1. Project Data:

<table>
<thead>
<tr>
<th>PROJ ID:</th>
<th>P003590</th>
</tr>
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<tr>
<td>Project Name:</td>
<td>Cn - Qinba Mountains Poverty Reduction</td>
</tr>
<tr>
<td>Project Costs (US$M):</td>
<td>Appraisal: 360.0</td>
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<td>Country:</td>
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</tr>
<tr>
<td>Loan/Credit (US$M):</td>
<td>30.0/150.0</td>
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<td>L/C Number:</td>
<td>CN028; L4187</td>
</tr>
<tr>
<td>Board Approval (FY):</td>
<td>97</td>
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<tr>
<td>Partners involved:</td>
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</tr>
<tr>
<td>Closing Date:</td>
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</table>

Prepared by: Lauren Kelly
Reviewed by: Christopher D. Gerrard
Group Manager: Alain A. Barbu
Group: OEDSG

2. Project Objectives and Components

a. Objectives

According to the SAR, the principle objectives of the project were to: (a) Demonstrate the effectiveness of a focused multisectoral rural development project approach to poverty reduction; (b) facilitate a market-friendly increase in labor mobility from poor areas to better off rural and rapidly growing urban areas; (c) upgrade poverty monitoring at the national and local levels; and (d) significantly reduce absolute poverty in 26 of the very poorest counties in the Qinba mountains region. The project would also stabilize or even reverse upland environmental destruction through land and pasture improvement and soil conservation works, and encourage greater local community participation by enabling households to make key decisions during project design and implementation.

According to the ICR: The project contained an additional objective of establishing a new micro-finance mechanism to provide credit services to poor households. This objective, while not explicitly included in the original statement of objectives, was included in the original Microfinance Component Description in the SAR (see no.5 below).

The design of the Qinba Mountains Poverty Project is based on the design and partial implementation experience of the Southwest Poverty Reduction Project (SWPRP).

b. Components

Original Components

1. Enhanced Rural Labor mobility (US$37m at appraisal, 46.1m actual or 125% of appraisal): Provide employment to about 155,000 upland laborers; provide testing ground for assisting the flow of rural laborers.

2. Rural infrastructure (US$30.7m at appraisal, 70.6m actual = 230% of appraisal): Improve poor’s access to basic infrastructure.

3. Land and farmer development (US$149.6m at appraisal, 232.0m actual or 155% of appraisal): Create a substantial and sustainable increase in agricultural productivity and incomes.

4. Township and village enterprises (TVE) development (US$47.3m at appraisal, 24.5m actual or 52% of appraisal): Provide credit for labor-intensive commercially viable agroprocessing, mineral, service and handicraft industries that had strong backward linkages to poor households and met environmental safeguards.

5. Micro-finance (US$3.2m at appraisal, 6.8m actual or 213% of appraisal): A "pilot" component to establish a sustainable financial system to provide working capital loans to micro-enterprises run by poor households.
3. **Institution building and project management**  (US$7.8m at appraisal, 7.6m actual or 97% of appraisal): Enhance the capacities of the Leading Group for Poverty Reduction, the three provincial Poor Area Development Offices, and county and lower level Project Management Offices in planning, design, management and monitoring.

7. **Poverty monitoring**  (US$2.0m at appraisal, 1.30m actual or 63% of appraisal): Upgrade existing poverty monitoring system, adapt it to Qinba region; baseline and surveys; process and analyze data; disseminate information.

The description of the Qinba project in the SAR includes several references to two parallel education and health projects (Qinba Education Project and the Qinba Health Program), although links to Qinba are not established.

### Revised Components

The TVE component was revised during the mid-term review (2000). The component was significantly reduced from 17% of total project cost to around 6%. The funds released from the TVE component were used to augment the rural infrastructure and agricultural components.

### Comments on Project Cost, Financing and Dates

The change in total project cost was modest, increasing by 8% from the $360m estimated cost at appraisal to the actual cost at closing of $389m. The amount of counterpart funds for the three provinces exceeded the appraisal targets.

### 3. Achievement of Relevant Objectives:

- **(a)** The Qinba project has partially demonstrated the effectiveness of a *multisectoral rural development project approach* to poverty reduction. While Qinba, as well as the SWPR project model, have fully demonstrated national policy influence (ICR p. 5), the ICR does not weigh in on the relative effectiveness of the 'scaled down' Qinba approach (minus social services). Since the model is being replicated/adapted across China's provinces and other client countries (Gansu and Inner Mongolia, Vietnam Northern Mountains), OED would have expected a discussion of the beneficial outcomes (or challenges) associated with including fewer sectors.

- **(b)** Qinba has achieved its objective of facilitating off-farm employment through mobility for 199,276 persons (133% of SAR output). According to the borrower's summary, this population set is comprised of persons from Sichuan (110,300) and Shaanxi (88,976); no explanation was provided for why Ningxia did not equally benefit from this component, particularly in consideration of the relative contributions that remittances play in this project. The region's comments suggest that this issue is dealt with in project preparation documents, however OED could not find any discussion related to Hui participation, measures to reduce risk of rising inequality in the region associated with the gains from the project, and/or a discussion of reputational risk for the Bank (see OED's official memorandum).

- **(c)** Acknowledging that improvements were made in sampling methods, questionnaire design and training, OED views that the project achieved its Poverty Monitoring Objective, yet found little evidence in the ICR as to how the objective, developed under SWPRP, was adapted to the conditions of the Qinba mountain regions. The region's response does not provide any further details related to the objective 's goals as outlined in the SAR nor does it respond to the question as to why only half the projected funds for this objective were spent. Also lacking is evidence of 'independence' since the region has asserted that the Qinba Project has "one of the best independent monitoring and evaluation systems in all Bank-financed projects." A Social Assessment considering the needs of minorities and disabled could have been a useful tool in adapting the system. OED would have valued more input as to how the project strengthened and increased the LGPR's accountability by improving monitoring of the impact of the poverty program and the use of poverty funds as well as the Bank's opinion regarding how China will achieve greater independence across its monitoring functions (through the use of State sponsored CBOs, for example).

- **(d)** Data provided by China's State Statistical Bureau (SSB), indicates the objective of significantly reducing absolute poverty was fully achieved: the poverty incidence in the project area was reduced from 26.7% in 1997 to 4.6% by end 2003. Per capita income in the project villages reportedly increased 60% from the 1997 level, with a growth rate doubling that of the national average OED's request to receive more information about the rate which poverty was measured was provided by the region's comments and supplemental documentation. OED appreciates the region's concern that additional poverty analyses suggested by the OED may be beyond the scope of a regular ICR. The ICR reported "significant environmental and ecological benefits" (p.6). It would have been useful for the ICR to increase the specificity of the the benefits referred to (e.g. forest area increased by 49%, without a reference to species type, whether the area increase represented regeneration or new planting). Advanced analysis concerning environmental relief afforded by the labor mobility component versus the land and farmer component would have
TVE component’s return was significantly less (13% actual as opposed to an estimated range between 47-71%).

The ERR for the project as a whole is only marginally less than the projected rate (37% versus 40%), although the degree of participation from farmers varied greatly across regions (p.46).

participation, as set out on the objectives, were not realized in this project. Borrower comments confirm that “the unexpected achievement of the Project...” However, the ICR indicates that the levels of envisioned beneficiary participation, as set out on the objectives, were not realized in this project (p.46).

Forced account procurement was used more often than anticipated and international competitive bidding was often dropped – resulting in the need for increased counterpart funding due to the relatively low reimbursement rate for the resulting procurement methods. The most significant negative effect of the lack of resulting counterpart funding was the overwhelming in-kind and labor contribution of households – an increase of 794%.

4. Significant Outcomes/Impacts:

The organization and management structure of the labor mobility component was conducive to this complex trans-regional project. The division of duties (identification, job placement, supervision) was efficient.

The project reportedly surpassed rural infrastructure targets for road building and drinking water facilities, the size of this component was increased significantly (74%) and beneficiary labor far exceeded in value the amount of cash injection. There is no analysis available concerning the trade-off between the heavy labor requirement needed to satisfy this component’s targets versus the land and farmer development component.

11,000 project staff were trained under the Institution Building component, and there is indication that “many project counties have decided to retain and further strengthen the project teams developed” (p.12), and that “project activities will be integrated into regular operations” (p.16). It is unclear however how offices, equipment and vehicles provided will be maintained. The Bank’s emphasis on transitional arrangements is commendable. Yet, a reference (Borrower’s summary) to a “difference of project performance across provinces and counties” (p.45) is never explained. Rather, the ICR notes that “Project Management Offices of Sichuan and Shaanxi were excellent” (p.15) but that “in a limited number of cases, county PMOs were inadequately staffed and record-keeping work needed to be strengthened, particularly in Ningxia.

On the issue of Sustainability, OED has revised its rating in light of additional information received and agrees that the benefits arising from the project are Highly Likely to be sustained. The sustainability of the policy impact is clear and the information provided by the region’s comments that normal government budget has been provided for the operation of the system, including maintenance cost of offices, equipment and vehicles bolsters this rating.

5. Significant Shortcomings (including non-compliance with safeguard policies):

It is not clear why 75% of funding for applied agricultural research was awarded to Shaanxi or how that research was applied across Sichuan and Ningxia. The ICR notes that beneficiaries’ ability to deal with risks were strengthened. This claim is undermined by the decision to promote tree crop activities as single project investments for poor households, and “weak training and extension” (p.9). There is also no discussion of the counterpart income injections provided by the Government’s poverty reduction program. More effectively, the component reports that per capita stored grain, as a measure of food security, doubled between 1997-2003. The attention to gender in this component is noteworthy.

While the flexibility of the project design allowed for the readjustment of the TVE component, lessons learned from the SWPRP were not aptly implemented in Qinba. Like SWPRP, this initial sizeable component appears to have been promoted to generate cost recovery, with the less than socially optimal effect of diverting poverty funds away from poor households. According to the ICR, “the government’s over-emphasis on cost recovery resulted in a bias at the project design stage in favor of those activities that could generate cash returns” (p.15).

The micro-finance component did not evolve into a “sustainable financing mechanism” however given its innovative nature and the systemic constraints (lack of capital funds and/or bulk of funds were from Bank loan, low rate of effective interest), more attention could have been paid to measuring the social returns through qualitative benefits -- increased transparency, learning and capacity in the field of financial management (accounting and reporting), small rural business incentives, market orientation, and women and minority participation -- since the ICR indicates that microfinance benefits are hard to quantify (no ERR was calculated, p.28). Also, Government intervention resulted in a high proportion of non-performing loans, weakening the component’s sustainability.

OED recognizes that participatory monitoring and evaluation was not intended to be introduced to the project and that the introduction of “participatory poverty monitoring on a pilot basis in the final years of implementation” was an unexpected achievement of the Project. However, the ICR indicates that the levels of envisioned beneficiary participation, as set out on the objectives, were not realized in this project. Borrower comments confirm that “the degree of participation from farmers varied greatly across regions” (p.46).

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Safeguards

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While the Qinba ICR mentions that it carried out “special assessments to check compliance with the Bank’s
safeguard policies on environmental and social aspects", it did not address OP 4.09, Integrated Pest Management. If $3.2m in pesticides were in fact procured through ICB, there is no reference to the class of pesticides procured, why IPM approaches could not be applied, or how the pesticides were safely handled, stored, and / or disposed of. Qinba was classified as an Environment Category B project. However, considering the shifts in expenditures that occurred during implementation, particularly in relation to increased infrastructure and land and farmer development activities, this project, in hindsight, could more accurately be considered a category A (58,273 ha of farmland and 30,196 ha of irrigation land were newly added, 7493 km of village access roads were constructed). The ICR notes that the SAR did not include an independent Indigenous Peoples Mitigation Plan (IPMP) or Ethnic Minorities Development Plan (EMDP), providing an inadequate explanation that these plans were not conducted "since the whole project design in Ningxia could be treated as an IPMP or an EMDP." This explanation fails to provide an assessment of how the project put into place culturally appropriate processes for consulting with the Hui at each stage of project preparation and implementation. The social risk management provided for the protection of women through the labor mobility component is commended, including the oversight and reporting role of ACWF.

### 6. Ratings:

<table>
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<tr>
<th>ICR</th>
<th>OED Review</th>
<th>Reason for Disagreement /Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outcome</strong></td>
<td>Highly Satisfactory</td>
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<td><strong>Bank Performance</strong></td>
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<tr>
<td><strong>Borrower Perf</strong></td>
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<tr>
<td><strong>Quality of ICR</strong></td>
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**NOTE:** ICR rating values flagged with * don’t comply with OP/BP 13.55, but are listed for completeness.

### 7. Lessons of Broad Applicability:

1. A multi-sectoral rural development project can enhance the benefits of activities scheduled under its agriculture and labor mobility components by first completing the implementation of basic infrastructure components -- such as road access and water facilities -- initiating a sequence that can efficiently utilize access to input supplies, services, information and markets.
2. The use of retroactive financing in complex projects can enable the early initiation of components that require comprehensive planning and integrated results orientation.
3. Flexibility in a multi-sectoral project approach can enable the efficient readjustment of under -performing components and the maximum utilization of domestic counterpart funding.
4. The unsatisfactory performance of the TVE component offers a lesson on the limitations of large scale enterprise development in poor regions: small plants and farmers' markets, requiring less investment and working capital and less complicated technology, are more suitable concepts. Attention could be paid in future project design to establishing a more favorable business environment for poor county TVE development and leveraging joint ventures through China's East-West program.

### 8. Assessment Recommended?

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<th>Why?</th>
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<th>No</th>
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<tbody>
<tr>
<td>A cluster audit of the Southwest Poverty Reduction project and the Qinba project is warranted due</td>
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9. Comments on Quality of ICR:
The quality of the ICR is generally sound having elucidated the outcomes of each sub-component and highlighted lessons learned. It also developed (Annex 1) a Log-Frame of Key Performance Indicators. It would have been useful if the log-frame incorporated the targets (as Goals) set out by the SAR. However, it is noteworthy that the majority of indicators are accompanied by quantitative baseline assessments (1997). The Log-Frame could benefit from a more distinct differentiation between outputs and outcomes (since the two seem to be interchanged), and could also have benefitted from mid-term progress reporting. Otherwise, the effort to utilize this results framework is a positive attribute of this ICR. The ICR could have also provided more evidence on environmental impacts, explained in greater detail the derivation of relevant outcomes across the three provinces, and provided greater detail in section 5.4 on the utilization of actual financing amounts.