appraisal, the Bank's team provided adequate technical, financial, economic, and institutional assistance, including procurement and financial management, to the client. All these were made possible by Japanese Policy and Human Resources Development grant, consultant trust funds from various sources, and the strong capacity and high degree of continuity of the Bank's task team. Most of the Bank's preparation team could undertake their work in Chinese, and hence spend much of their project preparation time at the village and household level obtaining a more in-depth understanding of the problems and identifying the possible solutions. No major shortcomings of the preparation efforts have been identified.

The Bank could have done a better job in examining the assumptions about the TVE component design, even though the size of the component was reduced compared with the Government's original request and further adjustment and reduction was made during the mid-term review.

7.2 Supervision:

The Bank's performance in the project's implementation supervision is rated **satisfactory**. This rating is also consistent with the rating that QSA6 gave to the project (overall rating of 2 on the 6-point scale). The following factors contributed to this satisfactory rating. **First**, throughout the project life, there has been a high degree of task team continuity, which fostered a long-term and trusting work relationship with the implementing agency and facilitated good quality supervisions. **Second**, staff and consultants with the right expertise were mobilized, particularly in the first years of the project implementation, covering all project components. **Third**, the task team had put in solid supervision efforts, with a sound and a timely focus on implementation problems and development effectiveness as measured by the M&E systems in place. **Fourth**, special assessments were carried out to check compliance with the Bank's safeguard policies on environment and social aspects, which were also judged to be satisfactory.

The effectiveness of the Bank supervision efforts is clearly evident. For example, on the counterpart funds issue, the Bank raised the problem during supervisions at all levels of the government, and this problem was subsequently resolved (see Section 5.2 and 5.4). Another example is that, due to its unsatisfactory performance, the TVE component was sharply reduced in size in response to strong recommendations made by the Bank's supervision missions.

In retrospect, the main supervision issue was inadequate funding for supervising such a complex project. This issue was raised as the major issue for management attention in both QSA5 and QSA6, and it was one of main reasons why the environmental and financial management staff were not adequately involved in supervision during the latter part of project implementation. Although this problem was successfully addressed in the final three supervision missions when the team did include environmental, financial management, and social development specialists, overall project implementation would have been even better had adequate supervision budgets been available at the early stage of the implementation.

7.3 Overall Bank performance:

The Bank's overall performance is rated **satisfactory**. For this complex and multi-sectoral project, the Bank organized a strong and stable team from the beginning to the end of implementation. The preparation and supervision all included the required expertise and local staff who continuously provided services in the areas of financial management, procurement management, environmental assessment, and ethnic minority development. The Bank's task team was generally able to provide quick responses to the demands from the implementing agencies. One of the most positive aspects was the Bank's flexibility in adjusting procurement methodologies and cost allocations among different components. The Bank attempted to give government the maximum flexibility during the implementation to accommodate the rapidly changing economic and social environment. EASRD's management also attached a great importance to this project by doing their best to secure an adequate budget and participating in several missions.

Borrower

7.4 Preparation:

The borrower's performance in project preparation is rated **highly satisfactory**. **First**, as the flagship poverty reduction project with many innovative measures, the project received attention from the highest level of the Government. For example, in October 1995, President Jiang Zemin, in his congratulatory letter to SWPRP's Launch Workshop, specifically asked the Leading Group for Poverty Reduction to "do its best to have a high quality preparation of the Qinba Mountains Poverty Reduction Project in order to contribute to the goal of basically eradicating absolute poverty in China by the end of 20th century." **Second**, the borrower demonstrated a high degree of commitment during the preparation period. The whole project preparation was finished within one and half years, with high quality work and covering all major areas correctly identified by the government's strategy (i.e., the 8-7 Plan). **Third**, the borrower incorporated many key lessons from the successful implementation of SWPRP in the project preparation. **Finally**, because of the strong organizational structure of the project, all relevant agencies were effectively involved in the preparation of the project and most issues during the project preparation were resolved in a reasonable and timely manner.

7.5 Government implementation performance:

The Government's implementation performance is rated **highly satisfactory**. The importance of continuous strong government support to the success of the project is one of key lessons learned (see Section 8). As an indication of the Government's strong support to the project, the actual mobilization of the counterpart funding exceeded the amount in the SAR by about 18%. The recommendations made in the Aide Memoires of the Bank's supervision missions received adequate attention from the PMOs and the issues identified were addressed by the PMOs diligently. The Government also paid adequate attention to the institutional capacity building for PMOs at different levels through providing necessary support, which significantly contributed to the project's implementation.

7.6 Implementing Agency:

The performance of the implementing agency at all levels is rated **highly satisfactory**. Quality implementation of the Qinba Project has been quite challenging for the new PMO system, particularly since these provinces had no previous experience with implementing a Bank-financed poverty reduction project with a multi-sectoral approach. In the end, the PMO system did an excellent job of the implementing the project in almost all aspects (see Section 5.3). A dedicated team was established working toward common objectives. As discussed in Section 4.2, the PMO system was adequately staffed in most project counties, with a total of about 11000 full time staff in the PMO system at all levels. The overall capacity of the PMO system in project management (including financial and procurement management, capacity building, etc.) and monitoring and evaluation have been significantly strengthened. Sichuan and Shaanxi, in

particular, did an outstanding job in project implementation. Lastly, in order to provide useful lessons for the next generation poverty reduction projects, the implementing agency conducted several specific activity-based evaluation and impact studies, such as the special studies on labor mobility, applied research, and the TVE component.

Nevertheless, there were some actions which could have been taken to further enhance the performance of the PMO system. For example, it is believed that the Ningxia PMO's institutional reorganization in the later years of project implementation had an unfavorable impact on the PMO's effectiveness. Moreover, the Ningxia PMO could have had better quality internal monitoring and evaluation work had they provided more guidance to the county PMOs.

7.7 Overall Borrower performance:

The overall borrower performance is rated **highly satisfactory**. Like SWPRP, the Qinba Project was a complex multi-sectoral project which contained numerous innovations. For example, the labor mobility component, the focus on beneficiaries' participation, and the emphasis on improving poverty monitoring were highly innovative activities in China in 1990s. The borrower accepted the challenges of preparing and implementing this project, overcame all obstacles throughout the project's life, and accumulated valuable experience. The borrower's success in the Qinba Project provided another convincing example that a multi-sectoral approach is one of the most effective ways for eradicating absolute poverty. These experiences have had a profound impact on China's poverty reduction strategy and design of the general development policy (see Section 4.1).

8. Lessons Learned

The successful implementation of the Qinba Project has provided the following key lessons, which should be helpful in terms of guiding the design of the next generation poverty reduction projects in China:

Strong support and a high degree of commitment from government at all levels is a precondition of the project's successful implementation. The Central Government at the highest levels and the State Council's LGPR provided strong support and leadership for the project. The support was matched by the institution building component which strengthened the project management system at all levels. The project would not have been as successful, and certainly would not have achieved the profound policy impacts, without LGPR's very strong and consistent support throughout the entire project life.

A strong and adequately supported Central PMO is essential for the success of a multi-province, multi-sectoral, and above-average complexity project. The Central PMO (i.e., FCPMC under the State Council's LGPR) played an indispensable role throughout the whole project life in terms of ensuring effective project design and preparation, monitoring overall project implementation and achievements, identifying and addressing key implementation issues, promoting cross-provincial learning, and facilitating dissemination of the useful experiences and incorporation of them into national policies. This is an important lesson that first emerged from SWPRP and was reconfirmed by the successful implementation of the Qinba Project.

A good synergy could be achieved through an integrated multi-sectoral approach. With strong and sustained support from governments at all levels, the multi-sectoral approach has been demonstrated to be one of the most effective approaches in achieving significant poverty reduction on a sustainable basis in the worst-affected areas. The Bank supervision missions repeatedly asked government officials and PMO staff at different levels and farmers about their preference between the multi-sectoral approach and the single-sector approach, and the answers were surprisingly consistent: all preferred the multi-sectoral

approach. Indeed, officials of various levels of PMOs also pointed out that the Qinba Project should have expanded its scope to cover basic health and education activities (which were under separate but parallel projects) as had been done under SWPRP. In fact, the SSB's independent monitoring reports provided evidence to support their argument. In short, given that the poverty issue is a multi-dimensional one, a multi-sectoral approach can achieve a good synergy from bringing different activities together, which cannot be achieved by a single-sectoral approach.

Active participation of beneficiaries throughout the project life is essential for effective implementation and a better sense of ownership. The importance of the active and effective participation of the beneficiaries has been increasingly recognized by the PMOs at different levels. The high degree of participation in the second half of the project is regarded as one of the major factors which contributed to the success of the project. PMOs at different levels believe that participation should be strengthened throughout the whole project life, and some effective ways of participation, including participatory evaluation and monitoring, have already been tested and scaled up in the project areas.

Effective institution building, including an emphasis on PMO's stability and continuity, is the foundation for successfully implementing a highly complex project in a very challenging environment. Throughout the implementation period, there has been a progressive build-up of an implementation system with strong capacity and dedication to deliver results with accountability, using methods and procedures that are transparent and verifiable. The benefits of successful institution building go far beyond the immediate results of poverty reduction in the project area.

Putting rural infrastructure first will ensure that benefits of activities under other components can be maximized. Road access in remote mountainous project areas has had a major impact by changing agricultural systems from subsistence to cash-based through improved access to inputs, support services and markets. For future projects in similar areas, rural infrastructure construction, particularly road access, should be implemented first so that benefits of activities under other components (including agriculture, labor mobility, education, and health) can be maximized.

Building flexibility into the project design will empower the project to accommodate a changing environment. The project design needs to be flexible in order to accommodate a changing environment. In this respect, the Qinba Project has set a good example. For example, to reflect the changes in the macroeconomic environment, the size of the TVE component was reduced significantly. In addition, in response to the beneficiaries' demand, the investment in rural infrastructure increased from about 11% of total project cost at appraisal to 18% actual. In Sichuan province, the size of the rural infrastructure was almost doubled.

Promoting farmers' human capital development will strengthen the project's sustainability. Many farmers have stated that one of the major project benefits was that it changed their way of thinking about how to improve their livelihoods. This not only includes improved technical knowledge gained through project training, but also includes increased self-confidence in their own abilities gained by trying and succeeding at new things, and by access to new information. Farmers' human capital development is a very important project achievement that provides a base for future economic development in project areas.

Rationale of supporting TVE activities should be carefully examined. Based on the experience of the TVE component, there is a need to revisit the assumptions and reassess the efficacy of supporting enterprise development under similar poverty reduction projects. Several fundamental questions should be asked and answered. First, it must be determined whether it is appropriate to have such a component in

poverty reduction projects in an increasingly market-oriented economy in China. Second, if a similar component still needs to be included in future programs, it must be determined whether the focus should be shifted from large- or medium-size state/collective enterprises to small private/collective enterprises, or even poor households' micro-enterprises. Third, perhaps a phased approach might be more appropriate (e.g., at the early stage of the project, only a limited amount of funds would be available for enterprise development, limited to a small number of selected counties. The component would be scaled up only after a satisfactory performance confirmed by the mid-term review). Finally, government intervention in the process of selecting beneficiary enterprises should be reduced and a more transparent and competitive enterprise selection process should be introduced.

Ensuring the independence of micro-finance institutions in its business operation is one of key conditions for achieving its financial sustainability. The micro-finance pilot in the Qinba project showed that county governments had strong incentives to intervene in the operation of the micro-finance institutions due to the on-lending arrangement used, i.e., the county governments provided the guarantee for the repayment of the Bank loans. The government interventions in staff appointments and use of loans resulted in a high proportion of non-performing loans, which severely weakened the ability of the micro-financial institutions to achieve financial sustainability. One possible way to reduce or eliminate the government interventions could be to on-lend the Bank loans directly to CFPA or other independent micro-finance institutions from the Ministry of Finance or from the Central PMO, instead of through local governments.

9. Partner Comments

(a) Borrower/implementing agency:

The Qinba Mountains Poverty Reduction Project was the second large-scale poverty project financed jointly by the Chinese government and the World Bank. Like the Southwest Poverty Reduction Project, the *Qinba Project* was also a multi-province and multi-sectoral project which directly targeted at the poorest households. The *Qinba Project* had the following major characteristics: (a) the project design built upon strength of SWPRP and reflected mainstream thoughts of poverty reduction in mid 1990s; (b) the *Qinba Project*, through mobilizing about US\$180 million financial resources from the World Bank, accelerated the process of fully achieving the goals set in the 8-7 Plan; (c) the *Qinba Project* generated many valuable lessons from its successful implementation which would be very useful for the Government to better design poverty reduction strategy in the 21st century; and (d) the *Qinba Project* established a good model for the great cause of global poverty reduction.

A. Major Achievements

(a) The poverty incidence in the project area was reduced at a speed faster than the national average. The poverty incidence was 26.7% in the project villages in 1997, and it was reduced to 4.6% by the end of 2003. During the same period, the national poverty incidence was reduced from about 5.4% to 3.1%. In the project area, the poverty gap index was reduced from 3.5% in 1997 to 0.6% in 2003, and the weighted poverty gap index was reduced from 1.2% in 1997 to 0.2% in 2003.

(b) Per capita income increased significantly. In 2003, per capita income in the project villages reached RMB1398, which was about 60% higher than that of 1997. Put in another way, the annual growth rate of the income per capita in the project villages was 8.1% from 1997 to 2003. However, the national average of farmers' annual per capita income growth rate was about 4% during the same period of time.

(c) Rural infrastructure conditions were significantly improved. The project solved the drinking water problem for 680,000 villagers and for 640,000 livestock. The project constructed 9000 km of village

access roads, and the percentage of villages with road access increased from 72% in 1997 to 100% in 2003. The percentage of villages with electricity access increased from 92% in 1997 to 100% in 2003, and the percentage of villages with telephone access increased from 23% in 1997 to 84% in 2003.

(d) There was an evident improvement of farmers' human capital and self-development capacity, which was a natural result of the project activities, including different applied technology training.

B. The Qinba Project's Wide Development Impact

(a) The project convincingly demonstrated the effectiveness of the multi-sectoral poverty reduction approach. The *Qinba Project* abandoned the traditional approach employed by the government; instead, it adopted a multi-sectoral approach and increased household-level investment intensity. The multi-sectoral approach achieved a synergy among different activities, and hence not only increased the farmers' income, improved their basic production and living conditions, and facilitated labor mobility, but also strengthened the farmers' capacity of pursuing self-reliance and self-development.

(b) The project had a profound policy impact. The successful implementation of the *Qinba Project* provided many valuable lessons for better conducting national poverty alleviation work. Many innovations of the project, such as participatory approach, village development planning, were incorporated into the China National Poverty Alleviation Strategy (2001-2010).

(c) The project actively encouraged farmers' participation. Compared with SWPRP, the *Qinba Project* achieved a better result of beneficiaries' participation. The participation was reflected in the whole project cycle, from the project design to implementation, and from implementation to monitoring. The better participation strengthened the farmers' sense of ownership and hence promoted the sustainability of the project.

(c) The project brought out positive changes in terms of women's status. For example, the construction of drinking water facilities reduced women's workload, improved general sanitary conditions, and reduced the likelihood of some diseases. Women's participation in some training activities also improved their production skills as well as management capacity. As the implementation moved forward, women became a major source of family income and hence their economic and social status was improved.

(d) The project generated a positive environmental impact. Addressing environmental degradation was one of development objectives of the Project. Therefore, the project deliberately included many activities which directly targeted restoration of the ecosystem and the mitigation of environment pressure. Land improvement activities (terracing, soil fertility conservation, afforestation through planting cash trees, etc.) significantly reduced soil erosion and effectively stabilized or even reversed environmental degradation.

C. Major Lessons

(a) Overall quality of the project design could have been better. At the project preparation stage, the feasibility of all activities was carefully examined. However, given the wide scope of the project and short time for preparation, the feasibility of some activities, particularly for those under the TVE component, was not adequately scrutinized. In addition, it was believed that more attention should be given to achieve a higher degree of complementarity among activities so that the effectiveness of a multi-sectoral project could have been maximized.

(b) There should be more flexibility in terms of adjusting the project activities. To address ever-changing economic environment as well as demands from farmers, the procedure for adjusting the project activities should be more simplified. For example, at the early stage of the project implementation, it took two years to adjust the procurement methodologies for chemical fertilizer, pesticide, and plastic mulch, etc., and hence the progress of the agricultural component was negatively affected.

(c) There is a need of exploring a new way to promote rural enterprise development. The performance of the project's TVE component was not satisfactory due to the following reasons. First, the selected enterprises had a serious lack of equity, and accordingly, there was a lack of working capital. Second, feasibility studies of some enterprises were not carefully conducted, and the selection focused too much on large scale enterprises. Third, enterprise ownership and the property rights arrangements of many TVEs were not clearly defined, and hence it ended up that no one was responsible for repaying the loan in many cases. It is an important task to explore a better way of promoting TVE development to serve the poor farmers better, in terms of providing more employment opportunities, diversifying income sources, increasing income per capita, and raising the value-added of the agricultural products.

(d) Government should bear more responsibility of mobilizing counterpart funding. After the financial sector reform in 1998, the management of subsidized loan was shifted from the Agricultural Development Bank (a policy bank) to the China Agricultural Bank (a commercial bank). However, there was a conflict between the objectives of a commercial bank and the objectives of poverty reduction. The government had intended to rely on the subsidized loans as a major source of counterpart funding, but found it difficult to mobilize those funds following the 1998 financial sector reform. Accordingly, the implementation of the project was negatively affected and farmers' contribution to the counterpart funding was increased.

(b) Cofinanciers:

None

(c) Other partners (NGOs/private sector):

None

10. Additional Information

None.

Annex 1. Key Performance Indicators/Log Frame Matrix

Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR ¹	Actual/Latest Estimate
A) Poverty Reduction Model:		
(1) Establish a focused multi-sectoral rural development project approach to poverty reduction in China	the multi-sectoral poverty reduction model did not exist	a focused multi-sectoral poverty reduction model has been successfully established and become and remained as a national policy
(2) extend this model to China's other poor counties.	the model was only piloted in SWPRP	the model has been successfully extended nationwide
B) Reduce Poverty:		
(3) poverty headcount rate	poverty incidence was 26.7%	poverty incidence was reduced to 4.6% in 2003
(4) rate of poverty gap*	3.5% in 1997	0.6% in 2003
(5) rate of weighted poverty gap**	1.2% in 1997	0.2 in 2003
(6) per capita income	854 yuan in 1997	1398 yuan in 2003
C) Ability To Deal With Risks:		
(7) percentage of population with greater than subsistence levels of grain production,	6% percentage of population with per capita grain output less than 150kg/per year in 1997	4% percentage of population with per capita grain output less than 150kg/per year in 1997
(8) per capita cash at hand at year-end	84 yuan in 1997	238 yuan in 2003
(9) per capita grain storage at year-end	190 kg in 1997	387 kg in 2003
(10) proportion of wage income	25.9% in 1997	45.7% in 2003
D) Rural Infrastructure Conditions:		
(11) percentage of villages with road access	71.8% in 1997	100% in 2003
(12) percentage of villages with electricity access	92.3% in 1997	100% in 2003
(13) percentage of villages with telephone access	23.1% in 1997	83.6% in 2003
(14) proportion of households with access to water within 100 meters	55% in 1997	79.2% in 2003
(15) proportion of households spending less than 30 minutes per day fetching water	60% in 1997	86.4% in 2003

* The rate of poverty gap is a measure of the additional income that would be necessary to bring a poor person up to the poverty line. Summed across the poor population and normalized against the poverty line and total population size, the indicator can be used to assess the relative depth of poverty among subpopulations, across time, or internationally.

** The rate of weighted poverty gap takes into account not only the distance separating the poor from the poverty line (the poverty gap), but also the inequality among the poor. That is, a higher weight is placed on those households who are further away from the poverty line.

Output Indicators:

Indicator/Matrix	Projected in last PSR ¹	Actual/Latest Estimate
E) Labor Mobility:		
(16) the number of upland poor finding off-farm employment through the project	none in 1997	199276 persons found off-farm job through the project by the end of 2003
(17) percentage of labor migrated for off-farm job	15% in 1997	25% in 2003
(18) remittances by these project financed successful migrant laborers to their "home-village" families	none in 1997	RMB1.7 billion yuan by the end of 2003
F) Micro-finance:		
(19) number of borrowers increased	none in 1997	41000 borrowers by the end of the project
(20) total loan portfolio	none in 1997	RMB18.6 million in 2003
G) Environmental Improvement:		
(21) percentage of households with difficulty securing fuel materials	61.5% in 1997	41% in 2003
H) General Living Standards:		
(22) Engel coefficient*** (%)	64% in 1997	53.8% in 2003
(23) per capita living space	16.6 square meters in 1997	23.6 square meters in 2003
(24) per capita meat consumption	15.8 kg in 1997	17.6 kg in 2003
I) Gender:		
(25) girl-boy ratio for 7-12 age group students (boy=100)	89.8% in 1997	98.2% in 2003
J) Market Participation		
(26) proportion of grain sold in market	10% in 1997	17.8% in 2003
(27) proportion of meat sold in market	38.7% in 1997	55.9% in 2003

¹ End of project

***The ratio of expenditures on food consumption out of total expenditures. Over time the ratio tends to decline as incomes rise.

Annex 2. Project Costs and Financing

Project Cost by Component (in US\$ million equivalent)

Component	Appraisal Estimate US\$ million	Actual/Latest Estimate US\$ million	Percentage of Appraisal
Labor Mobility	37.00	46.10	124.59
Rural Infrastructure	30.70	70.60	229.97
Land and Farmer Development	149.60	232.00	155.08
Township and Village Enterprises Development	47.30	24.50	51.8
Micro-finance	3.20	6.80	212.5
Institutional Building and Project Management	7.80	7.60	97.44
Poverty Monitoring	2.00	1.30	62.5
Total Baseline Cost	277.60	388.90	
Physical Contingencies	13.70		
Price Contingencies	68.70		
Total Project Costs	360.00	388.90	
Total Financing Required	360.00	388.90	

Project Costs by Procurement Arrangements (Appraisal Estimate) (US\$ million equivalent)

Expenditure Category	Procurement Method ¹			N.B.F.	Total Cost
	ICB	NCB	Other ²		
1. Works	0.00 (0.00)	27.70 (9.70)	168.80 (58.50)	0.00 (0.00)	196.50 (68.20)
2. Goods	40.00 (40.00)	24.20 (18.10)	12.30 (10.00)	0.00 (0.00)	76.50 (68.10)
3. Services	0.00 (0.00)	0.00 (0.00)	11.00 (11.00)	0.00 (0.00)	11.00 (11.00)
4. Labor Training and Placement	0.00 (0.00)	0.00 (0.00)	43.40 (21.70)	0.00 (0.00)	43.40 (21.70)
5. Micro-finance Subloans	0.00 (0.00)	0.00 (0.00)	3.60 (1.80)	0.00 (0.00)	3.60 (1.80)
6. Miscellaneous	0.00 (0.00)	0.00 (0.00)	15.00 (9.20)	14.00 (0.00)	29.00 (9.20)
Total	40.00 (40.00)	51.90 (27.80)	254.10 (112.20)	14.00 (0.00)	360.00 (180.00)

Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US\$ million equivalent)

Expenditure Category	Procurement Method ¹			N.B.F.	Total Cost
	ICB	NCB	Other ²		
1. Works	0.00 (0.00)	7.93 (2.78)	242.81 (77.40)	0.00 (0.00)	250.74 (80.18)
2. Goods	26.14 (26.14)	5.49 (4.69)	27.29 (20.14)	0.00 (0.00)	58.92 (50.97)
3. Services	0.00 (0.00)	0.00 (0.00)	20.24 (20.24)	0.00 (0.00)	20.24 (20.24)
4. Labor Training and Placement	0.00 (0.00)	0.00 (0.00)	42.86 (17.74)	0.00 (0.00)	42.86 (17.74)
5. Micro-finance Subloans	0.00 (0.00)	0.00 (0.00)	6.49 (3.20)	0.00 (0.00)	6.49 (3.20)
6. Miscellaneous	0.00 (0.00)	0.00 (0.00)	8.96 (4.67)	0.69 (0.00)	9.65 (4.67)
Total	26.14 (26.14)	13.42 (7.47)	348.65 (143.39)	0.69 (0.00)	388.90 (177.00)

^{1/} Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

^{2/} Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Project Financing by Component (in US\$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	Bank	Govt.	CoF.	Bank	Govt.	CoF.	Bank	Govt.	CoF.
Labor Mobility	24.60	24.00		20.90	25.20		85.0	105.0	
Rural Infrastructure	16.00	24.50		32.00	38.60		200.0	157.6	
Land and Farmer Development	100.70	94.10		105.20	126.80		104.5	134.8	
Township and Village Enterprises Development	28.80	33.40		11.10	13.40		38.5	40.1	
Micro-finance	2.00	2.10		3.10	3.70		155.0	176.2	
Institutional Building and Project Management	6.70	1.90		3.50	4.10		52.2	215.8	
Poverty Monitoring	2.00			1.20	0.05		60.0		

Annex 3. Economic Costs and Benefits

Overall evaluation

Data from different sources has consistently confirmed that the project achieved remarkable economic, social and environmental benefits. There was a steady improvement of a series of key monitoring indicators. The incidence of poverty, for example, declined from 27% in 1997 to about 5% in 2003; average per capita income increased from RMB854 to RMB1398 during the same period (Table 3.1). The beneficiaries obtained more development opportunities as shown by the enhanced market participation, and strengthened ability to manage risks. The project also resulted in an increased school enrollment rate of girls, and a reduced level of gender disparity. Project villages, in many aspects, outperformed the non-project villages which generally enjoyed much better initial conditions. For example, in 2003, the incidence of poverty was almost the same as the national average, whereas in 1997 it had been nearly five times as high as the national average.

The project also generated significant environmental and ecological benefits, which were confirmed by an independent environmental monitoring report of 2003. The forest area was increased by 49%, the irrigated area by 20%, and the area of terrace by 22%. The proportion of households with difficulty of obtaining daily fuel materials, an indicator used to measure the change of ecological environment, decreased from 62% in 1997 to 41% in 2003.

The overall ERR of the project as a whole, under several conservative assumptions, is estimated to be 37%.

Table 3.1. Selected Indicators of Economic and Social Benefits

	1	2	3	4	5	6	7	8	9
Year	Poverty incidence (%)	Food security* (kg)	p. c. income (yuan)	Villagers w/ access safe water (%)	Villages w/ access roads (%)	Labor migration (%)	Remittance (billion yuan)	proportion of meat sold in market (%)	Gender gap** (%)
1997	26.7	190	854	n.a.	71.8	15	n.a.	38.7	89.8
2000	17.9	331	1087	75	91.0	22	n.a.	42.7	96.7
2003	4.6	387	1398	86	100	25	1.7	55.9	98.2

* Food security is measured by per capita grain storage at year-end.

** Gender gap is measured by the ratio of girls' enrollment rate over boys' enrollment rate for the age group of 7-15.

Rate of return estimation

Data for calculating the ERR comes from provincial village surveys (conducted by PMOs) and a series of Poverty Monitoring Report for The Qinba Project (State Statistical Bureau, 1997-2004).

Project benefits have been quantified for four major components: (a) the labor mobility, (b) the rural infrastructure (for the irrigation subcomponent), (c) the land and farmer development, and (d) the TVE development (for the rural market construction subcomponent). Investment in these four major components accounts for 96% of total project investment. The benefits of other components (institutional building, poverty monitoring and micro-finance) are difficult to quantify and hence ERRs have not been calculated for them. Given their small share in the total project cost, their exclusion does not have a significant impact on the conclusion. To get the ERR of the project as a whole, the individual ERRs are weighted by the investment proportion of corresponding components in the total project.

No calculation has been made of the financial rate of return (FRR) of the project or of any of its components. After twenty five years of market-oriented economic reforms, price distortions resulting from

government intervention in the economy have largely been eliminated. An integrated domestic market has been established and it is increasingly integrated with the international market. Against this background, there is essentially no additional value to calculate the ERR and the FRR separately to capture the impact of price distortions. The SAR found no significant difference between the economic and financial rates of return for the two components examined, with only exception of TVE component. On this basis, it is believed that the estimated ERRs are representative of the FRRs. Table 3.2 presents estimated ERRs for the whole project as well as for specific components.

Table 3.2 ERRs to the whole project and four components

	Project as whole	Labor mobility	Rural infrastructure	Land and farmer development	TVE
ICR	37%	More than 50%	27%	36%	13%
SAR	40%	43%	n.a.	43%	47-71%

Labor mobility: This component has overwhelmingly been rated by the project beneficiaries as one of their most favorite components. In many cases, farm households can easily repay what they borrowed from the project within the same year, which makes ERR undefined. SSB's Poverty Monitoring Report also consistently shows that improving off-farm job opportunities has considerably contributed to the increase of per capita income. Under a set of very conservative assumptions, by using the data from the representative village survey, the ERR for the Labor Mobility component is estimated to be more than 50%.

Rural infrastructure: Rural infrastructure is also one of the components most welcomed by the beneficiaries. The Poverty Monitoring Report (SSB, 2001) shows that the small irrigation subcomponent results in 1.35% increase of per capita income. Based on this parameter and three other moderate assumptions about the number of beneficiaries, potential of per capita income growth after 10 years, and maintenance cost, the rate of return to the small irrigation subcomponent is estimated around 27%. This ERR can be treated as the lower bound of the real ERR for the whole rural infrastructure component. For example, when asked to rank the subcomponents of the infrastructure component, farmers always give the first two priorities to road construction and drinking water supply. Farmers generally rank small irrigation as the third priority. Therefore, it can be reasonably argued that ERRs for road and drinking water should be higher than that of small irrigation in order to match farmers' preference order. Moreover, other researchers (e.g., Rozelle and Huang, 2003) also found similar results, which gives us additional confidence in our findings.

TVE development: The size of the component was significantly reduced and the focus was shifted after the mid-term review. The whole component included two group activities: small farmers' markets construction (accounting for 20% of total component cost) and enterprises development (accounting for the remaining 80%). There were total 23 markets constructed and 22 enterprises obtained support from the project. For the small market construction subcomponent, based on data from Sichuan Province and extrapolating the benefits over 20 years, the ERR for constructing local markets is about 42%. For the enterprise development subcomponent, there is not enough data to calculate the ERR; however, it is assumed that the ERR is around 5% given its generally unsatisfactory performance. Weighted by their share in the total project investment, the ERR for the whole TVE component is estimated 13%.

Land and farmer development: Following conventional methodology, the ERRs for the three subcomponents have been calculated: livestock subcomponent (including goat, pig, and silkworm), the cash-crop/tree-crop subcomponent (including tea and sugar cane), and the grain subcomponent (including

maize and rice). The overall weighted ERR for the whole component is about 36%, ranging from 22% (pig raising) to 66% (silkworm).

Detailed calculations of the economic analysis, including methodologies, specific assumptions, crop budgets, and activity models, are provided in the project files (Annex 7, Document No.14).

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating		
	Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation					
	11/15/1995	17	TTL (1), MICROFINANCE (2), SOCIAL (1), RESETTLEMENT (1), UN POVERTY ADVISOR (1), PROCUREMENT (1), INFRASTRUCTURE (1), AGRICULTURE (2), ANTHROPOLOGIST (1), DIVISION CHIEF (1), ECONOMIST (2), ENVIRONMENTAL (1), HEALTH (1), EDUCATION (1)		
	04/21/1996	17	TTL (1), M & E (3), MICROFINANCE (1), SOCIAL (1), PROCUREMENT (1), INFRASTRUCTURE/INSTITUTION (1), AGRICULTURE (2), ETHNIC MINORITY (1), DIVISION CHIEF (1), ECONOMIST (1), GENDER (1), ENVIRONMENTAL (1), HEALTH (1), EDUCATION (1)		
	09/17/1996	14	TTL (1), MICROFINANCE (1), SOCIAL (1), LABOR MOBILITY (1), ENTERPRISES (1), INFRASTRUCTURE (2), AGRICULTURE (2), ECONOMIST (1), ENVIRONMENTAL (1), HEALTH (1), EDUCATION (1)		
Appraisal/Negotiation					
	01/11/1997	9	TTL (1), MICROFINANCE (1), LAWYER (1), ECONOMIST (2), INFRASTRUCTURE/INSTITUTION (1), AGRICULTURE (2), RESETTLEMENT (1)		
Supervision					
	11/18/1997	5	SR. ECONOMIST (1); ENGINEER (1); AGRONOMIST (1); LABOR MOBILITY (1); AGRICULTURALIST (1)	S	S
	04/24/1998	5	SR. ECONOMIST (1); LABOR	S	S

			MOBILITY (1); ENGINEER (1); AGRONOMIST (1); AGRICULTURALIST (1)		
11/19/1998	7		MISSION LEADER (1); AGRICULTURE (2); INFRASTRUCTURE (1); LABOR/MICROCREDIT (1); TVES/MICROCREDIT (1); PARTICIPATION (1)	S	S
05/13/1999	5		TASK TEAM LEADER (1); ENGINEER (1); AGRICULTURALIST (1); ECONOMIST (2)	S	S
09/30/1999	5		MISSION LEADER (1); LABOR MOBILITY/CREDIT (1); INFRASTRUCTURE/INSTIT. (1); AGRICULTURE (1); TVES/CREDIT (1)	S	S
06/09/2000	7		TASK MANAGER (1); RURAL ENTERPRISE DEV. (1); ENGINEER/INSTITUTIONS (1); AGRICULTURE (1); SOCIAL (2); FINANCIAL MANAGEMENT (1)	S	HS
04/06/2001	4		MISSION LEADER (1); ENGINEER (1); CREDIT SPECIALIST (1); AGRICULTURALIST (1)	S	HS
06/17/2002	5		TEAM LEADER (1); CIVIL ENGINEER (1); ECONOMIST AND FINANCIA (1); AGRICULTURIST (1); DISBURSEMENT ANALYST (1)	S	S
11/02/2002	2		MISSION LEADER (1); ECONOMIST (1)	S	S
11/21/2003	8		TTL (1); ECONOMIST (1); SECTOR LEADER (1); ENVIRONMENTAL EXPERT (1); AGRICULTURAL EXPERT (1); INFRASTRUCTURE EXPERT (1); SECTOR DIRECTOR (1); FINANCIAL SPECIALIST (1)	S	S
06/08/2004	5		TTL (1); ECONOMIST (1); AGRICULTURAL EXPERT (1); INFRASTRUCTURE EXPERT (1); FINANCIAL SPECIALIST (1)	S	S
11/08/2004	3		TTL (1); FINANCIAL SPECIALIST (1); SOCIAL AND ENVIRONMENTAL SPECIALIST (1)	S	S

ICR	03/27/2005	4	TTL (1); SENIOR ECONOMIST (1); SENIOR AGRICULTURE SPECIALIST (1); MICRO-FINANCE SPECIALIST(1)	S	S
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(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US\$ ('000)
Identification/Preparation		
Appraisal/Negotiation		219.84
Supervision		511.38
ICR		
Total		731.22

Identification/preparation costs incorporated in Appraisal/Negotiation; and ICR costs incorporated in Supervision.

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	<u>Rating</u>				
<input type="checkbox"/> Macro policies	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> Sector Policies	<input checked="" type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> Physical	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> Financial	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> Institutional Development	<input checked="" type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> Environmental	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA

Social

<input type="checkbox"/> Poverty Reduction	<input checked="" type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> Gender	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input checked="" type="checkbox"/> Other (Please specify)	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA

The project has generated a significant positive impact on ethnic minority people. A review conducted by the Bank's Social Development Specialist confirmed that the Hui nationality people had equal opportunities to participate in the project, and had benefited from project activities such as livestock raising, terracing, as well as cropping.

<input type="checkbox"/> Private sector development	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> Public sector management	<input checked="" type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> Other (Please specify)	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA

The independent poverty monitoring implemented by the State Statistics Bureau had helped upgrading poverty monitoring at the national and local levels, and generated an impact which went far beyond the project itself.

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance

Rating

- | | | | | |
|--------------------------------------|--------------------------|------------------------------------|-------------------------|--------------------------|
| <input type="checkbox"/> Lending | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Supervision | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Overall | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |

6.2 Borrower performance

Rating

- | | | | | |
|--|-------------------------------------|-------------------------|-------------------------|--------------------------|
| <input type="checkbox"/> Preparation | <input checked="" type="radio"/> HS | <input type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Government implementation performance | <input checked="" type="radio"/> HS | <input type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Implementation agency performance | <input checked="" type="radio"/> HS | <input type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Overall | <input checked="" type="radio"/> HS | <input type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |

Annex 7. List of Supporting Documents

1. Qinba Mountains Poverty Reduction Project Staff Appraisal Report
2. Aide Memoires
3. Project Status Reports
4. Qinba Mountains Poverty Reduction Project "Jungong" (completion) Report (by FCPMC, in Chinese)
5. Component Evaluations
 - 5.1 Labor Mobility Component (by CWHRDC)
 - 5.2 TVE Component
 - 5.3 Micro-finance Component
 - 5.4 Applied Research Activities
6. China Poverty Alleviation Plan (2001 to 2010) Leading Group for Poverty Reduction of the State Council
7. New Development Concept: from the Perspective of International Cooperation, March 9, 2005, Guangming Daily (by Zhu Guangyao, Director General of International Department, Ministry of Finance)
8. Qinba Project: Post-implementation Environmental Impact Evaluation, Sheng Dezhong, September 2003, China Agricultural University
9. SSB Series Qinba Poverty Monitoring Reports (1997 to 2003)
10. Documents from the National Conference in December, 2004
11. National Seven-Year (1994-2000) Plan for Poverty Reduction (8-7 Plan) Leading Group for Poverty Reduction of the State Council
12. English Translation of the Government's Statement on Nominating the World Bank As the Recipient of the China Poverty Eradication Award (September 2004)
13. Report of the Sixth round of Quality of Supervision Assessment (QSA6)
14. Rate of Return Calculations (spreadsheet) and Underlying Data (in Chinese)

Additional Annex 8. The Qinba Project in A Farmer's Eyes

My name is He Yuangui and I live in Dagoutou Village, Longchi Township, Jialing District, Nanchong City, Sichuan Province. I have five family members and 8.5 mu farmland, of which, 2.5 mu paddy field and 6 mu dry land. Since 1997, through the implementation of the Qinba Project, my family's economic situation has changed greatly. Here I would like to share my views and feelings about the Qinba Project with all of you.

1. Construction of water conservancy facilities and village roads has led to the improvement of production and living environment

Before the implementation of the project, my family had to spend half a work-day to carry water from the gully half a kilometer away. The 2.5 mu paddy field was very low quality land (we called it as "cold, bad and poisonous land") and due to insufficient sunlight, damages caused by disease and insect were very severe every year. Almost all of the 6 mu dry land was with a slope greater than 25 degrees and cultivation was very difficult. In addition, as there was no road, whenever I wanted to sell a pig, I had to ask four persons to carry it to the market about four kilometers away, and the labor cost and other expenses was more than RMB100. At that time, the annual net income of the whole family was less than RMB1,600 and per capita grain was less than 150 kg. Doggerel in our valley was: "mountains are high and stones are numerous, walking out of door to climb hills; the gully is too long and there are many bachelors in the village." That is to say, our village had too many bachelors and young people could not find wives due to poverty.

In 1996, the working staff from the Qinba Project Office in Jialing District and the township Project Work Station visited our village and households and went to my home to talk to me. They asked me what I was thinking and what I was expecting. I said: "If the drinking water problem is not solved, our lives will not be guaranteed;" "To become rich, the first thing to do is to build road. When the road is built, it will bring us a lot of conveniences" and "If our gully land was improved, the yield will be increased." So with the help of the working staff from the district and county project offices and through the extensive participation of peasant households in the whole village, the village level planning for the Qinba Project was formulated for the whole village. The first was to resolve the difficulty of water and road for the village. With the rumbling sound of exploding rocks, the curtain of the Qinba Project was raised in our village. After implementing the project for seven years, 59 irrigating storage ponds, 3 terrace ponds, 2 drinking water bailing projects, 28 manmade wells and 10 km village road were successively built. My family also expanded 6 mu wooded area, improved 2.5 mu low-yielding paddy field and 4 mu low-yielding dry lands and built 1 manmade well and improved our production and living environment.

2. Construction of industrial bases has expanded our money bag

"Cultivating land is to cram ourselves with food, raising chicken and ducks is for edible oil and salt, and raising a fat pig is for the Spring Festival." This was the true situation of our village before 1996. "We can eat and fill, but do not have decent food; we work everyday, but do not have cash" is a common saying of all villagers. When the Qinba Project was initiated, our village carried out 230 mu of improved wheat, 350 mu of plastic-mulched corn, 580 mu of paddy field, 180 mu of sweet potato, 200 mu of field vegetables, planted 650 mu of fruit forest, introduced high quality meat pigs and 960 goats, and built 110 stalk ammonification pits. As a village cadre, I took the lead to carry out 4 mu of improved wheat, 5 mu plastic-mulched corn, 2.5 mu paddy rice project, 3 mu sweet potato and 2 mu field vegetables; planted 5 mu fruit forest, raised 12 pork pigs and 4 high quality black goats, and built 1 ammonification basin, and

established the pillar industry for income increase for our family. At the same time, I participated in 11 various trainings held by the district and township project offices. My son attended the motorcycle repair training seminar in May 2001 and now is engaged in his own repair business. My wife participated in 3 livestock breeding trainings. Due to the project, the overall production and living skills of my family members have greatly improved.

3. Participation by farm households in the project evaluation enhanced the project effectiveness and transparency

How is the implementation effectiveness of the Qinba Project? Leaders' favorable comments do not count, but peasants' comments do. In the beginning of 2004, the District PMO used the method of participation to conduct final project acceptance and evaluation in our village and I was elected as a member of the evaluation group. The acceptance evaluation results from the whole village showed that 283 peasant households were satisfied with the project implementation, accounting for 86% of project participating households, and 34 peasant households were basically satisfied, accounting for another 10% of project participating households.

Within the period of the Qinba Project implementation, the total investment in our village was RMB2.3 million and the average amount of investment for each household was about RMB4,000 and per capita investment was RMB1,077. My family received total RMB5,700 project fund and per capita fund was RMB1,140. Through the utilization of the funds, we achieved the following great effects:

Firstly, through infrastructure construction, agricultural production condition in our village has been greatly improved and per capita basic farmland (that is, stable and high yield land) was 0.8 mu, increasing 0.6 mu. The previous situation of living at the mercy of weather has been changed and the ability to resist and defend against natural disasters has been strengthened. The village road has been built, and this has changed previous situation of going out of door with sweat all over in sunny days and with mud all over in rainy days. At the same time, it facilitates the flow of agricultural and sideline products as well as transporting agricultural production materials. Running water is supplied for the whole village and labor time spent on fetching water has been significantly reduced.

Secondly, through crop and plant cultivation, livestock breeding, and finding off-farm employment through the labor mobility component, per capita income has been greatly increased. Improvement of medium and low yielding field and standard agricultural crop cultivation has led to the increase of grain output. For example, yield of one mu corn was 140 kg before improvement, but it reaches 310 kg after improvement. This year for my family, the number of meat pigs and sheep for sale was 11 and 3 respectively, an increase of 8 and 2 respectively compared with that of 1996. My family income has seen an increase of RMB7,700 due to livestock activities. Since fruit forest activity was implemented, the fruit trees grow well and are expected to bear fruits successively and will play an active role in increasing my family income. At the end of year 2004, per capita net income for my family was RMB3,680 yuan and per capita grain was 450 kg. We have cast away our poverty hat and resolved the problem of inadequate food and inadequate clothing. In sum, our life quality has been improved.

Thirdly, through technical training and labor mobility, each family of the whole village has at least one member who learned 1 or 2 applied technologies and become new type peasants. I myself also have learned technologies such as crop cultivation, fruit tree planting, livestock breeding and project management through participation in district and county level trainings. Now, I am a barefoot expert in our village and I share the knowledge I learned with other project peasant households in our village. I am loved and esteemed by villagers. In 2000, I was elected as the director of our Villagers' Committee and became a

village level leader. My son is engaged in motorcycle repair and his annual income is over 8,000Yuan. Through technical trainings in livestock breeding, my wife abandoned the traditional feeding method and adopted the new one. She knows much more about production and marketing than before due to the project implementation. My wife's status both in our family and in our community has been improved.

Fourthly, through the project implementation, my family living environment has been improved. In October 2003, my family built 240 square meter brick and tile house and upgraded our kitchen and toilet, thus our living environment becomes better. Also, our family has cable TV, telephone, refrigerator, washing machine, and even mobile phone now.

The implementation of the Qinba Project has changed the poverty situation in our village and given us a better life. Here I shall thank the Poverty Alleviation Office at all levels, thank the PMOs, thank the World Bank, and thank all people who care about us in the poverty stricken region.

Additional Annex 9. Borrower's ICR Summary

The Qinba Mountains Poverty Reduction Project was the second large-scale, cross-regional, and multi-sectoral poverty project cooperated between the World Bank and the Chinese Government. The objectives of the project were to greatly reduce the absolute poverty in 26 national designated poor counties in Qinba mountains area, to solve problems of inadequate food and clothing for 2.3 million poor people, and to demonstrate the effectiveness of an integrated poverty reduction model. The total project investment was about RMB2,988,000,000, including \$180,000,000 World Bank loan (of which, \$150,000,000 credit from the International Development Association and \$30,000,000 loan from the International Bank for Reconstruction and Development). The project was included in the Government's three-year national plan on utilizing foreign capital in March 1995 and preparation work started in September 1995. The Qinba Project was approved by the World Bank in July 1997 and became effective in October 1997. The project implementation was completed on July 31, 2004 and the project was closed on December 31, 2004.

The Government adopted and expanded the concept of the Southwest Poverty Reduction Project in the Qinba Project design. The Qinba Project also reflected then mainstream views on overcoming rural poverty in China. The project was successfully implemented with a full achievement of all development objectives. There are many factors contributed to the project's success, such as the great importance attached by the leaders of Chinese Government at different levels, close and effective cooperation between related departments, arduous work of the project implementation agencies, and active participation of poor farm households in the whole process of the project implementation.

1. Overall Project Implementation

Labor Mobility. An investment of RMB383,000,000 was completed. The component included investment of RMB210,000,000 in Sichuan Province and RMB173,000,000 in Shannxi Province. Up to December 2003, totally 199,276 people as surplus labors were migrated from the project area (accounting for 100.3% of the ultimate goal). Of which, 110,300 people were from Sichuan Province and 88,976 from Shannxi Province.

Rural Infrastructure. The final investment of the component was about RMB586,000,000, about 200% of the appraisal goal. This component was among one of farmers' most favorite components. The total investment was greatly increased during the period of implementation as a response to the strong demand from farmers. The source of funding for increasing the size of the component came from the unallocated funds reserved at the project appraisal stage, funds released from the rural enterprise component, and increased domestic counterpart fund. By the end of implementation, 9,843 km village road were constructed, drinking water problems for 600,000 people was solved, irrigated area increased at 37,722 hectares, 4,228 biogas generating pits were built, 18,001 solar-energy stoves were constructed, and 78km rural 10kV-electric transmission line was established.

Land and Farmer Development. This component had the highest investment amount and covered a wide range of activities. The component's ultimate investment goal was RMB181,000,000 and the actual investment was RMB193,000,000. Following seven years' project construction, most project activities were successfully completed except the construction of gravity trickle irrigation to which poor farmers were not willing to invest due to cost and associated great risks. 58,273 hectares farmland and 30,196 irrigation land were newly added to the project villages; 71,250 hectares food crops such as wheat, paddy rice and core were planted; 37,218 hectares medicinal herbs and vegetables and 6,500,000 bags of edible funguses were planted; 63,899 hectares forest and fruit trees such as tea, mulberry silkworm, Chinese chestnut and

walnut were planted; more than 1,300,000 heads of domestic animals such as pig, sheep and cattle and approximately 1,800,000 small domestic fowls were raised; 7,216 hectares seed production land and 351 hectares tree cultivation were completed; over 2,300,000 person-time received applied technical trainings at county, township and village levels; veterinarian service was provided for over 1,600,000 heads of domestic animals; new technologies from four applied technical researches were extended to 77,901 hectares; totally 11 rural practical research subprojects were completed in the three project provinces.

Township and Village Enterprises Development. Due to the rapid changes of market situation and insufficient preparation, implementation of the component moved very slowly at the beginning and significant adjustment was conducted at the mid-term review. By the end of July 2004, total RMB203,000,000 investment was completed, accounting for 39.8% of the appraisal estimate. Sichuan made the greatest reduction of this component and final investment was only about 13.0% of appraisal estimate. Shaanxi completed RMB164,000,000 investment and Ningxia completed RMB6,350,000, accounting for 70.0% and 26.5% of the appraisal estimates respectively. By the end of July 2004, the component totally supported 23 rural enterprises, of which 14 are still operating, 5 have completely stopped production, and the remaining 4 have not started operation yet. Activities on rural market construction were generally satisfactory. Out of 23 market places constructed by the component, 20 are operating normally.

Micro-finance. This was a pilot based component. Two counties (Langzhong in Sichuan and Hanbin in Shannxi) were selected as experimental spots for this component. After the mid-term review of November 2000, Tongjiang County in Sichuan Province was added to the pilot. By the end of June 30, 2004, the three counties totally completed RMB56,230,000 investment, accounting for 103.4% of the finalized goal, and total amount of loans to farm households was RMB53,670,000, which was 107% of the final adjusted goal. Total about 40,963 farm households received loan services from the component, which was about 121% of the ultimate goal.

Institutional Building and Project Management. The component completed RMB63,393,000 investment, about 90% of the ultimate objective. Of the total investment, RMB25,333,000 was in Sichuan, RMB29,793,000 in Shannxi, and RMB8,266,000 in Ningxia. All the main construction contents were successfully completed. 10,363m² office area were constructed, 1,023 sets of office equipments were provided (e.g., computer, printer and facsimile apparatus), and 46 vehicles were purchased. Total about 190,000 person-day project management personnel were trained and 17 overseas training and study tours were organized, participated by more than 200 person-time.

Poverty Monitoring. Total investment was about RMB10,339,000, being 103.8% of the appraisal objective. Of the completed investment, RMB4,113,000 was for the State Statistics Bureau's poverty monitoring work and RMB6,225,000 was for monitoring labor mobility by the West Center. In both 1997 and 2002, all 2,600 peasant households in 26 project counties were surveyed. From 1998 to 2001, follow-up surveys were conducted for the 1,300 peasant households in the 13 project counties out of the 26 counties. By the end of the project implementation, total six poverty monitoring reports on the project performance compiled by the State Statistics Bureau were published.

2. Project's Financial Aspects

World Bank credit/loan. By the end of September 2004, the three project provinces totally withdrawn 108,500,000 special drawing rights and \$30,000,000 for World Bank account, amounted to about \$171,990,00 due to exchange rate fluctuation. In terms of Renminbi, the total amount was RMB1,422,360,000. Of which, Sichuan withdrawn 50,360,000 special drawing rights and \$15,110,000

loan; Shaanxi 42,470,000 special drawing rights and \$10,940,000; and Ningxia 9,750,000 special drawing rights and \$3,930,000 loan. China Western Human Resource Center withdrawn 5,920,000 special drawing rights and \$16,000 loan. According to analysis of the availability of World Bank funds in all provinces and regions, Sichuan, Shannxi, Ningxia and China West Human Resource Center completely realized the debts as scheduled by the end of 2004.

Counterpart fund. By the end of project implementation, about RMB2,105,970,000 counterpart fund was made available to the project, being 124% of the planned figure. Of the total counterpart fund mobilized, RMB1,303,510,000 was from Sichuan (125% of the planned figure); RMB621,800,000 from Shannxi (82% of the planned figure), and RMB180,670,000 from Ningxia (121% of the planned figure). Analysis of the counterpart funds in the three provinces shows that the total available amount of counterpart funds for the three provinces exceeded the appraisal targets.

Divided the counterpart funds by sources, RMB150,200,000 was financial fund (66% of the planned figure); RMB635,890,000 was subsidized land (66% of the planned figure); RMB142,130,000 was food for work fund (54% of the planned figure); RMB34,880,000 was special fund for the development of “three-west region” (101% of the planned figure); RMB63,000,000 was line-agency fund (122% of the planned figure); and RMB1,079,870,000 was farmers’ contribution in kind and labor contribution (794% of the planned figure). During the project implementation, force account procurement methodology was more widely used than expected, and international competitive bidding was dropped in many cases; therefore, these changes required the increase of counterpart funding due to relatively low reimbursement rate for those categories procured through these methodologies. Moreover, because of the exchange rate risk, the total funding from the World Bank was shrunk about 5%, which put additional pressure on mobilizing domestic counterpart funds. As shown by the above detailed figures, due to the limited availability of counterpart fund from government channels, the proportion of farmers’ contribution in the counterpart fund was too high.

3. Project Evaluation

Achievement of overall project objective. **Firstly**, the successful implementation of the Qinba Project has verified the effectiveness of the integrated poverty alleviation model. It is well known that poverty is not only an economic problem; instead, it involves various aspects of society, environment, resource and human capital. The Qinba Project abandoned the traditional poverty alleviation development model (i.e., single-sectoral approach), adopted the integrated and comprehensive approach to tackle the poverty reduction. In addition, by introducing the financial resources from the World Bank, the project also increased the investment intensity in the field of poverty reduction. It solved the basic food and clothing problem for 1,520,000 people, laid down a solid foundation for the sustainable development of the project region, and significantly improved the human capital level of those poverty stricken farmers. **Secondly**, the project verified the effectiveness of reducing poverty through promoting labor mobility. The Qinba Project transferred the surplus labors from the project regions to either costal area (outside of the provinces) or relatively developed areas within the project provinces for off-farm employment. Promoting labor mobility has not only accelerated the transfer of surplus labor force in the poverty stricken region, but also become one of the rapidest and most effective ways for increasing cash income of those poor households. **Thirdly**, the project improved national and local poverty monitoring system. On the basis of Southwest Poverty Reduction Project, the State Statistics Bureau established a monitoring evaluation system conforming to the characteristics of the project to carry out dynamic monitoring and evaluation of the project performance. The information from this independent monitoring provided an objective picture of the project implementation; at the same time, it also and helped the PMOs at different levels to address any major problems in the process of implementation in a timely manner. **Fourthly**, the effectiveness of poverty

alleviation was significant and profound. The direct objective of the project was to greatly reduce the absolute poverty in the 26 very poor counties of the three project provinces. By the end of the implementation, the effect of poverty alleviation was significant. For example, the speed of poverty incidence reduction was faster in the project areas than that in non-project area. The poverty incidence rate of the project villages in 1997 was 26.7% and was reduced to 4.6% in 2003. During the same period, the national average of poverty incidence was reduced from around 5% to 3.1%. Per capita net income of the project villages was greatly increased. In 2003 the per capita net income of the project villages reached RMB1,398, a 60% increase compared with that of 1997. Moreover, the implementation of infrastructure component resolved the drinking water difficulty for 680,000 people and 640,000 domestic animals. The villages having roads increased from 72% in 1997 to 100% in 2003. **Fifthly**, the project effectively stopped and even reversed the trend of environmental deterioration. The overall environmental impact of the project was positive due to the following three factors: (a) the implementation of agricultural project has effectively improved environmental quality; (b) the infrastructure construction has improved farmers' production and living conditions and accordingly promoted their awareness of environmental protection; (c) labor migration successfully reduced the population pressure on land, which also generated a positive impact on environment. **Sixth**, the project promoted the participation of the farm households and strengthened rural communities' development capacity. Compared with the Southwest Poverty Reduction Project, participation of the poverty stricken farm households in the Qinba Project was more extensive and deeper and ran through the whole project cycle. **Finally**, the implementation of the project produced a positive impact on women's status. For example, through improving the infrastructure conditions (e.g., drinking water facilities), the project effectively reduced the workload of women in the agricultural production and family life. Women's status was also improved through receiving various applied technical trainings. In sum, women's basic production and management skills get strengthened through the project activities, and hence their status in both community and family was consequently improved.

Component implementation quality and benefits

Labor Mobility. Based on the feedback from the project villages and participating households, this component was well implemented in a way consistent with all technical standards. The component carried out pre-employment trainings for the migrated labors. Survey conducted by the China West Human Resource Center in 22 counties showed that the working and living conditions of the outgoing working people met the project's requirements, legal rights of the workers were protected, and the project benefits were evident. The survey showed that in Sichuan and Shaanxi provinces, remittances sent back to home villages by the migrated labors reached RMB1,450,965,900 from 1998 to 2003. In addition to sending cash back, the migrated labors also bought commodities and brought them back to their home villages, with the value around RMB258,578,600. Therefore, the total benefits (combining the remittances and value of commodities together) was around RMB1,709,544,500.

Rural Infrastructure. Based on sample surveys, infrastructure construction activities met or exceeded all pre-determined technical standards and specifications. The major benefits of the component could be summarized as the following. (a) The component basically solved the road access problem which was a bottleneck for the project area development, enhanced the connection between remote mountainous area and the outside world, and provided convenience to the poverty stricken farm households to be engaged in the market transactions. (b) The component successfully solved the drinking water difficulty for the 680,000 people and 640,000 domestic animals in the project villages. It also significantly mitigated the problem of securing fuel materials for villagers, which consequently reduced the rate of forest felling and hence promoted the environment protection. Basically living and production conditions also enhanced the poor villagers' ability to fight against natural disasters.

Land and Farmer Development. Implementation of most farmland renovation and soil improvement works exceeded the technical standards specified by the project. Farm household coverage reached 99.9%. Over 2 million person-time received technical trainings provided at different levels. About 5000 production demonstration households were established. The implementation of the project increased farmers' income and grain output and lifted them out of the trap of absolute poverty. The practical research activities financed under this component also generated huge benefits to farm households by providing them better tailor practical technologies. Some research activities were awarded the second and third prizes in the provisional level competition and evaluation.

Township and Village Enterprises Development. The performance of this component was not satisfactory. Of the 23 rural enterprises constructed, 14 are still operating, 5 have stopped operation, and the remaining 4 have not yet started operation. How to effectively promote the rural industrial sector development is an issue needs further research.

Micro-finance. Selection of farm households was appropriated conducted and almost 100% of fund reached the household level. Organization or operation of farm household groups was basically standardized. The ratio of success of household activities financed under the micro-finance pilot reached 98%. The on-time repayment rate exceeded 90%.

Institutional Building and Project Management. The Qinba Project established a five-level project implementation system from the Central level to the village level. The project constructed office buildings for PMOs at different levels and provided necessary office equipments. More than a thousand project management staff at various levels received training with various forms and rich contents. Through training, the project management personnel at various levels learnt the knowledge of project management, finance, procurement, and monitoring and evaluation. All these improved their working efficiency and strengthened their ability to organize, coordinate and manage projects. Institutional construction ensured the quality of the project implementation.

Project Management. The Qinba Project was a trans-regional and trans-sectoral integrated poverty alleviation project. The project basically adopted the management model used by the Southwest Poverty Reduction Project, which had the project office system as the main implementation channel with cooperation from other line agencies. The project accumulated valuable experience in project planning, management, and monitoring and evaluation, which provide a good reference for the poverty alleviation in the new century. The main experience can be summarized as the following. (a) The project leading group consisting of main line agencies made major decisions; the project management offices were mainly responsible for executing these major decisions and conducting other detailed project management; experts from different line agencies actively participated in project management in order to achieve better cooperation and synergy. (b) The project effectively integrated the World Bank's procedure with domestic procedures to establish an effective and complete management system for poverty alleviation projects. This system covered the areas of organizational management, implementation planning, financial and procurement management, technical management, monitoring and evaluation arrangements etc. (c) The project kept and improved an independent monitoring system which significantly contributed to the project implementation and evaluation. (d) The project emphasized the post-implementation management, importance of PMO's stability and continuity, the role of appropriate incentives to the project management staffs. (e) The project management system absorbed the advanced project concept and scientific and standard project management thoughts from the World Bank, which will also benefit other domestic programs.

4. Project Lessons

Importance attached to the project from leaders is the precondition for the successful implementation of the Qinba Project. The project was a trans-regional and multi-sectoral integrated poverty alleviation project, and it was directly related to the resolution of the adequate food and clothing problem of the broad masses in the poverty stricken regions and to the development of poverty stricken regions. Therefore, leaders at various levels from the Central Government to local governments attached great importance to the project work. In 1995, the then Chinese President Jiang Zemin requested, in its letter to the first World Bank Poverty Alleviation Project working conference, to spare no effort to conduct early stage preparation work for the Qinba Project. During project preparation, the then State Counselor Chen Junsheng met with high level World Bank officials for many times to discuss project related issues. To well implement the project, the secretaries and provincial governors of the three provinces (regions) personally looked into the project preparation and implementation work and coordinated to resolve related difficulties and problems. All the project regions and counties made the project as their main work for local poverty alleviation development and the major leaders took command in person to create conditions for the project preparation and implementation.

Close inter-departmental cooperation is the important basis for success. The quality of inter-departmental cooperation was an important factor of explaining the difference of project performance across provinces and counties. The Qinba Project involved many departments such as poverty alleviation, finance, planning, agriculture, forestry, animal husbandry, water conservancy, transport, labor, bank and village and township enterprises. It would be very difficult to complete this integrated poverty alleviation project if the whole implementation purely relied on a single department. Instead, successful implementation needs mutual understanding, mutual support and full cooperation among all departments concerned. From project preparation to implementation, project institutions at various levels and related departments at different levels established a favorable working relation of mutual trust, mutual understanding, and mutual respect. The World Bank has identified that, when summarizing the experience of poverty projects in developing countries, the project design complexity and inter-institutional coordination were two major factors which explained the different results for multi-sectoral projects across different countries.

Sound management system is the essential guarantee for the project success. As an exploratory and exemplary project, the Qinba Project established a management system with the project leading group as the decision making level, the project office as the principal implementation body, and the experts and advisory groups and business departments as technical support. This system ensured clear leadership relationship from the vertical perspective, and also ensured cooperation relationship from the horizontal perspective. Put in another way, this system ensured that (a) the major issues in the project could be promptly resolved, project preparation and implementation work schedule could be expedited, and project quality could be guaranteed; (b) international and domestic advanced experiences and practices could be timely and accurately incorporated into the project design and implementation; (c) project experience and lessons could be timely and accurately reported to the policy makers for being incorporated in general policy formation and other domestic project designs.

Standardized project management is an important means to ensure the project success. To ensure the successful implementation of the project and achieve the project objective, the Qinba Project absorbed advanced project management concept and implementation procedures from the World Bank. At the same time, the project also fully considered the local conditions. By doing so, a complete set of standard and systematic management methods was established. These methods simplified the complicated project management works.

Extensive participation of farmers is a key step towards a successful project implementation and sustainability. The active participation of farmers can sufficiently ensure the project design meets their demands, project success rate is improved, the continuous exertion of project benefit is guaranteed and farmers' self-development ability is constantly strengthened. The Qinba Project fully absorbed the lessons of the previous World Bank projects, paid special attention to the characteristics of poverty stricken regions, regarded the participation of farmers as a key link of the project, and sufficiently respected the participation rights. In the initial period of project preparation, numerous visits were paid to farm households to solicit their opinions and the design proposed project activity lists conforming to actual local situations and for their free choice. During project implementation, farm household card and manuals were issued; the project contents and beneficiaries were published by notices to the whole village to increase the transparency. By doing so, farmers had a better understanding about their rights, obligations and responsibilities, and the whole project enjoyed a higher degree of ownership.

However, as the Qinba Project involved an extensive area and the participation type poverty alleviation was a completely new content at that time, the degree of participation from farmers varied greatly across regions. Therefore, there is a room to enhance and expand the participatory work in many aspects in future project work.

Overall quality of the project design could have been better and there should be more flexibility in terms of adjusting the project activities. At the project preparation stage, the feasibility of all activities was carefully examined. However, given the wide scope of the project and short time for preparation, the feasibility of some activities, particularly for those under the TVE component, was not adequately scrutinized. In addition, it was believed that more attention should be given to achieve a higher degree of complementarity among activities so that the effectiveness of a multi-sectoral project could be maximized. To address ever-changing economic environment as well as demands from farmers, the procedure for adjusting the project activities should be more simplified. For example, at the early stage of the project implementation, it took two years to adjust the procurement methodologies for chemical fertilizer, pesticide, and plastic mulch, etc., and hence the progress of the agricultural component was negatively affected.

There is an need to explore an effective way of better integrating the foreign project funds with the domestic resources so that the difficulty of mobilizing counterpart fund could be better overcome. Counterpart fund is an important factor that affects project implementation schedule and quality. The counterpart fund of the Qinba Project was borne by provincial, prefecture and county level governments respectively. Sources of counterpart fund included subsidized loans, funds from financial system, and food for work funds. Of these three types of funds, the subsidized loans accounted for the biggest proportion. In the first two years of project implementation, the subsidized loans were managed by the China Agricultural Development Bank, a policy bank, and its availability was relatively guaranteed. However, After the financial sector reform in 1998, the management of subsidized loan was shifted from the Agricultural Development Bank to the China Agricultural Bank (a commercial bank). There was an evident conflict between the objectives of a commercial bank and the objectives of poverty reduction. The subsidized loans, which was originally planned as a major source of counterpart funding, were very difficult to be mobilized by the government after the financial sector reform, and accordingly, the implementation of the project was negatively affected. The result was that proportion of farmers' contribution to the counterpart funding was increased. To resolve this problem, it is needed to fundamentally reform the existing practice of mobilizing counterpart funds and better integrate the World Bank funds with the domestic funds. It is advisable to consider to use the World Bank funds as counterpart funds for the national programs, i.e., the Bank's project is part of national program so that the domestic resources could be better utilized, which will also ensure a wider policy impact of the Bank's projects.

There is a need to explore more effective ways to promote the rural enterprise development. Rural enterprise project can provide job opportunities for poor farmers and increase their incomes, and it also can increase value-added to the agricultural products. Therefore, it could be argued that supporting rural enterprises is a good type of activities to lift the poor farmers out of poverty trap. The Qinba Project did some meaningful work in this regard and accumulated some useful lessons. However, it still needs in-depth research and exploration on how to better carry out rural enterprise work in the poverty stricken regions.

5. Major Development Impacts

The Qinba Project increased financial inputs in the China's poverty reduction course and accelerated the progress of successfully completion the 8-7 Plan. The project totally mobilized \$180,000,000 from the World Bank, amounting to RMB1,494,000,000. The total project investment reached RMB2,998,000,000 (including counterpart fund of RMB1,494,000,000). For the 26 project counties in three project provinces, this meant that average investment intensity in each county reached RMB115,000,000, with annual investment of RMB20,000,000. This investment amount was about 4-5 times of regular domestic fund mobilized by these national designated poor counties. Such a large scale poverty alleviation investment generated significant positive impact. The production and living conditions in the project areas have been greatly improved and the general living standard of the poor households was significantly raised. Before the project implementation, the poverty (1997), the project areas had totally 1,920,000 poor people and poverty incidence rate was 26.7%. After the completion of the project implementation, the poor population in the project areas was reduced to 400,000 people and poverty incidence rate was 4.6%. Totally about 1,520,000 poor people were lifted out of poverty, which accounted for 3.2% of 8-7 Plan reduced, accounting to 3.2% of the total target of the National Seven-Year (1994-2000) Poverty Reduction Plan.

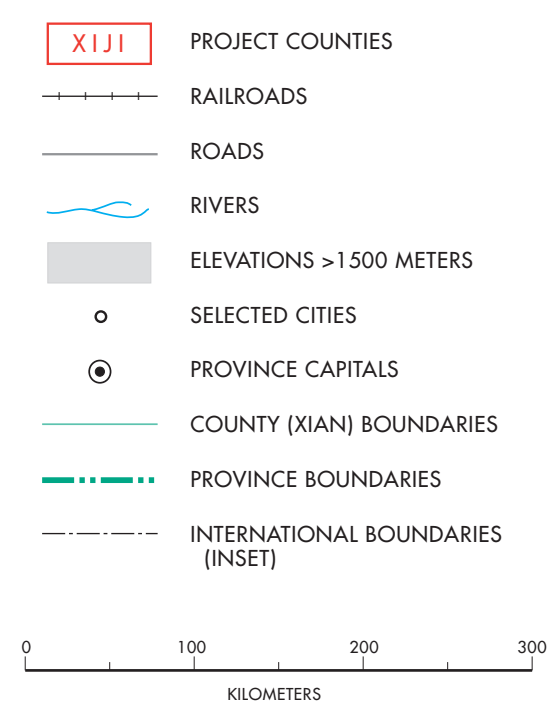
The project provided many useful lessons for the Chinese government to design new poverty alleviation policies for the 21st century. Through fruitful cooperation with the World Bank in the implementation of Southwest and Qinba projects, Chinese Government has tested and formalized a set of poverty alleviation models which are consistent with the characteristics of Chinese situation. These models include village development planning, participatory approach, labor mobility, micro-finance, project sustainability, and independent poverty monitoring and evaluation etc. All these effective practices provided important inputs for designing poverty alleviation policies for the new era. For example, most of them have been incorporated into the China Poverty Alleviation Plan (2001-2010). Put in another way, the approaches adopted by the Southwest and Qinba projects contributed to the fundamental transformation of the China's poverty alleviation approach.

The project strengthened and improved the human capital quality of cadres and masses in poverty stricken regions and laid a foundation for the sustainable development of project areas. The whole project management system had about 11,000 people at different levels. These staffs received professional trainings in project preparation, implementation, management, and monitoring and evaluation. They are also tempered by the actual hard work and hence the overall capacity level was significantly improved. This high quality team is one of most valuable assets generated by the project. Many people not only played an important role in the project implementation, but also become the backbone force of the Chinese poverty alleviation work. Some of them have been promoted to the leadership positions at different levels. With regard to the poor farmers, there were 2,300,000 poor people have directly benefited from activities under components such as land and farmer development and labor mobility. Through participating in the project training, project planning, project selection, project implementation and project management activities, they become more open-minded, and their general human capital level and production and living

skills have been significantly improved. Their confidence over lifting themselves out of poverty through self-development has been strengthened. All these has laid a foundation for the sustainable development of the project area, which could be regarded as the most far-reaching development impact generated by the project.

The project received attention from the international community and provided useful experience for the world poverty alleviation cause. The successful implementation of the Southwest and Qinba projects in China has set a model for the world poverty elimination cause and received extensive attention from the international community. The project has not only verified the effectiveness of the large-scale and multi-sectoral poverty alleviation approach, but also provided valuable experience for the poverty reduction cause of other developing countries. In recent years, the developing countries such as Ethiopia and Viet Nam successively organized several study tours in the Qinba Project area. Therefore, the Qinba Project also made contributions to the world-wide poverty alleviation cause and to the achievement of the United Nations millennium development goals.

CHINA QINBA MOUNTAINS POVERTY REDUCTION PROJECT PROJECT COUNTIES



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