

# Department for International Development

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DFID, the Department for International Development: leading the British government's fight against world poverty. One in five people in the world today, over 1 billion people, live in poverty on less than one dollar a day. In an increasingly interdependent world, many problems – like conflict, crime, pollution and diseases such as HIV and AIDS – are caused or made worse by poverty.

DFID supports long-term programmes to help tackle the underlying causes of poverty. DFID also responds to emergencies, both natural and man-made.

DFID's work forms part of a global promise to

- halve the number of people living in extreme poverty and hunger
- ensure that all children receive primary education
- promote sexual equality and give women a stronger voice
- reduce child death rates
- improve the health of mothers
- combat HIV and AIDS, malaria and other diseases
- make sure the environment is protected
- build a global partnership for those working in development.

Together, these form the United Nations' eight 'Millennium Development Goals', with a 2015 deadline. Each of these Goals has its own measurable targets.

DFID works in partnership with governments, civil society, the private sector and others. It also works with multilateral institutions, including the World Bank, United Nations agencies and the European Commission.

DFID works directly in over 150 countries worldwide, with a budget of nearly £4 billion in 2004. Its headquarters are in London and East Kilbride, near Glasgow.

## Department for International Development

March 2006



# China: Country Assistance Plan 2006–2011

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*\*Part 3 and Annex 3 are to be made available electronically on the DFID website, [www.dfid.gov.uk](http://www.dfid.gov.uk). This is subject to change from time to time. Enquiries can be sent by email to [enquiry@dfid.gov.uk](mailto:enquiry@dfid.gov.uk).*

*Alternatively, hard copies of Part 3 can be sent on request. Please phone 0845 3004100 or write to Enquiry Point, DFID, Abercrombie House, Eaglesham Road, East Kilbride, Glasgow G75 8EA.*

## Part 1 – Poverty context

### A. Summary

- A1. This document presents the Department for International Development's plans for supporting China to reduce poverty and achieve the Millennium Development Goals (MDGs). It provides the overall framework for the detailed activities that will be undertaken by DFID between 2006/7 and 2010/11.
- A2. China has made dramatic progress in reducing poverty. Over 450 million people were lifted above the \$1 per day international poverty line since the reform process began in 1979. However 135 million people still remain below the poverty line and progress on a number of the MDGs is slower than anticipated. Despite an unprecedented period of high economic growth and good prospects for its continuation, further progress in reducing poverty will be difficult. Particular challenges relate to the geographical spread of poverty, growing environmental costs, and the inability of vulnerable groups to fully benefit from growth. Increasing inequality is also raising concerns for social stability. Future poverty reduction will require a more integrated and targeted response and can not simply be left to economic growth.
- A3. China is becoming an increasingly significant driver of global economic growth. Economic relations with China and trade in particular are becoming very significant for many other developing countries. China's emergence generates a wide number of challenges and opportunities for the world. Its environmental impact is potentially huge. Its role in supporting development and becoming a champion for developing countries within the international community is also potentially significant. However it also has to manage negative perceptions of its rise.
- A4. The 11th Five Year Programme is the basis of the Government's development strategy for reducing poverty. It explicitly recognises the importance of environmental sustainability and economic and social equality and represents a broader vision of development than earlier plans. It forms the basis of DFID's partnership with Government and has informed our overall approach to providing support in China.
- A5. Overseas development assistance to China from all bilateral and multilateral sources amounts to less than 0.1% of China's Gross Domestic Product (GDP). Much larger volumes of resources are allocated directly by the Government of China to MDG-related programmes. We can only achieve impact if we work directly with these national programmes. We intend to work in areas where we have a track record and apply the lessons we have learnt from our past engagement. The international experience and expertise that we can bring is highly valued by Government. DFID's strategy in China will therefore be to focus resources on a limited number of interventions directed towards accelerating performance in the MDGs. These will be in basic education, HIV and AIDS, TB and water and sanitation. Our main input will be to help the government improve the ability of its national programmes to reach the poorest.
- A6. We will develop our engagement with China on international development issues and facilitate that of other UK government departments. This also signals the future evolution of our relationship with China. We anticipate that by the end of 2011 our partnership will have evolved from a donor-recipient relationship to one largely based on dialogue and cooperation with China on international development issues.

## B. The challenge

- B1. China is home to over 1.3 billion people, representing one fifth of the world's population. China's economy has grown consistently at above 8% per year over the past 25 years. It now ranks as the fifth largest economy and the third largest trading nation in the world. China's policies and actions are having an increasing impact on regional and global economic prospects.
- B2. China's size matters. Not only is its domestic performance crucial for the global realisation of the MDGs, but its influence on other economies will also be significant. For example, although China has already met the MDG to halve extreme poverty and hunger by 2015, China will need to continue to reduce income poverty further if the world as a whole is to realise the target. This will mean maintaining high rates of sustainable economic growth together with measures to assist less-developed parts of the country.
- B3. China is increasingly aware of its global economic significance and of its responsibilities. China is engaging in a range of international agendas such as trade, the environment, reform of the international system, and in other regional and global issues. China is also becoming a partner in the provision of assistance to developing countries.
- B5. Broad-based growth and one-off policy measures alone can no longer be relied on to lift large numbers of people out of poverty. The current challenge of poverty reduction is very different because (i) income inequalities – particularly between urban and rural, coastal and inland populations – have increased considerably over the past few years; and (ii) the majority of the current poor are concentrated in remote and mountainous areas where the natural environment is very fragile.
- B6. Further reducing poverty in China will require comprehensive, integrated strategies that are better targeted to poor and vulnerable groups in different localities. This will pose considerable challenges for ministries and government agencies that have little experience of working with each other. It also poses challenges for local governments which often lack the capacity, resources and incentives to develop and implement effective poverty-reducing policies and plans. China's efforts to reduce the fiscal burden of the poor are posing significant challenges for local governments in poor provinces. Local governments are still required to deliver local services but are now much more dependent upon transfers of resources from higher levels of government. The transfers are often insufficient and standards of services are variable.
- B7. Most poverty in China is rural. The average per capita income in western provinces is less than a third of that in some coastal regions. Child malnutrition in rural areas is four times that of urban centres and maternal and under-five mortality rates are two and three times higher respectively. Access to public health and education services in rural areas is much more limited than in urban areas. The poor in China tend to have several characteristics that combine to trap them in poverty, unable to access the benefits of rapid economic growth. They are concentrated in rural Western areas and among particular social groups, notably ethnic minorities and people with disabilities. Women, girls and the elderly tend to fare worse within these groups.

### Poverty challenges

- B4. China's historic achievements in terms of reducing poverty have been widely publicised. When China began its reform process in 1979 over 650 million people were living below the \$1 per day poverty line. By the mid-1990s this figure had fallen to just above 200 million. These impressive inroads were possible because of the high and sustained growth driven by broad-based reforms, notably in the agricultural sector. Education policies and anti-poverty programs also played an important role. Recent World Bank data suggests that the numbers living on \$1 a day had fallen to 135 million by the end of 2004. However, the World Bank estimates that there are still some 500 million people in China who live on under \$2 a day. Per capita income in 2004 is estimated by the National Bureau of Statistics to be around \$1,500.
- B8. There are 55 different ethnic minority groups in China who together make up 8.3% of the population. However, 40% of the chronic poor are from ethnic minorities. Minorities are often located in remote, resource poor or environmentally fragile regions. Their poverty is compounded by poor infrastructure, limited public services and social isolation

often caused by language barriers. The disabled are particularly vulnerable to falling into poverty and lack access to education, health and work. Women and girls tend to be disadvantaged in economic development and lack access to education and health services, particularly in rural areas. Women are also under represented in the political system. The present social protection system is inadequate for meeting the basic requirements of the urban and rural poor, and of vulnerable groups.

- B9. New groups of socially-excluded poor are emerging in urban areas. The Government of China recognises the potential of migration in contributing towards economic growth and poverty reduction, particularly through the transfer of surplus labour and remittances. Policy and programmes such as pre-departure migrant training are being designed to facilitate migration. However, China's 120 million migrants face very uneven access to housing, health and education services. Official figures are likely to understate the extent of urban poverty because of complications arising from the residents' registration system. Family members left behind in rural areas, and the elderly in particular, can become more vulnerable with the loss of labour power. China is also aging rapidly. By 2020, around 15% of China's population will be aged over 60. The transition to an aged population is occurring several times more rapidly in China than in developed countries.
- B10. China's unprecedented growth has come at great and growing environmental and social costs and cannot be sustained in the long run. Increasing environmental degradation in China is one of the primary threats to sustained poverty eradication and threatens to undermine future growth. Strong economic growth has raised overall income levels but it has also led to severe health-threatening pollution and a diminished environmental resource base. This adversely and disproportionately affects the livelihoods and security of the poor. In the World Economic Forum's 2005 Environmental Sustainability Index, China ranks 133rd out of 146 countries. Government of China and World Bank analysis suggests that if inequality and sustainability issues are not addressed, economic growth could falter.
- B11. The last few years have seen the emergence of a range of civil society organisations in China. These have added a more diverse set of perspectives to those of the traditional

government sponsored mass organisations such as the All China Women's Federation. The areas of HIV and AIDS, gender and environment have provided particular space for the emergence of more independent civil society organisations. Some central government agencies have seen the potential to work with civil society to raise awareness and services to poor people. But the legal environment in which non-governmental organisations (NGOs) operate is unclear and there remain concerns in some parts of the government about their role in promoting development.

### China's increasing influence on global development

- B12. China is becoming an increasingly significant driver of global economic growth. China's huge use of resources and energy are having global impacts. For example, China consumes more than half of the world's total cement production and is now the largest importer of timber and wood products. China is the second largest emitter of greenhouse gases, and will become the largest by 2010, though its per capita emissions are still well below those of Europe and America.
- B13. Through its increasing participation in the global economy, China has had a growing impact on poverty reduction in other developing countries. China is likely to increasingly champion the interests of developing countries in global institutions. It will provide new and expanded markets for exports from developing countries and be a cheap source of imports. Looking to the future, China's trade and investment impact will, in some countries, far outstrip what can be achieved through official development assistance. For example, China's trade with Africa has increased three fold in the last five years, reaching US\$30 billion in 2004, with trade roughly in balance. Chinese companies have invested over US\$1.2 billion in 54 countries in Africa. The government is aiming to further boost foreign investment in Africa by promoting joint ventures between Chinese and African enterprises.
- B14. China is now a donor in its own right, contributing \$50 million to each of the last replenishments of the African and Asian Development Funds. China is also a donor to the Global Fund to Fight AIDS, TB and Malaria and has been a board member representing the Western Pacific region since its foundation. In the immediate region, China has

provided \$900 million in trade credits for the members of the Shanghai Cooperation Organisation and is developing close links in Central Asia in energy and transport. Its role in the development community will increase substantially in coming years. China's continued export growth and expansion into higher value goods and services will create intense competition in many developing countries.

B15. The central challenge for the world will be how to ensure that the rise of China creates international stability rather than instability and crisis. The challenge for China is equally complex. It will need, amongst other things, to:

- minimise negative perceptions of its rise;
- utilise international rules to protect its interests;
- maintain stability in the financial sector;
- shift from export-driven to domestic consumption-driven growth;
- reduce potential conflicts over resources through careful planning and diplomacy;
- play a more prominent role in a range of international organisations and take on the responsibilities that flow from this; and
- respond to international agendas on environment, trade, development and in other areas.

### The challenge of achieving the Millennium Development Goals in China

B16. The MDGs commit the international community to an ambitious vision of development. It is one that vigorously promotes human development as the main way to sustain social and economic progress in all countries. The goals have been commonly accepted as a framework for looking beyond economic growth when measuring human progress. They are especially useful in China where headline rates of economic growth have dominated the discussion of China's development experience, but where a broader perspective creates a more balanced picture. China's prospective performance against the MDGs is shown in the box below.

B17. The assessment of progress against the MDGs in the box above shows that at least five of the MDGs require attention if they are to be achieved. In making any assessment of progress against the MDGs it is important to appreciate limitations in data. There are problems with the accuracy of data. China's size and uneven development also means that national-level data does not show important regional differences.

### The challenge of bilateral assistance

B18. The challenge for bilateral donors in China is to generate an impact when their relative expenditure is small compared to that being spent by the Government of China. Overseas development assistance to China from all bilateral and multilateral sources amounts to less than 0.1% of GDP. The challenge therefore is to identify the best way to use aid

#### China's prospective performance against the MDG framework

Based on current policies and approaches, China is certain to achieve:

- **MDG 1 on extreme poverty and hunger**

It is also very likely to achieve:

- **MDG 5 to improve maternal health**

It may also achieve:

- **MDG 2 on universal primary education**
- **MDG 3 to promote gender equality and empower women**

However, it will be difficult to achieve:

- **MDG 4 to reduce child mortality**
- **MDG 6 to combat HIV and AIDS, malaria and other diseases**
- **MDG 7 to ensure environmental sustainability**

As China's economy and profile grows, China's engagement on international development issues will become increasingly significant for the achievement of **MDG 8** which aims to develop a global partnership for development

resources to influence much larger domestic programmes. In DFID's case this means concentrating on those MDGs where we have a track record in China and for which the Chinese have requested international support.

B19. Based on our discussions with government and our assessment of where we have expertise, the MDG areas that we are best placed to support the Government of China are in basic education (MDG 2), TB, HIV and AIDS (MDG 6), and water and sanitation (MDG 7). The specific challenges of working in these areas and our assessment of the Government's response are:

- **Basic education** - China runs the largest education system in the world – 20% of the world's students – spending just over 3.4% of GDP. Enrolment rates are high. China's achievement relative to the MDG goals and Education for All targets is good. However, national figures conceal local disparities. Rural poor, ethnic minorities, girls, children with disabilities and migrant children still face particular challenges.
- **HIV and AIDS.** The Ministry of Health with UN support estimate that at the start of 2006 there were 650,000 people living with HIV and AIDS in China. Annual new infections continue to increase, up by 70,000 in 2005. There is a serious HIV epidemic in western provinces with evidence of rising HIV infection rates particularly in injecting drug users and sex workers. In central China the epidemic has been driven through unsafe blood donation systems. More women are becoming infected. In 1995, the ratio was 1 woman for every 9 men, but it increased to 1 woman to 3.4 men in 2001. There are low levels of knowledge of HIV and of the ways to prevent transmission. But China now recognises the seriousness of the epidemic, with Premier Wen Jiabao and Vice Premier Wu Yi placing strong emphasis on tackling it. President Hu Jintao has publicly met with people living with HIV and AIDS. However at local levels of government there is a limited understanding of the HIV situation and of how to address it effectively. There is a risk that local implementation of compulsory screening may increase stigma. A critical challenge is to translate the national commitments into effective local action by making good use of proven strategies to prevent HIV transmission and provide treatment and care.

- **TB.** China is currently ranked second in the World Health Organisation's list of 22 countries with a high burden of tuberculosis. There are around 4.5 million people with active TB - of which 1.5 million are infectious cases - and the disease claims 130,000 lives annually. The prevalence of TB in poor rural areas is nearly three times higher than in urban areas. This difference is due to poor living conditions, poor health and nutrition, lack of money for health care, inadequate access to health services and low levels of knowledge about TB. The effective implementation of the WHO-recommended treatment and reform of the health system in order to improve the access of the poor are both key to reducing the number of TB infections. The Government recognises the importance of addressing TB and has developed a National Medium and Long-Term (2001-2010) plan and a Five Year Action Plan for TB Prevention and Control. The aim of these plans is to detect and cure 4 million cases of TB.

- **Water resource management, water supply and sanitation.** Almost one third of the world's population without access to safe drinking water and adequate sanitation live in China. Despite significant improvements in the last 15 years, 300 million people do not have access to safe water and 700 million do not have access to adequate sanitation. They are concentrated in the poorer western provinces where water resources are scarce. Over the last 20 years, diarrhoeal diseases and viral hepatitis – both associated with poor sanitation and hygiene – have been two leading infectious diseases in China. On a broader level, China's water resources are under threat. Declining water sources and rising water pollution mean that competition for water is growing. Climate change is likely to impact on water availability. The current systems for water rights and allocations are inadequate and the poorest are most at risk. Water is one of the Government's top priorities. New government strategies provide the opportunity to introduce tools to make water resource management both fairer and more efficient, and to improve the incentives for using, allocating and regulating water more rationally. The 2002 Water Law promotes a new, more sustainable approach to managing water. Ambitious targets have been set for increasing safe drinking water by 30% by 2010 and providing access for all by 2020. On the other

hand, sanitation and hygiene promotion remain low priorities and are significantly under funded at all levels of government. As with HIV and AIDS, the challenge will be to translate national commitments into sustainable local results, and to increase investment in sanitation.

### China's policy approach

- B20. China does not have an overarching document such as a Poverty Reduction Strategy Paper which describes how it aims to reduce poverty and achieve the MDGs. However it has created specific institutions and policies to give prominence to poverty reduction such as the State Council's Leading Group on Poverty Reduction and the Western Development Strategy. The main development planning instrument is the Five Year Plan. Although poverty reduction has been a main objective of past plans, on the whole they have prioritised economic growth as the most important mechanism for promoting development in China. In 2005, China renamed the Plan as the 11th Five Year Programme. This change reflects the ambition to provide an overall strategic approach to development rather than the traditional top-down model used in the past.
- B21. The 11th Five Year Programme differs from its predecessors in its emphasis on a more scientific and human centred approach to development which addresses growing inequalities. There is a particular emphasis on assistance to poor farmers. In addition, it recognises that the previous economic growth centred development model is not sustainable given the increasing pressures on natural resources, including agricultural land, water and energy. It therefore promotes a shift to a circular economy, with a greater emphasis on efficiency of resource use along with recycling of waste.
- B22. China has a very strong planning system. But it has experienced variable success in implementation. There are a range of problems including a lack of funding at lower levels of Government for some of the Five Year Programme's mandates, a focus on capital investment rather than long term maintenance, and a weak budgetary system that hampers the delivery of services to the poor. Ongoing domestic reform of planning and budgeting, some of which is supported by DFID and other donors, is making progress on these issues. In the later part of the 10th Five Year Plan period, fiscal transfers to poor areas to address

unfunded mandates have been increasing significantly as government has started to address poverty more directly.

### The 11th Five Year Programme as a basis for DFID cooperation

- B23. The principles contained in the 11th Five Year Programme directly influence detailed ministerial action plans and budgetary allocations. The overall objective of the plan is to deliver continuing economic growth but also to address inequality and poverty. The main areas that the Programme will address include:
- increasing attention to the delivery of basic public services;
  - increasing the role of the private sector in economic development, job creation and social service provision;
  - enhancing the social-safety net and setting minimum health and education standards for the poor;
  - increasing fiscal transfers and preferential investment policies to boost regional development;
  - promoting agricultural growth;
  - reducing inequality through income redistribution, tax and welfare reform;
  - creating a sustainable social security system for the rural poor and migrants in urban areas;
  - strengthening and improving natural environmental protection, energy efficiency, and the development of a resource-efficient society; and
  - supporting other developing countries to fight poverty.
- B24. In the sectors related to the MDGs on which DFID will focus, the 11th Five Year Programme sets out the following objectives:
- **Basic education** (a) improving human capital to accelerate rural-to-urban migration from low to higher value jobs; (b) universalising basic education; (c) expanding distance and vocational education; (d) promoting life-long learning and preparing for the knowledge economy; and (e) increasing education financing. The Government has recently increased its commitment to basic education by its policy to support free education

in poor areas with funding from the national budget of ¥11 billion (£740 million) supplemented by budgets at the provincial and county levels to support student assistance programmes.

- **HIV and AIDS** (a) establishing and improving a surveillance and testing system for HIV and AIDS; (b) deepening and expanding health education and reducing discrimination against people living with and affected by HIV and AIDS and building a caring society; (c) improving the quality of medical services delivery and capacity to implement free antiretroviral therapy; (d) establishing a monitoring and evaluation system and undertaking routine monitoring and evaluation; and (e) expanding the coverage of HIV and AIDS prevention among high-risk groups to reduce risk behaviour and vulnerability.
- **TB** (a) sustaining case detection and cure rates of over 70% and 85% respectively in order to reduce TB morbidity and mortality; (b) improving the quality of TB control, particularly through improved implementation of the World Health Organisation-advocated directly observed treatment, short course strategy; (c) greater attention to the needs of poor and remote communities; and (d) greater attention to emerging issues, such as multi-drug resistant TB and to the links between TB and HIV and AIDS.
- **Water and sanitation.** Policies emphasise (a) providing 80 million people with safe drinking water through strengthening rural water supply infrastructure and improving the service network for rural water supply in rural China; (b) continuing to build a water-saving society with the aim of tackling water shortages through deepening governance reform; (c) strengthening legal development in integrated water resources management; (d) exploring new measures in flood control management in order to develop and utilise flood water resources; and (e) strengthening water pollution treatment and water resources and ecological protection. The Government will increase the proportion of budgetary expenditure it spends on the water sector.

B25. The focus of the 11th Five Year Programme on poverty, inequality and sustainability provides a sound basis for cooperation between the Government of China and DFID. Our assessment is that by using our international expertise and experience we can substantially support the Government's efforts to accelerate achievement of the MDGs we have chosen to focus on.

## C. Risk analysis

- C1. China's current financial situation is very strong. Rapid economic growth is expected to continue. In recent years the annual growth rate of government revenue has been close to 20% i.e. more than twice the rate of economic growth. This rapid growth, coupled with a shift of focus of public finance towards public goods, sets a sound financial basis for the 11th Five Year Programme.
- C2. But there are risks. As a result of its liberalisation and recent accession to the World Trade Organisation (WTO), China is increasingly integrated into the global economy and hence more vulnerable to the external economic environment. China's increasing dependence on international markets and resources will mean that its economic development prospects are increasingly affected by the cyclical fluctuations of the world economy. A global economic slowdown could reduce China's own growth rate, impacting negatively on government revenue and thus on poverty-related expenditures. Similarly, a sharp decline in world trade, or an outbreak of protectionist measures against China, could adversely impact employment and the capacity of China to broaden and consolidate its economic base. The revaluation of the Yuan in July 2005 is an example of China's adjustment to these external pressures.
- C3. Although the 11th Five Year Programme has a focus on inequality, incentives are still weighted towards delivering on high levels of economic growth. There is wide variation in how government policies are interpreted and in the ways and extent to which they are enforced. An important risk is that government will pursue growth at any cost. If this happens, the 11th Five Year Programme will fail to address the pressure of rising inequality and unsustainable consumption of resources.
- C4. The Communist Party has identified corruption as a major risk to its programme of reform and its efforts to improve public services. The reports by the National Audit Commission in 2004 and 2005 to the National Peoples Congress have highlighted the extent to which government funds are misallocated and misused, including poverty funds. Yet the very publication of these reports and the extensive coverage corruption cases have received in the media are a positive sign of the leadership's determination to tackle the issue. Corruption does not seem to affect donor programmes.
- C5. Governance issues are starting to be addressed. A major re-education exercise of Party members is underway that is intended to improve discipline and coherence. Moreover, participation in village development planning is being introduced and has permitted some experimentation in local level democracy. These represent an attempt to improve the responsiveness and efficiency of public administration and service delivery. Well publicised cases of misuse of power at local level, along with civil disorder prompted by alleged government inaction against highly polluting industries, have highlighted the risks to social stability posed by high and rising inequality and increasing resource scarcity. However, changing the behaviour of local officials will be challenging. The charging of formal and informal fees has become entrenched as they represent an important part of personal income for officials, whilst many local level governments rely on polluting industries for essential tax revenue. China has ratified the United Nations Convention against Corruption.
- C6. Fast economic growth has spurred rapid urbanisation. The pace and scale of change are unprecedented, and the environmental and social consequences are not yet fully understood. It is expected that the number of urban migrants will increase from 120 million now to 400 million by 2020. The growth of towns is already outstripping their ability to expand basic infrastructure to provide public goods and services to all. As urban populations grow the risk of growing unemployment is also ever present. Social stability will be at risk if the 11th Five Year Programme fails to deliver on its equity objectives.
- C7. Pollution and the shortage of resources in China are among the most severe in the world. In 2001, the World Bank estimated that pollution of air and water and land degradation is costing China 8-12% of its GDP as a result of direct damage to crops and buildings from acid rain, fishery losses, medical bills and lost work for illness and money spent on disaster relief following floods. Energy shortage, food security, and water scarcity have already become pressing national concerns as a result of wasteful and economically inefficient production and consumption patterns. China remains vulnerable to natural disasters. Climate change is likely to increase the risk.
- C8. The **main** risk associated with the MDGs on which DFID is focusing is that the strong national commitment to HIV

and AIDS, water and sanitation, TB and basic education is not translated into concrete outcomes at the local level. This may be because inadequate resources and weak capacity undermine delivery and because incentives at the local level are skewed towards pursuing growth targets.

C9. Associated risks for the focus areas of the CAP are:

- **Basic education.** Insufficient funds to support basic education in the poorest counties may make government targets difficult to achieve.
- **HIV and AIDS.** A lack of local government political commitment and understanding, particularly as the epidemic varies in severity in different locations. The approach of some local officials, which focuses on compulsory interventions for high risk behaviours, could jeopardise the rights of people living with HIV and AIDS and undermine efforts to ensure voluntary participation in prevention, treatment and care which are effective in the longer term.
- **TB.** General underfunding and privatisation in health may continue to exclude poor people and undermine the quality of services they can access.
- **Water and sanitation.** Declining water quality and water scarcity especially in northern and western areas.
- **International development issues.** China does not fully engage with wider global processes aimed at bringing together support for the global achievement of international development objectives.

C10. We are realistic about our capacity to mitigate the worst impacts of the above risks. But we can work with the Government of China to help address them. We will ensure that there is a meaningful dialogue and comprehensive analysis on risk in all our interventions. By doing this we hope to encourage our partners in the donor community and in Government to place a greater emphasis upon risks in the decisions that they make.

## D. What we have learnt

D1. Until mid 2003, our programme was managed jointly from London and a small development section in the British Embassy. The British Prime Minister opened DFID China's office in July 2003, since when the programme has been managed from Beijing.

D2. We reviewed our previous strategy in 2004. In late 2004 and early 2005, we commissioned studies on how to improve our technical assistance in China and on our partners' perceptions of DFID China. We also undertook analysis of wider change processes in China in order to understand more clearly the context in which our support is delivered.

D3. We have learnt that:

- DFID's engagement in its target sectors is high profile. We are seen as an organisation with a clear focus on poverty reduction, bringing valuable international development experience and best practice. The innovative concepts and approaches DFID contributes, including the emphasis on participation and equity, and support for policy reform are regarded as important;
- new ideas and knowledge are what China wants from DFID;
- building strategic partnerships with government and others in the international community is key to playing a significant role in China. Our approach of letting others take lead responsibility in some areas is viewed as a real strength by our partners;
- our work on the MDGs can be enhanced by targeted support for broader reforms;
- the establishment of our office in Beijing has enabled us to build stronger contacts and networks and improve our understanding of China's development context;
- the landmark Shanghai Poverty Conference in 2004 demonstrated the considerable interest among developing countries in learning from China, as well as the wealth of development experience that China has to offer;

- through its development work, DFID can both contribute to the development of the overall UK relationship with China, and facilitate the increasing engagement of other UK government departments with China in a way which will also benefit China's poor;
- engaging with both central and provincial government maximises our potential to support China in tackling poverty reduction; and
- dialogue, advocacy and lesson sharing are the best ways for DFID to contribute to environmental problems.

D4. It is neither efficient nor effective for DFID to be engaged in work unless it directly feeds into our main objectives. In many areas we must leave assistance to other donors and organisations that are better placed to provide support.

## Part 2 – UK partnership plans

### E. UK development partnership

#### Approach

- E1. Our approach has been informed by the 11th Five Year Programme and DFID's overall objectives in Asia. This includes focusing on specific MDGs, working more deeply on fewer issues and working closely with other partners. Within this we need also to remain flexible so that we can seize emerging opportunities and deal with threats.
- E2. In terms of impact, we can best achieve this by working with others rather than alone. Assisting the Government to improve its own programmes will deliver better prospects for poverty reduction than stand-alone bilateral projects. By working with other donors we will significantly increase the impact of our programme while contributing to greater donor coordination in China. We intend to build on our existing relationships with civil society in order to support their work and improve the delivery of DFID's objectives.
- E3. Our impact can be significant if we build on the advantage we have gained through our long-term engagement in certain areas in China. Important past achievements in China include:
- In basic education – demonstrating ways to increase access to education for children from poor families and ways to involve communities in school life. Many of the DFID-supported innovations have been included in other Government and donor education projects.
  - In HIV and AIDS – developing national models for targeting hard-to-reach populations. Support to selected provinces has built capacity to manage HIV and AIDS programmes, resulting in improved monitoring and evaluation systems and the development of good legislation.
  - In TB – in partnership with the World Bank, helping the Government to increase case detection of TB patients from less than 35% to close to 70%.
  - In water and sanitation – supporting the development of China's new water law that introduced international best practise in areas such as integrated water resource management, community participation and demand management.
  - On engaging with China on international issues – securing direct Chinese involvement in the Commission for Africa and substantially contributing to the UK-China Sustainable Development Dialogue.

- E4. We hope to scale-up the impact that we have had in the past by working with national programmes. Our modest support to much larger national programmes provides the opportunity to directly support the Government of China as it focuses on poverty targeting. The international experience and expertise that we can bring is highly valued by Government.

#### Priority areas for DFID engagement

- E5. The goal of DFID's programme in China is to improve the prospects for China to achieve the MDGs. To this end we will focus on basic education, HIV and AIDS, TB, and water and sanitation. Over the period of this strategy we will seek to help the government improve the ability of its national programmes to reach the poorest.
- E6. China's growing economic and political significance mean that the nature of the UK's overall engagement with China is maturing from one based largely on trade and aid to a more even and complex one in which both countries are keen to learn from each other. We will further develop our engagement, and facilitate that of other UK government departments, with China on international development issues. This is in the spirit of MDG8 which is concerned with building a global partnership for development. Working with China as it increasingly engages on international development issues could have huge benefits for developing countries. We anticipate that by the end of this strategy our partnership will have evolved from a donor-recipient relationship to one largely based on dialogue and cooperation with China on international development issues.
- E7. We have a potential role in capturing the lessons from China's development experience for the benefit of other developing countries. We also intend to promote better analysis of the impacts of China's rise on developing countries, particularly in Africa.

## Specific plans on the MDGs

E8. Having established relationships and reputation, we are now in a strong position to scale up our interventions and increase our impact. Our specific plans are:

- **Basic education.** We will support the Government's efforts to achieve Nine Year Compulsory Education in the poorest areas of Gansu, Sichuan, Yunnan and Guizhou Provinces and Guangxi Zhuang and Ningxia Autonomous Regions. This will include continued support to the World Bank's work on basic education. Our objective is to improve the effectiveness of the Government's own programmes on basic education, with a particular focus on children from the poorest families, girls, children from ethnic minorities and children with disabilities.
- **HIV and AIDS.** We will support the implementation of China's National Medium-Long Term HIV and AIDS Plan, with a particular focus on the achievement of the Three Ones - one agreed HIV and AIDS action framework, one national AIDS coordinating authority and one agreed country-level monitoring and evaluation system. We will support efforts to create a more effective role for civil society organisations in China's response to HIV and AIDS; increase access to harm reduction services by vulnerable groups, such as drug users and sex workers; improve surveillance and strategic information systems; and increase the effectiveness of UN agencies in supporting the Government. As appropriate, we will encourage cross border cooperation with the Central Asian countries in which DFID is supporting similar programmes on HIV and AIDS.
- **TB.** Together with the World Bank and the World Health Organisation, we will continue to support the Government's National Tuberculosis Programme in 16 central and western provinces. We will also continue to support the implementation of the Global Fund projects on tuberculosis in China.
- **Water resource management, water supply and sanitation.** We will work to improve the efficiency and effectiveness of land and water management to improve quality and sustainability. We will work with the World Bank and the United Nations Children's Fund (UNICEF) to increase the poor's access to safe water and adequate sanitation. We will build on DFID experience in the sector to help provincial governments improve their ability to deliver water and sanitation services to the poor and

promote sector reform. We will work to address the low priority and inadequate levels of investment given to sanitation and hygiene promotion. We will build on DFID and World Bank experience in developing community management models such as water user associations, including in regions of the Kyrgyz Republic bordering China.

- E9. To consolidate our specific MDG projects we will also support a focused programme of work aimed at underlying policy and system reforms. This work, which builds on ongoing initiatives, is designed to promote sustainable achievement of the MDGs and to provide critical inputs into Government of China planning processes. In the past, such work has enabled DFID to contribute to major policy issues such as fiscal reform and the development of the 11th Five Year Programme. This work will mostly be undertaken with the World Bank, the United Nations Development Programme (UNDP) and other donors.
- E10. To ensure that our MDG work is properly targeted at the poor, we will work to help decision makers understand more clearly who the poor are and the nature of their poverty. Our programmes will include the perspectives of poor people themselves. This will be done by building national capacity on how to conduct research that involves poor people, and through efforts to improve the Government's monitoring and evaluation of its programmes. Through our programmes we will increase the evidence of the links between social exclusion, vulnerability and poverty. We will empower women and girls and tackle discrimination against them.
- E11. Working with national programmes offers the potential for the impact of DFID work to extend well beyond the particular activities that we will support. By ensuring that we provide the highest quality inputs we anticipate that central ministries will use the results of our work in programmes and provinces not directly supported by DFID. We expect that the ideas and expertise that we provide will build capacity and knowledge to have impacts beyond the life of any particular project. To promote replicability we will: (i) promote strong ownership by the Government of China ; (ii) give due attention to capacity building; (iii) emphasise monitoring and evaluation to strengthen the evidence base; (iv) keep costs of interventions down to make sure they can be financed from Government of China budgets; and (v) move upstream in engagement to communicate and impact at a higher level.

E12. Much of our work will improve governance. Our interventions will particularly focus on promoting participation and inclusion in decision-making. Our MDG-related work includes a specific element on improving the transparency of budget allocations. Our programmes aim to support the Government of China to use its budgets and national programmes to improve the targeting of resources to the poor.

### Engagement with China on international development issues

E13. During the period covered by this plan, we do not expect China to substantially increase the aid it gives to other developing countries. It will however, continue to expand rapidly its trade and investment links. China's global influence will be such that constructive engagement, dialogue and exchange of ideas and technology will be increasingly important to achieving international development objectives. Dialogue on the achievement of international development objectives will form the basis for DFID's long-term partnership with China.

E14. In developing our partnership with the Chinese on international development issues we will use a number of approaches:

- integrating a development/poverty perspective into the increasing and significant interaction between other UK government departments and China;
- informing DFID's policies at the centre and at country level to ensure that China's growing international role is harnessed for poverty reduction;
- working on a limited number of critical areas of direct relevance to the achievement of global MDG targets. This will include focussing on:
  - o China's aid programme and its engagement in Africa
  - o Cooperation with the new International Poverty Research Centre in China which was established in 2005
  - o engagement with China on the Extractive Industries Transparency Initiative (EITI)
  - o China's domestic environmental problems and their impact upon the rest of the world; and
- working with other international agencies as they develop their thinking on this topic.

E15. This work will not require substantial financial resources, but will require knowledge, expertise and time invested in relationship-building, as the various work-streams start to develop. This may necessitate building relationships with parts of the Chinese Government with which we have previously had little or no interaction. A main feature of this work will be a very close working relationship with the British Embassy. Where relevant, we will work closely with the Chinese delegations in the World Bank and Asian Development Bank to pursue joint objectives. Our engagement with China on Africa will directly contribute to high-level G8, UK Government and DFID objectives on Africa. Our engagement on environment issues will directly contribute to the UK-China Sustainable Development Dialogue.

### Working with other donors

E16. China has a relatively small number of donors compared to many developing countries. Coordination between them has tended to be limited. In part this is because the usual coordination mechanism, such as a Consultative Group or Poverty Reduction Strategy Paper, are lacking. It is also in part because the large size of the country has made this less of a priority (even a relatively highly donor supported province like Yunnan has a fraction of the number of donors in a country with similar population levels like Vietnam).

E17. There is nevertheless a growing recognition, among both donors and the Government, that there is a need for improved exchange of information and coherence of development assistance so that this relatively scarce resource is better utilised. In addition to active collaboration with other donors on specific projects and policy issues, most notably through partnership with the World Bank, DFID is promoting improved donor harmonisation through a range of mechanisms. We have worked through the UN Theme Group on gender to establish a donor coordinated Gender Facility for Research and Advocacy; we have chaired the informal donor group on pro-poor financial services; and we are part of the Global Fund Country Coordination Mechanism. DFID, Ausaid and Norway have co-financed a harmonised project which supports the State Council AIDS Working Committee strengthen the Three Ones in China.

- E18. No other bilateral donor shares DFID's overarching goal of poverty reduction. Several donors consider it as one among a number of goals but most are moving away from a major focus on poverty reduction as China's middle-income country status is consolidated. On the other hand, other donors do take the 11th Five Year Programme as a basis for their work. There is also increasing interest in China's regional and global roles, among both multilateral and bilateral agencies. Evidence of this can be seen in the 2006-2008 World Bank Country Partnership Strategy and in the broader dialogue and deepening relations between the Organisation for Economic Cooperation and Development (OECD) and China. We will explore the scope for lesson learning, information sharing and joint analytical work with other donors.
- E19. We will work with the World Bank on water and sanitation, basic education and tuberculosis. Our new programme on water and sanitation will also involve UNICEF. Our new programme on HIV and AIDS will be delivered in partnership with the Global Fund and the United Nations. In developing our new programme on education, we decided to work solely with the Ministry of Education because the Government has decided not to seek any further loan financing for basic education but rather to use its own resources. This new programme for education will be co-ordinated with our existing basic education project with the World Bank.
- E20. Our efforts in China are also part of the UK and China's broader bilateral relationship. We will continue to work closely with UK's Department for Environment Food and Rural Affairs and the UK's Foreign & Commonwealth Office (FCO) on the sustainable development dialogue with China, with UK Trade and Industry and the Foreign & Commonwealth Office on the Water Working Group, with the FCO on China's role in Africa and on UN reform. We will also contribute to the Task Force's health and education themes through our work on HIV and AIDS and basic education.

- E21. The World Bank is DFID's closest partner in the donor community. Partnership with the Bank makes sense because of its size, influence, like-minded approach to development and its track-record in China.

## Tibet

- E22. DFID China will continue to support the work of Save the Children in the Tibet Autonomous Region. This will focus on ensuring children's rights to basic services, protection and participation.

## F Programme resources

- F1. This strategy will be implemented over the next five years. The first three years of indicative funding are shown below.

Financial year	2006/07	2007/08	2008/09
£ million	40	35	30

# ANNEX ONE



China Assistance Plan Statistical Annex					Region
	1990	1995	2000	2003	East Asia & Pacific
<b>1 Eradicate extreme poverty and hunger</b>	<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>				
Population below \$1 a day (%) (All China) <sup>a, b</sup>	33.0	17.4 <sup>1996</sup>	16.6 <sup>2001</sup>		14.9 <sup>2001</sup>
Population below \$1 a day (%) (Rural) <sup>a, b</sup>	44.4	30.8 <sup>1996</sup>	26.5 <sup>2001</sup>		
Population below \$1 a day (%) (Urban) <sup>a, b</sup>	1.28 <sup>1991</sup>	0.61 <sup>1996</sup>	0.33 <sup>2001</sup>		
<b>2 Achieve universal primary education</b>	<i>2015 target = net enrolment to 100</i>				
School enrolment ratio, primary (% net) <sup>b</sup>	97.4		94.6 <sup>2001</sup>		93.2 <sup>2001</sup>
<b>3 Promote gender equality</b>	<i>2005 target = education ratio to 100</i>				
Ratio of girls to boys in primary and secondary education (%) <sup>b</sup>	87.0		98.9	98.4 <sup>2002</sup>	98.2 <sup>2002</sup>
<b>4 Reduce child mortality</b>	<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>				
Mortality rate, under 5 (per 1,000 live births) <sup>b</sup>	49	46	40	37	40.9
<b>5 Improve maternal health</b>					
Births attended by skilled health staff (% of total) <sup>b</sup>			66.8 <sup>1998</sup>	97 <sup>2002</sup>	90.9 <sup>2002</sup>
<b>6 Combat HIV/AIDS, malaria and other diseases</b>	<i>2015 target = halt, and begin to reverse, AIDS, etc</i>				
Prevalence of HIV, female (% ages 15-24) <sup>c</sup>				0.09 <sup>2001</sup>	0.17 <sup>2001</sup>
<b>7 Ensure environmental sustainability</b>	<i>2015 target = various (see notes)</i>				
Improved water source (% of population with access) <sup>b</sup>	70			77.0 <sup>2002</sup>	77.6 <sup>2002</sup>
<b>Aid Need and Resources</b>					
UK bilateral aid (£m) <sup>d</sup>			55.1	29.0	62.6
UK bilateral share of total aid (%)			4.8	3.6	1.8
Total aid from all sources (£m) <sup>d</sup>			1144.1	808.5	3788.9
Total aid per poor person (£) <sup>e</sup>			5.4 <sup>2001</sup>		16.6 <sup>2001</sup>
Number of DFID staff directly involved					
Poor people per DFID staff member (thousands)					
<b>General Indicators</b>					
Population (millions) <sup>b</sup>	1135.2	1204.9	1262.6	1288.4	1854.6
GNI per capita (\$) <sup>b</sup>	320	520	840	1100	1070
Life expectancy at birth (years) <sup>b</sup>	68.9	69.7 <sup>1997</sup>	70.7 <sup>2002</sup>	70.8	69.6

**Source:**

<sup>a</sup> World Bank site 'PovcalNet' – <http://liresearch.worldbank.org/PovcalNet/jsp/index.jsp>

<sup>b</sup> World Development Indicators Database, wdi online – a World Bank subscription site

<sup>c</sup> World Development Indicators book 2004 – World Bank

<sup>d</sup> Development Assistance Committee (DAC) online database, 'Database on Annual Aggregates' <http://www.oecd.org/dataoecd/50/17/5037721.htm>

<sup>e</sup> Calculated using data on percentage of people living in poverty, population size and total aid flows.

## ANNEX TWO

### Process: *development and consultation*

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We have undertaken a proportionate and considered approach to developing our CAP. The main stages are documented below.

July 2004	<i>Overall approach to CAP agreed at Annual Retreat.</i>
August-December	<i>Approach and broad content agreed with Asia Division. Approach communicated to Ministry of Commerce and donor partners.</i>
January 2005	<i>Day of reflection in DFID China to discuss overall expected content .</i>
January 2005	<i>Appointment of CAP Working Group.</i>
March 2005	<i>Study on perception of DFID amongst partners commissioned and delivered.</i>
April 2005	<i>Drivers of Change study and workshops on off-track MDGs undertaken with participation of partners.</i>
June 2005	<i>First draft prepared and circulated in DFID China.</i>
June 2005	<i>Second draft circulated to Ministry of Commerce, World Bank, Asia Directorate.</i>
July 2005	<i>Third draft circulated to international departments of Ministry of Health, Ministry of Education and Ministry of Water Resources, and wider consultation group in DFID (mostly consisting of Policy Division Teams).</i>
July 2005	<i>Consultation day with people with HIV and AIDS.</i>
July 2005	<i>Discussed at DFID China Annual Retreat.</i>
August 2005	<i>Placed on DFID's external website.</i>
October 2005	<i>Consideration of comments made in the public consultation.</i>
November 2005	<i>Cross-Whitehall consultation meeting in London.</i>
November 2005	<i>Bilateral meeting with Ministry of Commerce to discuss final set of comments.</i>
February 2006	<i>Finalisation in DFID.</i>

