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Social Safety Nets in China

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I. INTRODUCTION

Since 1979, the government of the People's Republic of China has undertaken sweeping economic reforms which resulted in the impressive growth of the Chinese economy, at the average rate of approximately 9 % per annum (World Bank, 2003). The poor have benefited from the overall growth, poverty headcount (at $1/day poverty line) dropped from 64% in 1981 to 17% in 2001 (Chen and Ravallion, 2004). Remarkable improvements in the welfare levels in China significantly contributed to the halving of the global poverty rate between 1981 and 2001.

However, income inequality has also been on the rise in China and regional and rural-urban disparities feature prominently in the overall inequality (see figure in A1). As a result, the poverty reducing effect of growth has markedly declined over time and poverty has become more entrenched.

Fast economic growth has been reached to a great extent due to restructuring of the inefficient state-owned enterprises (SOE) and downsizing the inefficient government apparatus. On the one hand, this restructuring posed the problem of re-absorption of the "redundant" employees from the state sector into the new economy. On the other hand, it effectively eroded the basis of the old socialist social security system in which the provision of social and medical security as well as other services (e.g. housing) was the responsibility of state-owned enterprises.

Demographic transition – with the average age of the population, and with it the age-dependency ratio steadily going up – has mounted additional pressure on China's social safety nets. The need for reform of the social protection scheme is obvious.

The object of this study is to critically evaluate the strengths and weakness of China's current social safety nets and to offer insight into possible solutions. This paper will emphasize assignment of fiscal and administrative responsibilities among different actors involved in provision of social protection, service delivery, as well as central issues surrounding the implementation of social safety nets.

II. COMPONENTS OF SOCIAL PROTECTION STRATEGY: LABOR MARKET POLICIES, SOCIAL INSURANCE, AND SOCIAL ASSISTANCE

Social safety nets serve the general goals of poverty reduction, equity, and mitigation of risks to vulnerable households due to unemployment, sickness, disability, natural disasters, economic crises, etc. In this paper we consider both social insurance, and social assistance programs. Labor market policies pursued by the government – to the extent they affect the ability of people to help themselves and thus define the scope for social safety nets – will also fall into the scope of this study.

Employed individuals can in turn participate in social insurance schemes to mitigate risks from potential loss of employment, ill health, etc. Social insurance programs to a substantial degree rely on individual contributions from earnings. Social assistance programs, by contrast, target those whom social insurance schemes fail to protect adequately, i.e. the individuals who are chronically poor or vulnerable to poverty due to inability to be productively employed. Social assistance consists of transfers toward the poor who are unable to use their earnings to mitigate risks. Social assistance programs vary from conditional and unconditional cash transfers to food-related programs, to price and other subsidies, to public works schemes, to micro-credit programs, to fee wavers for social services (including education, health, housing, etc.), etc.

Social insurance schemes (pensions, unemployment insurance, medical insurance and the like) occupy the central place in social protection systems. Nevertheless, social insurance schemes can be deficient or incomplete, failing to comprehensively cover all social groups; in China for instance, social insurance coverage does not adequately cover rural populations. Dysfunctions in social insurance schemes put additional pressure on social safety nets.

III. CHALLENGES TO SOCIAL PROTECTION IN URBAN AND RURAL AREAS

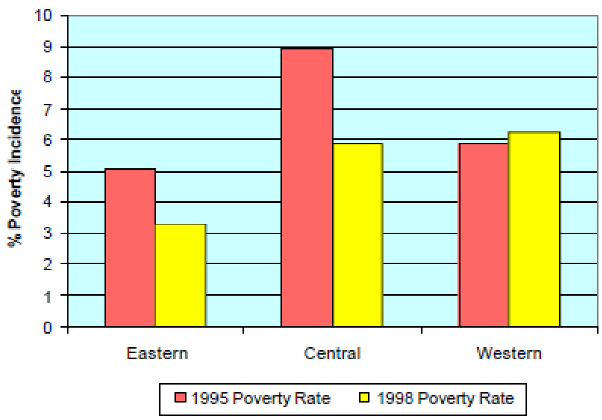
III.1 Challenges facing urban areas

China's economic reforms involve radical restructuring of the state-owned enterprises (SOE), to render them more economically efficient. As a result of restructuring employment in SOE dropped from 99.8 percent of the urban labor force in 1978 to 37.3 percent in 2001. Only in 1998-2001 over 25.5 million people were laid off from state-owned enterprises. China faced the problem of reemployment of the laid-off SOE workers with relatively low level of education and skill. The Chinese government introduced a series of policies which aimed to facilitate reemployment and to secure an acceptable standard of living among the laid-off (Information Office of the State Council of the PRC, 2002).

Registered unemployment rate was 1.8% in 1985 and reached 3.6% by the end of 2001 (China Daily, 2002). De facto unemployment rates of urban unemployment vary according to source and the geographical location of the city from 12 to 17 percent (ADB 2004, p. 97). Urban unemployment is considerably higher in the urban areas in the central region developed during the "Third Front Industrialization", where SOEs face particularly serious restructuring problems. Those are the areas with the highest concentration of urban poor as well (see table A2)

In rapidly developing urban centers on the east coast, reintegration of the downsized employees into the non-public sector has progressed more successfully than in the less developed western regions; nevertheless, the downsizing of the SOEs has led to a rise in urban poverty. While in the eastern and central provinces urban poverty declined by more than a third from 1995 to 1998, the western region experienced a 7% increase in poverty over the same period (Khan and Riskin, 2001) see figure 1).

Figure 1: Regional Variation in Urban Poverty Reduction



Source: ADB (2003), p. 90.

In addition to the challenge of reintegration of the large number of laid-off personnel, the SOE reform presents another challenge to social protection: SOEs have traditionally assumed much of the social responsibilities for their employees: medical insurance, pensions, unemployment insurance, have traditionally been funded largely out of the SOEs' wage bill. SOE reform makes the need for separation of social protection functions from state-owned enterprises and development of alternative social protection mechanism all the more urgent, especially as state- and collective-owned enterprises face stiffer competition from the private sector and township and village enterprises (TVE).

Urban areas have attracted a large number of migrants from the countryside. On the one hand, these migrants are severely disadvantaged in the urban labor market, receiving lower wages and taking lower-paying jobs since their bargaining power in the urban labor markets is significantly diminished by their non-resident status. On the other hand, they are excluded from the urban social safety nets. For instance, they are ineligible for the minimum living standard allowance, and have limited access to public services (e.g. public schools, medical care, housing).[1] Although, the data on the migrant in the urban areas are scarce and of poor quality, ADB estimates that overall, the poverty rate among migrants is 50% higher than the poverty rate of the local urban residents (ADB, 2001). Clearly, the residence registration system (*hukou*) has created substantial imbalances in the labor markets and increases the exposure of sizable population to risk.

III.2 Challenges facing rural areas

Differential pace of economic growth across provinces and counties led to the concentration of poverty in rural areas and in western provinces. In addition, the poor tend to reside predominantly in (a) remote locations, in areas which have (b) scarce natural resources, are (c) economically depressed, lack (d) physical infrastructure, and have (e) high concentration of minorities (World Bank, 2001, World Bank (CAS), 2003).

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[1] Beijing became the first large urban center to open its schools to enrolment of children of non-resident workers who have lived in the city for over 6 months and offered a 50 percent reduction in enrolment fees.

"Today the majority of the absolute poor live in areas cut off from the economic mainstream, and may also lack labor (due to illness or disability for example), and the basic skills or resources necessary to secure a livelihood. Their problems are deeply rooted or structural in nature and thus not easily solved by broadly targeted interventions" (World Bank, 2001). As a result, broadly targeted interventions which worked in the past to reduce dispersed poverty no longer suffice.[2]

The two episodes of rural poverty reduction since the beginning of economic reforms occurred as a result of economic development in the countryside.[3] Incentives to rural development have the potential to further reduce rural poverty through aggregate growth in the agricultural sector. Yet poor infrastructure and regressive taxation stifle development of rural and inland areas, and restrictions on labor mobility from rural to urban areas exacerbate concentration of poverty in the countryside.

III.3. Independence of urban and rural SSNs.

Social safety nets for rural and urban areas have historically operated independently of each other in China. Land endowments of rural residents are seen as a way to guarantee a minimal level of subsistence for the farming households and constitute a social safety mechanism in their own right. While the land is equitably distributed in China and a substantial proportion of rural residents have access to land, but it is not at all clear that access to land will provide sufficient protection against income shocks. In fact the proportion of the landless rural population has been rising.

By the same token, urban workers are seen as intrinsically more vulnerable since their only endowment is their labor. As a result, China's social safety nets display bias in favor of the urban population.

Urban and rural SSN face unique challenges. The key challenge facing the urban SSN is protection of the unemployed and laid-off workers of SOEs, as well as management of the rural-to urban migration. Rural areas social safety nets must address the problems of significantly more sluggish development of the countryside and relatively higher incidence of entrenched poverty through direct poverty-alleviation measures.

IV. GOVERNMENT-SPONSORED URBAN SOCIAL SAFETY NETS

IV.1 Social and unemployment insurance schemes in urban areas

[2] World Bank's Country Assistance Strategy for China concludes: "[The fact that growth is no longer as effective in reducing poverty] does not negate China's impressive past success in poverty reduction but suggests that new approaches that are being piloted currently - combining income diversification with improved targeting and safety nets - need to be scaled up rapidly." (World Bank, 2003b, p. 6-7)

[3] Poverty reduction of the early 1980s is attributed to a sharp change in the urban-rural terms of trade which lifted real rural incomes at the annual rate of about 15 percent, leading to a massive poverty reduction since majority of the poor resided in rural areas. Stagnation (and even a reversal) in the trend of poverty reduction occurred during a slow-down in rural development as a result of a shift in the terms of trade against the rural producers. The second episode of poverty reduction in the early 2000s similarly occurred when the government raised prices on agricultural products and rural development picked up again. (World Bank, 2001, World Bank, 2003b)

Pension system. The pension system operates essentially as a pay-as-you-go system and consists of three pillars: mandatory social pooling account, individual accounts, and voluntary supplemental accounts funded by enterprises. Individual contributions in the amount of 8 percent of the wages are deposited into the individual accounts, while the enterprise contributions are deposited into the social pooling account.

The old age pension scheme extends benefits to individuals who have accumulated at least 15 years of personal contributions. To qualify for pension benefits men must be at least 60 years old and women must be at least 55 years old. The 1997 decree – the legal basis of the current pension scheme – eliminated difference between enterprises by type of ownership, workers' employment status and *hukou*. Individuals employed in flexible and seasonal jobs can also receive basic pension benefits as long as they have paid premiums for 15 years. The basic conditions – 60 or 55 years old, depending on sex, with a minimum of 15 years of individual contributions – of the pension scheme apply to rural contractual workers employed in the cities as well. By the end of 2004, the coverage of the basic pension scheme was extended to163.53 million individuals; 122.5 million of them were currently employed and 41.03 million were retired. The coverage of migrant workers remained very small.

A 2000 survey of the urban elderly finds that 70.12 percent of the urban elderly received pension benefits in the amount of 668 yuan per month. The survey finds sizable gender differences in the breadth and level of coverage. Nearly 85 percent of urban men received pension as opposed to 56.5 percent of urban women; males received on average 759 yuan per month while women's monthly pension payments averaged 541 yuan – a 40 percent difference (China Research Center on Aging, 2000).

The same survey points to substantial regional differences in coverage among the elderly urban residents: the coverage in the eastern regions is 72.6 percent of the corresponding age group, while in the central and western regions the coverage is 67.5 and 66.7 percent respectively. The difference in the average pension amount are also substantial: pensioners in the eastern region receive 717 yuan per month, while in the central and western regions they receive, correspondingly, 618 and 582 yuan monthly.

Despite the fact that the 1997 decree eliminated restrictions based on *hukou*, less than 15 percent of the urban elderly residing the farming *hukou* are covered by the pension scheme and the pension payments they draw are less than half the amount received by the urban pensioners in the non-farming *hukou* (350 versus 769 yuan per month).

Retirees of collective enterprises receive smallest pensions, averaging 400 yuan per month. They constitute the worst-paid category of retirees by type of employer. By contrast, former employees of party and state organs and institutions constitute the highest-paid category of pensioners, receiving on average 975 yuan a month. Retirees from SOEs reported average pensions of 627 yuan per month, while pensions for the self employed averaged 554 yuan per month

Unemployment Insurance Scheme. In 1999 the government introduced "Regulations on Unemployment Insurance" and instituted an improved unemployment insurance scheme.

The unemployment insurance fund is financed from employers' and employee contributions. Employers contribute 2 percent of their wage bill, while employees pay unemployment insurance premiums equivalent to 1 percent of their wages. The deficit in the social pool accounts is subsidized from the local government budget or from unemployment insurance regulating funds.

To qualify for unemployment benefits, the recipient must: (a) have paid unemployment insurance premiums for at least a year, (b) not have ended employment voluntarily; (b) have registered as unemployed. The amount of the unemployment payment varies across regions, but falls roughly within the range between the local minimum wage and the local minimum urban living allowance. The duration of unemployment insurance coverage ranges from 12 to 24 months, depending on the history of contributions to unemployment insurance.[4] In addition to regular unemployment payments, the beneficiaries receive subsidies for medical services, they are also entitled to some vocational training and assistance in finding employment.

The current unemployment insurance scheme covers all workers employed in urban enterprises and urban self-employed. Unemployment insurance provisions for contract workers cover those individuals who have worked for at least a year and include a lump-sum payment in case of termination or expiration of their contract. While contract workers do not make unemployment insurance payments, their employers are required to make regular contributions to the unemployment insurance fund. However, the coverage of rural migrant workers employed in urban areas is extremely limited in reality. A survey of the rural migrants by a team from the Institute of Economics indicates that less than 2 percent of rural migrant workers in the cities are covered by the unemployment insurance scheme (UNDP, 2005).

Medical Insurance Scheme. Medical insurance scheme is funded by social pooling and individual accounts. Provincial and local governments, employers and employees make contributions to medical insurance. Reform of the SOE – which largely financed medical insurance for their workers from their wage bill – led to a significant the reduction of medical insurance coverage in urban areas. Many of the laid-off workers found employment in businesses in the informal sector which did not participate in medical insurance schemes. Between 1993 and 2003 the medical insurance coverage rate in the urban areas dropped from around 73 percent to slightly over 55 percent (Center for Health Statistics and Information of the Ministry of Health, 2004).

IV.2 Social assistance schemes in urban areas.

Social assistance schemes are underdeveloped in urban areas. They focus on reemployment of laid-off SOE and government as a means of urban poverty reduction. Until the urban poverty rates began to climb up in the late 1990s, this strategy has proven successful due to rapid urban economic growth. Currently, growing urban poverty requires more effective social assistance schemes not only to better protect the vulnerable households, but also to relieve excessive pressure on the social insurance schemes which have tended to take on the function social assistance schemes would perform.

Currently urban social safety nets include four main types of social assistance: minimum living standard scheme (MLSS), assistance to laid-off employees (soon to be phased out), social welfare – or "five guarantees" – scheme which is being incorporated

[4] Individuals who have paid premiums from 1 to 5 years are entitled to up to 12 month of unemployment insurance benefits, those who paid premiums for 5 to 10 year are entitled to receive benefits for up to 18 months, and those who have paid for over 10 years is entitled to 24 month of unemployment benefits.

into the MLSS. A number of smaller social assistance programs are being implemented, including housing and education subsidies, etc.

Laid-off employee assistance. To facilitate reintegration of the laid-off personnel of the downsized state-owned enterprises, reemployment centers were established in all the SOE that had laid off workers and staff. Over the period of six months, laid-off workers registered with the reemployment centers received occupational guidance, employment information and limited job training. It appears that the reemployment initiative has had some success.[5]

Laid-off workers from SOE who have not been able to find employment received a basic living allowance from the reemployment centers for a maximum of three years. In case they have not found a job after 3 years, they are entitled to unemployment insurance payments for a maximum of two years. If they still remain unemployed, they are eligible for the minimum living allowance paid to urban residents (Information Office of the State Council of the PRC, 2002).

The laid-off employee assistance program has been intended as an interim intervention to ease the burden of SOE restructuring on their workers while viable unemployment insurance scheme was being developed. The program provided substantial levels of benefits to the downsized workers which were financed in the large part by the SOEs and imposed a tremendous burden on them. Under the current arrangement, SOEs fund the reemployment centers, the 3 year laid-off employee assistance contracts as well as training of their downsized staff. The program is to be phased out by the end of 2006 and the beneficiaries are to be transferred to the unemployment insurance scheme. The level of benefits and the duration of coverage under the unemployment insurance scheme are lower than that under the laid-off employee assistance program and will relieve the pressure on the SOEs.

Other unemployment services. Additionally the government established an employment service for unemployed persons in extreme poverty in urban areas and for the elderly laid-off and unemployed individuals. This employment service seeks to subsidize job creation for these severely disadvantaged categories in community welfare organizations which provide community services, such as community environmental protection, hygiene, security, free employment services, etc. (Information Office of the State Council of the PRC, 2002)

Minimum Living Standard Scheme. In 1993 the government began to reform the social relief system in urban areas and in 1999 it established a minimum living standard security system in all cities and towns. At the same time, the Regulations of Guaranteeing Urban Residents' Minimum Standard of Living were adopted, according to which a family qualifies for a minimum living allowance if the per capita income of the family falls below the local minimum living standard; the size of the allowance is weighted in accordance with the local cost of livelihood. In 2001, 11.7 million urban residents received minimum living allowances; by 2003 the number of recipients nearly

[5] The "ten million in three years" reemployment initiative inaugurated in 1998 aimed to provide training and assistance with job placement to 10 million laid-off workers over the following three years. According to official sources, by 2000 over 13 million individuals received training and the reemployment rate after 6 months reached 60 percent. As a result, between 1998 and 2001, of 25.5 million laid-off SOE workers, nearly 17 percent were reemployed.   (Information Office of the State Council of the PRC, 2002).

doubled increasing to 22.47 million receiving an average subsidy of 58 yuan per person per month (Information Office of the State Council, 2004). In 2005, MLSS assistance was extended to 22.05 million urban residents and 6 million rural dwellers, receiving between 169 yuan (US$20.8) and 344 yuan (US$42.4) per person per month (*China Daily* January 25, 2006).

MLSS is a viable safety net, but has a number of serious limitations: no coverage for migrants, no coverage of medical services. The latter is a major weakness given that health problems are associated with increased risk of poverty.

Employment of people with disabilities. The government takes measures to promote employment of disabled persons. Welfare enterprises provide employment for the disabled. The government instituted preferential policies with regard to the welfare enterprises, which include reduction or wavers of taxes to create incentive for the employment of the disabled. At the same time, enterprise must either fulfill a mandatory quota for employment of disabled individuals or make contributions to the employment guarantee fund for the disabled. In 1996-2000 over 1.1 million disabled persons received skill training while another 1.1 million found jobs. The unemployment rate over the same period fell from 30 to under 20 percent (Information Office of the State Council of the PRC, 2002).

Assistance to beggars and vagrants. In 2003 cities began to establish relief centers for beggars and vagrants with no secure source of livelihood. By the end of 2003, over 900 centers had been organized nationwide and provided temporary assistance in 210,000 cases.

Housing subsidies. The three principles mechanisms of ensuring housing security in the urban areas are (1) publicly accumulated housing funds, (2) budget housing system, and (3) low-rent housing. Fifty-one percent males and 44 percent females in urban areas received housing subsidies in 2000 (ADB 2005, p. 68).

Publicly accumulated housing funds are funded by monthly contributions from government agencies, public institutions, enterprises, mass organizations, private non-enterprise units and their employees into employees' individual accounts. The funds can be loaned to employees for the purpose of building, purchasing or renovating their houses. The housing funds are exempt from personal income tax which can also be combined with a low interest loan policy. The program is administered by the Administrative Center of the Publicly Accumulated Housing Funds. By the end of 2003, 60.45 million employees opened accounts for publicly accumulated housing funds, raising 556.3 billion yuan.[6]

Budget housing system, introduced in 1998, subsidizes construction of affordable housing by commercial developers. The price of such housing is indirectly subsidized by the government through tax deductions, reduction of administrative fees and preferential terms of land transfer to developers. Once purchased, budget houses have to remain owner-occupied for a certain period of time and once sold on the market, the government receives a certain portion of the sale price.

To qualify for purchasing budget housing, households must demonstrate need and have yearly income below 60,000 yuan (7,400 USD). There have been reports of the leakage of budget housing benefits to the middle-income households, who have been able to circumvent the restrictions.

[6] The system of publicly accumulate housing funds was introduced in 1994.

V. GOVERNMENT-RUN SOCIAL SAFETY NETS IN RURAL CHINA

V.1 Social and unemployment insurance schemes in rural areas

Pension. Rural old age pension scheme was introduced in 1991. It is a fully funded scheme which aimed to cover all working age population (20 to 59 years old). In reality by the end of 2003, the scheme covered 54.3 million individuals, a mere 11% of the rural labor force. The scheme accumulated Y26 million in funds with 2 million farmers drawing old-age pensions. A survey by the China Research Center on Aging conducted in 2000 found that only 3 percent of the rural elderly were covered by a pension scheme (compared to 70 percent coverage rate in urban areas reported in the same survey).

Participation in the scheme is not mandatory which results in selective coverage of the better-off rural households. Financing of the rural pension scheme relies mostly on participant contribution with additional financing from village governments. The level of pension benefits falls substantially below the subsistence level.

Medical insurance. In 2002 the government began to phase in a new rural cooperative medical service system. Participation in the scheme is voluntary. Participating farming families contribute annually 10 yuan per person to a social pool fund and governments at different levels contribute 20 yuan per person. The cooperative medical fund is deposited into an account with a county State commercial bank or credit cooperative. Participating families are entitled to partial reimbursement for treatment in medical facilities designated by the county.

In 2004 the new cooperative medicare was implemented in 310 counties across 30 provinces. As of June of 2004, the coverage was extended to over 95 million individuals in rural areas. The cooperative medical fund was 3.02 billion yuan, with 1.11 billion in subsidies from the provincial and county governments and .39 billion in subsidies from the central government targeted to central and western regions.

By 2003 the coverage rate recovered to just over 20 percent – a notable improvement over the 13 percent coverage rate of 1998 – but still remains alarmingly low. The urban-rural disparity in medical insurance coverage is apparent: while in urban areas roughly every other person is covered, in rural areas only one in five is.

The new rural cooperative medical scheme faces a number of challenges. It operates as an insurance against serious injuries scheme, covering up to 1/3 of the cost of serious injuries. The scheme has been criticized for the failure to provide cost relief for treatment of the less serious medical problems, which however tend to aggravate if left untreated. At the same time, the level of benefits remains insufficient even in the cases the medical insurance is intended to cover – for the majority of the rural households find the remaining 2/3 of the medical bill for a serious procedure well out of their financial reach. Being a voluntary scheme, rural health insurance fails to protect the poorest households which cannot afford to pay the premiums – as low as they may seem – and choose not to enroll into the medical insurance scheme. The schemes have not yet earned the trust of the farmers (UN 2005, p.67).

V.2 Social assistance in rural areas

The China Research Center on Aging (2000) estimates that 7.9 percent of the rural population received government assistance and 4.3 percent received collective aid in 2000. The coverage varies significantly across regions to the effect that the coverage rate for government assistance in the developed east is nearly twice as high as in the western region. Rural residents in the east are nearly eight times more likely to receive collective assistance.[7] Collective assistance relies exclusively on local government or village budgets for financing and the cross-regional disparities among regions are particularly large. The programs aim to reduce transient poverty and vary considerably in terms of coverage and level of benefits across localities.

Government social assistance programs in rural areas include targeted poverty-reduction programs, welfare relief programs (five guarantees), as well as disaster relief schemes. The latter three programs have been in existence since before the targeted poverty reduction initiatives and currently continue to operate independently of the National Plan for Poverty Reduction.

Government poverty reduction initiative. The government's poverty reduction in China has evolved in four stages corresponding to distinct sets of policies used to fight poverty. During the first stage (1979-85) rural reforms and agricultural growth were the primary means of reducing wide-spread poverty. Between 1986 and 1993 the government introduced targeted poverty reduction programs, establishing the Leading Group for Poverty Reduction (LGPR) in 1986 for the purpose of coordinating the various poverty reduction initiatives, and began the subsidized loan programs in designated poor counties, food for work program, and the budgetary grants to poor areas. LGPR offices at provincial, prefecture and county levels were formed for the implementation of the poverty relief programs. Local governments became responsible for the provision of counterpart funds.

The third stage of poverty reduction in 1994-2000 intensified poverty reduction efforts along the lines pursued in the earlier period. In 1994, the Chinese government began implementing the National Plan for Poverty Reduction (the "8-7" Plan) which sought to lift out of poverty 80 million individuals by year 2000. The "8-7" Plan relied on the same three major instruments of poverty reduction: subsidized loans, food for work programs, and government budgetary grants. The Plan targeted 592 designated poor counties and relied on county governments to implement the programs. Over the 7 year period, the Central government provided over 122 billion yuan (in 1997 prices) and provincial and local governments provided 21 billion in counterpart funds. The plan also encouraged horizontal transfers by establishing partnerships between developed coastal provinces and cities and poor western provinces and regions.

Following the 8-7 Plan, the government launched a new phase of poverty reduction initiatives in 2001, the New Century Rural Poverty Alleviation Plan for 2001-2010. The NCRPAP capitalized on the lessons from the 8-7 Plan and took into account the new trends in poverty. It promoted targeting of poverty interventions at village level as opposed to county level, because a significant proportion of the poor lived in villages in counties which were not designated poor counties; 50000 poor villages are targeted by

[7] In the eastern region, participation rate for government and collective social assistance were 11 and 8.4 percent, in the central region - 6 and 2.2 percent, and in the western region – 5.9 and 1.1 percent, respectively.

the New Plan. The New Plan also calls for participatory and multi-sectoral approaches to poverty alleviation.

The social welfare system (Five Guarantees) is intended to protect the most vulnerable groups of population: extremely poor elderly persons, orphans, and the handicapped. The legal framework of the social welfare system is provided by the "Law of the People's Republic of China Guaranteeing the Rights and Interests of Senior Citizens," and the "Law of the People's Republic of China on Protection of the Handicapped." In accordance with these statutes, in urban areas, elderly individuals with "three nos" – those who have no children or a spouse, who reside alone and are no longer able to take care of themselves (as well as orphans and the handicapped unable to care for themselves) – are entitled to reside and receive care in "concentrated" establishments.[8] Under the program, they are provided with covers food, shelter, clothing, health care and funeral expenses (Information Office of the State Council of the PRC, 2002).

The program covers both urban and rural areas but is being largely replaced by the minimum living standard scheme in the cities. In the rural areas, however, it remains a crucial poverty relief intervention. In 2005, 3.2 million rural residents received five guarantees relief.[9]

Some of the funding for social welfare is generated through lotteries. In 2001, approximately 4.2 billion yuan were raised for social welfare (Information Office of the State Council of the PRC, 2002).

Minimum living standards scheme for rural areas. The minimum living standard security system – similar to the MLSS in urban areas – has been recently extended to some rural areas in 11 provinces most of which are coastal. The minimum living standard program provides monetary subsidies to households with per capita income below the minimum living standard. In 2005, 6 million rural resident received MLSS assistance (*China Daily* January 25, 2006).

Disaster relief. China is prone virtually to all major types of natural disasters: southern and eastern provinces are heavily affected by floods, central region is prone to floods and drought, while the north suffers from endemic shortage of water. Natural disaster relief system is funded from central and local government budgets. On average, 200 million people a year fall victims to natural disaster.

The disaster relief program is operated by the Ministry of Civil Affairs. In 1996-2001 at all levels of government over 21.26 billion yuan was spent on natural disaster relief nationwide; these expenditures covered food, clothing, as well as other primary necessities for 390 million disaster victims (Information Office of the State Council of the PRC, 2002). In 2003 alone, 5.31 billion yuan was spent on natural disaster relief, 4.05 (or 76 percent) of which came from the central government budget.

Special care and placement. The government extends benefits to individuals who served or currently serve in the military, as well as to the families of "revolutionary martyrs." Over 38 million people are currently included into this category. Benefits

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[8] Concentrated" establishment include social welfare homes, old age homes, sanatoriums, and orphanages.

[9] In 2001, in both rural and urban areas, there were 3327 government-run social welfare institutions servicing 191000 individuals, 35000 collective-run social welfare institutions servicing 668000 persons, 934 privately managed social welfare institutions servicing 34000 persons, and 38000 social welfare enterprises employing 699000 handicapped individuals (Information Office of the State Council of the PRC, 2002).

include subsidies to the dependents of servicemen killed in the line of duty, disabled revolutionary servicemen, and army veterans. The amount of the subsidy is fixed and it is paid on a regular basis. Dependents of individuals currently conscripted are also eligible to receive allowances. In addition, disabled revolutionary servicemen and other special care recipients are eligible for full or partial wavers of medical cost. The government also guarantees demobilized servicemen a job placement upon completion of their service; individuals who intend to find employment on their own receive a lump-sum payment in lieu of the job assignment. In 1996-2001, government expenditure on special care at all levels amounted to 29.9 billion yuan. (Information Office of the State Council of the PRC, 2002)

Mutual support. Following the adoption of the Law of the People's Republic of China on Public Welfare Donations in 2000, civil affairs departments received nearly 1.6 billion yuan in public donations (monetary and in kind). Local governments provide community services for the poor. Trade unions also organize "heart-warming activities" to extend help to the poor families; 10.44 billion yuan have been spent toward these activities over the last few years. (Information Office of the State Council of the PRC, 2002).

VI. FINANCING OF GOVERNMENT SOCIAL SAFETY NETS

Decentralization of social expenditure in China is well documented in the literature. In 2004, central government accounted for 30 percent of total public expenditure, while provincial and sub-provincial governments accounted for 15 and 55 percent respectively. Spending on social services (including pensions) is even more decentralized all the way down to the county level, with the sub-provincial tier financing 70 percent of public investment in social services, provincial and central tiers contributing another 20 and 10 percent respectively (Qiu, 2005).

Under such decentralized expenditure assignments, provincial and sub-provincial governments have to rely on their own resources to provide social protection; consequently, the burden of providing social protection falls disproportionately on the less developed provinces and countries which have higher incidence of poverty and leaner revenue base.

Horizontal imbalances are compounded by a substantial vertical fiscal gap: the sub-national share in total revenues - about 45 percent in 2002 - is disproportionately low relative to the share of the sub-national tiers in expenditure assignments giving rise to substantial fiscal deficit in sub-national budgets and vertical imbalances (Dabla-Norris, 2005).

In the presence of an effective system of transfers, horizontal and vertical fiscal gaps need not be a problem – indeed geographic diversity of needs and preferences one finds in China requires a certain degree of decentralized management. China's fiscal transfer system, however, has not been able to effectively compensate horizontal and vertical fiscal gaps. Despite the substantial size of central government transfers relative to local budgets[10], the composition of fiscal transfers – earmarked grants and tax rebates account for roughly 70 percent of center-local transfers – exacerbate horizontal imbalances and

[10] Central government transfers accounted for 46 (48) percent of local expenditure in 2001 (2002).

add to the regressive flavor of China's fiscal arrangements, with developed provinces and counties benefiting more from intergovernmental transfers.[11]

The Chinese government has made efforts to expand the equalization transfers (otherwise known as the transitory period grants or TPG) to correct for horizontal imbalances. The share of the TPG in the total central-local transfers has grown from 1.3 percent in 1996 to 4.7 percent in 2003 (Shen and Zou, 2006). Yet contrary to expectations, the overall the current intergovernmental transfers produce a distortionary on local revenues. Tsui (2005), for instance, finds evidence of reversal of the equalizing effect of the transfers prior to the 1994 tax reform.[12]

The devolution of the responsibilities for financing and implementation of social security, unemployment insurance and social services to counties and prefectures one finds in China is a highly uncommon practice among the developing countries. Moreover, when sub-national entities do participate in the implementation of social protection schemes their role is largely limited to collecting information on local preferences, keeping track of the poor, and personnel management. Even if sub-national governments participate in implementation of the scheme, the latter are financed through grants from the central governments (Dabla-Norris, 2005).

Indeed, given substantial regional disparities in levels of development and revenue-generating capacity in China, assignment of fiscal responsibilities to sub-provincial and even provincial tiers undermines the principle of risk-pooling.

Budgetary constraints on local governments coupled with extensive expenditure responsibilities have distorted incentives in ways which undermine the goal of social protection of vulnerable groups and managing risks. For instance, lacking meaningful tax autonomy to meet the expenditure assignments, local governments have resorted to discretionary fees on various services and goods (utilities, health and education services, vehicle purchase, road maintenance, etc.). These informal or "illegal" fees constitute an important tax base which finances vital at sub-national levels services, yet the overall impact of the extra-budgetary revenues is likely suboptimal from the point of view of social protection since these funds are kept off budget and are spent in ways which maximize revenue, not social utility.

VI.1 Financing of urban social safety nets

VI.1.1 Financing of urban social insurance

The five social insurance schemes (pensions, medical, unemployment, injury and maternity) are financed by enterprise and individual contributions. Total contribution

[11] Tsui (2005) points out that developed heavily industrial provinces and counties receive greater tax rebates that the poor agricultural regions where growth has been more sluggish. In fact, Tsui (2005) finds evidence of reversal of the equalizing effect of the transfers prior to the 1994 tax reform.

[12] Central government has provided corrective transfers to the local governments; one example is compensation for the rural fee reform and funded wage increases and social security. While such corrective transfers relieve immediate problems, they cannot provide long-term solutions since there is uncertainty regarding the availability and amount of these transfers. Also they potentially can undermine fiscal discipline of the local governments.

rate is high at 41 percent of the total wage bill, with 30 percent coming from enterprises and 11 percent from employees (see table 1).

Table 1: Social Security Contribution Rates, 2005

	Pension	Health	Unemployment	Injury	Maternity	Total
Enterprise	20	6	2	1	1	30
Individual	8	2	1	11		
Total	28	8	3	1	1	41

Source: OECD (2005)

Despite the high contribution rates, urban social insurances schemes suffer from the lack of financing.[13] This is in part due to the fact that contributions to each the five social insurance schemes are collected separately from each other and not uncommonly collected separately from the enterprise tax. Such separation induces non-compliance. Several alternative approaches have been piloted which seek to improve compliance through the integration of social insurance contributions in to the enterprise tax. Additionally, lack of common management of the five schemes increases administrative costs of social insurance which are compensated by a higher contribution rate.

Despite undergoing a serious reform in 1997, the old age insurance scheme remains plagued by numerous problems.[14] High decentralization of the current pension system contributed to its financial difficulties. Pension systems are financed from provincial, city or county budgets. If a province or a country runs a deficit, the shortfall is compensated by transfers from the central government; however, if a county or a province runs a surplus, there is no mechanism of distributing it to across provinces, counties, or cities which run a deficit. Instead, the units which generate surplus either lower contribution rates or reinvest the surplus (OECD 2005). Thus, even at the level of the pension system, fiscal arrangements generate horizontal imbalances.

The fact that some counties and cities – usually the smaller ones – struggle to maintain the financial integrity of the schemes while others generate surplus, is a clear indication that decentralization of the old age insurance to the county levels does not allow for sufficiently high scale to ensure proper risk pooling.

Additional distortions in the pension system are caused by transition to pre-funding without reducing the relatively generous level of benefits paid to the retired and downsized SOE employees. This created a gap in the social-pool accounts which was financed at the expense of individual accounts and by increasing the rate of contribution. Financing the shortfall in the first pillar from individual accounts undermined trust in the pension scheme while high contribution rate gave employers an incentive to avoid participation in a pension scheme. In other countries gaps in the social pool accounts have been compensated by government transfers.

The pension system is struggling with demographic pressure owing to improved longevity and SOE downsizing which led to a rapid surge in the number of pension

[13] For instance, the pension system has accumulated a financing gap equivalent to 95 percent of 2001 GDP which would require a 37 percent contribution rate to cover (Sin, 2005).
[14] Some of the parameters – such as amortization rate, statutory pension age, and presumed dependency ratio – of the pension system need adjustment.

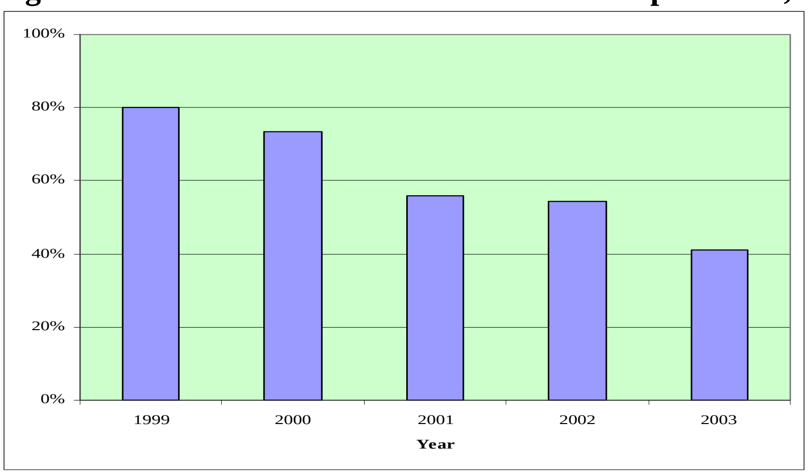
recipients and shrank the number of contributors, raising the pension system dependency ratio levels to unsustainable levels.

Currently, a reformed insurance scheme is being piloted in the Liaoning province. The improved design of the features adjustments to the system parameters (a more realistic dependency ratio, amortization rate), lower contribution rate and most importantly a strict separation between the pillars, with financing of deficits in the social pool account through government transfers (Kuijs, 2006).

VI.1.2 Financing of urban social assistance

Local governments finance a substantial part of urban social protection programs, although the central government funding of urban social safety nets has been steadily extending, as demonstrated by the decline of the sub-national share in total MLSS spending in the figure 2. The central government funding seeks to relieve the pressure on local governments with extremely tight budgets.

Figure 2: Sub-national Share in Total MLSS Expenditure, 1999-2002



Sources: Ministry of Civil Affairs (2002) and Information Office of the State Council (2004).

In 2003, 9.2 billion yuan in central government MLSS funding subsidized the disadvantaged central and western regions. Medical, education, housing and other subsidies financed by the cities do relieve the burden on the poor, but there is a great degree of variation in these highly localized schemes. Despite the efforts of the central government to ensure equitable levels of benefits to the MLSS participants in different localities through increased central financing, participation rates exhibit sizable geographic variation.

Financing and implementation of the laid-off employee assistance has been the responsibility of the individual SOEs. This temporary measure – necessitated by considerations of political stability – introduced serious distortions into the urban social safety nets system. Because the level of benefits and duration of assistance to the laid-off exceeded the sustainable levels of unemployment insurance, SOEs effectively assumed the functions of social assistance to their former employees in addition to charging them substantial social security contributions for their current workers. In turn such heavy financial burden on the SOEs undermined their competitiveness and led to more downsizing and shrinkage of contributions to social insurance schemes.

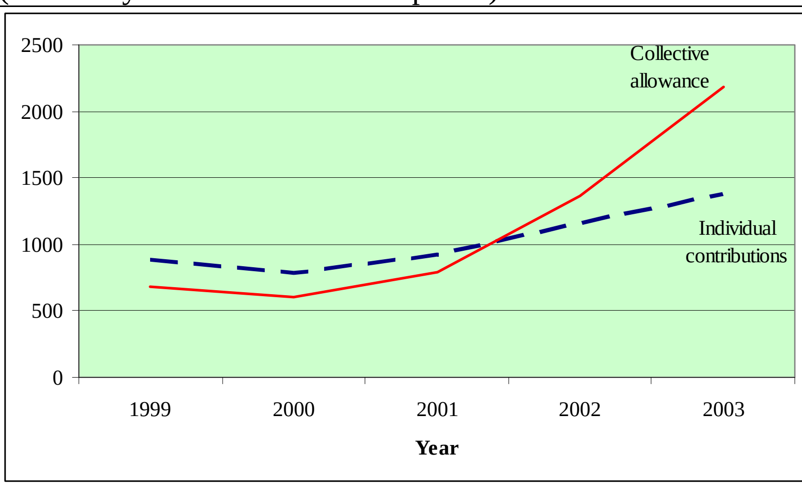
City governments are responsible for the funding of the minimum living standards scheme; city budgets provide over half of the MLSS funds. Housing administration and social services subsidize a variety of fee reductions and wavers programs on such services as hospital stays, electricity and water, education, commercial tax deductions.

VI.2. Financing of rural social protection schemes

VI.2.1 Financing of rural social security

Financing of the rural pension scheme relies mostly on participant contribution with additional financing from township and village enterprises. Expenditure on rural pension schemes grew more than two-fold in 1999-2003. The increase in the financing is mainly due to the expansion of collective contributions from the TVEs, which rose rapidly from 45 to 62 percent (figure 3). This change in the composition of contributions to the pension scheme point to the scheme's centering on the employees of the township and village enterprises. The farmers who are not employed in the TVEs and cannot count on complimentary contributions from the employers and have to finance their pensions through individual contributions remain at a disadvantage. The rural pension scheme displays a bias against the poor rural residents, which explains the fact that participation rate in the old age insurance declined as the financing continued to rise (table 2).

Figure 3: Expansion of Collective and Individual Contributions to the Rural Pensions Scheme, 1999-2003
(millions yuan in constant 1999 prices)



Source: China Social Security Statistical Yearbook (2004) and World Development Indicators.

Fiscal decentralization produced even greater disparities across provinces in terms of social security coverage than in urban social security schemes. Provincial participation rates vary substantially across provinces from 0 to 90 percent, with Shanghai, Tibet and

Hainan reporting most comprehensive coverage,[15] however the total size of rural population in these provinces is small and majority of the rural residents are employees of TVEs. In the mean time, in several provinces with sizable rural population virtually no coverage exists (Martinez-Vasquez et al., eds., 2006).[16]

Table 2: Participation Rates and Sources of Financing for Rural Social Security Pension System in 1999-2003
(in constant 1999 prices)

Year	N contributors (millions)	% of rural residents	Total revenue (millions)	Contributions by individuals (millions)	Collective allowance (millions)	Share of individual contributions in total revenue
1999	64.6	7.1	1605.0	877.0	682.5	55%
2000	61.7	6.8	1387.6	783.5	604.1	56%
2001	60	6.6	1696.0	908.5	787.5	54%
2002	54.6	5.8	2524.3	1155.5	1368.9	46%
2003	54.3	5.8	3559.1	1360.2	2161.8	38%

Source: China Social Security Statistical Yearbook (2004) and World Development Indicators.

VI.2.2 Financing of rural social assistance

The fiscal arrangements of the non-contributory SSNs are more closely aligned with the goals and targets of social assistance.

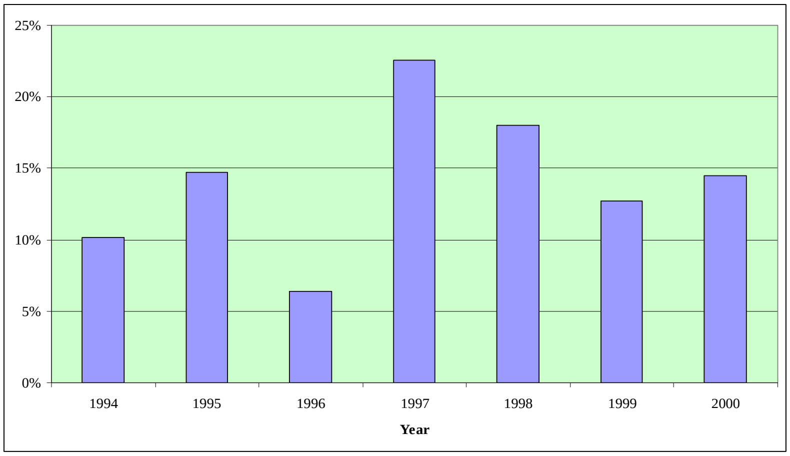
Central government funds are allocated to provinces in accordance with the number of poor counties and poor residents in each county; other factors taken into account are rural net per capita income, local economic resources, GDP per capita, conditions of infrastructure, efficiency of fund use. Despite these criteria, allocation of poverty relief funds to provinces is a political process; Sangui et al. (2004) find that some provinces have been disadvantaged (Shanxi, Inner Mongolia, Liaoning, and Yunnan), while others were favored (Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan, Guanxi, Hainan, Chongquing, Sichuan, Gansu, Quinghai, Ninxia and Xingjiang).[17]

Provincial governments in turn allocate the poverty reduction funds directly to the projects submitted by county governments through a competitive process. Despite the fact that fund allocation is susceptible to political influence, Sangui et al. (2004) indicate that the allocation of funds to the counties largely corresponds to the incidence of poverty in the counties.

Provincial governments must provide counterpart funds to match 30 percent of the amount of central government funding. In practice the relative share of provincial and local funds has varied considerably from 7 to 23 percent in 1994-2000 (see figure 4), generally falling below the projected levels due to budget constraints.

[15] The coverage rates are roughly 90 percent for Shanghai, 60 percent for Tibet, and 36 percent for Hainan.
[16] The following provinces with large numbers of rural residents have less than 1 percent coverage rate: Sichuan (68.9 million rural residents), Guandong (62.5), Hunan (54.5), and Yunnan (35.4).
[17] Comparison held constant factors like poverty incidence, minority status, population size and geographical location; reference province is Hebei.

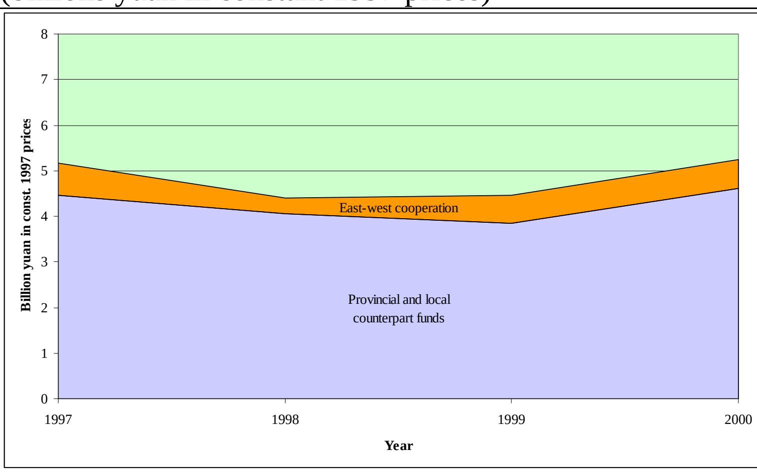
Figure 4: Provincial and Local Contribution to Poverty Reduction as a Share of Total Government Contribution, 1994-2000



Source: China Foundation for Poverty Alleviation (2001). Paper presented at the Conference on NGOs., Beijing, November.

Poverty reduction initiative during the "8-7" stage encouraged horizontal transfers across provinces through cooperative schemes between specific developed and under-developed regions. While the size of these transfers in total poverty reduction spending remains small, their represent a meaningful supplement to the local poverty relief funds (figure 5).

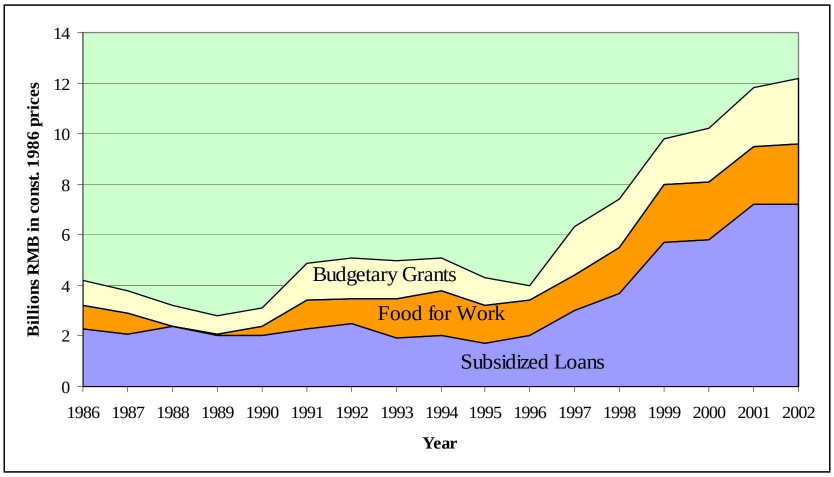
Figure 5: East-west Cooperation Funds Relative to Sub-national Counterpart Funds for Poverty Reduction, 1997-2000
(billions yuan in constant 1997 prices)



Source: China Foundation for Poverty Alleviation (2001)

Under the poverty alleviation strategy, central government's social assistance to designated poor counties was delivered via three key instruments (a) subsidized loans, (b) food for work schemes, and (c) budgetary poor area development funds. As the figure below indicates, subsidized loans constitute the largest part of the poverty alleviation funding.

Figure 6: Allocation of Poverty Funds by Type of Program in 1986-2002
(billions RMB in constant 1986 prices)



Source: Sangui (2004).

Food for work program contributes significantly to rural infrastructure development and maintenance. While the central government finances inputs to infrastructure development, provincial and county government have to provide matching funds for the labor contribution. Frequently budget constraints impose limits on their ability to fund the labor costs and have tried to compensate for the lack of finances by recruiting voluntary workers, counting the time worked on WFF projects toward the work day contribution requirement.

VII. DELIVERY OF SOCIAL PROTECTION SERVICES

Public services are delivered through a network of public service units (PSU) which are supervised by authorities the following six levels: the State Council, central ministries, and government at provincial, prefecture, county, and township levels.

County governments are largely responsible for all the aspect of delivery of social protection. The central government only contributes rather general guidelines. County governments and their branches carry out collection of contributions from the appropriate sources, manage the accumulated funds and decide how to invest them, and deliver the benefits to the recipients. Local autonomy in the delivery of the social protection services and can be effectiveness and targeting of the interventions. At the same time, Such degree of decentralization of service delivery functions creates plenty of room for mismanagement of local schemes which can significantly undermine them, especially when the financing is also decentralized and deficit in one county cannot be compensated form the budget of another. Local autonomy in delivery should be complimented by effective supervision by higher levels of government. Currently, several schemes, especially in the rural areas clearly suffer from a lack of supervision. A World Bank (2005a) report on the public service units (PSU) reform recommends further improvement in the management of public service provision by establishing and enforcing performance management compacts. It also recommends strengthening financial accountability of the PSUs. Autonomy in decisions regarding investment of pension or medical insurance funds – even if these schemes are administered by counties in all other relevant aspects – should be delegated to the provincial governments.

In China PSUs in most cases provide social protection services directly. To motivate PSUs to perform more effectively, the government has made efforts to "push PSUs into the market" and introduced a "contract responsibility system", which allocated a pre-determined amount of funds to the PSU for the delivery of the services, and the PSUs could retain the surplus or make up gaps. The contract responsibility system was complimented by an increase revenue generating-autonomy of the PSUs thus enabling them to operate like private entities or SOEs (World Bank, 2005a).

The range of function carried out by PSU is very extensive which give rise to inefficiencies due to excessive scope. Some of the services could be performed more efficiently by private providers and indeed there has been a trend toward privatization of provision of some public services (especially education and health). In social protection, the degree of privatization of service provision of is limited, however. For instance, some of the facilities involved in the provision of "five guarantees" are privately run, but their share in total provision of the welfare services is negligible: in 2003 there were 934 privately-run institutions and 3327 state-run and 35000 collective-run welfare institutions.

NGOs have been increasingly active in provision of social assistance. While limited in terms of geographic coverage, they have been able to address specific needs of certain subgroups of the population (e.g. women, people with disabilities, or orphans), focusing on micro-credit, education services, capacity building, medical subsidies (Sangui et al., 2004 and ADB, 2004).

Delivery of social assistance has been compromised by ineffective targeting of assistance. In the urban areas, the targeting is complicated due to the lack of official information on migrants and their high mobility. In the rural areas targeting has failed due to excessive focus on poor counties – rather than poor households – in delivery of poverty reduction.

VII.1 Delivery of social protection in urban areas

In urban areas social security including all the five subcomponents is administered by the Ministry of Labor and Social Security, while the Ministry of Civil Affairs operates the social assistance schemes. At the national level National Development and Reform Commission (NDCR) contributes to the coordination of social security programs. Implementation of the programs is delegated to MOLSS and MCA offices at city levels.

State-owned enterprises have traditionally played a substantial role in the delivery of urban social insurance. While currently delivery functions are almost de-linked from the SOEs, they continue to play a significant role in delivery of social protection to their laid-off workers.

The cities are responsible for the funding and administration of the minimum living standards scheme; city budgets provide over half of the MLSS funds. Additionally, city administration runs the employment center of the city Labor Bureaus which seek to promote reemployment. Housing administration and social services subsidize a variety of fee reductions and wavers programs on such services as hospital stays, electricity and water, education, commercial tax deductions. City administrations have also been responsible for the implementation of “starting a business” training, providing institutional support for business registration and administration of loans to the entrepreneurs who completed the training.

Highly decentralized of management of housing subsidies and lack of adequate supervision from higher tiers of government has compounded the problem of leakage of housing subsidies to the non-poor. There is great demand for subsidized housing among the non-poor who are willing to pay bribes to gain access to it; this in turn has encouraged rent-seeking by some city officials (China Daily, 2005). High degree of decentralization has facilitated the capture of the officials administering housing subsidies. In addition to closer supervision of the local levels, using direct subsidies to the poor in the form of exemptions from rent payments or lowering collateral requirements[18] on he mortgage loans could avoid the risk of rent-seeking. Housing subsidies leak to the non-poor because they are arranged as indirect transfers.

VII.2 Delivery of social protection in rural areas

Rural pension system is administered by the County Civil Affairs Bureaus and the Village Committees, while the Provincial Civil Affairs Bureaus and the Ministry of Civil Affair play a supervisory role. The medical insurance scheme is operated jointly by the County Civil Affairs and Public Health Bureaus and the Village Committees under the supervision of the Provincial Civil Affairs Bureaus and the Ministry of Civil Affairs.

Targeted government poverty reduction programs are coordinated by the Leading Group for Poverty Reduction and Development under the State Council. The LGPR designs poverty reduction programs, allocates poverty reduction funds, and coordinates the roles of ministries, departments, and agencies involved in poverty reduction. The LGPR is led by a member of the State Council as the chair and six associated chairs, the Depute Secretary-General of the State Council, vice-ministers of the National Development and Reform Commission, Finance, and Agriculture, as well as the vice-governor of the People’s Bank of China and the Director-General of the LGPR. Members of the LGPR include vice ministers of 20 ministries, departments and agencies. The minimum livelihood scheme, the “Five Guarantees” program as well as the disaster relief are implemented by the Ministry of Civil Affairs. Agricultural Bank of China (ABC) underwrites subsidized loans.

Office of the Leading Group for Poverty Reduction and Development (OLGPR) is the executive arm of the LGPR handling its operations. The structure of the central LGPR is replicated at provincial and county level. County and prefectural LGPR bureaus immediately allocate funds to different programs in the counties. Coordination of the various poverty assistance programs by a single office contributed to the efficiency of the poverty reduction scheme. The LGPR has demonstrated flexibility and ability to learn from experience and modify its policies accordingly within a short time. Some of the examples are its improved targeting practices and the east-west cooperation initiative.

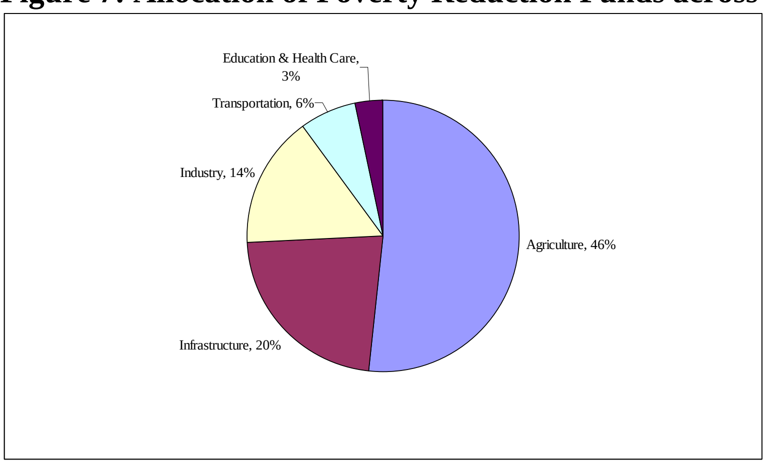
[18] High value of collateral affects the poor disproportionately – since the non-poor are primarily attracted by the low interest rates – and will increase their chances of qualifying for subsidized housing loans.

Delegation of all crucial functions in delivery of social protection in rural areas is highly decentralized to the county and even village levels, although village governments participate largely in implementation. Delegation of investment and fundraising functions to the county and township levels undermine the financial stability of rural medical insurance schemes in certain localities, bringing them close to defaulting on their obligations (UNDP, 2005). Given the relatively low level of economic development, fundraising by rural county and township government are unlikely to generate sustainable revenue.

The government encountered a number of challenges which undermined the effectiveness of the delivery of social assistance, especially in the earlier stages of the poverty alleviation initiative.

The mismatch between extensive expenditure assignments and small local revenues of local governments presented poor provinces with a choice whether to invest in projects which are most likely to reduce poverty (labor intensive projects) or to fund projects which are more likely to raise revenue (which often tend to be capital intensive projects). As a consequence, allocation of subsidized loans displayed a bias toward the tax revenue-generating industrial sector. In the early 1990s, about 50% of the subsidized loans were allocated to industrial enterprises (He and Wei, 1997). The balance shifted in favor of more poverty-reducing sectors (agriculture and infrastructure) following the 1996 National Poverty Reduction Conference which resolved that 70 percent of the subsidized loans should reach the poor households and 70 percent of these should focus on agricultural activities. As the figure 7 indicates, by early 2000s the share of poverty alleviation transfers to the industrial sector declined to 20 percent, while the share of agriculture in funding expanded to 46 percent.

Figure 7: Allocation of Poverty Reduction Funds across Sectors, 1998-2001.



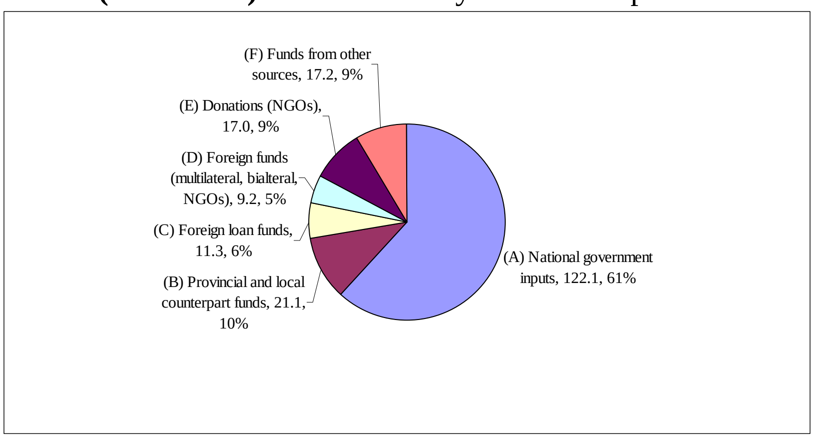
Source: Sangui et al. (2004)

PRC's government has experimented with various approaches to delivery of social assistance to the poor. The government has gone back and forth between direct and indirect delivery of subsidized loans to the poor. In 1989-1996, the loans were issued to the TVEs in hope of boosting their performance thus increasing employment and reducing poverty. The strategy of indirect transfers to the poor via TVEs largely failed to reduce poverty for a number of reasons. First, investment in TVEs tended to be capital-intensive and did little to raise employment; second, when the TVEs did expand their staff, they preferred not to hire the absolute poor who often lacked skills, thus inducing the leakage of funds to the non-poor. Second, in many cases the recipient TVEs failed to become profitable (ADB, 2004) which was reflected in the deterioration of the repayment rate.[19]

VIII. NON-GOVERNMENT SOCIAL SAFETY NETS

NGOs funds, grants from foreign bilateral and multilateral donors, and foreign poverty loans account for nearly 20 percent of all contributions to poverty reduction. Jointly they exceed the share of counterpart funds from sub-national governments. In addition to the sizable financial contribution non-governmental donor sponsor programs which pilot important organizational innovations, which can be then incorporated into government programs if they prove effective.

Figure 8: Composition of Inputs for Poverty Reduction during the "8-7" Program Period (1994-2000). In billions of yuan in 1997 prices



Source: ADB (2004)

VIII.1 Small loans to poor entrepreneurs to start their own business

Micro-credit initiatives have had significant success in China. Because they provide access to financing at affordable rates and stimulate grass-roots organization of the poor, the government and the donor agencies recognize micro-financing as a key instrument of direct poverty reduction.

Majority of the micro-credit programs are modeled after the Grameen Bank, and encourage recipients' participation in the choice of investments. Participatory approach is credited with high repayment rates on micro-loans have been high, by comparison with those of many rural financial institutions and national poverty loan programs.

Micro-credit programs offer valuable insight to ways government-funded small loan programs could be improved. Experience has shown that micro-credit activities benefit

[19] The repayment rate fell from 65 percent in 1986-1991 to 44 percent in 1996 (National Bureau of Statistics, 2000).

from better oversight, monitoring and evaluation. Training of participants in financial management should accompany provision of credit.

Despite their effectiveness, micro-credit programs have their limits to reaching some of the poor. The interest rates they offer prove quite favorable to the poor, but the very poorest often lack collateral and have insufficient connections with the formal financial institutions. These factors – rather than high interest rates – prove decisive deterrents to the participation of the very poor in the micro-credit programs. As a result, while these problems persist, subsidized interest rates benefit the non-poor.

Increasing interest rate on loans may be a viable solution to several problems of micro-credit programs as well as governments' subsidized loans. On the one hand, higher interest rates will assist in recovery of high transaction costs of administering many small loans and boost financial sustainability of micro-credit initiatives. Additionally higher interest rates and better financial management of micro-finance programs could allow for better integration of micro-finance programs into China's rural banking system and make it more sustainable over the long run.

Another means of increasing the outreach, cost-effectiveness and sustainability of microfinance is through close cooperation of financial and non-financial institutions. Non-financial social organizations (e.g. farmers' associations and rural cooperatives) can handle organization of group activities and implementation of financial services.

VIII.2 Multi-sectoral programs

Donor-sponsored multi-sectoral rural development projects (MSP) have sought to address a number of weaknesses in the government poverty reduction initiatives.[20] Multi-sectoral projects follow the model of integrated invest in a number of productive activities: (a) agricultural development using high-productivity crops and livestock activities, (b) labor-intensive infrastructure development projects; (c) increased labor mobility through provision of off-farm employment for the poor, (d) institution-building and poverty monitoring, (e) rural enterprise development, as well as in some cases (f) improved access to health and education services and micro-credit.

MSPs have largely proved effective mechanisms of rural development and poverty reduction, to a great extent due to community-level institution-building. Access to education has played a positive role in promoting communal self-organization and governance. The only underperforming MSP component has been investment in TVE.

The Chinese government has given serious consideration to the multi-sectoral projects, seeing them as an alternative to the unsuccessful subsidized loans program. Unfortunately, domestic MSPs will likely exclude the social services and the labor mobility components, despite the fact that the two have been integral to the success of the donor-sponsored MSPs.

The implementation of the MSPs by the government would require significant institutional changes due to MSPs' above-average complexity which demands substantial institutional capacity for project design, implementation and monitoring. The projects are currently administered through a system of offices at provincial, county, township and

[20] Donors include World Food Program, UNDP, World Bank, Asian Development Bank, as well as others. The World Bank supported the Southwest Poverty Reduction Project (SWPRP) and the Qinba Mountains Poverty Reduction Project (QBPRP).

village levels. While there are enough domestic human resources to staff provincial- and county- level offices, the shortage of cadre capable of implementing and monitoring such projects at the township and village levels is obvious (World Bank, 2001).

IX. CENTRAL ISSUES RELATED TO SOCIAL SAFETY NETS

IX.1 General themes

Fast economic growth induced dramatic reduction in the levels of poverty in China since the beginning of the reforms. However, the inequalities in the levels of welfare across provinces and counties and townships have widened as well. Poverty has become more structural in nature and concentrated in the low-growth regions. Entrenchment of poverty points to the limitations of the broadly targeted poverty reduction approaches: they are likely to benefit the non-poor disproportionately and do little for poverty reduction.

Geographic inequality has also presented a serious challenge to the highly decentralized system of government fiscal relations. Under the current expenditure assignment, sub-national governments have a long list of responsibilities, including most of the responsibilities for the financing and implementation of contributory and non-contributory the social safety nets. Nevertheless, their revenue assignments are too lean to adequately support the extensive list of expenditure items. As a result, the less developed counties and provinces have smaller budgets yet remain responsible for the disproportionately large share of the poor.

An inadequate system of transfers and regressive taxation has largely failed to off-set the impact of inequitable alignment of expenditure and revenue assignments; in fact it disproportionately rewards developed areas (through tax rebates, for instance).

As a consequence, social protection outcomes are distributed very unevenly: the incidence and the level of benefits are correlated with geographical location, between and within provinces.

Quite apart from that, social safety nets – contributory and non-contributory – in China historically have been segmented along the rural-urban lines. Fundamentally, this separation reflects the notion that access to land secures a minimum of welfare for the rural residents. However, in the recent years a substantial segment of landless rural population has emerged, approximately 40 million. And the social insurance value of land endowments is low and is likely to further decline – as China proceeds with the liberalization of trade, the farmers will become increasingly exposed to variation in international agricultural price market. Additionally, the economic policies of the Chinese government explicitly favored the industry and services and have established unfavorable for the countryside terms of trade.

There are significant differences in the level of benefits and incidence of coverage of urban and rural safety nets. Today rural areas have extremely weak social insurance schemes, covering only a small proportion of the rural population. In urban areas, on the contrary, majority of the labor force participate in social security schemes. The urban-rural segmentation needs to be abolished.

IX.2 Issues related to urban social protection schemes

Taken as a whole the system of the urban social safety nets performs much better than the rural one; nevertheless it has significant problems.

Contributory schemes have historically dominated the composition of urban social safety nets; their coverage by definition extended individuals capable of productive employment with employers who are willing to make social security contributions. Changes in the urban demographics – greater than projected dependency ratio, emergence of large migrant labor force and sizable expansion of employment in the informal sector, and downsizing of the SOEs and the growth of unemployment – limit the effectiveness of the contributory schemes. In fact, climbing urban poverty rate signals just that.

Similarly the changing demographic and poverty trends suggest that the composition of social assistance should be reconsidered. Currently urban social assistance programs heavily emphasize employment training, employment creation, and reemployment of the downsized employees. Even when these programs provide means-tested subsidies to the laid-off and the unemployed, retraining "starting a business" workshops remains central to these programs. In the rapidly growing urban economies, this strategy is entirely reasonable; however, the recent trend toward increasing urban inequality and poverty despite continued growth, especially in the old industrial base in non-coastal regions, point to the limitation of safety nets based on employment training.

Urban social insurance and social assistance schemes fail to cover the entire urban population; participation in social insurance and assistance remains largely tied to resident registration, effectively precluding urban migrant worker and their families, one of the most vulnerable segments of the urban population, from access to social insurance and assistance. To be fair, some improvements in the coverage of the migrants have been made. For instance a 1997 pension reform made long-term migrants (over 6 months) and seasonal workers legally eligible to participate in the pension scheme. Yet recent surveys report low incidence of coverage among the migrant workers. One reason for the low participation among migrants is the fact that they tend to be employed in the informal sector enterprises which tend to avoid paying substantial social insurance contributions. At the same time, migrant worker who do not have urban resident registration do not have a strong bargaining position in the urban labor market and cannot afford to seek for employers who participate in social insurance schemes. In this respect distortions in the labor market due to the limited urban-rural mobility impose limitations on the effective provision of social insurance coverage.

Social security contribution rate for Chinese enterprises is set too high at 31 percent of employers' wage bill. By comparison, total social security contributions of German and Swedish enterprises are 12 and 17 percent respectively, and US employers contribute only 6 percent (OECD Taxing Wages Database, 2004). Such high contribution rate gives firms an incentive to avoid social security contributions.

In part the high contribution rate is explained by the fact that the urban social insurance system was used to absorb the shock of transition (Kuijs, 2006). To prevent social unrest, the employees of state enterprises and government employees were extended higher levels of benefits than was economically sustainable. From this point of view, the next level of social security reforms must seek to separate the liabilities of the old pension system. Some progress in this direction is already being made; one of them is the pending transfer of the laid off employee assistance scheme to the unemployment insurance scheme.

Improved social assistance to urban residents also has the potential to relieve the burden of the urban social insurance scheme by taking over the responsibility for mitigating the risks of transient poverty. Currently MLSS is a viable safety net, but has a number of serious limitations: no coverage for migrants and no coverage of medical services. Improved social assistance to migrants will improve their bargaining power in the urban labor market and give employers an incentive to participate in social protection. Extension of MLSS benefits to the coverage of medical services will address a major cause of transient poverty and encourage more risk taking behavior in the labor market.

IX.3 Issues relate to rural social protection schemes

As a matter of policy, countryside bore disproportionately the cost of China's development. To boost productivity of the urban industrial and service sectors, the government skewed the urban-rural terms of trade toward the urban population. This measure stifled rural development and led to the concentration of poverty in the rural areas and introduced an urban-rural growth differential. By the same token, shifts in the terms of trade in favor of the agriculture inevitably fomented rural development. Thus, despite the nationwide trend for growth to produce increasingly less poverty reduction, growth in the countryside can still generate substantial poverty reduction.

Rural development policies should focus on investment in human capital, agricultural R&D and infrastructure development. These areas have the highest rates of return on investment in terms of poverty reduction (Fan et al., 2002). However, both agricultural R&D and infrastructure financing is primarily carried out from the local budgets and often runs up against budget constraints.

Rural-urban labor market segmentation contributes to rural underdevelopment by constraining the mobility of labor toward areas and sectors which pay greater wages. Some donor-sponsored multi-sectoral programs have experimented with lifting restrictions on rural labor mobility and achieved positive results. Additionally, labor mobility will relieve the pressure on the social assistance schemes.

Operation of contributory social insurance schemes – which are central to sustainable social protection – depends on a certain level of prosperity among the contributors which individuals can safely save toward retirement or medical contingencies without undermining their current welfare. Due to the lack of development in remote rural locations in the western regions, consumption levels of many households do not exceed the subsistence threshold, so they cannot allocate funds toward social insurance. Currently, rural social insurance scheme cover a small minority of the rural population: the two most important schemes old age insurance and medical insurance respectively cover 11 percent and 20 percent of the rural labor force). Both scheme are based on voluntary participation and fail to distributed benefits equitably. The medical insurance scheme is funded by individual contributions only and covers only 1/3 of the high medical expenses for treatment of serious injuries. The level of contributions to the pension scheme has risen mostly due to greater contributions from the TVEs. The decline of the number of contributors to the pension scheme, however, signals that the breadth of coverage of rural residents who are not employed with the TVEs is shrinking;

non-wage-earning farmers remain the least protected category in the countryside. The rural insurance funds have been mismanaged (poor investment choice) in some localities and participants face the risk of default. This can be improved by delegating the responsibility for managing the medical and insurance funds to provincial level.

Rural social assistance programs have made important contributions to poverty alleviation. However, purpose of social assistance programs primarily is to address transient poverty; in the absence of sustainable contributory schemes and infrastructure for development, social assistance scheme cannot provide adequate relief and tend to become overloaded. Fan et al. (2002) report low poverty-reducing effect of poverty alleviation loans relative to investment in human capital, agricultural R&D, and infrastructure, even in the western region where the need for immediate poverty relief is urgent.

The poverty reduction initiative coordinated by the LGPR office and the MLSS coordinated by the Ministry of Civil Affairs have expanded substantially in terms of coverage. The expansion of MLSS to the rural areas in select provinces constitutes an important step in the direction of the unification of the urban and rural social assistance networks. Unfortunately, the rural MLSS has replicated some weakness of the urban scheme. Most importantly, it lacks subsidized medical services in the MLSS benefits package. While a serious drawback of the urban social assistance scheme, in the rural context lack of medical coverage constitutes a particularly problematic gap because rural areas have virtually no viable contributory or non-contributory medical schemes.

The expanding poverty reduction initiative has been evolving a mix of programs to address specific challenges of rural poverty and now includes subsidized loans, poor area development grants, and food-for-work schemes.

One of the weaknesses of the poverty reduction initiative is suboptimal targeting. Currently 512 designated poor counties are targeted, but a large proportion of the poor live outside the officially designated poor counties.

The subsidized loans program has not delivered expected poverty alleviation due to a combination of factors. The subsidized loans were targeting TVEs and not households, leading to the leakage of benefits to the non-poor. The allocation of loans across sectors favored capital investments into industries and failed to induce employment. Investment decisions by the county governments have proved unsound on many occasions and a substantial share of loan recipient TVEs subsequently defaulted on the loans. The average repayment rate on the loans dropped to 44 percent in 1996.

One of the strengths of the poverty reduction initiative has been relative flexibility in changing its policies and the willingness to learn from experience. The 1996 and 2000 Poverty Reduction Conferences introduced important modifications into the poverty alleviation approach, emphasized the need to target poor households instead of poor counties, committed to delivering 70 percent of the subsidized loans to the poor households, and allocating most of the loan funds toward agricultural activities. The LGPR has made attempts to incorporate the experience of donor-funded micro-credit and multi-sectoral project.

The poverty alleviation program relied on the sub-national budgets for 30 percent of its funds and has suffered from budget constraints of the local governments. Some programs, especially the food-for-work program have experienced chronic lack of funding, despite the central role of infrastructure in rural development. Provincial disparities in revenue have introduced a bias against poor provinces and counties into the poverty-reduction program. Notably, the LGPR has been able to address regional disparities in the funding of poverty relief by establishing east-west cooperation funds. This feature is potentially very positive since it establishes new horizontal institutional relations between provinces.

The extension of the MLSS to rural area constitutes an important step toward the abolition of the urban-rural segmentation of the social safety nets and ultimately toward more egalitarian provision of minimal level of livelihood. The lack subsidized medical services in the MLSS benefits – which is a serious drawback of the urban social assistance scheme – constitutes a particularly problematic gap in the rural areas where there are virtually no viable contributory or non-contributory medical schemes.

X. LESSONS AND RECOMMENDATIONS

X.1 Labor market policies

Policies favorable to growth in agriculture and lifting of restrictions on migration will relive the pressure on the social safety net. Many of the challenges of the urban and rural safety nets are rooted in the development strategy and labor market policies and would require economy-wide reforms to be adequately addressed. A new approach is required which sees agricultural development as an integral component of China's economic development, with a corresponding commitment to greater funding of rural infrastructure, development and agricultural R&D, which are currently funded from limited provincial and sub-provincial budgets.

Restraints on labor mobility should be further reduced and ultimately eliminated. Increase labor mobility alone will relieve pressure on the rural social safety nets as the poor rural residents migrate to the cities. Despite their problems, urban social insurance scheme and the MLSS are much better developed than the rural ones and can – after some reform – absorb the new migrants.

Relaxation of constraints on rural-to-urban mobility should be accompanied by significant reforms of the urban pension system along the lines adopted in the Liaoning pilot. There is a danger that rural migrants will further expand the informal sector and remain excluded from social protection schemes. Social insurance reform in should be introduced to make the conditions of participation in the social protections scheme more acceptable to employers. As far as the pension system is concerned, adjustments to the retirement age, amortization rate, and the dependency ratio, as well as guarantees of integrity of the second pillar will reduce the enterprise contribution rates and promote trust in the system.

Out-migration of the rural poor will shift the poor toward the sectors and areas of greater growth and will relieve the underdeveloped provinces and county from the disproportionately great burden of poverty reduction. Favorable to agricultural development policies will expand the revenues of the local governments and will improve the alignment of expenditure and assignments with the revenues.

X.2 Unification of urban and rural safety net

Transition to a unified social security scheme covering rural and urban areas should be gradual involving a series of complimentary measures: *(a) extension of coverage to migrants in the urban areas, (b) then, extension to wage earners in rural areas (e.g. TVE employees which constitute nearly 2/3 of all enterprise employees*[21]*), (c) improvement of the urban social assistance schemes, based on the current MLSS, to include basic medical coverage, as well as subsidies for education and housing; (d) at the same time the existing rural social security system could be improved and extended.*

Notably, progress has been made with regard to items (a), (b) and (c). Legislature no longer prevents long-term migrants from participating in social insurance schemes; old age insurance and the minimum livelihood schemes have gradually been extended to cover select rural areas mostly in the coastal provinces, and in a number of provinces the MLSS coverage is granted to long-term migrants. Some risks have become apparent. Lack of participation among firms in informal sectors where majority of the migrants are employed has compromised the efforts to extend coverage to migrants and extension of coverage to the TVE workers does not solve the problem of coverage of rural non-wage-earners.

Admittedly, item (d) is the most problematic one since there is currently no sustainable basis for extending rural social insurance due to low levels of welfare in the countryside. Success in this area greatly depends on the choice of labor market policies and the agricultural development strategy. However, with regard to medical insurance where the need is most urgent, *given China's level of income it should be possible to introduce a tax-funded universal healthcare scheme with a defined minimum benefit, covering serious illness, injury, immunization and basic preventive care.* Introduction of a universal *mandatory* scheme will correct the bias of the current voluntary medical insurance system which remains highly selective toward better-off households who can afford to participate.

X.3 Financing of social safety nets

Irrespective of the corrective effect of improved agricultural growth on the local revenues – which will show in medium to long term - fiscal reform must correct expenditure and revenue assignments which are sub-optimal.

On the expenditure side, assignment of some expenditures are inefficient. Responsibility for social protection should be centralized to the national or, at least, provincial level to improve risk pooling of the social insurance scheme. This will correct the problem of default some county-operated medical insurance funds and prefecture-operated pension funds have encountered. In a scheme unified at the provincial level, deficits in one county can be off-set by surplus of another. Risk pooling at a higher scale will boost confidence in the social insurance schemes, a particularly serious concern for the rural medical insurance scheme.

Centralizing of financing of social insurance to the provincial or national level will increase the portability of benefits and reduce the total administrative costs. Higher portability will further assist in the effective integration of urban and rural and provincial social protection schemes and will further facilitate labor mobility.

[21] In 2000, TVEs employed 133 million workers while urban enterprises employed 72 million.

Assignment of increased expenditure responsibility for capital investment to the central government (currently prefecture and county governments account for 33 percent of total capital expenditure) will permit to undertake large scale infrastructure development, for which sub-national budgets lack scale.

On the revenue side, the formal tax autonomy of the local governments should be increased. Currently, local governments lack the autonomy either to determine their tax bases or to set rates, even for the tax bases assigned to these level. Lack of formal revenue autonomy is compensated by the local government through expansion of informal revenues ("illegal fee"), in some cases the "illegal fee" have take the form of fees on social services and undermined delivery of public services. Increase tax autonomy will reduce the incentive for the local governments to resort to illegal fees. The easiest way to improve formal tax autonomy is by granting the local governments the discretion to set their own tax rates for a limited number of tax bases.

A more equitable system of equalization transfers is necessary to promote more equitable distribution of resources. The current system of tax rebates should be modified and made more progressive, with greater tax rebates accruing to underdeveloped provinces and counties and to the agricultural sector. In addition to that, the creation of horizontal institutional linkages between developed and underdeveloped regions – similar to the east-west cooperation introduced within the poverty reduction initiative – should be further extended.

X.4 Delivery of social protection

One commonly cited risk of centralization is the failure to reflect local preferences. To avoid that risk, the local governments should retain control over relevant aspects of administration of the schemes. Yet, *management of investments of social insurance funds should be centralized at provincial level to avoid mismanagement which can seriously undermine the vitality of social protection schemes.* The experience of the rural medical insurance schemes points to the dangers of decentralized decision-making regarding investment of accumulated funds.

Development of local human capacity will increase the quality of service delivery. Donors' experience indicates that multi-sectoral poverty reduction projects are effective means of combating poverty. However they are very complex and require substantial human capacity for management, supervision and monitoring of multi-sectoral interventions. The lack of qualified personnel is particularly apparent at the sub-provincial level. Unwise investment decision of the subsidized loan administrators also reveal a lack of management training of personnel at the county level and below.

Some of the social assistance (notably housing subsidies and subsidized loans) has been delivered as subsidies to the private sector. This strategy has led to substantial leakage of benefits to the non-poor. *To improve the poverty reducing effect of subsidies they should be delivered directly to the households despite the potentially high administrative costs.* Attractiveness of indirect transfers is, of course, in their potential to stimulate private sector development while alleviating poverty; this could be a viable strategy for promoting rural development, however, in such cases close supervision over the distribution of benefits is required.

Substantial improvements in delivery of social assistance can be accomplished through better targeting. The LGPR programs have shifted to targeting poor households as opposed to poor counties. International experience as well as the experience of micro-credit and multi-sectoral programs suggest that another way to ensure even better-targeted assistance at the grass-roots level is through community-based social assistance programs, some of which have performed well in other developing countries. However, substantial administrative costs pose a serious constraint.

Further incorporation of organization innovation and insights from donor- and NGO-operate programs (e.g. multi-sectoral interventions) will assist in ensuring financial and institutional sustainability of government's social assistance schemes.

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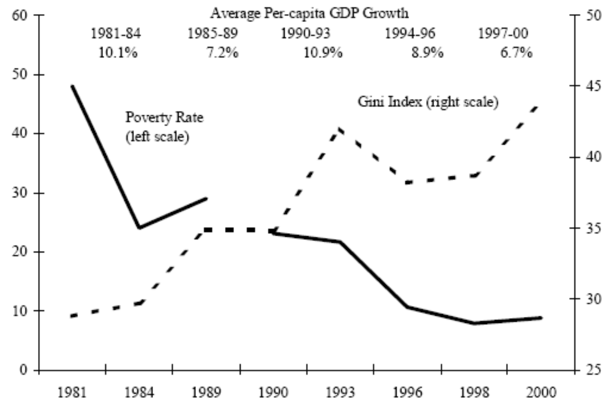
Appendices

A1. Poverty Rate, Inequality and Growth, 1981-2000



Source: World Bank (2003a)
Note: Poverty rate is based on $1/day income using official household survey data. There is a break in poverty data series in 1990 (World Bank, 2003).

A2. Rural and Urban Poor by Region, 1999 (%)

	Share of China's rural poor	Share of China's urban poor
Western Provinces	46.6	23
Central Provinces	42.1	46.2
Coastal Provinces	11.3	30.8

Note: Based on NBS household survey and official poverty line.
Source: Sangui et al. (2004)

Returns of Public Investment to Poverty Reduction, 1997

	Coastal	Central	Western	Average
Education	2.73	5.38	28.66	8.8
Agricultural R&D	1.99	4.4	33.12	6.79
Roads	0.83	3.61	10.73	3.22
Electricity	0.76	1.65	6.17	2.27
Telephone	0.6	1.9	8.51	2.21
Irrigation	0.55	0.77	4.06	1.33
Poverty Loans	0.88	0.75	1.49	1.13

Source: Fan et al. (2002).

A3. Urban Poverty Rates

Location	1995 Poverty Rate, % (1)	1998 Poverty Rate, % (2)	1998 Rate/1995 Rate (2/1)
Decline or no change in poverty			
Beijing	5.2	0.7	0.1
Guangdong	3.3	0.7	0.2
Jiangsu	3.8	1.2	0.3
Jilin	18.3	7.5	0.4
Heilongjiang	17.9	6.9	0.4
Jiangxi	8.5	3.4	0.4
Hebei	10	5.2	0.5
Guizhou	10.2	5	0.5
Shanxi	12	7.2	0.6
Hainan	12.3	7.9	0.6
Shandong	7.3	5.1	0.7
Sichuan	5.6	4.7	0.8
Tianjin	7.9	6.8	0.9
Henan	9.4	8.4	0.9
Yunnan	4	3.7	0.9
Liaoning	6.4	6.1	1
Hunan	3.6	3.6	1
Rise in poverty			
Guangxi	2.8	3	1.1
Gansu	6	6.4	1.1
Xinjiang	5.8	6.2	1.1
Anhui	2.1	2.9	1.4
Shaanxi	8.4	12	1.4
Shanghai	2.1	3.2	1.5
Zhejiang	1	1.6	1.7
Fujian	1.3	2.2	1.7
Hubei	3.3	5.7	1.7
Chongqing	2.2	4.1	1.9
Ningxia	7.2	13.5	1.9
Inner Mongolia	1.7	6.4	3.8
Qinghai	0.7	5.6	8.5
All PRC	*6.56*	*4.73*	*0.7*

Source: ADB (2003), p. 89.

A4. Rural Poverty by Province, 1999 (%)

	Share of China's rural poor	Provincial rate of rural poverty
Yunnan	9.4	8.1
Guizhou	9.1	9
Sichuan	7.4	3.4
Henan	6.8	2.9
Shanxi	6.4	8
Shaanxi	5.8	6.7
Gansu	4.7	7
Hunan	4.6	3
Guangxi	4.5	3.6
Hebei	4.1	2.6
Jiangxi	4	3.7
Chongqing	3.8	5.3
Hubei	3.7	2.8
Xinjiang	3.7	7.7
Anhui	3.4	2.2
Inner Mongolia	3.3	5.6
Heilongjiang	3	4.3
Liaoning	2.9	4.2
Jilin	2.4	4.8
Shandong	2.1	1.1
Qinghai	1.6	12.6
Tibet	1.1	20.6
Ningxia	1.1	9.6
Zhejiang	0.8	0.7
Jiangsu	0.6	0.4
Fujian	0.3	0.3
Guangdong	0.2	0.1
Beijing	0.1	0.6
Hainan	0.1	0.6
Tianjin	0.1	1.1
Shanghai	0	0

Note: Based on NBS household survey and official poverty line.
National average rate of rural poverty is 3.5 percent.
Source: Sangui et al. (2004)