

ASIAN DEVELOPMENT BANK

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TECHNICAL ASSISTANCE

TO THE

PEOPLE'S REPUBLIC OF CHINA

FOR

POLICY AND INSTITUTIONAL SUPPORT FOR

SOCIAL INSURANCE ADMINISTRATION

October 2003

CURRENCY EQUIVALENTS

(as of 15 September 2003)

Currency Unit	–	yuan CNY
CNY1.00	=	\$0.1208
\$1.00	=	CNY8.2767

ABBREVIATIONS

ADB	–	Asian Development Bank
MOF	–	Ministry of Finance
MOLSS	–	Ministry of Labor and Social Security
NSIA	–	National Social Insurance Administration
NSSF	–	National Social Security Fund
PAYG	–	pay-as-you-go
PRC	–	People's Republic of China
SIA	–	social insurance administration
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Government of the People's Republic of China (PRC) requested the Asian Development Bank (ADB) to provide policy and institutional support for the social insurance administration (SIA) system during the 2003 Country Programming Mission. The Fact-Finding Mission thus visited Beijing on 11–15 August 2003 and reached an understanding with the Government on the objectives, scope, cost, financing, and implementation arrangements for the technical assistance (TA).¹ The TA logical framework is in Appendix 1. The Government has assigned high priority to social security reform due to population aging, poor financial performance of state-owned enterprises (SOEs), and severe financial and management stress resulting from the poor design of the old social security system.

II. ISSUES

2. An important milestone in social security reform was the promulgation of Document 26 in 1997 by the State Council, laying the conceptual framework for a multipillar pension system to replace the pay-as-you-go scheme.² The implicit pension debt is large and needs to be financed as part of the reform program.³ Due to the weak administrative structure and regulatory framework, many provinces had difficulty in collection, coverage, pooling, and funding of individual pension accounts. Funds were diverted from individual accounts to pay recurrent pension obligations. The pension system is still de facto pay as you go, which undermines public confidence and reduces incentives to contribute to the pension fund. Recognizing the serious risk brought by unfunded individual accounts, the State Council Task Force in December 2000 chose Liaoning Province to pilot-test the new approach aimed at fully funding individual accounts and reducing the size of implicit pension debt. At the same time, the National Social Security Fund (NSSF) was established as a trust fund, to be administered by the National Council for the Social Security Fund, to manage funds raised by the central Government to settle contingent liabilities of the social security system.⁴

3. The pilot project started on 1 July 2001. Throughout the pilot-test, the Liaoning government encountered a number of challenging issues. Long-term actuarial cost analysis for the pooling system and individual accounts was lacking, and detailed statistics of active and retired participants in each city were often not available. The fund for basic pensions was often used to cover non-pension expenditures, including unemployment insurance, severance payments, compensation for employees in bankrupt companies, and social subsidies to disabled workers. It took an average of 30 days or more from the time of collection to the time of deposit in an interest-bearing individual account for the benefit of participants. Most processes involve manual steps that need to be streamlined and automated. The most pressing issue is the current deficit for all 14 cities in Liaoning.⁵ As yet, there is no provincial pooling of basic pensions in Liaoning. It is widely believed that the Liaoning pilot was actuarially unsound and unsustainable. However, because of the poor quality of available data, the quality of actuarial projections is poor and cannot support prudent policymaking.

¹ The TA first appeared in *ADB Business Opportunities* (Internet edition) in 4 March 2003.

² The pillars are social pooling with individual accounts, enterprise-sponsored schemes, and individual market-based insurance. This structure was also adopted for health insurance.

³ Implicit pension debt—estimated to be 50–150% of gross domestic product (GDP)—is the total amount of pension obligations that the Government needs to cover to make the pension system actuarially sound.

⁴ Funding sources for NSSF include budget allocation, proceeds earned from divesting state shares in SOEs, state lottery, and issuance of long-term government bonds.

⁵ CNY6.7 billion in 2001. The deficit expressed as a percentage of pension payments ranges from 16.5% for Dalian City to 60.8% for Anshan City.

4. One reason for the less-than-satisfactory result of the pilot program is that Liaoning has a decentralized SIA covering 14 cities, 7.5 million employees, and 2.8 million retirees. The Liaoning Social Security Department has overall responsibility for policymaking and overseeing operations of local SIAs. They mirror the city and district government organization, performing administrative activities:

- (i) SIA operational processes vary widely and procedures have no formal procedural documentation and no established basic performance criteria. Facilities and staffing adequacies vary depending on city or district economic conditions. Interrelationships between provincial and local SIAs do not facilitate collection and/or retrieval of necessary data.
- (ii) Different collection compliance techniques are used without proper authority or standardization. The supervisory committee has yet to begin its work.
- (iii) SIAs have no standardized job descriptions or qualification requirements. Certain key positions remain unfilled largely because of low pay. Standardized training and development programs are lacking, and staff training is mostly ad hoc.
- (iv) Different cities have different computers and have developed different management information systems. A new provincial system has been developed, but conversion of data is not automated. Significant work remains to be done to integrate information from the pension system with that from the labor, finance, taxation, civil affairs, and statistical bureaus of the provincial government to ensure efficient service and minimize leakage.

5. The PRC SIA system operates pension schemes for 140 million people, medical insurance schemes for 94 million, unemployment insurance schemes for about 100 million, and maternity and working injury insurance for about 40 million each. The system comprises 6,469 agencies and close to 100,000 staff, including 7,000 handling rural social security. Although over 70% of SIA staff have 2–4-year college degrees, they are generally unqualified for social security work. Organizationally, SIAs are service providers of the social security system while the Ministry of Labor and Social Security (MOLSS) and local labor bureaus are policymakers and supervisors. SIAs are fully budget supported by different government levels, but their allocations are often insufficient and sometimes only cover basic salaries.

6. MOLSS maintains a central government agency, the National Social Insurance Administration (NSIA).⁶ It has 13 divisions and a staff of 75. Its mandate is to provide policy and operational guidance to manage and administer the social security system nationwide. Specifically, NSIA (i) supervises the SIA system;⁷ (ii) provides policy guidance to local SIAs on operational issues such as registration; reconciliation of records, management of individual accounts, and inheritance of benefits; (iii) allocates fiscal transfers among provinces based on certain criteria;⁸ and (iv) conducts prequalification tests for senior-level management personnel of SIAs. NSIA has found that reallocation of social security funds across provinces has been difficult where SIAs are decentralized, such as Liaoning, which lacks standardized operational procedures, performance criteria, and connectivity and unification of the information network; institutional capabilities; and human resources.

⁶ NSIA is fully funded by the government budget but is not part of government structure, and its employees are not civil servants.

⁷ NSIA does not audit local SIAs as SIA audits are to be done by the auditor office of the respective levels of local government.

⁸ The Ministry of Finance is also part of the decision-making process.

7. Of 31 PRC provinces and municipalities, only 2 provinces (Shaanxi and Jilin) and 2 municipalities (Shanghai and Tianjin)⁹ have centralized SIAs. Most provinces have had difficulty introducing a centralized SIA at the provincial level because of resistance of local governments, and administrative difficulties brought about by the decentralized government structure, specifically pertaining to local finance departments and taxation bureaus. Centralization of SIAs has advantages but some issues must also be addressed: responsibilities at various levels of government, computer and information system integrity, and security in transferring information between different levels of governments.

8. Before 1999 the situation in Shaanxi was the same as in other provinces when local SIAs were associated with each level of government, and provincial governments had difficulty implementing reform policies as well as reallocating social security funds between localities. The Shaanxi provincial government recognized that SIAs had to be centralized to ensure consistent policy implementation and social security fund management. In 1998 the budget and administration of municipal and county SIAs were consolidated at the provincial level so that local SIAs now represent the provincial SIA, with standardized designations.¹⁰ The salary of its 1,700 staff and other benefits are provided from the provincial budget. The provincial SIA bureau is the policymaking body, and the municipal and city SIAs are the operational agencies.

9. In Shanghai, operational efficiency improved after 19 district SIAs were consolidated into a municipal system. Now only one full-time staff, rather than staff in 19 separate SIAs, is needed to handle the integrated information system. Financial operations now need only 50 staff (down from 98), accelerating fund flows and strengthening financial control. Social security collections per staff of the Shanghai SIA increased from CNY26 million in 2000 to CNY32 million in 2001 and CNY37 million in 2002. The Shanghai SIA has also conducted systematic and targeted training for its 1,100 staff.

10. ADB has been a key partner of the Government since the launch of social security reforms through directly targeted policy and operational assistance¹¹ to build an enabling policy and regulatory environment.¹²

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

11. The purpose of the TA is to strengthen institutional capabilities of the SIA system to accelerate social security reform. The TA will help improve operational efficiency of social security services by adopting standardized operational procedures with well-defined performance criteria, support human resource development through effective training programs and training materials, and recommend policy choices and steps leading toward the consolidation of SIAs.

⁹ Municipalities directly under the central Government include Beijing, Tianjin, Shanghai, and Chongqing.

¹⁰ The SIA bureau in the provinces, SIA division in municipalities, and SIA center in the counties.

¹¹ ADB. 1998. *Pension Reform*. Manila (TA 3148 for \$2.4 million); ADB. 2001. *Policy and Institutional Support for the Social Security Reform Pilot Program*. Manila (TA 3733 for \$1 million).

¹² ADB. 1995. *Fiscal Policy and Regulatory Framework for Social Security Reform*. Manila. (TA 2383 for \$540,000); ADB. 2000. *Policy Support for Social Security Reform under the Tenth Five-Year Plan*. (TA 3607 for \$150,000); ADB. 1999. *Development of Economic Laws*. Manila. (TA 3279 for \$1.4 million); ADB. 1999. *Capacity Building for the Insurance Sector Regulatory and Supervision System*. Manila (TA 3302 for \$700,000); ADB. 1999. *Capacity Building of the Capital Markets' Regulatory System*. Manila. (TA 3304 for \$1 million).

B. Methodology and Key Activities

12. The key activities of the TA will include the following:
- (i) Standardize SIA operational procedures for all aspects of social insurance services, covering (a) the use of performance contracts, (b) establishment of service standards, (c) details of the reporting system, (d) common formats for information exchange, and (e) computer networking to improve performance management.
 - (ii) Conduct surveys and policy research based on the experience of Shaanxi and Shanghai in consolidating SIA management at the provincial level; and identify other provinces likely to succeed, based on their demographics and level of existing facilities and staff adequacies. Assess the feasibility of further consolidation of the SIA system at the central government level. Issues include sequencing of the consolidation process, potential policy impacts on other parts of the government structure, human resource and budgetary allocations, feasibility of imposing service fees as main or supplementary budget sources, and private sector investments to reduce government ownership in SIAs.
 - (iii) Assess training needs and establish systematic professional training and human resource development programs covering areas such as (a) curriculum design; (b) drafting of specialized training materials; (c) an automatic test platform as part of the SIA staff prequalification, and automatic database for test questions; and (d) recommendations leading to the establishment of a training center.

C. Cost and Financing

13. The total cost of the TA is estimated to be \$1 million equivalent, including foreign exchange cost of \$385,000 and local currency cost of \$615,000 equivalent. ADB will provide \$700,000 to finance the entire foreign exchange cost of \$385,000 and a portion of the local currency cost equivalent to \$315,000. The TA will be financed on a grant basis from the ADB-funded TA Program. The Government will contribute \$300,000 in kind for office space, counterpart staff, transportation, and other services. Details of the cost estimates for three components and the total are in Appendix 2.

D. Implementation Arrangements

14. NSIA will be the Executing Agency. MOLSS will provide policy and implementing support. An interagency working group will be established, under the leadership of the director general of NSIA, to work as the consultants' counterpart. NSIA and MOLSS will provide office space, counterpart staff, transportation, and other services to the consultants and will arrange appointments for the consultants with relevant agencies and organizations.

15. The TA will engage three international consultants for a total of 6 person-months, including one team leader and social security administration specialist (3 person-months), one social security training specialist (2 person-months), and one social security operations specialist (1 person-month). The three domestic consultants (total of 14 person-months) will cover the same set of expertise as the international consultants. More international and domestic specialists will be engaged to cover specific technical areas such as medical insurance service standards etc., and will be identified during TA implementation as need arises. The terms of reference for the consultants are in Appendix 3. The Project will be tendered to an international

firm based on a simplified technical proposal, using the quality- and cost-based selection method. The consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB on the engagement of domestic consultants. TA equipment will be provided in accordance with ADB's *Guidelines for Procurement*.

16. The consultants will submit in English and Chinese (i) inception reports 2 weeks after services start, (ii) interim progress reports at appropriate stages of TA implementation, (iii) draft final reports before the conclusion of the contract, and (iv) final reports 2 weeks after incorporating comments of EA and ADB. The TA will start in March 2004 and be completed in September 2004. Domestic training seminars will be held intermittently under the new training curriculum and using new materials. Overseas training will be selectively conducted in countries with a consolidated SIA system and advanced operational and management mechanisms. Workshops will be organized near the end of the implementation period to invite comments from international and domestic experts in the field and to disseminate the report's findings.

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the People's Republic of China in an amount not exceeding the equivalent of \$700,000 for Policy and Institutional Support for the Social Insurance Administration, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>Strengthen institutional capabilities of the People's Republic of China social insurance administration (SIA) system</p>	<p>Acceleration of social security reform and restructuring and achievement of policy objectives at the operational level</p>	<p>Progress reports by consultants and the NSIA</p> <p>Supervision review missions</p>	<p>The Government supports continued reforms.</p>
<p>Purpose</p> <p>Improve the operational efficiency of social security services</p> <p>Facilitate human resource development</p> <p>Support consolidation of SIAs at the provincial level</p>	<p>Adoption of standardized procedures and performance criteria</p> <p>Development of training programs and training materials</p> <p>Policy recommendations for policy choices and steps</p>	<p>Progress reports by consultants and NSIA</p> <p>Supervision by review missions</p>	<p>Various levels of government and agencies coordinate with each other.</p>
<p>Outputs</p> <p>Standardization of operational procedures for social insurance services</p> <p>Drafting of specialized training materials and establishment of an SIA staff prequalification process</p> <p>Conduct of surveys and policy research based on experiences of Shaanxi and Jilin provinces in consolidating SIA management at the provincial level</p>	<p>Use of performance contracts and service standards, details of the reporting system, common formats for information exchange, and computer networking to improve performance management</p> <p>Curriculum design and automatic test platform as part of SIA staff prequalification, and a recommendation to establish a training center</p> <p>Identification of issues such as sequencing of the consolidation process, potential policy impact on other parts of the government structure, human resource and budgetary allocation, feasibility of imposing services fees as main/supplementary budget sources, etc;</p>	<p>Progress reports by consultants and NSIA</p> <p>Supervision by review missions</p> <p>Completion of tasks on time</p>	<p>NSIA does high-quality preparatory work.</p> <p>TA consultants' services are of acceptable quality.</p>
<p>Activities</p> <p>Recruit international and domestic consultants</p> <p>Organize training seminars and conferences to disseminate policy recommendations</p>	<p>Three international consultants for a total of 6 person-months, and 3 domestic consultants for a total of 14 person-months</p>	<p>Progress reports by consultants and NSIA</p> <p>Completion of tasks on time</p>	<p>Counterpart support is available, and consultants and counterpart staff cooperate with each other.</p>

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants ^b	210	0	210
ii. Domestic Consultants ^c	0	155	155
b. International and Local Travel	25	10	35
c. Reports and Communications	0	20	20
2. Equipment ^d	25	0	25
3. Training, Seminars, and Conference			
a. Facilitators (Interpreters and Translators)	0	10	10
b. Conference	0	30	30
c. Domestic Training and Seminar	0	30	30
d. Overseas Training	70	0	70
4. Surveys	0	20	20
5. Miscellaneous Administration and Support Costs	5	0	5
6. Contingencies	50	40	90
Subtotal (A)	385	315	700
B. Counterpart Financing			
1. Office Accommodation and Transport	0	120	120
2. Remuneration and Per Diem of Counterpart Staff	0	110	110
3. Contingencies	0	70	70
Subtotal (B)	0	300	300
Total	385	615	1,000

^a Financed by Asian Development Bank's TA funding program.

^b Around \$50,000 is earmarked for additional international specialists and will be identified during technical assistance (TA) implementation as need arises.

^c Around \$65,000 is earmarked for additional domestic specialists and will be identified during TA implementation as need arises.

^d Equipment to be purchased includes notebook computers, fax machines, and photocopiers.

Source: Asian Development Bank staff estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. **International Consultants** (6 person-months)

1. **Team Leader and Social Security Administration Specialist** (3 person-months)

18. As the team leader, the consultant will be responsible for the overall management of technical assistance implementation, recruitment and managing of resource persons for various tasks, and timely delivery of quality interim and final reports. As the social security administration specialist, together with other international and domestic consultants, the consultant will take the lead in conducting policy research to restructure and reform the nationwide Social Insurance Administration (SIA) system. Specifically the consultant will do the following:

- (i) Collect information and introduce the experience of similar SIAs in industrial countries, focusing on types of organizations, organization structures, administrative procedures, relationships with the Government and reporting requirements.
- (ii) Direct the domestic social security administration specialist to undertake surveys or case studies on consolidating SIA management at the provincial level, and analyze the potential policy impact on other parts of the government structure.
- (iii) Recommend sequencing of the consolidating process, organizational framework under the consolidated structure, and a staffing plan and human resource and budgetary allocations.
- (iv) Examine the feasibility of imposing services fees as main/supplementary budget sources, etc.
- (v) To the extent possible, quantify the impact of consolidation on central and provincial government budgets and personnel, and examine the feasibility of introducing the “civil servant” management system.
- (vi) Identify corresponding reforms needed in the regulatory and supervisory framework of social security reform to support the proposed consolidation of SIAs.
- (vii) Recommend measures to strengthen governance standards of SIAs and institute sustainable supporting mechanisms and capacity-building programs.
- (viii) Direct the domestic social security administration specialist to collect data and other information related to administrative, financial, and operational indicators, and to performance benchmarks; and conduct a cost-and-benefit analysis for SIA consolidation.

2. **Social Security Training Specialist** (2 person-months)

19. In consultation with the international and domestic social security administration and operation specialists, the consultant should take the lead in systematizing professional training

and human resource development programs and their implementation. Specifically the consultant will do the following:

- (i) Review and critically comment on existing training programs at various levels of SIAs and recommend structural reforms.
- (ii) Assess training and design training curriculums and teaching plans for specific functions within the SIA system based on qualification requirements for various positions, and develop innovative training methodologies.
- (iii) Direct the domestic social security training specialist to prepare specialized training materials and handbooks and collect test questions and develop a database for SIA standard staff entrance exams, and prequalification tests.
- (iv) Develop an internet-based testing platform using artificial-intelligence techniques for real-time testing, question selection, grading, and statistical analysis.
- (v) Conduct feasibility analysis on establishing SIA training centers, identify issues to be addressed, and prepare a master training plan with quantifiable targets of trained professionals within the SIA system.

3. Social Security Operations Specialist (1 person-month)¹³

20. In collaboration with the international and domestic social security administration and operation specialists, the consultant will take the lead in developing social insurance service providers' operational procedures to streamline and standardize SIAs'. To complete various tasks, the specialist will also need to recruit and manage resource persons. Specifically, the consultant will do the following:

- (i) Based on survey results, review and critically comment on existing operational procedures at various levels of SIAs, and identify key issues that the new set of operational procedures will address.¹⁴
- (ii) Streamline social insurance service operations and direct the domestic social security training specialist to draft and pilot-test provisional operational procedures in selected SIAs, and evaluate the findings and disseminate them to SIAs nationwide.
- (iii) Introduce the concept of using performance contracts and establishing service standards and, to the extent possible, quantify improvements that the streamlined operational procedures will bring.
- (iv) Identify the details of the reporting system, common formats for information exchange, and computer networking to improve performance management.

¹³ The corresponding domestic consultant will be the domestic consulting team coordinator (6 person-months), and the domestic specialist under the guidance of the international consultants will execute a significant portion of the terms of reference.

¹⁴ NSIA recently issued the provisional operational procedures for pension. Operational procedures for medical insurance and work injury insurances are being prepared.

B. Domestic Consultants (14 person-months)

21. Domestic consultants with extensive in-depth country and sector knowledge and good contacts with the Government and enterprises will be recruited. The domestic consultants will help the international consultants quickly become familiar with their tasks by translating various documents into English; researching and compiling government policies, regulations, and procedures adopted; and ensuring that international consultants' output is appropriate. The domestic consultants are expected to possess sufficient experience in their relevant fields, and will include the following:

- (i) **A social security administration specialist (4 person-months)** with the following main responsibilities:
 - (a) Undertake case studies of Shaanxi and Shanghai on consolidating SIA management at the provincial level, particularly focusing on impacts of consolidated administration on provincial pooling of basic pension and development of information systems in selected provinces.
 - (b) Analyze the potential policy impact on other parts of the government structure, assess policy readiness in introducing the consolidated SIA system in other selected provinces, and examine the possibility of further integrating SIAs at the central level.
 - (c) Collect data and other information to establish performance criteria and other social security service-related benchmarks.
 - (d) Prepare a profile of the key province SIAs in terms of administrative, financial, and operational indicators.
 - (e) To the extent possible, conduct cost-and-benefit analysis of SIA consolidation, particularly in terms of performance improvements in delivering social security services.
- (ii) **Social security training specialists (4 person-months)** with the following main responsibilities:
 - (a) Draft specialized training materials and handbooks for administration and services of five existing social security programs: pension, unemployment insurance, medical insurance, work injury insurance, and maternity insurance.
 - (b) Draft specialized training materials and handbooks for operational procedures, financial management procedures, fund management, audit, information management, and statistics.
 - (c) Collect test questions and develop a database for SIA standard staff entrance exams, and prequalification tests.
- (iii) **Domestic consulting team coordinator and social security operations specialist (6 person-months)** with the following main responsibilities:
 - (a) Help the National Social Insurance Administration (NSIA) draft operational procedures for social insurance service operations in social insurance registration, calculation of contribution rates for various social security schemes, and collection of social security contribution; for pension in individual account management, confirmation of benefits, benefit distribution, financial management and accounting, audit, and

social services of retirees, etc; for medical insurance, in payment and settlement schemes; contractual management regarding appointed hospitals and pharmacies; and establishment of a monitoring mechanism for medical insurance fund management, including key indicators for medical procedures, medications, treatments, etc; and for work injury insurance, in establishment of work injury recognition procedures through the external incapability committee; and of operational procedures for work injury insurance services under SIAs.

- (b) Help NSIA further pilot-test provisional operational procedures in selected SIAs, evaluate the findings, and disseminate them to SIAs nationwide.