

**OBSERVATIONS ON SOCIAL SECURITY REFORM IMPLEMENTATION AND PROJECT  
MANAGEMENT IN THE PEOPLE'S REPUBLIC OF CHINA**

By  
John Kenworthy

**Foreword**

I began work in Chinese Rural Pensions at the beginning of September, 2008 just, as it happened, as the full scale of the banking and now economic problems was beginning to emerge. It is now clear that China will not be able to escape the effects of this downturn and, therefore, “some [of the] numbers” I quoted are a shade out of date.

However, it is essential not to forget that we are looking over a period of *ten years*. Economic history assures us that growth/economic activity will return and long-term trend to advanced urbanisation and the development of a more modern industrialised society, coupled with higher agricultural efficiencies, will continue, albeit after a slower period lasting couple of years or so. Jiang Jianqing; “We will not let go of reform...the government will keep growth above 8% next year...a lot of the current fiscal stimulus plan is being directed towards rebates towards farmers, bigger pensions, and low-cost housing.”<sup>1</sup>

In my view, the case for a comprehensive, centrally underwritten (but not centrally managed) rural/urban national pensions system remains as strong as at the introduction of the policy.

It is also clear that there is a considerable variation within the rural hukou of incomes and wealth distribution than is a first view apparent<sup>2</sup> and this re-emphasises the importance of pooling and pension fund asset equalisation at provincial level – *and* the value individual portable accounts for the more mobile elements of the labour force. Indeed, the recent sudden upturn in industrial unemployment and a partial return of the migrant labour force to the rural hukou underlines the need for a transferable pensions system.

There is also requirement to transfer a sizable proportion of Chinese personal saving into the pension systems and this will require a strong element of persuasion: Zhang Fengxia (an older Chinese citizen) “Better to keep money at home.”<sup>3</sup>

In short, China has a sound Policy for the development of a comprehensive and sustainable pensions and social security system. She now needs to further develop the Plan and a Project capable of maintaining a constant focus and delivery extending throughout the next ten year period.

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<sup>1</sup> Jiang Jianqing, Chairman, Industrial and Commercial Bank of China, *Time Magazine*, Dec 15<sup>th</sup> 2008, p68.

<sup>2</sup> “Capitalisation and Entrepreneurship in the Chinese Way” by Yashing Huang, C.U.P.October, 2008

<sup>3</sup> *Time Magazine*, Dec 15<sup>th</sup> 2008, p5

*John Kenworthy  
11 December, 2008.*

## OBSERVATIONS ON SOCIAL SECURITY REFORM IMPLEMENTATION AND PROJECT MANAGEMENT IN THE PEOPLE'S REPUBLIC OF CHINA

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*“...efforts are needed further to improve urban social security in combination with rural social security system, building a comprehensive system covering both urban and rural residents.”*

Liu Yongfu, Vice Minister of Labour (now HR) and Social Security  
June, 2007

### Introduction

This memorandum was drafted following a 25-day study tour based in Beijing, China and which included a three-day trip to Liaoning University, Shenyang, Liaoning Province, North East China to part-take in Northeast Asia Forum 2008<sup>4</sup>. I also attended a seminar on Rural Pensions and took part in the 2008 3<sup>rd</sup> High Level Round Table on Social Security as a full EU Participant.

2. I have spent a considerable time back in the United Kingdom studying the papers from previous Round Tables, records of the discussions, a series of other briefing papers, press reports and reviewing my personal notes of interviews and meetings. I think it is reasonable for me to point out that I have joined this Project for a very brief time at about half-way through its life so clearly I have had a great deal to do to familiarise myself with a series of new concepts, to catch-up on project activities and to gauge what contribution I can make in such a short intervention. If I have made some errors of fact or interpretation through lack of actual knowledge or mistaken understanding I can only ask for the reader's indulgence.

3. My own involvement into Health and Social Security began in 1986 when I set up a Special Health Authority to help improve the provision of support services to the disabled in England and Wales. Following that I set up and ran the Information Technology (IT) Services Agency of the British Social Security Ministry which provided all IT services to the Ministry and its executive agencies in delivering social security benefits throughout the United Kingdom. Later, I was adviser to the Hungarian government concerning setting up a unified revenue collection system (combining income tax and social insurance contributions) and setting up a Pensions Guarantee Fund to insure private pension funds, set up under a compulsory (“Pillar II”) pensions scheme, against default<sup>5</sup>. For the past seven years, I have acted as Adviser to the University of Cambridge on Information Strategy and Administrative Modernisation, including giving

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<sup>4</sup> NE Asia Forum 2008 Towards to Good Public Governance in Asia: Capacity Development & Institutional Innovation

<sup>5</sup> “The Hungarian Guarantee Pensions Fund”, Journal of Pensions Management Vol 5 No 4 Sept 2000

guidance on project management and direction. All this experience has advised the views I have expressed in this memorandum, together with my general professional experience as a senior civil servant and as Parliamentary Accounting Officer.

4. My approach to the question of constructing and implementing a “*comprehensive [social security] system covering both urban and rural residents*” in the People’s Republic of China will be to look at the issues involved from the aspect of an *information strategy* and to examine the practical *implementation issues* associated with getting a social security system working and delivering practical benefits for all the people on a fair and equitable basis. However, it is not possible to embark on this approach in isolation without reference to the course of economic and social change in which China has embarked. The objective is to build a “harmonious society” towards which a fair social security system is seen to be an important contributor. Although the language is different, this objective has many echoes in the development of European Union countries in which collective effort either through, for example, voluntary “Friendly Societies”, of which there were many examples in Britain before the Second World War, or centralised compulsory state systems which have become widely adopted in European and Western countries since 1945 and have become the model.

5. All such systems look to provide social protection to those considered too old to work – pensioners; to the sick; the unemployed; those injured at work; and children and their parents. These very broad categories are all given some kind of consideration in all social security systems, though the methods and arrangements for assessing need and providing support, whether financial or other material support, vary widely. But the overall objective of building a “harmonious society” by taking care of those less able to take care of themselves is a universal humanitarian objective. And the problems and issues encountered in achieving that objective are very similar, if not identical, across all societies; lessons can be learned through the exchange of views and experience.

6. This is emphasised when observing the similarity of problems now being addressed in European Union countries, China and elsewhere. For example, virtually all stable societies are aging. Life expectancies have increased with rises in standards of living and better medical care. Indeed, it might be argued that very success of social protection systems and the much wider general access to health care have, to some, extent led to some of the problems we are now having address and which put stresses on the very systems which are intended to alleviate them. Globalisation has benefitted all trading nations, not least China since the “reform and opening up” began in 1978 and accelerated rapidly during the last decade. But the rate of social and internal economic change also accelerated during the very same period that experiments and pilots to establish new social security systems, notably pensions systems, were begun.

7. A key aspect of an *information strategy* is to try to establish the *rate of change* and its consequent impact on the process of introducing new social security systems which have to adapt continuously in constantly changing environments. Consistency and fairness, particularly in pensions systems, need to be established and maintained over very long periods, especially if inter-generational “filial” obligations are part of the

package. In the case of the objective of reaching a stable and sustainable social security system as part of the overall objective of “building a harmonious socialist society” by 2020 – 11 years from January, 2009, the rate of change will be unrelenting even if China’s rate of economic growth slackens somewhat in the face of reducing world economic demand for China’s exports good and services.

8. An *information strategy* approach will also try to *define the objectives* of the *change programme* and then attempt to estimate the *scale of the task* to reach them and assess the value that the use of good, robust information systems can add to reaching those objectives. It should be understood here that I am *not* simply referring only to the enabling information technology systems which underpin the information management process but to an information system in the widest sense of the phrase. Before designing any system, the question should always be asked “what are you trying to do” and that will be the basis of my approach in this paper.

9. A further key aspect of the approach will be on the familiar grounds of *project direction and management* and the need for a comprehensive, if high level, *plan* for rolling out the system across the whole of China. I am aware that a great deal of valuable progress, research and piloting has been, and is being, undertaken in many disparate geographical areas in China but, if the objective enunciated in the quotation at the head of this memorandum is really to be achieved, then a mechanism has to be created to bring all the parts together in to a whole.

## **Background**

### *The macro-economic picture and trends.*

10. China was the principal driver of economic growth in the global economy, accounting for one third of global GDP in the first half of 2008. Nonetheless, growth has slowed from 12.6% annualised rate during 2007 to 10.1% and is likely to fall further to around 9% in 2009.<sup>6</sup> Nonetheless, some forecasters argue that, possibly with some fiscal stimulus from Central Government the slow down could bottom out in 2010 and then recover. Within this period, and possibly longer, the property market, which has expanded very quickly for the last 10 years, may face a “correction” for at least that period and may be as long as five years<sup>7</sup>. At the extreme end, property sales in big cities have fallen some 50% in the last year but the overall picture is more likely one of a general easing with little of the financial woes seen in other economies because the Chinese banks have a better balance sheet structure. Industrial production is being affected by a slowing of exports and car sales<sup>8</sup> and farmers’ incomes are forecast to rise by only 7% as against a prior 9% as certain food commodity prices fall. However, China has easily the best fiscal position of any major economy with huge foreign exchange reserves of around \$2 trillion, abundant household savings and little debt<sup>9</sup>. Meanwhile,

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<sup>6</sup> Economist, p110, October 11<sup>th</sup> 2008

<sup>7</sup> Wang Xiaogang, Institute of Economics, NDRC, Oct 29<sup>th</sup> 2008

<sup>8</sup> Economist, p110, October 11<sup>th</sup> 2008

<sup>9</sup> The (London) Times, Business, p57 October 17<sup>th</sup> 2008

land reforms should assist in helping farmers increase their incomes, of which more below (paras. 23 – 33).

11. However, this period of economic slowdown or, in the case of China, a probably acceptable correction (inflation falling from 8.7% to 4.9% in 7 months in 2008 and forecast to fall even further) also coincides with a period of increasing labour supply, likely to peak between 2009 and 2011, putting around 24m new job-seekers available to the urban labour market.<sup>10</sup> One effect of these trends will be to suppress the price of labour and another to ease the rate of labour migration from rural to urban areas. This may help food production by the retention of labour on the land (though not productivity) and also reduce the amount of income returned to home villages by casual building site and other temporary urban or industrial labour from “remittance men” who send a proportion of their urban wages home to help out the families. The current level of unemployment is reported at 9.8%<sup>11</sup>. More specific assessments have put the unemployment rate at 4% in urban areas but with substantial unemployment and underemployment in rural areas. The effect of the pre-Olympic building boom in Beijing, ahead of the ban during the Games, led to a glut, which in turn has led to a fall in house prices – and, of course, a reduction in demand for migrant labour in the building trade

12. In the light of this, we might divide the period from now until the end of 2020 into two possible periods which have a bearing on the way we approach the Social Security Reform Project from the macro-economic point of view – 2008 to 2010 and 2011 to 2020. This in turn will have a bearing on the *rate of change* and the underlying *trends* which will affect the development of the Project and the way in which it should be approached. In one sense, 2008 - 10 may prove to be a useful period of relatively economic stability when contrasted with the very high rate of urban and industrial economic growth over the past decade (an average of 9.8%<sup>12</sup>), coupled with high rates of rural to urban migration. But, of course, unemployment is likely bear more heavily on the rural areas thus exacerbating the “wealth gap” between town and country and raise the question of “pooling” at provincial and, indeed, national, level into higher profile.

13. However, before I spend any more time on China’s GDP growth as a guideline for project planning I must remark that many commentators dispute official estimates of growth rates in China and argue that many official figures are unreliable. These views may have some validity; but national statistics are the subject of dispute in many other countries. Nevertheless, the great socio-economic changes which have taken place in China in recent years are plain to see and have undoubtedly had great effects on the Chinese people of which migration from the land to the city has been one of the greatest. In this context it is important to try to understand the statistical basis on which we are working in order to comprehend the *scale of the task* facing the Project as an essential pre-requisite to devising a workable project plan.

#### *Some Numbers.*

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<sup>10</sup> Grayson Clarke: Redesigning Chinese Pensions – A Financial Perspective, July 2008, p27.

<sup>11</sup> London newspaper (Metro) 30<sup>th</sup> Oct, 2008

<sup>12</sup> Yao Jingyuan, Chief Economist, National Bureau of Statistics, Beijing Oct 20<sup>th</sup> 2008

14. These figures I have taken from the Round Table reports and other documents I have been given by the EU-CSS project team, from published material and from various official sources. Although underlying statistical inaccuracies make making assessment somewhat difficult, as signposts to understanding the size of the task it is probably reasonable to assume that the figures proportionally correct, and therefore provide usable indicators and accurately reflect the changing picture over time

15. By common consent, the overall population of China is **1.3bn** of which, in 2003, 40% were classified as living in the urban environment and 60% in the rural environment. As a measure of the *rate of change* this compares with 33% and 67% in 1998<sup>13</sup>. The absolute figures are 416m (33%) and 812m (67%) in 1998, and 524m (40%) and 768m (60%) 2003. The exact process of immigration is not revealed by these figures – some immigrants into urban areas will settle, others be more transient and it is likely that that birth rates in the urban areas will be lower (over this short period) than in the rural. However, a rise of nearly 26% in the urban residents' classification in a mere five years vividly illustrates this issue and demonstrates, *inter alia*, the pressures to which social security are subject. Movements on this scale hard to track and make it even harder to keep data quality (personal identity, individual account values, etc.) up to the standards needed for an auditable social security system.

16. At the Sept 2006 Round Table, various numbers were put on the table for consideration. Research sponsored by the MoHRSS,<sup>14</sup> and others, reported that the rural population stood at about 750m (57% of the tot. pop. of 1.3bn) and that the number of agricultural labourers stood at 220-240m. Possibly as many as 45m farmers have lost land (see paras. 21 – 25 below); 32m of the rural elderly are living in poverty as the traditional sources of income (from the land, remittances, collective effort) dry up. The number of migrants was reported as standing at 150m and was expected to rise at 2% p.a. thus adding another 60m by 2020. The trend figures shown above (para. 15) indicate that a proportion of migrants do not return or look to return to their rural “hukou” and this issue stands at the heart of what the PRC is trying to achieve.<sup>15</sup>

17. Mr He Ping's presentation gave an estimate of 120m rural labourers leaving their villages, of which 100m went to cities. They were footloose as far as getting employment is concerned and the total number has been growing – and not necessarily benefiting from formal contracts of employment. He gave further currency to a figure of a 5m p.a. increase in number of migrants, though noted that the higher qualified were most likely to wish to move permanently to cities and the capital where the growth in secondary and tertiary sector employment occurs as China modernises her economy.

18. Moving forward to the Round Table of June 2007, we are looking at participation rates of 187m of the urban population and 53m of rural residents covered by pension insurance; unemployment insurance now covered 112m and basic medical insurance now

<sup>13</sup> China Facts & Figures 2004 china.org.cn

<sup>14</sup> Bill Bakeles: Round Table Sept 2006 p71

<sup>15</sup> “... the development of a rural pension scheme and...mobility of entitlement...for migrant workers.”  
EU-CSS RCP AWP 2 p.13.

protects 156m<sup>16</sup>. Unquestionably a considerable achievement since 1998; equally unquestionable is that there is a huge distance to travel, given the “size of the problem” *i.e.* the many millions of Chinese with no social security protection of any kind.

19. Furthermore, the “target” continues to move. For example, the proportion on over-sixties in the population from 1/10 in 2007 will move to 1/6 in 2020, the target year. As life expectancies continue to improve dependency ratios will deteriorate, thus putting pressure on the financial support system as the proportion of the income generating component of the population falls. Even if greater relaxation of the one-child policy were entertained, this would have no effect on the “4:2:1” problem (grand-parents, parents, one child) now working its way through the actuarial tables. In fact, it could even worsen slightly as younger women take time off to bear and bring up young children.

20. In sum, the above figures indicate that, even allowing for normal statistical inaccuracies, some 80% of the total population of China are currently without any social protection whatsoever, and this would imply a take on rate of 100m citizens every year if the 2020 objective if some form of comprehensive social security system is to be achieved. Another indication of the effort needed is exemplified in the work currently being undertaken by the MoHRSS to expand information technology capability across the Counties. The Ministry said that, at the moment, about 400 pilot systems had been rolled out in Counties so far – but this left another 2,400 (85%) still to covered. (Furthermore, staff capacity issues are associated with this expansion of technical capability – training of technical staff, front-line staff familiarisation as so on.)

### *Financial Issues*

21. Three issues appear to dominate the social security scene in China in the financial field, *viz*:

i) *Pooling* or the aggregation of social security contributions and various government subsidies to ensure funded assets are of sufficient size to generate useful returns and to meet pensions liabilities. Since the concept of funded social protection is new in China virtually all small or medium sized pension and other funds have struggled since they have not gained sufficient maturity and financial depth to cope with the level of payments relative to the level of contributions. For example, in Baoji, Shaanxi Province, it was argued that fiscal revenues (*i.e.* general taxation) at city and county level “should provide sufficient funds to insurance subscribers”<sup>17</sup> but, due to increasing longevity, it also admitted that “the burden on the government will definitely increase” and that “the quantity of government subsidy will increase greatly.” In broader terms, it seems inevitable that the fragmentation<sup>18</sup> of social security systems especially, but not only, in the pensions area, will drive “pooling” higher and higher levels in the

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<sup>16</sup> Mr. Ming Zhaoxi, D.G. Social Insurance Administration Centre, Round Table 2007, p. 137

<sup>17</sup> “The new rural social pension insurance programme of Baoji City, Zhang Wenjuan & Tand Da, Renmin University (2008) pp. 13 & 21.

<sup>18</sup> Grayson Clarke: Redesigning Chinese Pensions – A Financial Perspective, July 2008, p4

government structure, especially if it intended that the “principle of universality” should be established across the whole of the population of China.<sup>19</sup>

ii) *Accounting* for the growingly large sums of money also remains fragmentary and lacking in a fully organised network of auditable financial management systems from which a provincial, let alone national, picture can be discerned. Confusion remains who is responsible for what in this area, even if the intentions behind the accounting arrangements are clear. Both the legal systems and the capacity to manage the new social security machinery lag behind expanding financial responsibilities. This is one of the capacity deficiencies that the current Provincial pilot capability building programmes under the EU-CSS PROMISS Plans are intended to address.

iii) *Governance* is a *portmanteau* concept, covering all aspects of public responsibility and accountability. It is clear from analyses made by the Project<sup>20</sup> that clear structures of management and accountability are at best partial in Chinese social security systems. Good governance in the administration of social security or, indeed, any other government activity in which public money is at stake, requires clear and unambiguous management structures, clear and unambiguous delegations of responsibility and the identification of individual responsibility at every level in the hierarchy. In parallel there should be an independent financial and auditing authority able to trace and examine financial transactions at every stage. An *information strategy* approach would build these capabilities into management information and financial systems from the very beginning thus guaranteeing transparency and high levels of data quality at every stage in the process. The concentration of too much financial power<sup>21</sup> in the hands of one, or a very small number, of individuals would be become obviated. It is worth noting that dual responsibility systems of this nature protect not only the public purse but the individual staff working within them because errors and omissions can be corrected immediately and not allowed the build up in large problems in which people can become seriously at fault even without an initial criminal intent.

### *Trends*

22. In sum, therefore, it remains likely that the rate of change in the structure and employment patterns of the Chinese population is likely to remain similar to, but possibly not quite as fast, as that of the previous decade, in the period 2009 – 2020. The Chinese economy will not be immune global economic disturbances of 2008 but she is generally better placed than most to continue developing her economy through 2009/10 with growth and therefore the rate of social change possibly accelerating after that. In any case, a growth rate of around 8/9%, were that to be a true figure, would be handsome enough if maintained over another ten-year period. The actuarial figures already point to an ageing population, bringing with it the threat of real poverty amongst the older generation in rural areas. If the objective of a universal pension and social security

<sup>19</sup> Round Table 2008, Prof. Wolfgang Mazal, The Drive for Reform, p.4

<sup>20</sup> Grayson Clarke: Redesigning Chinese Pensions – A Financial Perspective, July 2008 & Improving Financial Management and Governance in Social Security.

<sup>21</sup> Improving Financial Management and Governance etc. Box 2 p.20

system of some kind is to be achieved by 2020 it is very hard to see how the deployment of national resources to that end is to be avoided. All the trends, economic, actuarial and financial all point in the same direction.

### **Discussion**

#### *The land and the “hukou”.*

23. So much of what we are dealing with in trying to meet the ambitions of the People’s Republic to provide for the old ages of peasants and workers, both rural and urban, is inextricably tied up with what happens on the *land*. The direction of travel is similar in so many ways to that of any many other countries where improvements in agricultural efficiency either precede urbanisation and industrialisation (as in Britain in the 18<sup>th</sup> and 19<sup>th</sup> Centuries) or more or less in parallel as is now the case in China. Agricultural holdings become consolidated, a surplus is created in labour which is available for other economic activity; labour moves to industrial activity, usually concentrated in towns and the urbanisation process follows. As cities mature, secondary and tertiary employment opportunities grow and the city becomes established. Agricultural productivity improves so the ability of the countryside to support the urban population also improves.<sup>22</sup> Therefore the changes in economic and employment structures become consolidated.

24. However the consolidation process for agricultural farms and small-holdings rarely runs smoothly; both disputes and hardship often result. In England, villagers lost common land through “enclosures” and the ability to feed themselves directly. Agricultural productivity grew and the general national wealth, especially through sheep-farming, also grew. But many of those left behind eked out a miserable living as labourers for farmers who only paid them for work done; bad weather or a poor harvest led to great poverty. Communities were destroyed (“lost villages”) and the drift into towns led to the growth of slums and very poor working conditions in the new factories of the industrial revolution. But industrial production also rose and, eventually, cheap goods - and trade unionism – improved the lot of the working classes.

25. In China the land consolidation process has led to well documented complaints of unfair practices by groups of officials forcing farmers off their land and using it either for development or to create a more mechanised agriculture. Protests are legion – 170,000 officially registered complaints last year alone – and some 1,700 “mass incidents” (*i.e.* riots) occurring each week.<sup>23</sup> The Government have responded by accelerating the process of land reform, symbolised by President Hu Jintao’s recent visit to Xiaogang, Anhui Province, and the announcement by the Communist Party of the decision to “transform the entire rural policy.” In essence, the reform is based on the extension of rights already enjoyed by city dwellers. Farmers and peasants can now acquire 30 year leases, or land-use rights and effectively trade them. The possibility of allowing even

<sup>22</sup> Franz Thönnies, German State Secretary, Round Table June 2007p. 23: “In 1900 , one farmer in Germany supported 8 people, in 2000 [one farmer] supports 80...[and] standard[s] of living [have] risen.”

<sup>23</sup> The (London) Times, 20<sup>th</sup> Oct. 2008 Rosemary Righter: “ The fat lady sings in China’s opera of reform” and The Economist, October 25<sup>th</sup> 2008, “Land reform in China” p14

longer timescales under the law is also on the table. A key overall national objective is to “develop appropriate-scale farming” and to preserve “food-security” by maintaining a minimum area of 120m hectares under cultivation. China is self-sufficient in food and the Government intend to keep it that way. Given the great scope for raising agricultural productivity this should be relatively easy to achieve. Land not required for food production could be made available for development. Raising rural incomes would also have the important by-product of increasing rural demand for urban manufactures, thus helping to continue China’s economic growth, but less dependent on exports. Anecdotal evidence supports this trend. At the recent National Peasant Games in Quanzhou, Fujian Province, it was noticed that many of the peasant competitors arrived not on buses but motorcycles.<sup>24</sup>

26. However, the question of compensation for farmers who have lost land or receive insufficient sums to make it worth investing to replace previous income, either in monetary value or in kind, remains vexed. Migrant workers who took lump-sum compensation or a small income from land consolidated into a larger farm or put under development lose the opportunity to return to their original plots (even though they still are registered in their rural hukou) to sustain themselves by producing some, if not all, of their own food. What is clear is that many of the 20 million or so forced off the land since 1992 are living in deep poverty, unless they can be helped out by some of their children or other extended kin or other villagers or get access to a (very) Minimum Living Allowance such as has been introduced in Baoji City. It is also clear that migrant workers are less and less likely to return to their original villages but stay in the cities, even though their rural hukou status brings with it many comparative disadvantages.

27. Given the overall trends (paras 15, 22 refer) it remains very difficult to see how rural poverty can be alleviated without substantial funds being injected from wealthier provinces and cities *via* – in my view – the central government using the social security systems as a mechanism.

28. In China, the central government have historically used the *hukou* system as a method of managing the urban and rural population. Registered permanent residence allows people to live, work and study in a specific [area], but makes living [elsewhere] difficult.<sup>25</sup> With the fast expansion of urban employment in the past decade a great number of “rural citizens have little access to social welfare in cities and are restricted from receiving public services such as education, medical care, housing and employment, regardless of how long they may have lived or worked in the city.”<sup>26</sup> There are also restrictions on buying affordable housing in the city. Lack of access to medical and social welfare is reflected in the problems that construction workers in getting treatment for work injuries, despite the attempts to enrol them in specialist work injury schemes for urban migrant workers.

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<sup>24</sup> The (London) Times, Oct 30<sup>th</sup> 2008

<sup>25</sup> China.org.cn CRI April 22 2008)

<sup>26</sup> China Daily, 21 Oct 2008

29. Even babies borne in cities to parents with a rural hukou are deemed to be rural even though the parents may have been living and working in the city for a long time and have, to all intents and purposes, settled there. From the pensions administration point of view, migrant workers are nevertheless encouraged to subscribe but reluctance by employers to bear the extra costs has proved an obstruction to this.<sup>27</sup> Migration has brought into relief the two tier division of the Chinese population, now described as dividing the population into two – “the haves” (urban households) and “the have-nots” (rural households) especially if children born and bred in the city are still described as “rural” and, as far as one can tell, and condemned to stay in this status, unless they gain sufficient income to buy their way into urban hukou status. “The system denies migrant workers their fundamental right as a Chinese citizen to be treated equally.”<sup>28</sup>

30. However, it is now emerging that the hukou system is under critical examination from many quarters. Clearly, it is very unpopular amongst migrant workers and their families who live and work in the cities. It is now argued that, although the hukou registration process has much value as basic data provider and for ID purposes and as underlying identifier for the social security, it is adding inefficiencies to the movement of labour in a market economy, as well being regarded as plainly unfair for very many who are deprived of local political rights and benefits. Even the Ministry of Public Security are beginning to recognise the growing invalidity of the system which is growingly out-of-date and seen to produce unreasonable inequalities across Chinese society.

31. Far from managing the process of migration from town to country the hukou system has simply made the lot of migrant workers worse than it otherwise should be nor, indeed, needs to be in a burgeoning economy. Given trend figures given above (paras 15. 22) looking to a timescale of 11 years to 2020, and further changes to the employment structure envisaged during that period it seems inevitable that the hukou system must undergo a radical re-structuring – certainly in a direction which not longer maintains a fiction that some city dwellers reside in the country-side when they never have done, nor ever intend to do so.

32. Of course, the question of eventual pension entitlement has to be addressed and this is linked with the question of portability. The “drag effect” of maintaining original hukou status for migrants in what seems to be virtually all of an individual’s working life, irrespective of the individual’s employment and residential status, is seen as an obstruction to “the rational flow and placement of the labour force” and “the consequence of the segregated finance system in China”<sup>29</sup> In Shenzhen, Guangdong Province, a residence based system is now being introduced in which case the “the location of residency would determine the relevant rate.”<sup>30</sup> On the presumption that fairness in the rates payable can be achieved and the finance assured, this would seem to provide a way ahead nationally. One would presume that, *inter alia*, the presentation of an employment contract would be a pre-condition of the granting of urban hukou status. This would

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<sup>27</sup> Mr He Ping DG SSC Round Table 2006 p 65

<sup>28</sup> Zhang Chewei Dep Dir, Research Institute of Pop’n Science, Chinese Academy of Soc. Sciences, Beijing; “Hukou “an obstacle to to market economy. China Daily October 2008

<sup>29</sup> Chu Fuling Cross Region Transfer of Old-Age Pension Rights, /*Pub. Ref?*] 25/26 Feb 2008

<sup>30</sup> Grayson Clarke: Redesigning Chinese Pensions – A Financial Perspective, July 2008

prevent “social security tourism” and help the spread of other protection arrangements generally – health care, unemployment benefits etc. It also lends weight to the argument that the cost of employment should be lowered by reducing the high cost of contributions, thus increasing both participation and spreading the costs of social over a much wider base.<sup>31</sup> This is also an area and is an area where modern information technology could act as an enabler (see paras, 57-59, below and footnote 26, final para. refers.)

33. It is well understood that the land and the relationship of many millions of Chinese to it has great historical and socio-political importance. Nevertheless the extensive and continuing changes which have occurred in the relationship since 1978 have only one direction of travel which is towards urbanisation on the hand and mechanised farming on the other. This change has to be managed and the adverse effects on both the remaining (and very considerable) rural population and the migrant/urban peoples on the other need to be mitigated and the careful use of the pensions system and *dibao* have a major role to play in this.

34. Concerning the *rate of change* and extrapolating the trends given in paras. 15/22 above the total population of China will reach 1.43bn by 2020. It also appears that 2020 could be the year in which China reaches a population equilibrium between rural and urban residents, or even a slight superiority - 710m urban over 690m rural – but this sort of difference is well within any kind of statistical variation. The proportion of the population classed as “rural” and working on the land as small-holders, large farmers or labourers possessing various levels of skill will have fallen to about half. Relatively few people “working the land” in the UK and much of the EU, let alone the USA or Canada, are old-style farmers or labourers. Instead they tend to be highly skilled machinery and agricultural industry operators. Under 2% of working population of the UK work on the land – and 35% of those are aged 65 or over.

35. The implications for the Chinese rural population are clear. Greater efficiency can also lead to the greater poverty, especially amongst the old and excluded, thus increasing the urgency of ensuring a transfer of national wealth through the rural pensions and other compensating social protection systems.

#### *Finance and Accountability*

36. Virtually everything revealed by the medium-term trends I have delineated above goes to underline my view that the dependency of the poorer parts of the population of China will require support from the richer parts of the economy. The view is that lower costs of living in the rural areas will allow for lower contribution rates and benefits than in the urban sector.<sup>32</sup> This raises the question of differentials between and within the rural and urban areas and whether hukou classification could prove too crude for the purposes intended. The individual account process will mitigate this to some extent as better off farmers are persuaded to put money into accounts which can act as earnings related pensions savings accounts. Clearly, this brings in the question of *pooling* as well as more

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<sup>31</sup> Mr He Ping Round Table 2007 para 1.3 (b) 162

<sup>32</sup> Grayson Clarke: Redesigning Chinese Pensions – A Financial Perspective, July 2008 p10

complex proposals to bring together the plethora of rural and urban pension schemes currently being either piloted or already in operation in China. There is little merit in attempting to rehearse here the detailed framework advanced by Mr. Clarke in the paper I have already referred to above<sup>33</sup>. However, I strongly support the raising of pooling to “provincial – large municipal level”<sup>34</sup> and, given the need to offer pension scheme membership to a large and proportionately growing number of non-contributory beneficiaries, I do believe that, in view of the pace of change already discussed, the setting up of pension fund pooling arrangements at provincial level should be clearly set out as central government policy and accelerated as much as is possible.

37. However, I also support the argument that, again in recognition of the national policy to extend pension benefits to the balance of the Chinese population, the central government utilise a portion of its financial strength possibly through the machinery of the National Social Security Fund, by setting up a national pensions “equalisation account” in order to finance the payment of the national state pension, whether rural or urban and at whatever levels considered locally appropriate, partly as a long-term transitional arrangement and later as a mechanism of “help[ing] to support poorer provinces”.<sup>35</sup> For example, by offering “NSSF bonds” to banks and other financial institutions could also be used as a mechanism to transfer some the very large savings put away by Chinese individuals against old age and sickness into the social security systems intended to mitigate these fears. (These savings amount to some \$1.7trillion at the beginning of 2007 and are presumably even higher now.<sup>36</sup>)

38. The question of a national system has been raised; clearly any universal social security system would most probably very large and unwieldy, especially if transaction processing and a large number of migratory transfers are involved. However, a “federal” system, based on provincial managed components with an appropriately crafted system of national identity and inter-provincial transfers offers a more practical option, provided the key characteristics of individual personal data-sets can be agreed. (See para. 53 (e) below.)

39. I have not attempted to comment on the details nor structure of the 3 Pillar pension system discussed through out the EU-CCS Social Security Project material, since this is not my area of expertise. However, I feel at liberty to remark that the recent turmoil on global financial markets has caused considerable damaged to savers and pensioners caught up on the collapse in the value of their assets. I quote a comment from the Centre for European Policy Studies, Brussels:

“The IMF helped to spread...capitalism through insistence on capital market deregulation in negotiations with developing countries. The World Bank acted similarly...when it advocated “multi-pillar pension systems”. All the post-Communist EU members, except the Czech Republic and Slovenia have followed the advice to carve out a “second pillar” from out of their public pay-as-you-schemes. Employees are now

<sup>33</sup> Grayson Clarke: Redesigning Chinese Pensions – A Financial Perspective, July 2008.

<sup>34</sup> *ibid.* p 15

<sup>35</sup> *ibid.* p 10

<sup>36</sup> China Daily, March 2007

forced to contribute part of their wage to an account with a private fund manager. These privately managed funds have not been achieving anywhere near the originally projected returns. Now they will suffer even more.”<sup>37</sup>

40. The opportunity is for China to proceed cautiously in this sector and ensure by regulation that individual savers are not put unduly at risk. The real task is to use China’s financial freedom (compared with cash-strapped Western economies) to set up a working, comprehensive pensions and social security system across the whole country which is universally accessible and appreciated, even though the initial benefit levels may be very low in some districts. (“...Rural residents support the individual account because the low threshold for contributions makes it accessible for low income farmers. They worry if *a lot of money is misused* but they like the rights and benefits element of the individual account.”<sup>38</sup> )

41. An early objective must be to achieve as full a participation as possible in the basic state pension, in my view, as an underpinning of the whole Chinese pensions and social security system as a whole. As part of an information strategy, a communications plan<sup>39</sup> needs to be devised and implemented. Even basic awareness of pension availability as part of an employment package can be lacking. In Shanxi Province, retired miners in government-run mines receive 2,100 yuan/month retirement pension whilst those in privately-run mines leased from the government are paid much better but with no social security benefits or pension. Needless to say, the bulk of the latter are migrants unaware of the long-term benefits of properly pensioned employment – a pension payable as early as 10-years’ service<sup>40</sup>. In the rural environment, the need for a simple, easily understood and trusted scheme is paramount if national coverage is to be achieved in the projected timescale and this will need to be promulgated clearly and effectively as the scheme is rolled-out over the provinces.

42. Mr. Clarke has also enunciated the extensive lack of basic *accounting and auditing skills* in the Chinese social security arena and this is covered in detail in his paper on financial governance<sup>41</sup>. Once again it is clear that, although progress has been made as pensions and social security systems have been developed, particularly during the last decade or so, more work has to be done even in those provinces, cities and other areas where pensions and other social security have been implemented or piloted. As for the rest, work has hardly begun. China faces the problem of continuing to improve accounting and auditing competence at the same time as introducing new competencies to a very large group so far uneducated in these respects. Extensive training of present and newly- recruited staff will have to proceed on an ever wider basis with the *training of trainers* a priority.

43. The National Audit Office of China already has a network of offices in provinces, cities and larger towns. If the pooling of pensions is to become established at provincial

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<sup>37</sup> Mr. Juraj Draxler, Associate Research Fellow, CEPS, Brussels. Financial Times,

<sup>38</sup> Mr. Lui Conglong, Dep. DG., Dept of Rural Society Insurance, M of HRSS, Round Table 2006 p73

<sup>39</sup> Grayson Clarke: Redesigning Chinese Pensions – A Financial Perspective, July 2008, Section 5, p28

<sup>40</sup> Washington Post, October 2008.

<sup>41</sup> Improving Financial Management & Governance in Social Security, Grayson Clarke, 2008.

level, it seems that the NAOC could take this opportunity to strengthen its independent audit capability at that level and, by calling in all the accounts of all associated funds below province/city level, extend independent audit down from the central government level. I realise that this could be an extensive operation, but the NAOC has the remit<sup>42</sup> to do this and it would be a way of regularising methodologies, establishing standards through a network of systemised audit rules and accounting systems which are based on standardised algorithms and accounting regulations. This could parallel the county level roll-out of social security and pensions management systems currently being undertaken by the MoHRSS<sup>43</sup>, which is intended not only to provide computer support to pensions and social security management but to do so in a systematic and comparable manner.

44. However, it is essential in this proposed arrangement that the auditing authorities at provincial and city level should be entirely *independent* with clear lines of reporting by the senior auditor at each level through to the central auditing authorities. At present the lines of authority are not clear and there are opportunities for confusion and duplication without proper systems for financial reconciliation.<sup>44</sup> What is certain is that the senior or chief auditor and chief financial officers at every level should publicly receive remits which make them professionally independent of the provincial or city governor or mayor and make clear their professional responsibilities to the higher auditing level. It would be their responsibility to ensure that social security income and expenditures, asset management, etc. were carried out according to the national and local social security legal requirements and accounting regulations. In my view there should dual lines of reporting throughout the structure, certainly from county through the provincial/city level to the NAOC in Beijing.

45. The importance of transparency cannot be over-estimated and the installation of computerised finance systems which operate on agreed accounting principles and talk to each other over a network – or even the internet (but see 58 below) – can perform the role of a key enabler in this respect. Thus the same information – appropriately summarised where necessary – would be available at all relevant levels and can be set up to meet the internal requirements for day-to-day management, external requirements for information dissemination and openness and auditing. Records of transaction processing (i.e. the collection of individual contributions and benefits payments) would need to be included again aggregated where necessary to give a complete picture of the cash flow picture at every level.

46. Although I am aware there are other national regulatory institutions with an interest in the financial management of pensions and social security in China, such as the China Banking Regulatory Commission (CBRC), I have proposed the use of the national audit structure as a vehicle for setting up parallel hierarchy for maintaining and improving social security accounting standards and establishing full public confidence in

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<sup>42</sup> Duties etc of the NAO of the PRC, para 8. “Audit institutions shall exercise supervision through auditing over the revenues and expenditures of the social security funds, public donations and other relevant funds and capital managed by governmental departments and other units authorized by the government.”

<sup>43</sup> Mr. Lui Conglong, Dep. DG., Dept of Rural Society Insurance, M of HRSS, Interview, 11 Sept 2008

<sup>44</sup> Improving Financial Management & Governance in Social Security, Grayson Clarke, 2008, p24 para lxii & lxiii

the pension and social security systems in China as it expands and becomes available to the whole population; the auditing network is already in place and has the authority, an expanding skills capability and increasing international recognition for knowledge and national auditing competence. We are also dealing with an increasing proportion of the national income and budget and probity needs to be visible. Action needs to be taken quickly. If this is not already the case, I would advocate the direct appointment by the NAOC of the Senior Audit Officers at Provincial level.

47. I am also acutely aware that that there are many, many problems across the whole question on public financial management in China, in banks, social security offices, pension funds and so on. What I am searching for is the quickest way to promote a simple framework for rolling-out at least a basic pension system across China, utilising the finance available from pooling at provincial level, and from national funds, exploiting the existing auditing machinery and social security information systems already in development and early deployment. Once this structure is in place, it will be easier to link other social security benefit arrangements to it.

### *Governance*

48. From 18<sup>th</sup> to 19<sup>th</sup> September, 2008 I had the opportunity to join in the North-East Asia Forum on Good Governance at Liaoning University, Shengyang<sup>45</sup>. The Conference addressed many issues of general relevance to the modernisation effort now being put into pensions and social protection provision in China: the need for robust national account and financial transparency (National Financial Accounting System - NAFIS, Korea); citizen participation and empowerment (Japan); senior Civil Service training and promotion (Taiwan), which may be further studied to advise the work in the PRC. I was asked to make a short comment on Accountability. My own experience is relevant and I use it to illustrate the approach towards Governance in this memorandum.

49. Good governance is more than a matter of good information and accounting systems. It is also a matter of individual responsibility and public acceptance of that responsibility. As Chief Executive of the Information Technology Services Agency (ITSA) of the (British) Department (Ministry) of Social Security I was also Parliamentary Accounting Officer. This meant that the responsibility for public money entrusted to my care (about \$2bn of assets and \$1bn of annual expenditure) lay between myself and the British Parliament, which “Votes” i.e. dispenses money which the British Government may spend according to the requests made by the Government during the preparation of the “Estimates” of expenditure. Monies voted by Parliament can only be spent for purposes intended, not for any other objectives picked out by officials without permission, and *must* be properly accounted for.

50. The process is quite explicit. Not only did my internal auditors (including IT systems auditors) continuously examine parts of the financial machinery in ITSA to assure that they were functioning properly, the Annual Accounts of ITSA were published

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<sup>45</sup> North-East Asia Forum 2008: Towards Good Public Governance in Asia: Capacity Development and Institutional Innovation

separately from those of the Department (Ministry) of Social Security but could not be released until certified as complete and correct by the National Audit Office. Their reports would form the briefing for public hearings by the Public Accounts Committee<sup>46</sup> of the House of Commons (the lower House in the British Parliamentary System) which is by convention chaired by a senior member of the Opposition Party. It is usual to be summoned annually for a hearing, even though no discrepancies had been found nor reported.

51. It is most important to emphasize that the national audit process is completely independent from the Government of the day, separate from and parallel to the line management of the Department for Work and Pensions (formerly the Ministry of Social Security) and its Executive Agencies of which ITSA was one. My room for decision taking was not impaired in any way nor that of my senior staff, *provided that* national accounting rules were obeyed. If I had allowed any transgression of those rules in any substantive way I stood the risk of public censure. And this role was made quite explicit in the Accounting Officers' appointment letter which I received and was obliged to acknowledge.

52. The personal nature of these responsibilities to Parliament is signally important. It was also important that my senior staff understood this, too, and, from time to time it was necessary for me to exercise it and make sure that my financial and accounting obligations were not undermined. I also want to emphasise that this concept of public accountability becomes inculcated into the basic attitudes of public servants towards governance and its influence spreads much more widely as a result. I make no apology for this apparent diversion of the issues immediately facing the MoHRSS in building a new pensions and social security system in China. The serious nature of the misuse of large amounts of social security funds in China recorded by Mr Clarke in his paper<sup>47</sup> underlines both the need for more extensive audit systems in the burgeoning Chinese social security system. Further training and education of public servants along the Taiwanese model is also advised.

53. Equally important in my view is that a system along the lines I have described above (see Annex I to this paper) will go a very long way to ensuring that problems or misbehaviours will never reach the proportions of those uncovered in Shanghai and Guangzhou as parallel reporting and "red flag" error message accounting rules would be designed to raise concerns at a much earlier level. Systems alone cannot guarantee that such things will never occur as the recent international banking crisis underlines. But coupled with genuinely reformed attitudes towards the proper management of large amounts of public, and the realisation how much damage can be done to fellow citizens by not doing so, a new "public service ethos" may be inculcated over the whole social security system.

### *Information Strategy and Identity*

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<sup>46</sup> Officially know as "The Committee on Public Accounts"

<sup>47</sup> The Shanghai [Social Security] Scandal para 9 and *passim*; Box 2 p.20 The Power of the Individual; Improving Financial Management etc., Grayson Clarke 2008.

54. Moving forward to bring social security, particularly pensions, to the whole of the Chinese population requires the underpinning of an information strategy, which lays out the information needs of the pensions and social security system and then outlines the design of the systems, both clerical and computerised, to support it. Clearly, it is not possible in an overview paper such as this to attempt to lay out all the details of an information strategy for such a large undertaking as this. However, some of the principles underlying such a strategy are of general application *viz.*:

a) *Identifying information flows and information reservoirs (databases).* The flow and organising of financial information just discussed is a good example. Tedious though this task might be, simply drawing out these flows and information reservoirs on a (computerised) chart can be highly instructive, especially when mapped against the intended new system. Indeed, given the high level of fragmentation currently exhibited by the Chinese pensions and social security system, an exploratory sub-project on this basis could be instructive.

b) *Unique Individual Identifiers.* This is a most critical field when dealing with social security and pensions issue which by their very nature centred on the individual citizen. The individual must be uniquely identified not only at moment of access to the systems but also, once established over a long period of time. The usual way is to issue Social Security numbers to individuals in the entering the work force and/or leaving full time education. The rules vary between different countries and jurisdictions but the principle is fairly common. Work undertaken myself and colleagues in the Republic of Hungary in the mid-1990's examined the difficulties of running more than one identification system (a Health system and a separate Social Security system) and the problems which had to be overcome to set up a unified systems and an associated Unified Revenue System. Use of family names gave some help but, as is the case in China, there a restricted number of family name variants so amalgamation of the two had to be painfully devised. The MoHRSS<sup>48</sup> are of the view that a link between the National ID system run by the Ministry of Public Safety and the Social Security No. provides a sound basis for a unique ID system for managing the social security system for forming a *dual number* system. This system would be further strengthened by the addition of the individual bank or savings account number.

c) *Data Integrity.* The Ministry also remarked that many anomalies and duplications were discovered when previous clerical records were computerised. This is a common enough occurrence. The essential issue is to ensure *data integrity* once the registers are set up. In my experience, all databases lose accuracy over time and constant effort is needed to ensure that they remain up-to-date. Any concerns raised about the accuracy of personal data held on computerised systems by citizens should always be checked out by the appropriate public authority. Recent embarrassing episodes in the United Kingdom have underlined the need for not only the maintenance of accurate data on citizens whether personal information – names and addresses, etc – or associated

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<sup>48</sup> Mr. Lui Conglong, Dep. DG., Dept of Rural Society Insurance, M of HRSS, Interview, 11 Sept 2008

individual account data but for the protection of data from theft, illegal interference or false manipulation. The dangers of *identity theft* are now increasing and becoming widespread. All citizens can be subjected to ID theft and it is incumbent on state managed systems to be vigilant at all staff levels and at all time to this threat.

d) *Mobility*. Central to the theme of comprehensive or national social security systems is the question of *mobility* within the state or social security jurisdiction. In the United Kingdom, the National Insurance system is run centrally. State pension entitlement and unemployment benefits etc are equally available equally to all citizens irrespective of domicile. Possession of an individual *medical card* allows citizens to register for health similarly. The UK is, of course, a small, largely centralised country and the project has looked to the EU, as an entity, for comparators on how China might deal with cross-boundary (rural-urban, province-province) migration. But the stated intention to establish a “comprehensive” national system drives one to look at the British and similar models in which *all citizens are treated equally*, albeit with essential regional variations.

e) *Individual Data Sets*. Migration in China is a huge issue and a great amount of national effort has been devoted to trying to manage, or even stem, the flow of labour from the countryside into the towns and cities. But, if the new social security and pension system is to be universal, the issue of mobility has to be dealt with *ab initio*, even accepting that managing the very large population flows in China remains a practical necessity. This brings us back to the practicality of dealing with many thousands of individual cross-boundary labour movements every month. Even accepting that building a complete national social security and pensions system is impractical (ref para. 38, above) electronic transfer of certain key across systems boundaries will be necessary. This may be facilitated by defining *individual key data set*, the format of which is universally recognised by all the provincial and county/district level systems which will comprise the national network. Such data sets such comprise name, UID nos. original home address, marital family/status and current financial state as regards pension contributions status etc. The theory being that the receiving systems will “accept” a new entrant and apply the data set to the eligibility rules and financial obligation/benefit algorithms appropriate to the new locale. The “old” system will simply record that the individual concerned had “left” the original host system and was no longer an active member of that population.

55. I am aware that the Government are already working on the “Golden Insurance Project” which, *inter alia*, is intended to provide – or is already providing – networked information highways between Provinces and possibly could be a vehicle for the transmission of social security information along these pathways. However, even in the UK managing the social security and taxation databases and networks is difficult enough and there have been several costly errors made in recent times even though the original systems worked well enough. Upgrade attempts went badly wrong and security has become more and more difficult. I counsel against attempting to install very large multi-purpose systems as a solution in the case of Chinese social security and pensions information processing and transmission requirements.

## Systems

56. *Information & Communications Technology (ICT)* is the great “enabler” in supporting large, nationwide social security systems throughout the world. As time has gone by, the original large clerical systems have been replaced, first by large magnetic tape computers based in warehouses through to on-line systems using the internet to provide services to the citizen. At Shenyang,<sup>49</sup> Professor Niikawa of Doshisha University, Kyoto, Japan, emphasized the need to empower the citizen and one way is by involving the citizen in the process of service delivery. Already there are examples in China of citizens accessing their social security directly by use of card access. In the UK it is possible to perform a whole series of personal administrative tasks by use of the internet – applying for the state pension is one; paying for a vehicle road tax licence is another – I have just done both. In cases such as these the direct benefit to the citizen is clear. However, there are few observations to be concerning the nature of systems design to be made at this juncture.

57. I have made it clear in this *tour d’horizon* of the issues surrounding the plans to introduce a “comprehensive” pensions and social security system across the whole of China that it essential to understand the nature and scale of the problem first, then examine the exact purposes of the process to be instituted and then look at delivery mechanisms. That pilots have been carried out in many Counties and Cities in China is all to the good and that it is intended to utilise the experience and knowledge therein is also to be applauded<sup>50</sup>. So often, the temptation is to put in a computer system without adequate preparation especially assessing the needs of users and the requirements of customers and citizens thoroughly before preparing the system requirement, then design and then procurement. None of this is new – nor is it yet being universally avoided as experiences in many countries can attest.

58. It is also clear that the Chinese authorities have, between them, no small amount of experience in this area and a thorough grasp of the technical capabilities of today’s ICT systems and hardware. However, need remains for clarity and coherence which are essential requirements if the objective of universality in pensions and social security are to be universally available across China. The M of HRSS are quite right in asking for a final decision on which “version” (if I may call it that) of the state and individual account pension system is to be rolled out across the country in order that the software package offered by the Ministry is *uniform* in all districts – irrespective of the hardware platform is chosen by the individual authority.<sup>51</sup> The advantages of this consistency cannot be over-estimated – ability to communicate across boundaries (see sub-paras. 54 (d) & (c) above); building up a broad base of users – and customers – who are familiar with the system and how it works; long-term maintenance and up-grade facility. Nevertheless, given the overall size of the task, the *training task* lying ahead of the Ministry and local authorities is very considerable and thorough consideration should be given to preparing for this, especially preparing training material and *training the trainers*.

<sup>49</sup> North-East Asia Forum 2008: Towards Good Public Governance in Asia.

<sup>50</sup> Zhao Dianguo, D/G of Rural Social Insurance Department of the Ministry of Human Resources and Social Security, Nov 18, 2008

<sup>51</sup> Mr. Lui Conglong, Dep. DG., Dept of Rural Society Insurance, M of HRSS, Interview, 11 Sept 2008

59. In general, however the use of appropriate ICT systems in support of all the components of the new pensions and social security systems discussed in the memorandum will be a key feature of the *implementation plan* which is now in development<sup>52</sup>. A key objective of supporting systems, especially in the finance area is that they are specific to the purpose, robust and secure. One concern I have is that the *internet is notoriously insecure* for financial transactions; given the scale of the putative social security operation in China. I would firmly recommend that the security of financial transactions is given a very high priority in the design of any sector of the social security system in which money transfers are a feature.

### *Planning a Plan*

60. Releasing the rural pension plan till 2020, Zhao Dianguo said<sup>53</sup> that “the central government plans to set up a pension network for China's 730 million farmers, for which a detailed timetable has already been prepared. “Rural poverty was a serious social problem. The solution to the problem must include rural pension coverage. Some cities have implemented pension systems for migrant workers but they are just a transitional approach and we need a pension system for all farmers. The program is designed to provide 80 percent of famers with pensions within the term of current government (by 2012), and achieve 100 percent coverage by 2022.”

61. A plan on this scale requires a clear framework of timescales, locations, specific objectives and review points. In the case of setting up an almost completely new system, record keeping will need to be exemplary so that the expanding numbers of pension scheme members, the growing number of transactions, savings accounts and liabilities will not be lost sight of, given the rate of expansion. Given the geographical nature of the rural pensions issue, it would sensible to do this systematically province by province (or city) and county by county. This was the methodology used in the United Kingdom in execution of the national Roll-Out of the computerisation of all local social security offices in the UK.

62. The *Roll-Out* was planned on a district by district and (UK) region by region basis, 15 offices at a time (out of about 400) covering about 20,000 staff, at the time – 1990. Teams of specially trained staff (Regional Implementation Teams) were deployed into the transition offices, revised the paper filing system to match to the new IT system and supervised the installation of the new computer work stations and got them working in time for the local staff to return to their posts. During this two-week period, the local staff were taken on a training course so that they were able to operate the new systems when they returned. This procedure worked very well in general and virtually all of the

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<sup>52</sup> Zhao Dianguo, D/G of Rural Social Insurance Department of the Ministry of Human Resources and Social Security, Nov 18, 2008 China Daily.

<sup>53</sup> *ibid*

staff I met on subsequent visits expressed themselves happy and confident with the new system – once the early network availability breakdowns were corrected!

63. However, it should be understood that this Roll-Out took over two-years and covered about 20,000 staff, though the social security offices dealt with more benefits than just pensions; on the other hand personal computer literacy (at that time) was very low amongst pensions and social security at that time. The technical and implementation planning took several years beforehand. Without thorough detailed planning and exhaustive system testing and training the computerisation would not have succeeded – and that was when the Department was delivering a *uniform* social security system across the United Kingdom. From early on legislators were involved so that the translation of rules and regulations into an algorithmic form for computerisation would be facilitated. This was not an easy task. In the case of China, legislation is still in draft. It would be *highly desirable* that MoHRSS, Ministry of Finance and other legislating departments should work closely with the implementing departments so that problems in this area may be averted from the beginning.

64. Creating a future administrative machinery will no easy task. The skill shortage in all the areas which form part of a pensions support system – pension funds, social security offices, banks, post offices – will all need to be familiar with what to very many will be a new completely new administrative experience. Currently, in the UK, some 14,000 staff support a pensions system for about 11m state pensioners – that’s just under 800 pensioners per member of the administration. For 700m Chinese rural pensioners, that would indicate something like around 700,000 staff somewhere in the country – local offices, banks, pension funds - who will be working in pensions in China. All will need some level of formal training of some kind. It is in view of issues of scale of this nature that everything should be done to create uniform, simple, national system which can be rolled out at the rate of something on the region of 100m citizens *per year* to reach the target of full coverage nationwide by 2020. (It is notable that Zhao Dianguo mentioned 2022 in reference to what I presume is in the new timetable, which I have not yet seen – possibly a hint of *drift* from the original vision.)

65. Effective *implementation* is predicated on systematic *planning and preparation*. A modernisation plan on this scale will consist of many components, some of which will be sequential, others may proceed in parallel. As far as the rural pensions project in China, I believe the following *principal components* should feature. Not all of the components are unique, nor am I in a position to nominate lead Ministries or departments; my familiarity with the details of Chinese government structure is insufficient. However I would expect these components should feature in any implementation structure and plan in any comparable environment.

#### *Implementation.*

66. *Phase One. Set out a clear statement of the primary, deliverable objective of the Project.*

The quotation at the head of this paper may suffice (“...*further to improve urban social security in combination with rural social security system, building a comprehensive system covering both urban and rural residents.*”) However, the immediate first objective is to achieve nationwide rural pensions coverage as a first step towards a fully mobile link and interchange with the urban pensions network.

*Phase Two. Project Definition*

This is a key initial phase which is designed to expand on the overall objective as set out in Phase One in precise terms in the steps shown below, and if approved, should be the vehicle for setting up the structure for the supervision of the project and gaining top-level approval for the allocation of resources.

*Phase Three. Set up a management structure.*

I have set out an illustrative Project Management Structure at Annex II. I am not familiar with the arrangements already set up for managing the rural pensions project in China. However, I believe project direction and management along these lines could provide a useful model. Key features are the separation of overall project direction and day-to-day project management. Thus the project manager, wrestling with the daily details of project decision-taking is relieved of the political interactions and the continual contest for resources which can be dealt with the higher political level. A “Steering Committee” can be set up to provide the project direction and management with observations and comments on practicalities and other workaday issues seen from the working vantage point. Such a device may seem somewhat cumbersome but it does ensure the project management does not lose sight of day-to-day concerns and frustrations encountered at the real user and customer level. And, finally, a systematized communication with provincial and county/district level is needed. I have suggested that the project management staff in the project are designated co-ordinators to emphasise the co-operative nature of the project.

This project management structure has been used very successfully in the past in a variety of environments. It has now become standard practice in the direction and management of ICT and other projects in the University of Cambridge

*Phase Four. Lay out an overall Timetable.* I have laid out a suggested timeframe at Annex III to this memorandum. The arithmetic may seem simplistic. But working back from the overall objective in this way illustrates the magnitude of the task and leaves no illusion of the pace of delivery to be achieved and underlines the need to ensure that the Project is *properly resourced from the beginning*. From my observation and experience, time and time again projects fail from first: *inadequate project preparation and definition*; and, second: *consistent under-resourcing and lack of high level support*. A target end-date should be identified, in this case, 31 December 2020. Then the plan

should *work back* to the start date – for example, say 1 April 2009. The amount of time available should be broken down into quarter years with primary objectives at the end of each. However, no plan is rigid and, if it appears at some point to be truly unattainable, it is essential not to drive it to a failure. If it becomes really necessary to change the target date, it should be done. The best way to avoid this is to plan for regular reviews, ensure sufficient contingencies within the timetable (“slip time”) and *do not under-resource* (see above.)

*Phase Five. Divide the project in to manageable and clearly defined components.  
(See Annexes II & III.)*

In this case, I have suggested four primary areas which would benefit from central, project management and co-ordination. Clearly, in such a large project, sub-areas are likely to be required. However, in the search for clarity I have proposed just four areas plus a co-ordinating Project Office, to keep track of the Plan, keep thorough records of decision-taking and chase progress generally. The four areas are:

i) Policy and Legislation – particularly to liaise with other branches of government, especially whilst policy is still the process of being formulated and legislation being drafted;

ii) Information & Communications Technology – the key enabler and an area which needs careful direction and guidance to ensure compatibility, data quality and transactions security;

iii) Staff and User Training – a major operation covering not only staff on the project, Ministry and provincial staff but also those in banks, the Post Office and the pension funds. The preparation of training materials and the *training of trainers* should be a particular priority;

iv) Communications & PR Co-ordination – another major operation should be to communicate everything to do with the new rural pensions policy (and its implications for the urban pensions) to the whole of the Chinese population and pensions administrative community. A Communications Plan should be devised with this as its principal objective. It needs to be devised centrally so that the same messages are promulgated and that there are no misunderstandings because of local errors or misinterpretation. The communications unit should be responsible for internal project and government communications plus general News Letters for Press and general external consumption.

*Phase Six. Roll -Out and Implementation.*

Based on the TimeFrame I have illustrated in Annex III and the example I have given in paras. 62 & 63, above, and I advise that a parallel implementation plan be devised, based on the four key areas and containing regular *Check-Point Reviews* to review progress, “lessons learned”, and make adjustments to the following steps of the plan if need be. In such a large operation I would recommend utilizing a *Critical Path*

*Analysis* technique or something similar. It will be seen from Annex III that my preference is for a geographically based process. However, I am not familiar with the geographical distribution of the 400 counties which are already taking part in a new system and it may be preferable to use those as centres for developing a new network. Nor am I familiar with what has been achieved by the 300 pilots. I recommend firmly that “best practice” should be identified and selected as a basis for a *uniform* system for a national roll-out – (see para. 58 above.)

67. In my proposals for project direction I have attempted to place the Chinese rural pensions project into a project management framework derived from my general experience, I am not suggesting that the Chinese authorities are unaware of modern project management principles. But it is also my experience that revisiting tried and tested methodologies always pays dividends in one respect or another and it is in that spirit I offer these observations.

### **Conclusions.**

68. My conclusions from this brief study may be summarized in three areas:

i) *Urbanisation and Trends.* Despite the economic shocks which have effected China as much as any other country or region, with a resultant sudden rise in unemployment in manufacturing and urban construction work, a return of large numbers of migrant urban labourers to the rural areas will exacerbate strains on the rural economies as there will be more mouths to feed and the income from remittance incomes will dry up. However, other sectors of the urban economy will begin to develop in due course over the ten-year timescale we are considering, as will, no doubt, the manufacturing sector.<sup>54</sup> Over the same period, the process of urbanization coupled with improved agricultural productivity will undoubtedly continue as it has in every other developed and developing economy in the world<sup>55</sup>. The rate of change adds urgency to the requirement to establish a rural pension scheme as a bulwark against poverty.

ii) *Mobility and Funding.* *Mobility* remains, in my view, an essential feature of any new scheme and a working interface with companion urban schemes. Movement between the rural and urban hukou will continue and become more complex. Mobility of the work-force will require the careful management of the social security system and an easy-to-work transferability must be a cardinal feature (paras. 23-24 above). However, the value of pensions contributions of the younger cohorts of the Chinese population will take time to build up, even with a high level of *per capita* contributions through the individual accounts system, therefore to make impression on the current and, through the factor of an aging rural population, growing rural poverty problem, a transfer of resources from the richer to the poorer provinces of China, will be essential. In addition, to imbue confidence in the financial honesty of the pension service, an efficient and recognized *audit* machinery is also essential. (see para. 43 – 45.)

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<sup>54</sup> *Time* magazine report, Oct 31, 2008

<sup>55</sup> Cities and Growth, *Economist*, Nov 8<sup>th</sup> 2008.

iii) *Implementing a new system and project direction and management.*

I have argued that a systematic project management system should be developed and put in place if not there already. In order to succeed in establishing an effective national rural pension system, a uniform set of pensions rules and regulations needs to be implemented and this through an ICT system which reflects this. Effective central direction of a national project such as this requires strong central direction, albeit in full co-operation with the Provinces, Counties and districts. (see paras 66 & 67.)

iv) The project I have described is intended to lead to the establishment of a *uniformly based and transferable rural pensions scheme* across China on a *national basis* which can provide a framework for the provision of other national social protection benefits.

### **Recommendations.**

69. My recommendations are interspersed through out the text, and also reflect Conclusions, above. They are:

i) the present and future *mobility* of the Chinese work-force should be recognized and *the “hukou” system be reformed* in conjunction with the new social security and pension system (paras. 23 -34); (*also see Recommendation (iv) below.*)

ii) the establishment of a nationwide rural pensions system requires much higher levels of pooling than at present. National resources should be devoted to this, possibly through the use of *a dedicated sector of the social security fund* for the purpose of assuring the rural pensions fund can be funded *ab initio* (para 35-36);

iii) the *National Audit Office of China should take the lead in establishing independent audit systems and standards* through the new rural pensions (and other social security) systems in order to reform the quality of public accountability in the pensions industry (42 *et seq* and 47 *et seq.*)

iv) an *information strategy* covering information flows and databases, unique individual identifiers (UIDs), data integrity, labour mobility and individual data sets should be devised (paras 53 – 54). A *communications strategy* also needs to be devised and implemented (para 40);

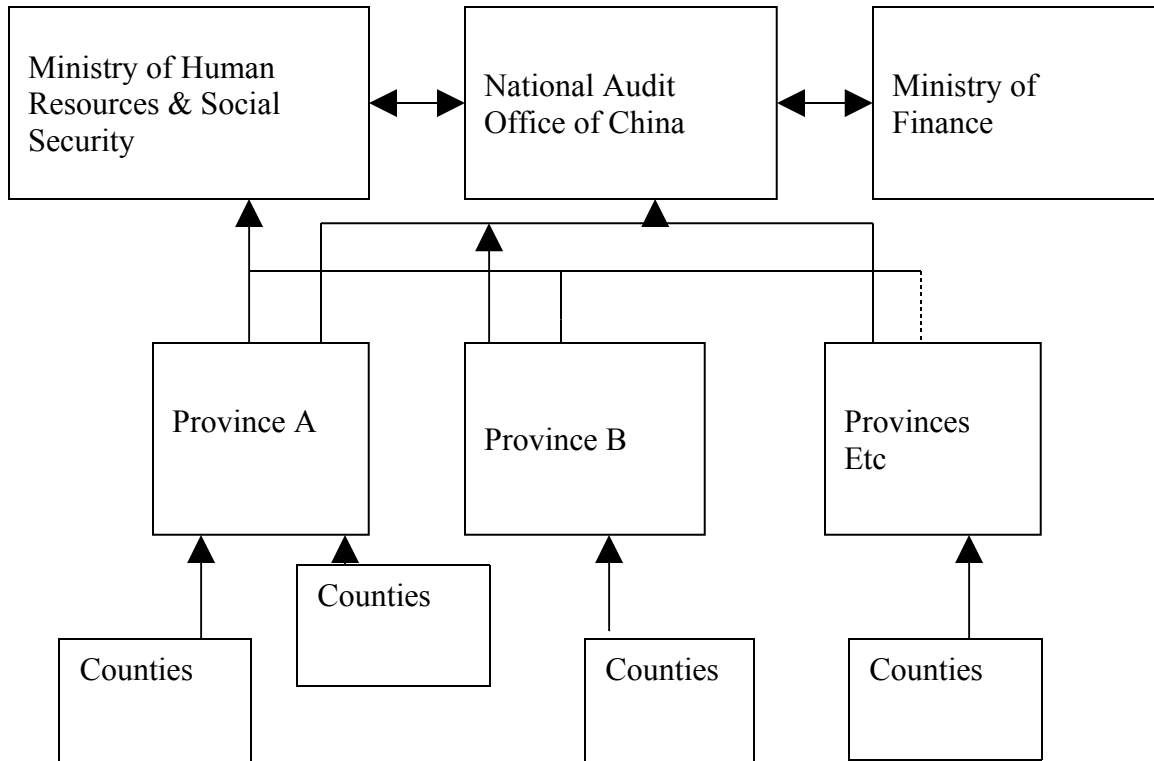
v) the *planning, project management and implementation* proposals are laid out in full in paras. 65 & 66. My *recommendation* here is that each phase in the illustrative implementation proposal should be studied and its applicability to the rural pensions project assessed. If practicable, I would further *recommend* that currently available planning for rural pension implementation should be assessed against this template by an independent authority.

See Annex I, Annex II and Annex III

*[Insert hyperlink to Annex I, Annex II and Annex III]*

## Annex I

### Dual Line Audit Reporting of Social Security in China

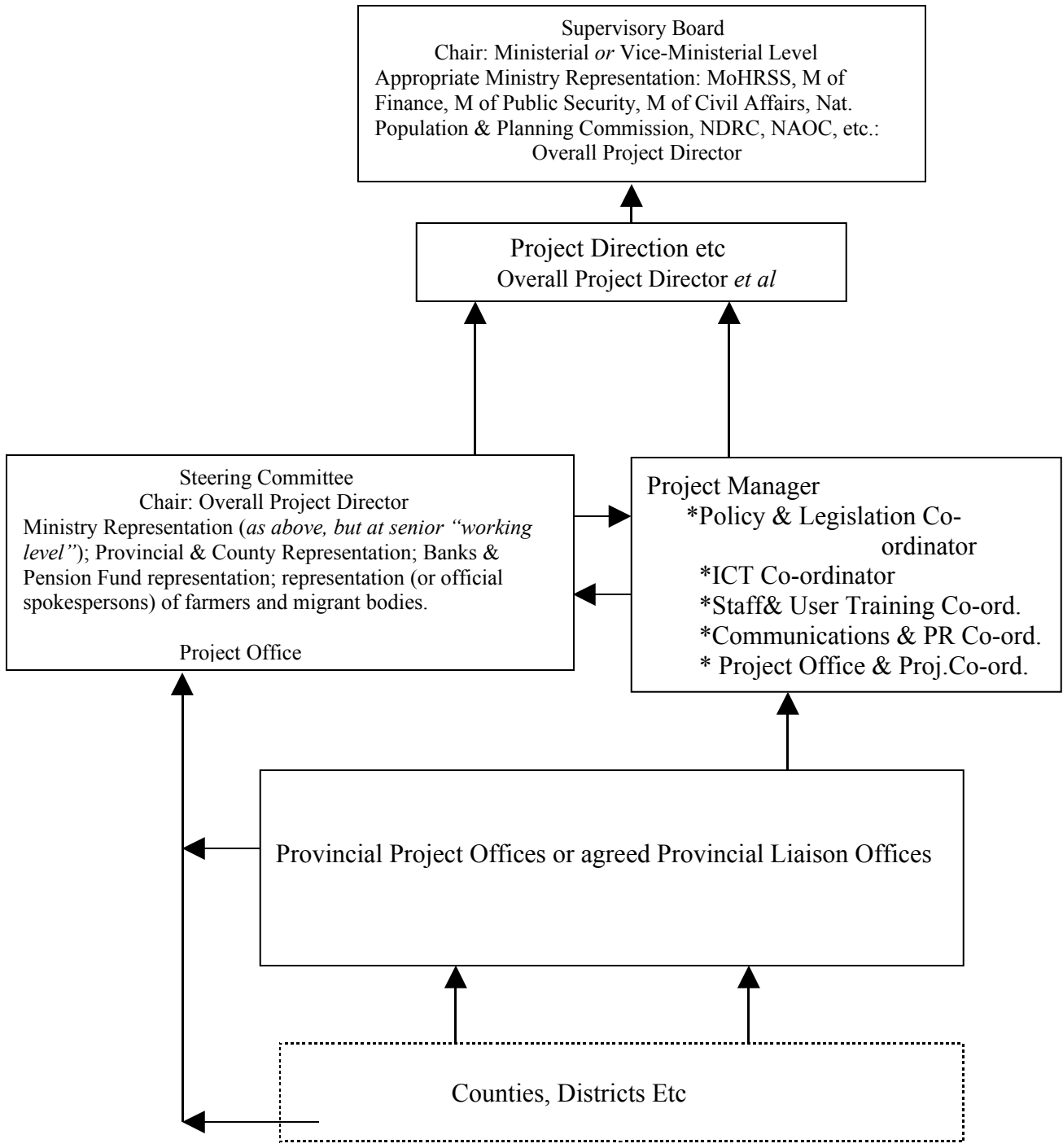


- 1) In this arrangement, a dual or parallel financial reporting system is established.
- 2) Financial/Audit information flows upwards from Counties (or other units subordinate to the Provinces.)
- 3) Financial/Audit information flows upwards from Provincial Finance and Audit to the Ministry of Human Resources and Social Security and the National Audit Office in parallel. The Ministry of Finance is kept informed as necessary.
- 4) The Financial/Audit should be identical, allowing for appropriate summarization or aggregation thus guaranteeing not only transparency, but also protection for the officials involved.
- 5) It is important that senior finance and audit officials are *professionally* responsible to their senior counterparts in the MoHRSS & NAOC respectively.
- 6) It remains for consideration whether and how far dual reporting should be extended to County level. The above arrangement presumes pooling at Provincial level.



## **Annex II**

### **Illustrative Implementation Structure & Outline Plan for Rural Pensions in China**



### Annex III

## Illustrative Chinese Rural Pensions Project Time Chart

showing *example* cumulative growth of a rural pensions systems & coverage from the end of 2008 to the end of 2020

Cumulative Totals by End of Year	Assumed Starting Point – end-2008	By End of 2009	By End of 2010	By End of 2011	By End of 2012	By End of 2013	By End of 2014	By End of 2015	By End of 2016	By End of 2017	By End of 2018	By End of 2019	By End of <b>2020</b>
Provinces Covered	1	2	3	Etc	Etc	Etc	Etc	Etc	Etc	Etc	Etc	Etc	<b>31</b>
Counties Covered	400	600	800	1000	1200	1400	1600	1800	2000	2200	2400	2600	<b>2800</b>
Rural Citizens Covered	200m	240m	280m	320m	360m	380m	420m	480m	520m	580m	620m	680m	<b>720m</b>
Trained staff required	10,000	68k	126k	184k	242k	300k	358k	416k	474k	532k	590k	648k	<b>706k</b>

**N.B.** Please see explanatory notes on Page 2, below.

*Page 2*

### **Chinese Rural Pensions Project Time Chart - Explanatory Notes.**

All the summations are *linear*. It should be noted that not only do new groups of citizens need to be added every year but those who have joined the pension fund will need to be serviced in ever greater numbers.

Provinces. This line is purely illustrative. Some of the bigger districts have basic rural pensions already in operation.

Counties. These will need to be added at an example rate of 200 added per annum from Jan 2009. The MoHRSS has already given guidance to 400 counties. It is now known in this paper what the geographical distribution of the counties is. It is likely that they are in more than one Province.

Rural Citizens will be covered on a cumulative total being increased at an example rate of 40m per annum from Jan 2009. About 200m are assumed to be already covered in some way in some provinces - as far as rural pensions are concerned this assumption could be inaccurate.

Trained staff could be required at a suggested coverage of 1,000 pensioners per 1 member of staff, rising at a rate of 58,000 per year. Clearly the 10,000 starting point is arbitrary. The concept of “trained staff” is also loose – it may refer to one-day familiarisation training to longer courses for managers and staff working in the Ministry of HRSS and other involved Ministries & national institutions, also banks and Post Offices.

In parallel, the project will need to build up staff capability in Project Management, application of Legislation and consequential Regulations, Information Technology, Communications and PR and Training.