

## **DEPARTMENT FOR INTERNATIONAL DEVELOPMENT**

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The Department for International Development (DFID) is the UK government department responsible for promoting development and the reduction of poverty. The government first elected in 1997 has increased its commitment to development by strengthening the department and increasing its budget.

The central focus of the Government's policy, set out in the 1997 White Paper on International Development, is a commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets including basic health care provision and universal access to primary education by the same date. The second White Paper on International Development, published in December 2000, reaffirmed this commitment, while focusing specifically on how to manage the process of globalisation to benefit poor people.

DFID seeks to work in partnership with governments which are committed to the international targets, and seeks to work with business, civil society and the research community to this end. We also work with multilateral institutions including the World Bank, United Nations agencies and the European Community.

The bulk of our assistance is concentrated on the poorest countries in Asia and sub-Saharan Africa. We are also contributing to poverty elimination and sustainable development in middle income countries in Latin America, the Caribbean and elsewhere. DFID is also helping the transition countries in central and eastern Europe to try to ensure that the process of change brings benefits to all people and particularly to the poorest.

As well as its headquarters in London and East Kilbride, DFID has offices in many developing countries. In others, DFID works through staff based in British embassies and high commissions.

## **COUNTRY STRATEGY PAPERS**

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*Country Strategy Papers (CSPs) are prepared for all countries where we provide development assistance programmes, and are normally produced every three years. CSPs set out how we aim to contribute to achieving the international development targets in the country in question. Progress will be assessed against the strategic objectives set out in Section E of the paper. In preparing CSPs, we consult closely with governments, business, civil society, and others within both the partner country and the UK.*

**Department For International Development**  
**October 2002**



## **CHINA: COUNTRY STRATEGY PAPER 2002-2005**

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<b>CONTENTS</b>	<b>PAGE</b>
A SUMMARY	1
B THE CHALLENGE	3
C PARTNERSHIPS	7
D CURRENT UK PORTFOLIO	9
E FUTURE UK DEVELOPMENT STRATEGY	11
F IMPLEMENTING THE NEW STRATEGY	17
<b>Annex 1:</b> Summary of Preparation Process	19
<b>Annex 2:</b> Country Programme Expenditure Profile	20



## A. SUMMARY

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### THE CHALLENGE

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**A1.** China has reduced poverty and improved human development levels dramatically since the reforms initiated by Deng Xiaoping began in 1978. However, it still contains large numbers of poor people, most of whom live in the rural areas of the western provinces. Rural poverty is exacerbated by environmental, particularly water-related, problems and inadequate access to quality health and education services. Other major challenges include increasing poverty in urban areas, rising inequality between people and regions, a growing prevalence of HIV/AIDS and the need to manage the impact of accession to the World Trade Organization.

**A2.** China needs to further reform its public expenditure management and social protection systems if poverty reduction targets are to be met. The share of education and health spending as a percentage of total Gross Domestic Product has gone down since 1978. As a result of decentralisation and cost sharing policies, there has been a proliferation of fees and charges levied at township and village level, particularly for health and education services. This has placed a disproportionate burden on poor people, leading to increased vulnerability.

**A3.** Since the reforms, there has been significant progress on improvement of economic and social rights: less on civil and political rights. Legal systems have developed rapidly but need to be stronger to guarantee the rule of law. There is more access to information than before and there have been improvements in accountability at lower levels of government. However, there is still no broad-based participation in government decision-making.

### PARTNERSHIPS

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**A4.** China's tenth national Five Year Plan and sectoral strategies set out a number of positive measures for poverty reduction, particularly in the western provinces. There is still a need to increase the funding and poverty focus of some of these initiatives. We are working with other donors to further encourage the Chinese Government to develop

broad-based poverty strategies, which we can jointly support.

**A5.** We will co-ordinate and integrate our activities with those of other donors and other UK government departments. We will work particularly closely with the World Bank on programme development and policy dialogue with the Government. While most of our work will continue to be with the Government, we will also encourage the development of civil society in China.

### CURRENT UK PORTFOLIO

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**A6.** Since the 1998 Country Strategy Paper (CSP) refocused the programme away from aid and trade towards the Millennium Development Goals (MDGs), we have begun major poverty-focused activities in health, education, sustainable environmental management and economic and social reform. The principles of gender equity, participation, and governance have been integrated into all parts of the programme.

### FUTURE UK DEVELOPMENT STRATEGY

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**A7.** We recognise that donor resources are small in comparison with the challenges of development. We therefore need to be selective in what we do and prioritise carefully. During the lifetime of this CSP we will focus on working with the Chinese Government to meet the MDGs addressing extreme poverty, environmental sustainability, education and health. We will concentrate our programme on the poor rural areas of central and western China.

**A8.** We will contribute to three key outcomes:

- people with productive and sustainable livelihoods – through work on livelihoods security, skill development, sustainable natural resource management, improved access to water and sanitation and water sector reform;
- educated and literate people – through improving access to and completion of quality basic education, particularly for girls; and out of school children.

## B. THE CHALLENGE

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- healthy people – by reducing child and maternal mortality, controlling HIV/AIDS and TB, improving access to and quality of health services and health system reform.

**A9.** This work will be underpinned by three cross-cutting themes: effective pro-poor government policies and initiatives, participation of poor people in decision-making, and tackling social exclusion and promoting gender equity.

### IMPLEMENTING THE STRATEGY

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**A10.** We believe we can do this most effectively by helping to make policy more 'pro-poor', engaging in fewer but larger activities, and working in collaboration with other development organisations. These include the World Bank, the Asian Development Bank, United Nations organisations and specialist programmes, other bilateral agencies and the European Commission. We are introducing a new funding mechanism jointly with the World Bank, through which DFID grant funds are blended with World Bank loan funds to leverage substantial Bank funding in support of poverty-focused activities in China.

**A11.** Our support has primarily been targeted through projects in Sichuan, Yunnan and Gansu. We will continue to work with these provinces, but will consider support for other provinces where this strengthens programme objectives, subject to the need to focus our limited financial and human resources. We will also work with partners at the national level on the development and refinement of policy that has a significant impact on the achievement of key outcomes at provincial level and below. We will consider using our increased programme to provide additional support to one of our focus provinces. This would allow us to help strengthen local capacity and develop deeper and continuing policy dialogue.

**A12.** By the end of 2003, management of the programme will be fully delegated to our office in Beijing. This will facilitate closer working with Government, the donor community and civil society. We have a programme budget of £38 million for the financial years 2002-03 and 2003-04, and a provisional allocation of £60 million for 2004-05.

## B. THE CHALLENGE

CONTINUED

**B1.** Since reform began in 1978, China has been making two major transitions: from a centrally planned to a market-oriented economy; and from a rural/agricultural to an urban/industrialised country. Following widespread land and agricultural reforms in the early 1980s and a long period of economic growth (8% average annual increase in real Gross Domestic Product since 1978) China has reduced poverty dramatically and substantially improved levels of human development. Box B1 shows progress against indicators for key Millennium Development Goals. By 2000, China had become a lower middle-income country (GDP per capita \$856) and ranked 98th (index 0.701) on the United Nations Development Programme (UNDP) Human Development Index.

**B2.** Despite this China still has huge numbers of poor people – up to 213 million people living on less than \$1 per day in 1999. This represents 17% of China's population and about 18% of the world's total poor people. Economic growth has also been accompanied by growing disparities (the Gini co-efficient is 0.45 which indicates significant income inequality). The rural-urban gap has widened, as urban income growth has outstripped that of the rural areas and urban consumption growth has also been more rapid.

### BOX B1: CHINA'S PROGRESS SINCE REFORM

INDICATOR	1978	1999
Population on less than \$1 per day (%)	80	17
Net primary school enrolment rate (%)	84	99
Illiteracy (% of population)	33	17
Infant mortality rate (per 1000 births)	65	31

Sources: World Bank and 2001 World Development Indicators

### THE NATURE OF POVERTY

**B3.** Most poverty in China is rural, concentrated in central and western provinces where average per capita GDP is less than a third of that in some coastal regions (Box B2) with around 25% of China's rural population living on less than \$1 per day. Child malnutrition in rural areas is four times that of urban centres and maternal and under-five mortality rates are 200% and 300% higher respectively. Vulnerable groups (Box B3) in rural areas, particularly ethnic minorities are often doubly disadvantaged.

### BOX B2: REGIONAL INEQUALITY

PROVINCE	HUMAN DEVELOPMENT INDEX RANKING IN 1997 <sup>1</sup>	PER CAPITA GDP (RMB) IN 1998 <sup>2</sup>	LIFE EXPECTANCY IN 1990 <sup>1</sup>	ADULT LITERACY IN 1997 <sup>1</sup>
Shanghai	0.877	30,805	74.9	89.8 %
Guangdong	0.792	11,739	72.5	90.4 %
Sichuan	0.617	4,356	66.3	82 %
Yunnan	0.583	4,444	63.5	74.8 %
Gansu	0.570	3,595	67.2	73.2 %
China	0.693	7,936	68.0	82.3 %

Sources: <sup>1</sup>UNDP China Human Development Report, Transition and the State, 1999 and <sup>2</sup>OECD Synthesis Report, China in the World Economy: The Domestic Policy Challenges, 2002

## B. THE CHALLENGE

CONTINUED

**B4.** Rural poverty is associated with environmental problems. More than 295 million rural Chinese (34%) suffer from unsafe or insufficient water supplies and 660 million (76%) live without adequate sanitation. Access to irrigation water is becoming increasingly limited over large areas of the country. Land degradation affects the lives of about 400 million people. Rural areas are also prone to natural disasters such as drought and floods exacerbated by poor natural resource management.

**B5.** The 12 provinces of the western region are particularly poor. This results partly from a poor natural resource base. These regions are much less attractive to investors; western provinces currently receive only 3% of foreign direct investment (FDI). The ability of western provinces to attract FDI and benefit from trade is hampered by poor infrastructure, inadequate supply of skilled workers combined with abundant cheap migrant labour in the east, poor access to national and international financial and

### BOX B3: VULNERABLE GROUPS AND SOCIAL EXCLUSION

Some population groups are particularly vulnerable to poverty and social exclusion in China.

**Gender disparities** are growing within many areas despite a formal commitment by the Chinese Government to gender equality. A re-assertion of preference for sons in rural areas could account for a substantial proportion of the current gender ratio imbalance in China. The sex proportion ratio of new born boys to girls was found to be 116.9% in 2000. Girls are less likely to receive medical care and go to school; women are more likely to be made unemployed; gender-based violence is on the rise while trafficking of women is a significant problem; and women remain underrepresented in the political system.

**Older people** are increasing as a proportion of the population and may be 33% by 2004, with 70% of these living in rural areas. Poor older people tend to be excluded from many of the benefits of development while lack of social protection increases their vulnerability to poverty.

**Children** from poor families are often vulnerable to poverty in adulthood. Threats to children, which have been reported with increasing frequency, include, for example, child trafficking, abusive child labour (such as commercial sex), abandonment of children (especially girls and children with disabilities) and the emergence of street children.

**People with disabilities** and their households remain over-represented among the poor. They suffer from increased vulnerability and a lack of access to education, health and work and remain highly marginalised. Current evidence indicates that a large proportion of disabled children are unable to attend school.

**Ethnic minorities** number around 85 million in China. Many of them live in the most remote and isolated parts of the country with poverty in many of these communities compounded by poor infrastructure, limited public services and social isolation often caused by language barriers. Typically, ethnic populations suffer from lower levels of educational access and achievement.

## B. THE CHALLENGE

CONTINUED

product markets, and a legacy of preferential government policies favouring investment in eastern regions.

**B6.** Though most poverty is rural, economic reform has also led to new vulnerability and poverty in urban areas. About 30 million people in these areas live on less than \$1 per day; this number is likely to increase as economic reform progresses. Vulnerable groups (Box B3) are likely to be worse affected. Urban poverty is worst in those towns and cities where failures in state-owned enterprises (SOEs) has led to sharp increases in unemployment. Compensating job-creation in the private sector has often been accompanied by poor working conditions. Factory workers, particularly young women, can work long hours for low pay and little attention is paid to health and safety standards. Responsibility for health and education services and social security contributions transferred from SOEs to municipal governments and has often not been adequately funded. Cities have passed these costs on to households pushing people into poverty for the first time.

**B7.** People in China are increasingly mobile for a combination of reasons ranging from resettlement to economic migration. Over the past 20 years about 100 million poor people have moved from the countryside to the cities either permanently or temporarily. Migrants are particularly vulnerable to poverty. Their right to limited health, education and social services is tied to their rural residence and does not transfer to cities – though there are now moves to allow migrants formal residence status (*hukou*). Migrants are more likely to work long hours for low pay and in poor working conditions. Yet, their remittances are a significant factor in helping reduce poverty of rural households. Migration is expected to continue given the paucity of economic opportunities and the absence of social protection schemes in rural areas.

**B8.** China joined the World Trade Organization (WTO) in 2001. This will increase the pace of economic reform. WTO membership should help China improve its international trade links, attract more foreign direct investment (FDI) and standardise commercial law,

operations and practices. But there will be less protection for inefficient industries which could result in higher unemployment. In rural areas, price fluctuations could adversely affect farmers. Membership may also exacerbate east-west disparities. Capturing the benefits and managing the costs of WTO membership is a major challenge for China.

### TAXING AND SPENDING; PUBLIC SERVICE PROVISION

**B9.** Underlying the trends in inequality and vulnerability is a regressive fiscal system. Since economic reform began, government budget revenue as a proportion of GDP has gone down from 28% in 1978 to 17% in 2001. Although spending on education and health has almost trebled over the past 20 years, as a percentage of total GDP it has gone down. Much health and education spending is on services inaccessible by the poor, such as urban hospitals and tertiary education facilities. Regional inequalities in fiscal spending and service provision are wide by international standards and continue to grow rapidly. The system for fiscal transfer between localities has redistributed revenues in favour of richer areas and exacerbated regional disparities.

**B10.** Local governments in poor areas are at the lower end of the fiscal transfer system and, combined with their inability to generate sufficient revenue locally, cannot fulfil their expenditure responsibilities. Consequently, they provide inadequate levels of vital public services. Health and education services operate from limited or poor facilities, and they lack sufficient qualified personnel and effective supervision and regulation. The *de-facto* privatisation of health care services undermines preventative services to the detriment of rural women and children whose needs for effective primary health services are not being met. Tuberculosis tops the list of infectious causes of death. There are five million people with the active disease and 150,000 deaths each year. The increasing threat of HIV/AIDS exacerbates the problem. There are estimated to be 850,000 HIV cases in China; if left unchecked, projections are that

## B. THE CHALLENGE

CONTINUED

12 million people could be infected by 2010. In education there is an urgent need to ensure that poor children complete nine years of quality basic education and acquire relevant livelihood skills. Ethnic minorities and children with special needs are amongst the most disadvantaged. There is a real danger that reduced access of the poorest to health and education services will undermine the human development gains made in the 1970s and 80s.

**Bi1.** As a result of inadequate government spending, there is significant off-budget charging. A proliferation of fees and charges is levied at township and village level, particularly for health and education services; this is often done arbitrarily and unaccountably and feeds local corruption. Fees and charges place a disproportionate burden on the poor who cannot afford them. For example, up to 90% of people living in rural areas have to pay for health costs through fees and drug charges.

**Bi2.** Social protection systems have been unable to keep up with the changes in economic reform. The social security cover that does exist is inadequate and does not extend in a meaningful way to rural areas. The Minimum Living Allowance Scheme, introduced in 1997 to help the poorest and most vulnerable unemployed city workers provides inadequate cover for only 15 million people and excludes migrants. There has been little success yet in introducing health insurance for the poor and old age pensions are only available to a minority of older people.

### HUMAN RIGHTS AND GOVERNANCE

**Bi3.** In the last 20 years, China has made striking progress on improving economic, social and cultural rights, although less progress has been made on civil and political rights. In February 2001, China ratified the International Covenant on Economic, Social and Cultural Rights. It has also signed, but not ratified, the Civil and Political Rights Covenant. Nonetheless, the Government is increasingly aware that many of its policies have not delivered the full positive impact on the provision of basic human rights for poor people, such as access to health and education, and is

strengthening its efforts to address this.

**Bi4.** The Chinese legal system has developed rapidly in the past 20 years, but legal institutions, which suffer from under-trained personnel, need further strengthening if they are to cope with the increasing demands of ordinary citizens that their rights be protected through the rule of law. The death penalty is still used, for economic as well as more serious crimes. Media sources have proliferated in the last ten years and Chinese citizens now have access to more information than ever before, although the Government still controls public discussion of sensitive subjects. The Government has encouraged the introduction of elections for some local government posts, which is beginning to improve public accountability in villages and some townships. But this is still a long way from broad-based democratic participation in government decision-making.

**Bi5.** Mass organisations, such as the All China Women's Federation (ACWF), the China Federation for Disabled People and the All China Federation of Trade Unions have traditionally been important channels for links between the people and the Communist Party. The ACWF has benefited from international partnerships and participation in international meetings since the Beijing Women's Conference in 1995. Reform offers an opportunity for mass organisations to play an increasing role in representing the interests of their constituencies.

**Bi6.** China has a small and weak, though growing civil society. The weakness of civil society means that the interests of the poor are less well represented than in many other low and middle-income countries. The Government increasingly acknowledges the role of communities and independent organisations in China's development although it sees non-governmental organisations mainly in a service delivery role.

## C. PARTNERSHIPS

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**C1.** DFID is increasingly using its resources to help national governments to implement country-owned and -led poverty reduction strategies, through a more collaborative partnership with the government and with other funding agencies.

**C2.** China does not have one comprehensive framework document for country-donor dialogue or funding. The Government sets priorities and policies through five-year plans developed with the ruling party and endorsed by the national Parliament. The current (tenth) plan continues to prioritise growth; poverty reduction as such is a lesser theme. But the Government recognises that the country's economic success has not been shared equally and that many of its policies have actually had a negative impact on the poorest.

**C3.** The Government is taking a range of positive measures for poverty reduction. These include:

- fiscal reform: piloting a scheme to replace fees with taxes, bringing expenditure on-budget, and cracking down on arbitrary levies and corruption;
- special measures to develop the western provinces. The Government will invest large sums of money in infrastructure projects, the promotion of private sector investment, and projects to stabilise soil erosion and desertification which affect poor areas;
- health system reform including how to pay for poor people's basic health care, a national HIV/AIDS plan, a national programme for tuberculosis (TB) control;
- education reforms to reduce or eliminate fees, to modernise the curriculum and to provide nine years of compulsory universal quality basic education;
- a National Action Plan for Women and Children to eliminate gender disparities and address the inter-generational reproduction of poverty;
- modernisation and pro-poor reform of water laws; and

- a specific national poverty reduction programme which focuses on 592 nationally designated poor counties and currently contributes about \$1.2 billion of funding per year. However, less than half these funds reach the intended beneficiaries as most poor people live outside the officially designated poor counties.

**C4.** There is still a need to increase the funding and poverty focus of some of these initiatives and to integrate poverty reduction objectives into mainstream processes of social and economic development. Many policies and programmes of line ministries and central departments have significant poverty implications (beneficial or adverse) which are not classed as part of the Government's poverty planning.

**C5.** However, the Government's development plans overall, and at sector level, provide a good basis for the UK/China development partnership. In implementing this we work closely with the Ministry of Foreign Trade and Economic Co-operation (MOFTEC); and have links with the Ministry of Finance (MoF) and State Development Planning Commission (SDPC) through our collaboration with the World Bank. We have developed good relationships with line ministries in Beijing, with the Leading Group for Poverty Reduction, and with the Governments of Sichuan, Yunnan and Gansu. We hope to do more to consolidate the experience and relationships built at provincial level into a broader dialogue on development with provincial governments.

**C6.** There is increasing convergence in the stated goals of key donors on working with China towards achievement of the Millennium Development Goals. Over the life of this CSP, we will continue to work, with other bilateral donors, the World Bank, the Asian Development Bank, and UN agencies to encourage the Government further to develop broad-based poverty strategies that are informed by the perspectives of poor people, results-oriented and prioritised. We welcome and will support initiatives, involving MOFTEC and others, to harmonise external resource flows.

## C. PARTNERSHIPS

CONTINUED

**C7.** We will aim as far as possible to co-ordinate our efforts and integrate the activities of other donors in support of greater collective action to reduce poverty in China. We will work with or through others in areas of shared interest, leveraging either resources or policy influence. We will only undertake stand-alone activities where there are either no obvious partners, or where bilateral interventions may in themselves achieve transformational impact or facilitate interest and support from others. We plan to work particularly closely with the World Bank on programmes but also in policy dialogue with the Government.

**C8.** The local and foreign private sector has a key role to play in making globalisation work for the poor. In China, it accounts for more than a third of GDP. Trade-related and foreign investment flows are hugely more significant than aid. China is one of the largest destinations for foreign direct investment, including by British firms. We do not envisage providing significant support for, or through, the Chinese or UK private sectors, but we will continue to influence the enabling environment so that poor people benefit. We will continue to work with other UK government departments on trade and investment issues.

**C9.** Most of our work in China will continue to be with and through government. However, we believe a strong civil society has an important contribution to make to development. We will continue to encourage the development of civil society in China.

**C10.** In 2002, China will replace the present political leadership with a new generation. It is unlikely that this will result in changes in development strategy that would threaten the UK/China development partnership. The direction of most broad (e.g. fiscal) and sectoral policies is positive and is not likely to be blown off course by economic developments. Britain and China also have a good overall relationship. There is unlikely to be a significant worsening in civil and political rights from the present situation or a lessening of the priority to economic and social rights that might require DFID Ministers to reconsider the nature of the development partnership.

## D. CURRENT UK PORTFOLIO

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**D1.** The 1998 China CSP marked a shift in the China programme from one where aid and trade\* were linked to development assistance to one focused on poverty and achievement of the Millennium Development Goals (MDGs). Since 1998 we have withdrawn from activities that no longer fit in with our strategy and major new poverty-related projects have been agreed in health, education, sustainable environmental management and economic and social reform.

**D2.** In health, the largest part of the programme, we are working to improve preventive services and basic health care. This includes major activities in HIV/AIDS prevention and care; support to rural and urban health sector reform; and to a national TB control programme in collaboration with the World Bank.

**D3.** Although DFID does not work directly on reproductive health issues in China, we support the work being done in this area by the United Nations Population Fund (UNFPA) through our contribution to the Fund's core resources. UNFPA is working in 32 counties in China to apply to reproductive health services the principles of voluntary and informed choice, which were agreed at the International Conference on Population and Development in Cairo in 1994. There is evidence that these principles are informing approaches to reproductive health by the Chinese Government in other areas. China is also beginning to realise that more effective reproductive health is also an important feature for prevention and control of HIV/AIDS.

**D4.** In education we are supporting the completion of basic education in Gansu province through the demonstration of new ways of improving education access and quality for poor girls and boys and ethnic minorities in four counties. The development of livelihood skills is being supported through partnership with the All China Women's Federation focusing on adolescent girls.

**D5.** In environmental management we are supporting national and provincial governments to reduce rural poverty through improved and sustainable natural resource management. DFID has also funded the provision of legal

advice on the revision of China's National Water Law framework. We are also working with the Global Environment Facility and World Bank to improve energy efficiency that contributes towards sustainable economic development, especially focusing on central and western China.

**D6.** In economic and social reform, we are supporting state-owned enterprise restructuring that is socially responsible. This is linked to work aimed at social security reform and the development of small and medium enterprises. These activities are contributing to the parallel aims of reducing the economic and social impact of unemployment, and increasing the opportunities for job creation in urban areas. Other areas of activity include the development of a more efficient, transparent and equitable tax (and expenditure) system and an analysis of the poverty impacts of WTO membership.

**D7.** The realisation of basic human rights has been an underlying theme of our work. Cross-cutting concerns such as gender equity and governance issues have not been the focus of specific projects but have increasingly been integrated across our programme.

**D8.** Other assistance has included support for British non-governmental organisations working in China, notably in Tibet and other poor and remote areas of the country. In addition, the UK has also provided some emergency assistance for natural disasters in China over the past three years including the 2000/2001 International Red Cross Appeal following the devastating snow storms in Inner Mongolia and a response in 2002 to the serious flooding in Central China.

*\* Most Aid and Trade (ATP) support was for transport infrastructure, water and waste water treatment. We will fund these remaining projects to completion (end of 2002).*

### PERFORMANCE ASSESSMENT

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**D9.** Although our programme in China has been in transition over the past three years, we have paid special

## D. CURRENT UK PORTFOLIO

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CONTINUED

attention to looking for evidence of what has, and has not worked, in our own projects and those of others. We will continue to use this evidence to inform our programme and policy and to demonstrate impact. We have built monitoring and evaluation mechanisms into all our activities from the outset. Our projects are regularly reviewed and scored and we report on progress internally, to the Treasury, Parliament and internationally. Since our last CSP, 90% of our projects were scored as “[project purposes] likely to be completely achieved or likely to be largely achieved”.

## E. FUTURE UK DEVELOPMENT STRATEGY

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**E1.** In deciding future strategy, we seek to help address the challenges facing China (Section B) as well as the priorities expressed by the Government and broader development policy issues such as WTO accession and trade, corporate governance and the private sector. We recognise that donor resources are small in comparison with the challenge and other financing sources. In order to maximise our limited human and financial resources, we need to be selective in what we can do and be rigorous in priority setting. In all our activities we will support initiatives to develop more accurate official information and data and better analysis of the scale and nature of poverty in China. Lesson learning and impact assessment of our programme play an increasingly pivotal role in providing evidence on which to base future policy decisions.

**E2.** The Chinese Government and other donors support DFID's flexible provision of grant funding and our willingness to work in partnerships. Our advantage is in working in social sectors and in innovative ways using the knowledge and relationships we have established since 1997. The Chinese Government recognises the value of donor agencies working in support of its priorities in the poor central and western regions.

**E3.** We will concentrate on assisting the Government to meet the needs of those living on less than \$1 a day in China through focusing on the rural areas of the central and western provinces. We will continue to implement existing projects in Sichuan, Yunnan and Gansu and in other provinces, and may take new initiatives that consolidate these.

**E4.** In our existing urban-based work, which will continue through to 2004/05, we are learning valuable lessons in economic and social impacts of state-owned enterprise reform and enterprise development. An active programme of dissemination of key lessons is commencing in mid-2002, to be accompanied by specific work to enhance policy change. Continued migration from rural areas alongside continuing rapid industrial development will have an impact on poor people in urban areas, and our current

work provides a base for us to monitor trends in poverty amongst poor and vulnerable groups caught within the rapid urbanisation of China.

**E5.** We support The Cities Alliance work in China on City-Regional Development Strategies with the aim of building better understanding of regional-urban linkages. We will use this involvement to inform the programme of urban transition issues, and raise awareness of the vulnerability of poor urban groups, particularly in the western regions. During the lifetime of this CSP we plan to consolidate our existing urban poverty work rather than initiate new projects. We will also seek opportunities to influence broader policy by disseminating key lessons from existing projects including those in partnership with others such as the World Bank and the International Finance Corporation.

**E6.** Our strategy takes account of, and will contribute to, DFID's Public Service and Service Delivery Agreements (PSA/SDA). China is one of four focus countries in Asia for the PSA. The draft PSA for 2003-06 includes a commitment to achieve progress towards the Millennium Development Goals (MDGs) in Asia, demonstrated by:

- reducing the proportion of people living in poverty;
- increasing primary school enrolment and completion, and the ratio of girls to boys at all levels of education; and
- reducing under-five and maternal mortality, and reversing the spread of HIV/AIDS and the incidence of other major diseases like tuberculosis (TB).

We will focus on these in supporting China's contribution to the MDGs. In addition, we will support China in its efforts to integrate social, economic and environmental aspects of sustainable development into its poverty reduction programmes.

## E. FUTURE UK DEVELOPMENT STRATEGY

CONTINUED

**E7.** Our work will be organised round and will contribute to three core poverty outcomes:

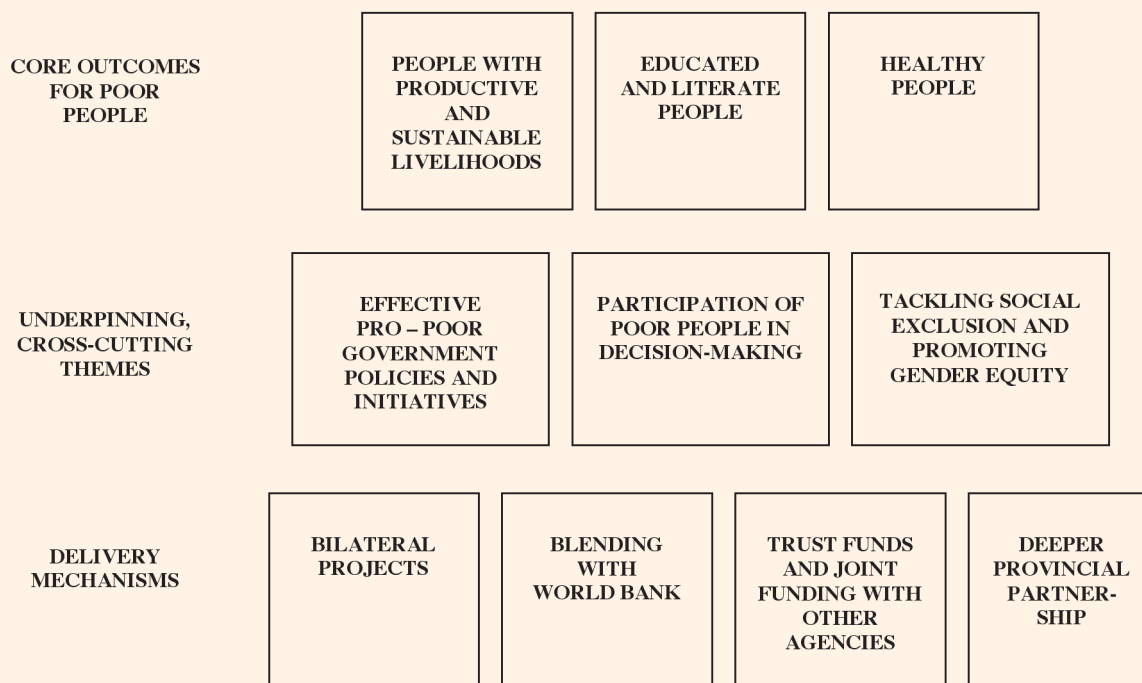
- people with productive and sustainable livelihoods;
- educated and literate people; and
- healthy people.

Three important cross-cutting themes underpin the outcomes. Box E1 summarises the approach. Delivery mechanisms are discussed in Section F.

move from activities specifically labelled as economic and social reform towards incorporating these activities into the whole programme as cross-cutting themes. Future programmes will focus on improved livelihoods security for the poorest people in rural China including skills development. We will support the Chinese Government to implement multifaceted projects that target income and non-income dimensions of poverty.

**E9.** In supporting sustainable rural livelihoods, we envisage a variety of direct activities in selected areas and

### BOX E1: CORE OUTCOMES, CROSS-CUTTING THEMES AND DELIVERY MECHANISMS



#### PEOPLE WITH PRODUCTIVE AND SUSTAINABLE LIVELIHOODS

**E8.** Supporting the outcome of productive, sustainable and secure livelihoods for poor people will help China contribute to the Millennium Development Goal of eradicating extreme poverty (i.e. halving the proportion of people on less than \$1 a day) and the more specific goal of ensuring environmental sustainability. In this area, we will

communities combined with wider policy and sector reform and a balance between improving incomes and providing access to basic services. We will explore the scope for working more closely with selected provincial offices on their poverty reduction programmes.

**E10.** For many of the poorest people in rural China, livelihoods security is closely linked to access to sustainably managed natural resources, while those in poverty or on the

## E. FUTURE UK DEVELOPMENT STRATEGY

CONTINUED

threshold remain very vulnerable to environmental shocks. Building on the current portfolio, a supportive policy environment and poor people's priorities, we will continue to support activities in the critical areas of water and land management. In the water sector we expect to support pro-poor reforms, increasingly focusing on selected provinces and the promotion of integrated water resource management.

### EDUCATED AND LITERATE PEOPLE

**Eii.** DFID is supporting China in its goal of universal access to compulsory quality basic education by 2010. We will continue to emphasise the reduction of inequalities in educational access and achievement. We will concentrate on universal basic education for boys and girls, ethnic minority children and children with special needs in the rural areas of central and western China. We will also seek to better understand the education needs of poor people and how to respond effectively to these based on accurate information from rural China. We are working with the UN Development Programme (UNDP) to develop distance learning support for teachers in poor rural areas of Sichuan, Yunnan and Gansu. Our key links are with the Ministry of Education, World Bank, UNDP and the UN Children's Fund (UNICEF).

### HEALTHY PEOPLE

**Ei2.** We are working to raise the health status of poor people through support that improves peoples' access to basic health services that cost less, are of higher quality, and target specific public health challenges like TB and HIV/AIDS. We encourage the adoption of sound, development-oriented policy, including the dissemination of good practice. DFID is well placed as a trusted partner to help place health outcomes more prominently in China's development goals. We aim to enhance that partnership by strengthening links in particular with the Ministry of Health, the World Bank and WHO.

**Ei3.** We currently spend the largest part of our

programme on helping China meet the health MDGs. We will continue to do so as the programme budget expands. In doing this, we will:

- scale up our work in support of Government's efforts to tackle HIV/AIDS;
- continue to explore with the Government how DFID can support their priority objective to improve maternal and child health outcomes; and also
- consider with the Government and others how DFID can support the process of wider reform in the health system, to provide affordable access for poor people to more effective basic health services.

The potential role of the report of the Commission for Macroeconomics and Health to help promote the necessary reforms will be carefully considered. Our work in improved access to clean water and sanitation will also have a positive health impact.

**Ei4.** Box E2 shows how the China programme's three core outcomes relate to the MDGs. It also presents the existing and currently planned activities and how they support the relevant MDGs and their related targets. Some of the focus areas relate to more than one MDG target. In addition, Box E2 highlights those MDGs that are DFID Public Service Agreement (PSA) targets for Asia.

## E. FUTURE UK DEVELOPMENT STRATEGY

CONTINUED

<b>BOX E2: GOALS, TARGETS AND ACTIVITIES</b>			
<b>CORE OUTCOMES FOR POOR PEOPLE</b>	<b>RELEVANT MDGs</b>	<b>RELEVANT MDG TARGETS</b>	<b>EXISTING<sup>1</sup> AND CURRENTLY PLANNED<sup>2</sup> FOCUS AREAS</b>
1. People with productive and sustainable livelihoods	1. Eradicate extreme poverty and hunger*	<b>Target 1:</b> Halve proportion below \$1 a day	<ul style="list-style-type: none"> <li>• Improved livelihoods security<sup>1,2</sup></li> <li>• Economic, fiscal and public expenditure reform<sup>1</sup></li> <li>• Micro, small and medium sized enterprise development<sup>1</sup></li> <li>• WTO accession impact<sup>1</sup></li> <li>• Increased participation of girls and women in economic and social development<sup>1</sup></li> </ul>
	7. Ensure environmental sustainability	<b>Target 9:</b> Integrate sustainable development principles into national policies; reverse the loss of environmental resources <b>Target 10:</b> Halve proportion without access to safe drinking water	<ul style="list-style-type: none"> <li>• Sustainable natural resource management<sup>1,2</sup></li> <li>• Improved access to water and sanitation<sup>1,2</sup></li> <li>• Water sector reform<sup>1,2</sup></li> </ul>
2. Educated and literate people	2. Achieve universal primary education*	<b>Target 3:</b> Universal primary education	<ul style="list-style-type: none"> <li>• Improving access to and quality of basic education<sup>1,2</sup></li> </ul>
	3. Promote gender equality and empower women	<b>Target 4:</b> Eliminate gender disparity in all levels of education	<ul style="list-style-type: none"> <li>• Increased participation of girls and women in education<sup>1,2</sup></li> </ul>
3. Healthy people	4. Reduce child mortality*	<b>Target 5:</b> Reduce under-5 mortality by two-thirds	<ul style="list-style-type: none"> <li>• Reducing child mortality<sup>1,2</sup></li> </ul>
	5. Improve maternal health*	<b>Target 6:</b> Reduce maternal mortality by three-quarters	<ul style="list-style-type: none"> <li>• Improve maternal health<sup>1,2</sup></li> </ul>
	6. Combat HIV/AIDS, malaria and other diseases*	<b>Target 7:</b> Reverse the spread of HIV/AIDS  <b>Target 8:</b> Reverse the incidence of malaria and other major diseases	<ul style="list-style-type: none"> <li>• HIV/AIDS education<sup>1,2</sup></li> <li>• Tuberculosis (TB) control<sup>1,2</sup></li> </ul>
	MDGs 4 to 6	Targets 5 to 8	<ul style="list-style-type: none"> <li>• Improved access to and quality of health services<sup>1,2</sup></li> <li>• Health sector reform<sup>1,2</sup></li> </ul>

\* - DFID Public Service Agreement (PSA) targets for Asia 2003 - 2006

## E. FUTURE UK DEVELOPMENT STRATEGY

CONTINUED

### CROSS-CUTTING THEMES

**Ei5.** We will also work towards mainstreaming three cross-cutting themes throughout our programme. These are:

- effective, pro-poor government policies and initiatives,
- participation of poor people in decision making,
- tackling social exclusion and promoting gender equity.

We will aim to ensure that each of the three themes is reported against within the framework of every project.

### EFFECTIVE PRO-POOR GOVERNMENT POLICIES AND INITIATIVES

**Ei6.** We want to support the development of effective pro-poor government policies and initiatives within China. In recent years, a number of government policies and plans in key areas have been developed, and we will continue to use our influence to encourage such initiatives to focus on poverty reduction and the needs of the most vulnerable. Where appropriate, we will contribute to strengthening the capacity of local government to deliver successful implementation of pro-poor policies.

**Ei7.** China needs to reform fiscal and public expenditure systems to provide adequate levels of public service, reduce disparities between rich and poor provinces and support a stronger economic performance. We will seek to influence this debate through our programme. While recognising the opportunities arising from WTO accession, we will increase our understanding of the transitional costs associated with entry and monitor their impact on poverty in China.

### PARTICIPATION OF POOR PEOPLE IN DECISION-MAKING

**Ei8.** Poor people have the right to take part in and access information about decision-making processes that affect their lives. In all of our projects we will support new government policy to increase the participation of beneficiaries throughout the project cycle. In addition, in each of our focus areas we will seek opportunities to enhance the influence of poor women and men in government decision-making at all levels, as part of the wider process of democratisation in China. Where appropriate, within our existing and future projects, we will work to strengthen Chinese civil society through increasing our co-operation with and capacity building of civil society organisations.

### TACKLING SOCIAL EXCLUSION AND PROMOTING GENDER EQUITY

**Ei9.** Integral to the process of development is the challenge of ensuring an equitable society that is based on the values of social justice and which promotes all human rights for all people. We will ensure that our work in China addresses the causes of vulnerability as well as absolute poverty. In practice, this means priority will be given to the needs and rights of groups who are excluded from, or harmed by, processes of development and change. Through our project activities we will support increased voice and access to benefits for groups such as ethnic minorities, migrants, the disabled, older people, single-headed families and disadvantaged children.

## E. FUTURE UK DEVELOPMENT STRATEGY

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CONTINUED

**E20.** We have identified rising gender inequality in China as a major constraint to poverty reduction. We are currently undertaking a gender audit of our existing programme. Based on the results of this audit, we will increase our efforts, within our projects, to support the Chinese Government's commitment to gender equity. We will ensure that future activities are assessed for their capacity to address rising trends in gender inequality. We will continue to support increased gender equity by working with partners to ensure that discrimination against women is addressed in all its forms.

### SUSTAINABLE DEVELOPMENT

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**E21.** As well as these three principal cross-cutting themes, the programme recognises the importance of environmental sustainability to poverty reduction and long-term sustainable development in China, particularly in the poor western provinces. We will address these issues across our programme. We will also seek to build awareness and capacity for sustainable environmental management in our partners and through strengthening the environment and poverty reduction linkages in the work of others, such as the Asian Development Bank (ADB), UNDP, Global Environmental Facility (GEF) and World Bank. We will also work with China on global environmental sustainability issues, recognising the impact and opportunities offered globally by China through effective environmental management

## F. IMPLEMENTING THE NEW STRATEGY

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**F1.** Integral to our success in China is the degree to which our work influences policy making to make it more pro-poor. Generally, we are seeking to engage in fewer but larger activities. We will adopt flexible and responsive approaches to designing and implementing activities. We seek to help the Chinese Government by providing opportunities to take risks with experimental and innovative approaches to poverty reduction, with an emphasis on piloting and replicating activities.

**F2.** The most effective way to do this is in collaboration with other development organisations. Our work with the World Bank will be the most important of these relationships, but we also expect to work with the ADB, the specialist agencies of the United Nations, especially UNDP, World Health Organisation and UNICEF, and as much as possible with other bilateral agencies and the European Commission. We will also seek to establish and strengthen links with initiatives relevant to China such as the GEF, the Global Alliance for Vaccination and Immunisation Fund, the Global Water Partnership, the Global Fund for HIV/AIDS, TB and Malaria and Cities Alliance. As explained in paragraph C7, our preference is to only undertake stand-alone activities where there are either no obvious partners, or where bilateral interventions will have greater impact.

**F3.** Our key initiative with the World Bank is to allow the Chinese Government to access concessional lending for poverty-focused activities, by blending DFID grant funds with World Bank non-concessional loans. The model was a project for TB control, agreed in March 2002. We are considering similar funding models for basic education and integrated rural poverty reduction. We will build on, and learn from, this experience and identify other programmes to be funded through this aid instrument – but also considering whether other approaches to working with the Bank, such as the co-financing of technical assistance programmes, might be more appropriate in certain cases, in order to ensure that the best approach is found to reaching poor people.

**F4.** Our aim will be to build on the relationship

developed with the Bank and the Chinese Government, to embark on a higher-level dialogue on future development priorities with key Chinese ministries (SDPC and Ministry of Finance). In this context we will consider with the Bank and the Chinese Government how joint DFID/Bank efforts can more systematically support the Government's poverty reduction plans. This will include not just resource transfer, but technical co-operation to support key government priorities (e.g. on fiscal reform). We plan to have a three-way dialogue later in 2002, and then each year.

**F5.** The ADB shares DFID's poverty reduction mandate and has a strong commitment to working in China. We have no plans to blend DFID funds with ADB loans but we hope to strengthen our relationship with the ADB to tackle poverty reduction in China, and a key tool will be a poverty trust fund for use by the ADB as a means of achieving that.

**F6.** The UN is influential in China, where their independence is valued. We have good relations with UNDP, WHO and the Joint UN Programme on HIV/AIDS, and we are collaborating both with UNDP and UNICEF on education. We have also explored the scope for working with the European Commission and will continue to explore opportunities to collaborate with them on development policy.

**F7.** Through relationships with the World Bank, ADB and the UN, there are opportunities to work with the GEF, which is making efforts to encourage a more co-ordinated Chinese and donor approach to environment work in China. There is also scope to promote more pro-poor private sector investment, working with the multilateral banks and others using aid instruments such as trust funds and the Public Private Infrastructure Advisory Facility (PPIAF).

**F8.** We will continue to provide technical co-operation funds for capacity building activities aimed at improving public policy at the national and, where appropriate, sub-national level.

## F. IMPLEMENTING THE NEW STRATEGY

CONTINUED

### DEEPER PROVINCIAL PARTNERSHIP

**F9.** We will focus our programme on the rural areas in the centre and west of China where most poor people live. We have already developed a critical mass of projects in Sichuan, Yunnan and, to a lesser extent, Gansu where there are many poor and ethnic minorities. We will continue to work with these provinces through our ongoing programme. If there is scope for achieving significant impact in terms of our three key outcomes in other provinces, at the national level or through working with other development organisations, then we will do so whilst bearing in mind our limited financial and human resources and the need to remain focused.

**F10.** Our increased programme provides an opportunity to give additional support to one of our focus provinces. We will explore the scope for developing, with other donors, a common development framework approach which prioritises poverty reduction. This would be based on the principles of being driven by the provincial government involving participation by civil society and the private sector and of being focused on outcomes that benefit the poor. This long-term approach would allow us to strengthen local capacity and to develop a deeper, holistic and continuing policy dialogue with a particular provincial government.

### AID MANAGEMENT

**F11.** Since DFID opened an office in Beijing in 1999, management of the programme has been split between staff in London and in Beijing. This has worked well but as we move towards building on our project-based experiences and working ever more closely with development partners, principally the Government, the donor community and civil society, we have realized the importance of increasing our in-country presence. We will therefore establish a fully delegated DFID China office in Beijing. Responsibility will be transferred to Beijing by the end of 2003.

**F12.** As we implement strategy we will review and update our response to the changing development situation. We will undertake activities to increase our understanding of the relevance and impact of our programme and the relevance of outcomes to the Millennium Development Goals.

### PROGRAMME RESOURCES

**F13.** To implement the strategy outlined above, we have a budget for each of 2002-03 and 2003-04 of £38 million. For 2004-05, £60 million has been provisionally allocated for. Much of this will be taken up by activities already in the pipeline, particularly those planned with the World Bank. Budgets will be reviewed each year in the light of achievements and overall resources available to DFID. In addition China benefits from DFID's contributions to a number of multilateral agencies.

### SUMMARY OF PREPARATION PROCESS

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In addition to routine monitoring and review of the China programme, a number of other initiatives provided the opportunity to develop our CSP in a consultative way. These included:

- two peer review workshops, one in London with UK-based specialists and a second in Beijing with Chinese experts;
- the China programme annual retreat in Beijing;
- DFID internal workshops in Beijing and London;
- visits to China by DFID Chief Advisers and other senior managers, including the Asia Director, which provided the opportunity to consult, amongst others, the Chinese Government, other donors and civil society;
- a review of the links between donor approaches and the tenth national Five Year Plan;
- a donor commonality study;
- commissioning of papers on issues such as inequality and growth.

Other UK government departments and other donors and development organisations working in China were sent a draft version of the CSP and many commented. Relevant Chinese government ministries also received a copy of the draft. Following a meeting with the Ministry of Foreign Trade and Economic Co-operation, a number of suggested amendments were incorporated into the text. DFID's Chief Advisers and senior management were consulted.

ANNEX 2

COUNTRY PROGRAMME EXPENDITURE PROFILE

£ MILLION	2002/2003	2003/2004	2004/2005
<b>FIRM COMMITMENTS</b>			
PEOPLE WITH PRODUCTIVE & SUSTAINABLE LIVELIHOODS	11.5	9.9	5.9
EDUCATED AND LITERATE PEOPLE	3.8	8.4	7.9
HEALTHY PEOPLE	17.2	14.2	12.2
<b>Sub Total:</b>	<b>32.5</b>	<b>32.5</b>	<b>26</b>
<b>FUTURE PLANS</b>			
PEOPLE WITH PRODUCTIVE & SUSTAINABLE LIVELIHOODS	1.5	1.5	10.0
EDUCATED AND LITERATE PEOPLE	1.0	1.5	8.0
HEALTHY PEOPLE	2.5	2.5	16.0
<b>SUB TOTAL:</b>	<b>5</b>	<b>5.5</b>	<b>34</b>
<b>GRAND TOTAL:</b>	<b>37.5</b>	<b>38</b>	<b>60</b>