

The Role of the “Two Exemptions One Subsidy” Policy in

Alleviating Poverty in Rural China

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I. Unfairness in Elementary Education and Design of the “Two Exemptions One Subsidy” Policy

For a long time, the income gap between China’s eastern and central-western areas has kept on widening and poverty-stricken rural households in central-western areas have encountered financial difficulties in supporting their children’s education. According to statistics in 2005, there were more than 24 million students from poverty-stricken families at the compulsory education stage in central-western rural areas. A typical rural primary/middle school student need pay 300-500 yuan a year for his/her textbooks and incidental fees, which accounted for more than 50 percent of the annual per capita cash income of a poverty-stricken rural household that had less than 1,000 yuan of annual net income. Naturally education expenses have produced heavy financial and psychological pressures on poverty-stricken families and when illness occurs or disaster happens, students from such families usually drop out because of debts. Prior to 2002, China’s rural compulsory education had practiced a financial investment system featuring “stratified administration by local governments with county and township governments being the mainstay” while central and provincial finances having little responsibility for rural compulsory education, which was limited to some subsidies for improving facilities in

rural schools. Due to the imbalance of economic development in different areas, many counties and townships in central-western China had no financial strength for education input and rural school funds in these areas were mainly from textbook payment and incidental fees collected from students. This has produced much unfairness in the field of elementary education. Therefore, it has become a major task in Chinese Government's poverty-alleviation strategy to increase central and provincial financial inputs and enlarge financial support to poor students so that they can complete the nine-year compulsory education.

Case 1: Tongdao of Hunan Province is a state-designated poverty county suffering budget deficits in recent years. In the year 2002, the county's financial revenue was 94 million yuan with 15 million yuan of subsidies from upper authorities. However, its financial expenditures reached 140 million yuan, of which 116 million yuan were spent on wages and salaries, leaving little financial strength for investment in capital construction and social development. Of the county's expenditures for education undertakings, teachers' salaries were completely paid only by that year. Currently, the county finance has outstanding accounts with 97 percent of the 441 primary and middle schools, totaling 48.22 million yuan. In addition, the county has to earmark 1 million yuan each year for lagging capital construction in schools. So, the county is unable to allocate funds for public expenditures and facilities of schools. Instead, these funds are mainly raised by schools on their own. Therefore, the county's financial budget includes no item of "public expenditure per student" and few rural schools know this concept, nor do they have any idea about provincial regulations with regard to county financial subsidies to per-student

public expenditure. Funds for administration, facilities and renovation are all from textbook payment and incidental fees and temporary charges on enrolled students. With the schools' expenditures on the rise every year, various kinds of fees increase accordingly, pushing higher the education expenditures of rural households.

Case 1 displays the problem in rural compulsory education caused by the financial investment system featuring “county and township finances being the mainstay”¹. For poverty-stricken counties with tight finance, rural schools are mainly run with fees collected from enrolled students, which befall directly on rural households. In contrast, for economically developed areas, schools are run with funds earmarked by local government finance. The defective design of the financial system has aggravated this unfairness in society.

Case 2: There is a poverty-stricken Liu family in Hehuatan Village, Shankou Town, Tongdao County. The four-member family—husband and wife, and their 15-year son and 11-year daughter, has only 2.4 mu of dry land. Liu's wife does the farm work at home, planting rape and soybeans. She is in poor health and her medical expenses have been a burden to the family's finance. Liu as head of the household goes out as a seasonal worker five months a year. The family has planted some vegetables and raised five chickens, which are the main source of meat.

The Liu family has a total annual income of 3,200 yuan, or 800 yuan per capita, including

¹Chen Ziguang, “Investigation on rural compulsory education in the mountain areas of western Hunan”, *Rural Investigation*, 2003

1,200 yuan from selling rapeseeds and soybeans and 2,000 yuan from seasonal work. After spending 330 yuan on production-related means and 1,100 yuan on rice and flour as food, only 1,770 yuan is left. The boy is in the third grade of township junior middle school and needs to reside in the school, incurring 900 yuan of tuition and living expenses a year. The girl attends a primary school in the village and pay 250 yuan of tuition and miscellaneous fees a year. After all these expenses, the family only has 620 yuan left for daily living. Now, the family has 2,200 yuan of debts and every year they have to rely on the assistance of relatives and friends for survival. Tuition and miscellaneous fees, as well as school charges, keep on increasing each year, making the Liu family's financial burden heavier and heavier. The boy is a good student and if he goes to a technical school after graduating from the middle school, the family will face bigger financial pressure. In that case, the girl will have to drop out of school.

Source: Chen Ziguang, "Investigation on rural compulsory education in the mountain areas of western Hunan"

Case 2 shows that poverty-stricken rural households face double pressures—short of money and soaring tuition and miscellaneous fees. While considering investment in education, such families are usually biased toward boys, putting girls at a disadvantaged position. Girls account for the majority of dropouts in rural schools.

To increase the completion rate of rural compulsory education and lessen the education expenditures of rural households, the central government adopted a two-step policy in the fall of 2002. The first step was to check the momentum of rising fees in rural schools. For

the purpose, the central government put forward a “one-fee” policy², stipulating that primary and junior middle school students at the compulsory education stage should make only one payment for tuition and incidental fees, and without the permission of provincial government, no department or schools should request more payments. With regard to fee standards in primary and middle schools, provincial government should set forth items and maximum amount while county government submits specific standards to provincial government for confirmation.

The following are the “one-fee” standards for rural schools in Tongdao County, Hunan Province for the year 2003:

Table 1: “One-fee” Standards in Schools in Tongdao County (yuan)

	Grade	“One-fee” standards for one term				
		Miscellaneous fees	Textbooks		Work books	Others ³
			Regular	Experimental ⁴		
Primary schools	One	70	28	35	10	17
	Two	70	28	35	10	15
	Three	70	29	47	10	40
	Four	70	35	47	10	40
	Five	70	39	53	10	40

² The Decision of the State Council on Further Strengthening Rural Education Work, 2002

³ Including class fee, fee for science activities, fee for disease prevention and physical checks, etc.

⁴ Experimental textbooks are used in rural experimental schools or classes.

	Six	70	39	53	10	41
Junior	One	90	99	118	10	44
	Two	90	91	107	10	41
middle	Three	90	93	81	10	42
schools						

Source: Chen Ziguang, “Investigation on rural compulsory education in the mountain areas of western Hunan”

After the announcement of “one-fee” standards for rural schools, charges under any pretext are not allowed and any charges against the rules would be investigated and punished as arbitrary charges. To match with the “one-fee” policy, county finance must earmark public expenditure to rural schools according to the standards. If county finance really has difficulties, it should include this part of expenditure in the transfer payment of upper authorities for solution by provincial finance⁵. The adoption of the “one-fee” policy has resulted in two changes. Firstly, charge standards of rural schools have become public, which stops disguised growth of tuition, miscellaneous fees and other charges and partially removes pressure on rural households. Secondly, instead of the input system focusing on county and township finances, central and provincial financial inputs in central-western rural schools are included in the budget of transfer payment.

But implementation of the “one-fee” policy could not completely stop rural schools from collecting fees. There are two reasons. Firstly, many rural schools found the allocation of

⁵ Suggestions of the State Council on Fully Unfolding the Experimental Work of Rural Tax Reform, 2003

public expenditure inadequate in face of price hikes in water, electricity and teaching equipment, and the shortage of funds kept widening. Secondly, schools and the finance department were in a state of soft-budget restraint, under which schools would never say they had enough funds. Meanwhile, a blind zone also existed in the supervision of county education bureau. As a matter of fact, some rural schools continued increasing charges on students.

Case 3: According to Principal Ding of Langhe Town Central Primary School, with adoption of the “one-fee” standards, the school collects 70 yuan less. Yet the school’s relevant expenses cannot be reduced, as expenses for preparing lessons, water and electricity costs, and the prices of teaching equipment keep rising. In the year 2002, electricity cost 0.5 yuan per kwh but by the fall of 2003, the cost rose 60 percent to 0.8 yuan per kwh. In addition, the allocated funds are no longer calculated according to the actual amount as in the past, leaving a big gap between the allocated funds and the actual amount. Now teachers have to pay part of the expenses if they go for vocational studies. Under such circumstances, it is hard to improve the teaching quality, let alone extra funds for improving other teaching conditions. In other words, while one problem is solved, another pops up. It is hard to find a balancing point in such a regulatory mechanism.

Source: Chen Ziguang, “Investigation on rural compulsory education in the mountain areas of western Hunan”

After specifying fee standards in rural primary and middle schools, the central government made the second step to promote the completion rate of rural compulsory education, i.e. to

expand subsidies for poor students in rural areas. This is known as the “two exemptions one subsidy” policy, namely exemption of textbook payment, exemption of tuition and miscellaneous fees, and subsidy to resident students as supplement to their living expenses. The central finance started to provide student grants in compulsory education in the 1990s, but the amount was small. Beginning from the fall of 2001, the amount increased to 100 million yuan, which further increased to 200 million yuan in 2002 and 400 million yuan in 2004. Beneficiaries in primary and middle schools in central-western rural areas increased from 10 percent in 2001 to 30 percent in 2003, alleviating to some extent the school burden on poverty-stricken rural households. In 2005, the central government put forth new policy objectives⁶: All students from poverty-stricken families in rural compulsory education across the country should benefit from the “two exemptions one subsidy” policy by 2007 so that rural students would not be deprived of education because of poverty.

II. Contents and Implementation of the “Two Exemptions One Subsidy” Policy

The “two exemptions one subsidy” policy is implemented mainly through two measures. One is to “expand the aid range”, which means providing free textbooks to 16 million primary and middle school students in 592 state-designated key counties for poverty alleviation and development (abbreviated as “state-designated poverty counties”), exempting them from tuition and miscellaneous fees while gradually providing living expenses subsidy to resident students. For poor students in non-state-designated poverty counties, the central finance would increase the amount of special allocations for free

⁶The Decision of the State Council on Further Strengthening the Work of Rural Education, 2005

textbooks year by year, and instruct local finance to exempt miscellaneous fees from students newly included in the aid program. The other measure is to “raise the subsidy standards”, which means raising the standards of free textbooks for poor students in both state-designated and non-state-designated poverty counties. The standards of free textbooks rose from 28 yuan for primary school students and 50 yuan for junior middle school students per term to 35 yuan and 70 yuan, respectively. Through implementing these two measures, primary and middle school students from poverty families in central-western areas entitled to free textbooks are expected to increase from 23 million in 2004 to 30 million. By the time the policy is completely carried out, the exemption of textbook payment and tuition/miscellaneous fees will be an average of 200 yuan for a primary school student and 340 yuan for a middle school student per academic year. As for resident students, the policy stipulates that subsidy for their living expenses should average 200 yuan, most of which should come from county finance. Unfortunately, this cannot be realized due to the tight finance in many poverty counties. The policy is expected to be completely carried out in three years, during which the central finance will allocate 1.3 billion yuan annually and local finances, 2.8 billion yuan, totaling 22.7 billion yuan. The policy indicates a big change in the financial system of rural compulsory education. Central and provincial finances are shouldering more responsibilities to reduce the unfairness in elementary education between eastern and central-western areas.

To implement the “two exemptions one subsidy” policy, the central finance has established a special account with corresponding management system, setting detailed

rules with regard to the targets, qualifications and application procedures for financial aid⁷.

The main rules are as follows:

(1) The financial aid is targeted at rural students at the compulsory education stage who cannot afford textbooks because of poverty. Financial aid should be provided to students differentially according to their poverty degree and priority should be given to orphans, children from families in absolute poverty and low-income families, and children from families financially stricken by unexpected incidents.

(2) Concerning the range of financial aid, the priority is given to key counties for national poverty alleviation and development and provincial-designated poverty counties in ethnic and frontier areas. In areas listed for financial aid, central and local governments simultaneously undertake responsibility for exempting poverty students of tuition and miscellaneous fees in the ratio of 8:2. As to the subsidy to the living expenses of resident students, local finances at all levels share it proportionately. The central finance will take into consideration the efforts of localities in performing their responsibilities when distributing the special funds for the “two exemptions and one subsidy”.

(3) Regarding the management of financial aid, the provincial government will play the major role in managing the “two exemptions one subsidy” funds while central and local governments play their due parts at corresponding levels. Also, education and financial departments should cooperate in operating the funds. Education departments at various

⁷The Notice of the State Council General Office on Transmitting the Suggestions of the Office of Economic Policy Reform and Other Departments on Lowering the Prices of Primary and Middle School Textbooks and Deepening the Reform of Textbook Management System, 2005

levels are responsible for adding up the number of primary and middle school students within the range of financial aid. The Ministry of Finance works out a tentative budget plan in line with the number of students and other relevant information provided by the Ministry of Education. After the Ministry of Finance and the Ministry of Education decide budget together, budgetary funds are allocated to provinces, then lower levels, until they reach relevant schools. The special funds are all included in provincial treasure for management through separate account, lump payment and closed operation to ensure the funds be used for the specified purpose only.

III. The Role of the “Two Exemptions One Subsidy” Policy in Alleviating Rural Poverty

Zuoquan County of Shanxi Province used to be an area active with the Eighth Route Army (led by the Chinese Communist Party during the War of Resistance against Japan 1937-45). An old revolutionary base area and a state-designated poverty county, Zuoquan now has 16 towns and townships under its jurisdiction. Located in the hinterland of the Taihang Mountains, it features undulating hills and barren land covering 1,912 square kilometers. With agricultural population accounting for 87 percent of its total population, agriculture is the main part of its traditional economic structure. The per capita income in Zuoquan is 1,250 yuan. Based on the poverty line of 675 yuan per capita, 15 percent of rural household in Zuoquan live in poverty. There are 6,000 middle school students and 11,000 primary school students. With a narrow source of cash income, about 44 percent of rural households find it difficult to pay for their children’s education and 11 percent are

incapable of paying tuition for their children. Financial difficulties are a major reason for high dropout rate among local children. When the “two exemptions one subsidy” policy was adopted in the spring of 2005, Zuoquan became a priority county in Shanxi Province. Zuoquan has executed the policy according to the unified standards specified by the provincial government. After research and investigation, the county education bureau and related departments have determined three categories of beneficiaries for the “two exemptions one subsidy” policy.

(1) Beneficiaries of top priority are children from low-income and extremely poor families with less than 300 yuan per capita net income, children from families of revolutionary martyrs and servicemen, and children from families that cannot maintain basic living because of disasters or illness. Confirmed by civil affairs authorities, the beneficiaries include children from families of revolutionary martyrs, disabled students, and children from single-parent families, either with one parent dead or divorced. Beneficiaries of top priority have obvious characteristics to identify, so it is less probable to make errors in target identification.

(2) The second category of targets is defined as children from families with less than 675 yuan per capita net income. But standards for identifying this target group are somehow ambiguous. In reality, correct calculation of the per capita income of a rural household presents many difficulties and target identification is more likely to deviate. As a result, some students with better financial conditions are also included in the beneficiaries.

(3) The county education bureau determines the standard for the third categories of beneficiaries after balancing the total amount of financial assistance and the per capita

amount of financial assistance. That is, if there is extra fund, the financial assistance standard may expand to over 675 yuan of per capita net income, meaning the financial assistance will be extended to more rural households. With the standard for financial assistance moves upward, the probability of error in calculating the per capita income of rural households increases, which means more deviation in target identification and more errors in execution. In fact, it is quite difficult to control the precision of target identification. We discussed the method to increase the precision of identifying the targets of financial assistance with staff of the education bureau but found this is a result from the constraint by realistic interest balance under the established system. In order to enhance the correctness of target identification, it is imperative to increase the transparency of system and the degree of public participation, which would involve the issue of reforming the administrative system. Yet it is far more difficult to reform the established system, which goes far beyond the subject of increasing the correctness of target identification. Obviously, it is a paradox to solve a problem with a much more complicated problem. Therefore, whether willing or unwilling subjectively, the correctness of target identification in policy execution is basically a constant dependent on the work efficiency of county education department and relevant schools. Counties more efficient tend to have a higher degree of correctness in target identification.

The provincial Xinhua Bookstore decides the prices of textbooks. Once the prices of textbooks are known, the amount of subsidy to each poverty student should be known. Multiply the textbook subsidy due to each poverty student by reported total number of students is the total amount of textbook subsidies to all the poverty students in the

province. The provincial finance settles account based on this amount with the provincial Xinhua Bookstore. Then the provincial Xinhua Bookstore distributes the textbooks to all the counties according to the number of poverty students. After that, the Xinhua Bookstore in each county distributes the textbooks to schools and each poverty student gets a free set of textbooks. A county education bureau also needs to calculate the amount of subsidies for tuition/miscellaneous fees in rural schools according to the number of poverty students entitled to textbooks subsidies and assist the county financial bureau to allocate the subsidies for tuition/miscellaneous fees to the accounts of different schools. This scheme of fund operation is well designed and easy to operate. It basically eliminates any possible fund-related omission.

The following are standards for textbook costs and miscellaneous fees in Shanxi⁸ :

(1) Textbooks in primary schools: 18.08 yuan for grade one; 18.92 yuan for grade two; 29.62 yuan for grade three in six-year primary schools; 30.7 yuan for grade three in five-year primary schools; 31.52 yuan for grade four; and 32.62 yuan for grade five.
Textbooks in junior middle schools: 50.94 yuan for grade one; 65.58 yuan for grade two; and 47.00 yuan for grade three.

(2) Miscellaneous fees: 76 yuan per primary school student per year (38 yuan in spring) and 106 yuan per junior middle school student per year (53 yuan in spring) in poverty counties.

The following are funding sources for the “two exemptions one subsidy” policy in

⁸ The Notice on Adopting the “Two Exemptions One Subsidy” Policy in Zuoquan Schools, Zuoquan Education Bureau, 2004

Zuoquan County:

(1) Fund for providing free textbooks is from the central finance. Of 323,600 yuan allocated in the spring of 2005, 138,200 yuan went to primary schools and 184,700 to junior middle schools.

(2) Fund for exemption of miscellaneous fees is from the provincial finance. Of 315,900 yuan allocated to Zuoquan in the spring of 2005, 161,900 yuan went to primary schools and 153,100 yuan to junior middle schools.

(3) Fund for subsidizing the living expenses of resident students is from city (60%) and county (40%) finances. Of the annual budget of 556,800 yuan in Zuoquan, the city finance provides 334,100 yuan and the county finance, 222,700 yuan.

In implementing the “two exemptions one subsidy” policy, Zuoquan Education Bureau decided that while the priority of financial assistance is given to impoverished townships, proper consideration should also be given to schools in county seat and better-off townships. The education bureau has divided the county’s townships into three levels according to their economic development. Level-one townships have better economic conditions and receive subsidies for 30 percent of students; level-two townships receive subsidies for 40 percent of students; and level-three townships, 50 percent. The education bureau holds a meeting of principals from all the primary and middle schools in the county, discussing the subsidy quotas and releasing information. Statistics previously done by the county government helps differentiate the three levels of schools and some adjustments of their requests lead to a plan of subsidies for all the schools.

We leased a vehicle and drove to Hanwang Township Middle School. We first interviewed two teachers. Then the principal came and later about nine other teachers joined the talk, together with a crowd of students. There are more than 230 students in the school. With Hanwang Township merged with the neighboring Shijiangkou Town, the township government has moved to Shijiangkou Town. However, the current Hanwang Village is a big village with 3,000 people and a coal mine. Its neighboring villages also run small coal mines with active economic activities. Given this, Hanwang Village is still a local trading center. Rural residents in Hanwang Village and its neighboring villages are financially better-off and generally want their children to receive education. There are also some people who have come from other places to work in the villages and their children also need to go to school. So the county decided to keep Hanwang Township Middle School.

This is a well-managed school. According to the principal, the school ranks ahead of Shijiangkou Middle School in the county and 75 percent of its teachers have regular college degrees. Compared with other township middle schools in Zuoquan, this school also boasts better-quality teachers. According to the principal, there are two points to run a school well: (1) the teachers must be earnest teaching; and (2) the students must be treated fairly. Only with “fairness” can a school have discipline and healthy atmosphere, so that students can study earnestly. The school’s fine discipline and competent teachers have even attracted students from Shijiangkou Town. The principal is proud of his school.

Lots of research results show a positive correlation between lowered dropout rate and long-term poverty alleviation. For a considerable number of poverty-stricken families, the most effective way to rid of poverty is to have children complete a fine elementary

education. We asked the teachers whether the “two exemptions one subsidy” policy could substantially lower the dropout rate among junior middle school students. The teachers said that the question is not applicable to their school, which is reputed for its good teaching quality and always has a low rate of dropouts. Besides, as rural residents around Hanwang Village are in better financial conditions, most families are able to pay textbooks and incidental fees. As to Shijiangkou Middle School, most teachers believe that the “two exemptions one subsidy” policy might play a big role in lowering its dropout rate. Shijiangkou Middle School has three times more students but problems do exist in its operation. In junior middle school, 6 percent of students drop out when entering grade two from grade one and another 5 percent drop out when entering grade three from grade two. Among the dropouts, 20 percent have nothing to do with the payment of textbooks; 40 percent discontinue study because of family financial difficulties and they are most likely to resume study when they are exempted from the payment of textbooks and incidental fees. The other 40 percent leave the school because they are not satisfied with the school’s performance. Most dropouts in the last category occur when entering grade three from grade two and the dropout is only partially related to the payment of textbooks, because some would stay if they are exempted from the payment. Some teachers had a different opinion: There are many reasons for dropout and sometimes it is difficult to tell what makes a student to discontinue study; financial difficulties might be exaggerated in dropout. The question is what percentage of students drop out because of financial difficulties. There is no agreement on the answer to this question. After all, the “two exemptions one subsidy” policy has only been in practice for a short time and only time

can help make the same judgment. Actually the conclusion can only be made after a sample survey of rural households.

Benefited from the “two exemptions one subsidy” policy, a junior middle school student could have 210 yuan exempt for textbook payment and incidental fees in an academic year. For poor rural families, this is a large amount of money and students compete for it fiercely. According to the principal, the first challenge is to identify poverty-stricken students with per capita income of a family because there are a large number of rural families in the county at similar level of poverty. Even families with relatively better-off conditions would like to classify themselves as in the poverty-stricken group so that they can benefit from the poverty-alleviation policies. Family income reported by students is hardly reliable. Out of consideration to safeguard the interests of its villagers, a village committee often certifies that a student is from a poverty-stricken family so long as the student applies. Class teachers and schools tend to dispute a lot while making decisions based on the hard-to-prove information and parents often doubt the fairness of such decisions. Teachers are frustrated with such disputes and become less enthusiastic in teaching.

The principal was not pleased with the county’s subsidy plan because his school was in the lowest level with only 30 percent of benefited students. According to him, the percentage of beneficiaries should not be based on the performance of a school, nor just on per capita income. The two factors should be incorporated for consideration because the government’s money should be used to motivate hardworking students. Of course the principal has his own reasoning for his opinion on the policy.

Chen was a class teacher of grade two of the junior middle school. When asked about his view on the selection of subsidized students, he said that a teacher must be specific about the conditions for subsidization. “For example, what is the per capita income in your family?” said Chen. “The students can hardly understand. Actually I don’t know how this per capita net income is calculated either. I know the township reports a figure of per capita income each year, but the parents of students have no idea about such a figure called per capita net income. Except for extremely poor students eligible for priority subsidization, I explained the standard according to my understanding. So in fact I induced students with my standard. I have a rough idea about the financial conditions of students in my class. If students apply for the subsidy by themselves, there would be fewer disputes. The key lies in a teacher’s induction so that some students with better financial conditions would not apply.” Chen said that from the point of view of a teacher, he would like students from poor families but with a correct attitude toward study to get the financial assistance. Though it is not clearly stated, he believes there is nothing wrong with such a rule and the government should not subsidize students who are not serious about their study. Many class teachers share the same idea as Chen. So unless all students are subsidized, this standard would not be removed from the mind of teachers. In reality, the judgment of class teachers helps identify the targets of financial assistance.

Both the principal and teachers are encouraged by the “two exemptions one subsidy” policy that targets all students in western areas starting from the fall of 2006⁹. But they said that rural compulsory education should all be free. Now funds allocated from upper

⁹ Ministry of Finance & Ministry of Education, Interim Measures on Central Special Fund Payment and Management in Reform of Rural Compulsory Education Funding Mechanism, 2006

authorities are still inadequate and schools still have to charge some incidental fees. If the government is in a good financial shape, it should provide adequate funds to schools in mountain areas. The “two exemptions one subsidy” policy has exempted students from payment of textbooks and incidental fees, but students still have to buy auxiliary books at their own expenses, such as writing and drawing books, blank maps for geography, exercise books, etc. It would be best if the government includes all these expenses in the subsidies in the future.

IV. Policy Conclusions and Proposals

Firstly, for a four-member rural family in poverty with about 5,000 yuan annual net income, less than 3,000 yuan being cash income, exemption of the two children’s payment of textbooks and incidental fees totaling 500 yuan would account for one-sixths of the family’s annual cash income. Obviously, the “two exemptions one subsidy” policy plays a positive role in alleviating the financial difficulties of poor rural households. While encountering financial difficulties, rural households tend to give the chance of education to boys. Therefore, girls actually benefit more from the policy.

Secondly, school-age children discontinue education because of the following reasons: 1. the performance of rural schools; 2. financial condition of their families; 3. some students’ own personal reasons. By directly targeting at the second reason and being partially effective to deal with the first one, the “two exemptions one subsidy” policy can roughly reduce the dropout rate by 40 percent¹⁰.

¹⁰ Feng He, “Cluster analysis of main reasons for dropout in rural junior middle schools”, *Study Magazine*, 2005

Thirdly, it is a policy of long-term impact to assist children from poor rural households to complete the nine-year compulsory education. Raising the basic knowledge level of the young generation and enabling them to keep the initiative in their own hands are of crucial importance when they work outside and converge with the urban society, or learn new labor skills in their hometown and change certain local backward customs in future. Therefore, the “two exemptions one subsidy” policy serves as a basic measure to alleviate poverty.

And lastly, with the county government subsidizing the living expenses of resident students, the input is actually small and only a small number of students can have the benefit. The amount of subsidy should be enlarged. Some rural students drop out because their school is too far away from their home. If they receive living expenses subsidy, they can continue their study. It is proposed that provincial and county finances share the subsidy in a certain ratio.

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