

## **China's Fiscal Poverty Alleviation Policy and Management**

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Since early 80s of the 20<sup>th</sup> century, China has conducted planned, organized and large scaled poverty alleviation and development program, aiming at promoting social and economic development in poverty-affected areas, helping rural poverty-affected population to get rid off poverty and achieving common prosperity. Fiscal poverty alleviation serves as an important measure and material foundation in government's efforts to use economic methods to alleviate poverty. For a long time, under the correct leadership of the Party Central Committee, the State Council, local Party Committees and local governments at all levels, the financial departments at all levels have implemented the nation's guidelines and policies of poverty alleviation and development in depth. They have continuously increased the inputs, actively innovated mechanism, strengthened fund management and monitoring and have played a positive and tremendous role in the smooth development of poverty alleviation and development.

### **I. The Framework of China's Fiscal Poverty Alleviation Policy**

China has adopted many supporting policies in regard to poverty-affected areas and

poverty-affected population and has invested big amount of capital in various forms. According to preliminary statistics, in 2006, the central finance made 25 preferential policies in relation to poverty-affected areas and there were nearly 50 specific projects. For example: the “three rewards and one subsidy” transfer payments to counties and townships with financial difficulties; transfer payments to old revolutionary areas; special transfer payments to boarder regions; preferential treatments towards new enterprises established in poor areas that are “former revolutionary bases, areas inhabited by minority ethnic groups, frontier regions and destitute areas”, the West China Development and special fiscal poverty alleviation funds. There are supporting projects in areas like education, health, science and technology, organization building at village level and etc. All these policies have financial supports. The annual capital investment is over RMB 200 billion Yuan exclusive of tax preferential cuts. In summary, fiscal poverty alleviation policies mainly include the following four aspects:

**(1) The inputs on poverty alleviation funds for poverty-affected population increased year by year.** Since 1980, the Chinese government has set up fiscal poverty alleviation fund. The scale of the funds arranged by central finance has increased to RMB14.4 billion Yuan in 2007 from the initial RMB 500 million Yuan. The total allocated poverty alleviation fund reached 160 billion Yuan in 28 years. At the same time, local governments have also continuously increased their inputs into poverty alleviation and development.

**(2) The financial transfer payments projects in poverty-affected areas are increasing and the scale is expanding.** According to the requirements of implementing and carrying out the concept of scientific development, promoting coordinated urban and rural development and letting the sunshine of public finance illuminate whole country areas, central finance has shifted the emphasis of transfer payments from the previous production development only to promoting country's overall social and economic development. The transfer payments projects is gradually increasing, covering education in rural areas, medical and health, environmental construction, social security, disaster relief and social development in rural areas.

In addition, special care is given to poverty-affected rural areas, especially minority nationality regions through arranging special transfer payments to compulsory education in poverty-affected areas and development funds for minority nationalities. By doing so, poverty-affected rural areas and minority nationality regions have additional supports apart from the same benefits generated by establishing public finance.

**(3) Make preferential policies to promote the economic development of poverty-affected areas, to increase peasant's income and give them tax relief.**

The policies mainly include: revenue taxation should be all or partly returned to newly established enterprises in poverty-affected areas within 3 years; government takes a certain amount of money from grain risk fund as subsidy to needy households

for repurchase of grain sold to the government; reduce or remit the agricultural tax on poverty-stricken households or disaster-affected population; the reform of rural tax and administration charges started in 2000; agricultural tax was abolished nationwide in 2006 and this has greatly eased peasant's burden. All these policies have played a positive role in reducing the impoverishment rate.

**( 4 ) Using Fiscal Interest Subsidy to Guide Banks to Extend Loans on Poverty Alleviation and Development** Arranging discounted interest credit is an important measure adopted by the government in poverty alleviation and development. According to statistics, central finance has arranged over RMB 70 billion Yuan in interest subsidy between 1986 and 2007. By providing interest subsidy to poverty alleviation loans, the government has guided financial institutions to extend nearly 200 billion Yuan of poverty alleviation loan.

## **II. The Management Pattern and Characteristics of Special Funds for Poverty Alleviation**

### **(1) The Supply Pattern of Special Funds for Poverty Alleviation**

In China, the allocation of Poverty Alleviation Funds is mainly supply-oriented. Up to now, the researches on the demand for poverty alleviation funds at home and abroad mainly take projects and industries as research units. Only few researches are conducted on state demand. These handful researches are conducted under multiple

assumed conditions and the results are estimated figures based on only a few parameters.

The calculation of capital demands are affected by many uncertain factors and it puts strict requirements on data. Furthermore the Chinese finance is still under development and is restricted by limited financial resources. Therefore for a long time, the planning of poverty alleviation funds in China is mainly supply-oriented. In general, all allocation of poverty alleviation funds is focused on phased plan and targets of poverty alleviation in light of the actual work of poverty alleviation and development. Since the new century, central finance and all provincial financial authorities have increased poverty alleviation funds year by year according to the requirements set by “Outline for Poverty Alleviation and Development of China’s Rural Areas” and their financial situation.

From 1980 to 2006, the accumulative total of poverty alleviation funds allocated by central finance reached 147.2 billion Yuan, with an average annual increase rate of 13.57 percent. From 2001 to 2006, the central budget allocated a total number of 70.9 billion Yuan of poverty alleviation funds, with an average annual increase rate of 6.3 percent. The total inputs in these 6 years are equivalent to the total number of the past 20 years. According to “Outline for Poverty Alleviation and Development of China’s Rural Areas (2001-2010)”, from 2001 to 2006, provincial budgets allocated about 17.7 billion Yuan of poverty alleviation funds, with an average annual increase

rate of 11.51 percent. The central budget allocated 14.4 billion Yuan of poverty alleviation funds in 2007.

## **(2) The Management Pattern of Special Funds for Poverty Alleviation**

**1. Diversified Management Entities.** Poverty alleviation funds include funds allocated by central budget and by local budgets at each level. Funds allocated by central budget include development funds, work-relief funds, ethnic minority development funds, poverty relief funds for poverty-stricken state-owned forestry farms, poverty relief funds for poverty-stricken state-owned farms and interest subsidies for discounted interest credit. Relevant management authorities include the Ministry of Finance, National Development and Reform Commission, the State Nationalities Affairs Commission, Poverty Alleviation Office, the Ministry of Agriculture and the State Forestry Administration.

**2. Gradually Standardizing Funds Allocation.** For quite a long time in the past, the allocation of central poverty alleviation funds was based on projects. As the scale of funds expanding, the allocation was adjusted on the principle of base plus increment. Since 1997, the central government has laid down the general principle of China's poverty alleviation in rural areas which is provinces assuming overall responsibilities. It also made the specific principle of "four assignments" (of tasks, responsibilities, funds and powers) to the provinces (autonomous regions and municipalities).

Following this principle, the allocation of central poverty alleviation funds will gradually be done by factor method, taking the following factors into consideration: the number of poverty-affected population, the peasant's net annual per capita income, local financial situation, policy adjustments and etc.

Since 2001, factor method has been adopted in the allocation and calculation of central poverty alleviation funds. Practice has shown that this method has reflected the principle of fairness, openness and justness. Therefore the method is ratified by all provinces (autonomous regions and municipalities).

Different provinces have adopted different methods to allocate funds under the provincial level. Most provinces conduct funds examination and approval on the basis project examination and approval and with reference to figures of the previous year. Some provinces adopt factor method and divide the funds and then allocate them to counties. Key poverty-stricken counties and villages totally depend on projects approval to get their poverty alleviation funds.

### **3. Focus of Poverty Alleviation Funds and Project Management Procedures**

Poverty alleviation focused on different areas at different period. In general, the trend could be described as increasingly concentrated scope and focus being shifted to lower levels. At first, poverty alleviation funds covered wide scope of areas, dealing

with individual poverty objects as well as the development of poverty-affected areas, covering production, livelihood and social development. The focus of poverty alleviation and development was mainly on counties. As we entered the new century, the policy system of aid-agriculture has been continuously enriched and improved, the inputs to the social development of rural areas has been steadily increased. As the result, poverty alleviation inputs shall be pulled out gradually from these areas. At the same time, the focus of poverty alleviation and development has been shifted on villages.

The management procedures of poverty alleviation funds are: township(town) people's governments and the operation departments at county level submit project applications, leading group of poverty alleviation and development at county level then make decisions with a view of overall balance, the summary reports will be submitted to relevant authorities at upper level and then all the way to relevant provincial authorities. These relevant authorities (Poverty Alleviation and Development Office, the Department of Finance, the Development and Reform Commission, the Nationalities Affairs Commission) shall examine the projects and bring forward project planning and budgets, then submit them to the Leading Group of Poverty Alleviation and Development at provincial level for approval. The funds will be allocated after the approval. Project plannings for work-relief funds must be submitted to the National Development and Reform Commission for examination and approval. Relevant authorities at county level and township(town) people's

governments shall organize the project implementation after the approval. The financial departments are responsible for funds allocation or reimbursement. The prefectural(city) level only plays the transmitting role in projects and funds management.

Starting from 2001, according to the requirements set by “Outline for Poverty Alleviation and Development of China’s Rural Areas (2001-2010)”, the key poor villages in each province (autonomous region, municipality) have all made poverty alleviation planning at village level and so have key counties as well. Database for poverty alleviation funds projects has also been set up on the basis of project plannings. The poverty alleviation funds projects submitted from the county level are usually taken from the database.

#### **4. The Transfer and Payments of Fiscal Poverty Alleviation Funds**

As for the transfer of funds, the central poverty alleviation funds to provincial level is allocated from central treasury to provincial treasury after the Ministry of Finance announced its budget allocation plan. The transfer under provincial level is mainly conducted in two ways: one is provincial treasury – prefectural (city) treasury - county treasury - special account for poverty alleviation funds (or special accounts) of county finance; the other way is provincial treasury – provincial special account for poverty alleviation funds - special account for poverty alleviation funds (or special

account) at county level.

As for payments, at one hand, to meet the requirements set out by the reform of state treasury management system, a system of centralized collection and payment by state treasury will be gradually adopted. On the other hand, reimbursement system is introduced to poverty alleviation funds management. In 2001, the Ministry of Finance issued “Measures on the Management of Poverty Alleviation Funds Reimbursement System”. It provides that reimbursement system shall be exercised on poverty alleviation funds management. It requires the funds to be assigned to projects and payments shall also be linked to projects. In practice, the financial departments pre-allocate funds to implementing units as initial capital according to project budget plan and the actual needs when projects are launched. As projects progress, the implementing units will then submit allocation application for rest of the project funds together with accounting vouchers. At present, the reimbursement system has been introduced to all provinces (autonomous regions and municipals). Most of the reimbursement is done at the finance departments at county level, while others are done at the finance departments at township level.

## **5. The Inspection and Supervision of the Use of Poverty Alleviation Funds**

At the Beijing level, National Audit Office and Resident Financial Supervision Offices of Ministry of Finance audit and conduct special inspections on the use and

management of poverty alleviation funds. The National Audit Office has listed poverty alleviation funds as one of the objects subject to annual routine inspection.

The supervision of relevant departments at/under provision level over the management of poverty alleviation funds falls into the following situations: ( 1 ) Self-check organized by project implementing units and the administrative departments at all levels; (2) Selective checks conducted by supervising administrative departments on projects and funds; (3) Cross check between administrative departments at the same level ; (4) Special investigations conducted by administrative departments at all levels; (5) Special audits of poverty alleviation funds usage carried out by audit departments at the same and upper levels ; (6) Supervision and inspection of poverty alleviation funds usage conducted by Resident Financial Supervision Offices of the Ministry of Finance.

**In general, poverty alleviation funds management has the following distinguishing characteristic:**

Firstly, taking the number of poverty-affected population as the most important basis for poverty alleviation resources disposition and allocating the funds in an objective, just and fair manner.

Secondly, gradually transferring powers to lower levels and giving local governments

greater decision-making powers. Allow local governments to make overall arrangements about the funds in accordance with local situations.

Thirdly, the funds will focus on putting an end to the backwardness of poverty-stricken areas, increasing the income of poverty-affected population, improving the quality of poverty-affected population in terms of health and education and strengthening the ability of self-protection against poverty.

Fourthly, the focus of funds management has been steadily shifted to lower levels. The supervision and management has been improved and perfected as the situation changes and develops.

### **(3) Main Problems in the Use and Management of Poverty Alleviation Funds**

1. The allocation is not scientific. At Beijing level, the allocation method of central poverty alleviation funds has been continuously improved from project allocation to base plus increment allocation and then to factor allocation. However, the present method of factor allocation takes the number of poverty-affected population as the principle factor. The method lacks positive incentive though it effectively improved the justness and fairness in funds allocation. The bigger poverty-affected population you have, the more funds will be allocated to you. The local governments lack of drive in poverty alleviation. Some of them even not want to be removed from the list

of poverty-affected counties.

At present, most provinces (autonomous regions, municipalities) still use base method to allocate funds to counties and the counties get their funds through project applications. The disadvantage of this practice is there is no timely adjustment on funds allocation to reflect corresponding relations between funds allocation and the degree of poverty when the number of poverty-affected population and the degree of poverty changed. At the same time, as the base method is usually combined with the practice of provinces holding the power of project approval, it has produced problems associated with the practice of “projects lobbying”.

2. Variable Objective. As the result, the focus of poverty alleviation operation is usually on regional development instead of poverty-affected population.

3. Lack of coordination between departments. The phenomenon of poverty alleviation authorities “playing a lone hand” and “monopolizing everything” co-exists. It is reflected in two aspects: one is that there is no unified plan for all poverty alleviation funds and the other is that the scope of poverty alleviation funds is too broad and the funds is often spread over many areas ;

4. With regard to the approach of poverty alleviation, the government’s role stands out while the role of society and impoverished people is weakening. Furthermore, the

government power is over concentrated on higher authorities (quite a number of provinces put the power of funds allocation, project inspection and approval at provincial level).

6. The examination and supervision mechanism is imperfect. There are many self checks from the government departments but very few examination and supervision from the society.

7. The time spent on project examination and approval is too long and the funds can not be put in place on time.

**(4) Innovation in poverty alleviation work in recent years.** In recent years, the financial departments at all levels made many attempts to address the problems with poverty alleviation funds usage and management and made many breakthroughs in areas like improving fiscal system of poverty alleviation and funds management reform and innovation.

**Firstly, transfer the power of project examination and approval to lower levels and make pertinent arrangement of poverty alleviation funds and projects.** Now the Ministry of Finance and relevant departments of central government no longer examine and approve poverty alleviation projects. All examination and approval powers are transferred to provincial level. At the same time, to address the problem of

red tape at provincial level in examination and approval and the problem of impertinent projects, the Ministry of Finance suggests all provinces (autonomous regions, municipalities) to adopt the approach of “selecting projects at county level and reporting the projects for the purpose of record to provincial level”. The approach has been adopted by Hubei, Henan, Hebei and Jilin provinces. Some other provinces also plan to gradually transfer the power of examination and approval over funds and projects to lower levels. Practice has proved that this approach helps to arouse the enthusiasm at the county level. The county level can assume more responsibilities at the same time. It also helps to bring about more pertinent arrangement of funds and projects, greatly reduces the occurrence of lobbying the supervising authorities for funds and projects and therefore saves administration cost.

**Secondly, allocate the funds in advance to address the problem of late arrival of funds.** To address the problem of less effective funds utilization due to late funds allocation and arrival, the Ministry of Finance allocates most part of the poverty alleviation funds in advance before the annual session of the People’s Congress since 2005 to ensure the timely implementation of poverty alleviation projects. This practice is very fruitful and will continue in future.

**Thirdly, to reform the financial interest subsidy approach so as to make full use of the interest subsidy to poverty alleviation loans.** In the past, though the approach of interest subsidy had the procedure of examination and approval at

different levels of administration, the screening was not strong. Some of the loans were not used in poverty alleviation and some of the poverty-stricken rural households could not get the loans they urgently need. Starting from 2004, the Ministry of Finance together with the Office of Poverty Alleviation and Development of the State Council launched pilot projects of financial interest subsidy to poverty alleviation loans that were directly granted to households. Part of the funds for financial interest subsidy was allocated from the central level to local finance. Key county finances give interest subsidy to financial institutions that extend poverty alleviation loans or directly give interest subsidy to poverty-stricken households with poverty alleviation loans. In 2006, the reform was carried out in 592 key counties in a comprehensive way. At the same time, the reform of interest subsidy intensified. Pilot projects were conducted in 8 selected provinces including Hebei Province. All interest subsidies to poverty alleviation loans of industrialized operation of agriculture and infrastructure construction in poverty-stricken areas were allocated to provincial finance. The provincial finance then settled the interest subsidies based on loans.

**Fourthly, push forward pilot projects of “Incentive & Subsidies Funds” to further address the problem of poverty-stricken rural households in getting loans.** In 2005, the Ministry of Finance, the Office of Poverty Alleviation and Development of the State Council and China Banking Regulatory Commission jointly organized the setting up of pilot projects of “Incentive & Subsidies Funds” in 4 provinces(municipality) Jiangxi, Shaanxi, Guizhou and Chongqing on a voluntary

basis. The objective was to set up risk sharing mechanism, to guide financial institutions to give more support to impoverished people in production development and to give financial funds a role to play in achieving maximum return on minimum investment. In 2006, pilot projects have been expanded to 8 provinces include Hebei, Hunan, Yunnan, Guangxi and etc.

**Fifthly, to establish the system of performance appraisal and ascertain the responsibilities of poverty alleviation in earnest way.**

In view of the situation that poverty alleviation tasks and responsibilities were not in place after the funds and power are transferred to provinces, the Ministry of Finance and the Office of Poverty Alleviation and Development of the State Council jointly issued Trial Procedures for Fiscal Poverty Alleviation Funds Performance Evaluation and conducted evaluations on each province's performance in fiscal poverty alleviation funds utilization since 2006. The purpose of the evaluation is to improve the effectiveness of fiscal poverty alleviation funds utilization and to ascertain the responsibilities of fiscal poverty alleviation. In fiscal agriculture-aid work, it is the first time to evaluate the utilization of Central government's special assistance funds allocated to local governments.

**Sixthly, to establish the information system of poverty alleviation funds management and supervision and improve funds management and supervision.**

In the past, the management method of poverty alleviation was relatively lagging behind. It was difficult to collect information and follow up. The funds supervision

was also not good enough. In 2003 , 5 ministries and commissions (bureau), namely the Ministry of Finance, the Office of Poverty Alleviation and Development of the State Council, National Development and Reform Commission, the State Nationalities Affairs Commission and National Bureau of Statistics jointly established the information system of poverty alleviation funds management and supervision. At present, the information system has started operation, however, since the running, operation and management of the system is still at the initial stage, there is still much room for improvement.

**Seventhly, to launch pilot projects of “village development mutual aid fund” and bring forth new method of poverty alleviation funds utilization.** To tackle the problem of fund shortage that poverty-stricken rural households is now facing in their production development, the Ministry of Finance and the Office of Poverty Alleviation and Development of the State Council launched pilot projects of “village development mutual aid fund” in 14 provinces. The basic practice of the pilot projects is: arrange certain amount of poverty alleviation funds to key poverty-stricken villages and help the villages to establish “mutual aid fund” and the fund will be “rolling utilized, of the people, for the people, by the people”. At present, the pilot projects have received positive response and warm welcome from grass roots cadres and large number of poverty-stricken people. The pilot projects have been launched nationwide in 2007.

### **III. Basic Ideas on Fiscal Poverty Alleviation in Light of the New Situation**

One expression of fiscal poverty alleviation is the inputs and the management of capital and the other expression is government's poverty alleviation policies. As we enter the new century, there are some big changes in the situation of poverty alleviation and development in China's rural areas. From the opportunity point of view, the government's aid-agriculture policies are gradually being enriched and perfected with enhanced strength; the rural Subsistence Security System will be established nationwide and it will effectively make up the insufficiency of development-oriented poverty alleviation. As for challenges, the number of poverty-affected population in China's rural areas, especially the low income poverty-affected population is still big ; the trend of widening gap of development between poverty-stricken areas and other areas, impoverished group and other social groups is yet to be changed fundamentally; the ability of self-development of the poverty-affected population and poverty-affected areas is yet to be developed and they still depend greatly on the external world; after the establishment of the rural Subsistence Security System, the desire for development in poverty-affected areas and among impoverished people has grown even stronger.

According to the present situation, for the next step, fiscal poverty alleviation work should not only intensify financial inputs and strengthen funds management, but should also work out a clear work strategy, improve policies and measures, innovate

management mechanism and improve work efficiency.

(1) Give New Dimensions to Development-oriented Poverty Alleviation.

Development-oriented poverty alleviation is the summarization of experiences gained from years of poverty alleviation in China's rural areas. It is also the fundamental principle that should be followed in future work of poverty alleviation. At one hand, we should be firm about the principle of poverty alleviation and development and stick to the policies and measures in poverty alleviation that have been proved to be effective. We can not relax on the work of poverty alleviation. On the other hand, we should give new dimensions and new concepts to development-oriented poverty alleviation. We should shift from the concept of special poverty alleviation and development to the concept of comprehensive poverty alleviation and development; special efforts should be given to develop and promote the ability of self-development and the independent ability to fight against poverty among impoverished people and in poverty-stricken areas; the emphasis of development should be shifted from key points to whole area, so that the development in whole area will lead the development of key points and the development of key points in return will contribute to the development of the whole area.

**(2) Reset the Tasks and Objectives of Poverty Alleviation and Development.**

In the past, the work of poverty alleviation and development was mainly concentrated on how to address and solve the problem of food and clothing of poverty-affected population. This objective should be adjusted at the present situation. At one hand, with the establishing and improving of the Subsistence Security System, the problem of food and clothing for impoverished group will be solved entirely and steadily. On

the other hand, if we leave the objective of poverty alleviation unchanged, there will be no stable foundation to keep poverty-affected people away from poverty after they got rid of it. This will have more pressure on the subsistence security system. Therefore, in light of the new situation, poverty alleviation and development shall give equal emphasis on solving the problem of food and clothing and consolidating the situation after the success. Efforts should be given to speed up the development as well as narrow the gap. Set the objectives and tasks of poverty alleviation and development in a realistic way. We hold that the objective of poverty alleviation and development should shift away from addressing the problem of food and clothing to **“increasing the income of poverty-affected population and narrowing the income gap between the impoverished group and other social groups ; promoting the economic development of poverty-stricken areas and narrowing the overall gap between the poverty-stricken areas and other areas”**. The main task of poverty alleviation and development should be promoting the economic development, increasing income and lifting living standards.

**(3) Clearly Define the Focus of Poverty Alleviation and Development** With regard to the working and implementation of poverty alleviation, a realistic approach in accordance with the local conditions should be adopted. Take the most urgent problems of poverty-stricken areas and impoverished people that need to be solved as the focus of poverty alleviation and development. Take different measures in light of different conditions. Specific supporting approach and contents should be worked out to suit individual situation instead of setting up proportions and standards mechanically. At present as well as for some time in the future, infrastructure construction, poverty alleviation by industry, resettlement, labour training shall all be

key areas in poverty alleviation and development that should be further strengthened.

**(4) Innovation of Poverty Alleviation Mechanism.** Reform and innovation is the inevitable choice to advance the work of poverty alleviation. It is also the base and precondition for further enhancing the effectiveness and efficiency of poverty alleviation. Only reform and innovation can invigorate the mechanism of poverty alleviation and development and speed up its progress.

Firstly, try to establish coordinating mechanism between poverty alleviation and development policies and other agriculture-aid policies. At the first step, there should be an overall management plan for the utilization of all kinds of poverty alleviation funds. Then attempts should be made to explore the combination of poverty alleviation and development policies and other agriculture-aid policies. In recent years, some attempts have been made and there is some progress. However, a good mechanism is yet to be established. In order to realize the integration of poverty alleviation resources: at one hand, poverty-affected areas should make their poverty alleviation and development planning in a realistic way base on scientific concept of development and clearly define objectives and tasks. On the other hand, hold the concept of “broad poverty alleviation”. Give full play to the advantages of each department, realize the integration of resources and operate in a coordinated manner. Take the construction of new village in poverty-affected areas as the platform, use poverty alleviation funds as the “binding agent”, follow the principle of “ensuring orderly channels, keeping the proposed purposes, acting in accordance with the

division of functions and duties and making awards according to performances” and take serious efforts in working out effective means to invert all kinds of resources to poverty-stricken areas. Lastly, to encourage exploration and pilot projects, especially pilot projects of poverty alleviation resources integration at county level.

**Secondly, review the select and remove mechanism of key counties.** Change the practice of keeping the same key county list for years and set up performance appraisals. Link political achievement and promotion of the leaders and cadres to the work of poverty alleviation and adopt some incentive methods to encourage poverty-stricken counties to shake off poverty. The central government takes control over the aggregate of key counties and transfers the adjusting power to provinces. Provincial governments decide on the time and object of adjustment and then report for the purpose of record to the Leading Group of the State Council for Development-oriented Poverty Relief.

**Thirdly, set up result-oriented incentive mechanism of poverty alleviation funds allocation to promote the implementation of responsibility system.** Set up the mechanism of performance appraisal and improve the allocation of poverty alleviation funds based on this mechanism. Divide the poverty alleviation funds into two parts in allocation. The majority will be allocated in accordance with the scale and degree of impoverishment to reflect the principle of fairness. The other small part will be allocated according to the performance appraisal so as to protect and arouse the

enthusiasm for poverty alleviation. This part of funds will follow the principle of “incentive for aid” which means that give more aids to areas that have better performance in poverty alleviation and less or even no aid for areas that have poor performance.

#### **(5) To Strengthen Fund Management to Ensure Safety and Effectiveness**

---To improve fund allocation. At Beijing level, introduce positive incentive mechanism to promote the implementation of local responsibilities in poverty alleviation. At local level, actively introduce provincial factor method into funds allocation and promote the transfer of examination and approval jurisdiction over poverty alleviation projects to lower levels.

---Explore the practice of direct payments of poverty alleviation funds and expand the scope of government procurement in regard to poverty alleviation funds. Improve the reimbursement system of poverty alleviation funds.

---To further improve the publicity and transparency of the tendering and bidding of poverty alleviation projects and set up more strict rules and supervising mechanism for the tendering and bidding conducted by the subordinate sections of operation departments. All tendering and bidding applications submitted by subordinate sections must be examined by independent government departments. At the same time, local

governments should also keep all project tendering and bidding documents for future reference.

----To set up check and monitoring system with clear responsibility definition. As long as the government is concerned, it should include government authorities in charge at all levels, People's Congress, auditing authorities, discipline inspect and supervision departments. Clear responsibilities shall be set for departments at all levels. Specific inspections can be trusted to suitable government institutions or non-government organizations according to the practice of international organizations. At the same time, set up system of rewards and penalties based on inspection results. Improve and promote the publicity system. Relevant departments should set up system to give explanation and feedbacks to public tip-offs.

----To improve the "Information System of Poverty Alleviation Fund Management and Monitoring" and establish the cross-department reporting and cooperation mechanism.