During the last 30 years, the People’s Republic of China (PRC) has been successful in achieving the challenge of raising and sustaining economic development with its 9% average annual growth rate. However, many people in the country still remain poor with inequality increasing between the urban and rural areas. Low farm productivity, poor rural infrastructure, lack of access to rural finance, poor education and skills, and other constraints limit economic opportunities for the rural poor and leave them vulnerable to economic, social, and personal risks.

The Government is therefore working on creating a more balanced economy and improving the condition of the rural poor. These would involve strengthening rural social services and installing various reforms beneficial to the rural sector, among others.

**Issues and Challenges on the PRC’s Pension System**

The pension system for the rural population is one of the areas that require urgent reform in the PRC. It is lagging behind the pension system for urban residents partly due to a lack of clear consensus on the direction, strategies, and modalities needed for rural pension reform. As a result of dynamic shifts in demography, the traditional argument that family support and land-use rights are the best form of old age livelihood protection for rural residents has gradually diminished. Relatedly, the number of children per family is declining and the aging of the population in rural areas has been increasing. Note that the rapid aging of the PRC’s population has a significant impact on its labor pool. As a portion of total population, the working age population will peak around 2010 at 72.2% according to the conventional definition (i.e., 15–64 year-olds as % of total population) and will then steadily decline to 60.7% in 2050 according to projections by the United Nations.

As early as the 1990s, several rural pension pilot schemes have been tested in rural areas, including those reflecting multi-pillared urban pension schemes and others based on fully funded individual accounts. However, with the lack of fiscal support from the Government and funding support from township and village enterprises, most pilots could only offer low-level benefits. Since 2003, some local governments have started to support rural pensions with fiscal subsidies, resulting in a new scheme of rural pension that combines “subsistence pension,” which is supported by government funding and individual account.

The pension system in the PRC is traditionally classified into two unrelated parts: a system for urban enterprise workers, and a system for civil servants. The urban pension system is currently being expanded to integrate part of the pension systems for civil servants and migrant workers.

Currently, pension coverage is mostly limited to state-owned enterprises in urban areas, which exclude at least two-thirds of the population living in rural areas. In fact, figures from the National Bureau of Statistics reflect the rural pension system has been recognized as an important part of the national social security system that will help unite the country and bridge the division between the urban and rural areas.
that only 46% of urban employees were covered in 2004 and 11% for rural areas. In sum, this translates into a total country-wide coverage ratio of only 23%. This leaves roughly 576 million employees in urban and rural areas uncovered by any pension system.4

Among the factors that merit the urgent reform of rural pensions include: the current priorities of the Government, and the significant negative impact of the ongoing global financial crisis on the country’s economy. Government efforts have been focused on the reduction of the traditional rural–urban divide. Hence, rural pension system has been recognized as an important part of the national social security system that will help unite the country and bridge the division between the urban and rural areas. On the other hand, the global financial crisis resulted in the loss of millions of jobs, particularly among migrant workers from the rural areas. Consequently, the rural pension system has become essential in providing basic welfare safeguards for these workers, and policy makers consider it a good area of focus for the Government’s stimulus package that was developed in response to the financial crisis. The PRC’s long-term strategy until 2020 aims for a 100% participation in urban and rural pension systems nationwide.

However, there are challenges in implementing reforms in the rural pension system. One relates to the administrative aspect of the pension system’s implementation including weak institutional capability to expand the coverage of urban and township social insurance administrations and the information system to cover rural pension operations. Substantial updates on operational procedures and investments in capacity building and basic administrative and information technology infrastructure are therefore required.

The rural pension system needs to be consistent with the PRC’s overall social security reform objectives and has to be an integral part of the overall pension system. In addition, policy analysis work must address the lack of an adequate policy, legal, and regulatory framework; the lack of an adequate administrative structure; and the poor capacity to implement an appropriate rural pension system. There is also a need to determine the demand for pension support resulting from the dynamic shifts in the PRC’s demographic structure. Furthermore, a database has to be established to monitor the operation of the rural pension scheme nationwide, and strengthen the Government’s capability to monitor and guide the development of the rural pension system.

**ADB Intervention to Reform the Rural Pension System**

Rural pension reform is a challenging area and provides an opportunity for the Asian Development Bank (ADB) to assist in developing the rural pension system as an important link for the social safety nets and as a crucial element in the PRC’s rural financial infrastructure.

One of the key thrusts of ADB assistance under the 2008 Country Partnership Strategy is to support inclusive growth and balanced development—by focusing operations on poorer provinces and promoting integrated rural and urban development. The corresponding financial sector operation under this thrust is the building of an inclusive, market-oriented rural finance system and the provision of support to social safety nets and pension system in response to the demographic shift in the PRC.

Since the 1990s, ADB has been a key partner of the Government in supporting social security reform and in building an enabling policy and regulatory environment. It has worked with government ministries, social security administrations both at the central and local government level, financial market regulators, legislators, and social security funds on a wide array of different issues concerning urban and rural pension and medical insurance reform.

ADB, in 2009, approved a technical assistance (TA) to the PRC for Rural Pension Reform and Development (TA 7317). It is primarily aimed at establishing an effective rural pension system to provide basic old-age income protection for the rural population. The expected outcome will be an improved policy and regulatory framework and strengthened financing mechanisms for the rural pension system. Key activities would include providing support to the implementation of the 200 county pilots by providing guidance at the policy, operational, management, and technical levels; and extraction of lessons in policy reform, formulation of operational procedures and technical parameters.

The TA output will include a main report entitled “Sustainability analysis of the rural pension system nationwide,” that will cover an overview of the historical development and current situation of, and problems concerning the rural pension system; a description of the current policy, legal, regulatory, and administrative framework of the pension system; and discussion of the policy conditions needed for the development of a sustainable and effective rural pension system. In addition, three sub-reports will be produced:

- Projection of, and quantitative analysis on the sustainability of the rural pension system nationwide;
- Projection of, and quantitative analysis on the sustainability of the pension system in typical rural areas in western and central PRC; and
- Database design for monitoring the operation of rural pensions.
Endnotes


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ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two thirds of the world’s poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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