

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA1024

Project Name	China: Guangdong Social Security Integration and Rural Worker Training (P117596)
Region	EAST ASIA AND PACIFIC
Country	China
Sector(s)	Compulsory pension and unemployment insurance (40%), Vocational training (30%), Other social services (20%), Public administration- Other social services (10%)
Theme(s)	Other social protection and risk management (40%), Improving labor markets (30%), Other human development (20%), Other public sector governance (10%)
Lending Instrument	Specific Investment Loan
Project ID	P117596
Borrower(s)	International Department, Ministry of Finance
Implementing Agency	Dept. of Human Resources and Social Security
Environmental Category	B-Partial Assessment
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Decision	

I. Project Context

Country Context

China has achieved high and sustained growth since opening up, quickly graduating to a middle income country and looking towards a transition to high income status over the coming decades. While growth has been impressive, concerns have also emerged about rising levels of inequality, both in terms of incomes and consumption, but also in terms of equality of opportunity to public services and social security programs. An important element of promoting equality of opportunity is strengthening rural-urban integration to promote a more integrated labor market in which workers move freely within and across provinces, enhance their skills to contribute to productivity growth in destination sites, and are covered by a social insurance system where entitlements are portable and there is wide coverage. These goals have been repeatedly emphasized in the pronouncements of the national leadership such as the 12th Five Year Plan and the commitment at the 17th CPC to fully integrated social security system with comprehensive coverage by 2020, and enhanced financing and policy support for training of migrant workers to promote their integration into urban labor

markets.

In recent years, there have been important developments in expansion of social insurance coverage in China. Rural health insurance underwent a massive expansion in coverage under the New Cooperative Medical Scheme (NCMS), achieving coverage rates of over 95 percent across the country. More recently, there has been a significant expansion of health insurance for urban residents who are not already covered under the urban workers' health insurance program, and there are efforts in different parts of the country to merge NCMS with urban residents' schemes to promote more seamless coverage, particularly for mobile workers. In September 2009 the authorities established a national framework for rural pensions, the National Rural Pension Scheme (NRPS), and in July 2011, introduced an Urban Resident Pension Scheme (URPS). Both schemes are being rapidly rolled out, with over 270 mln voluntary contributors and a target of full national geographic coverage by 2013. The rapid expansion of social insurance is seen both as a major equity initiative and as having important efficiency impacts.

Guangdong province is at the forefront of these social and economic dynamics and policy initiatives in China. It has become an industrialized and export-oriented economy and has the largest aggregate GDP among China's provinces, with less than 5 percent agricultural production in 2011. The proportion of urban population is 66.5 percent in 2011, 15.3 percentage points higher than the national level. It also has the largest provincial population of 105.1 million, including 18.7 million inter-provincial migrants and more than 26 million migrants in total, the largest migrant population of any province in China.

Guangdong is now undertaking dramatic structural changes to move away from its traditional low-cost manufacturing model. The driving forces include rising factor prices, the shock of the global financial crisis, exchange appreciation and policy initiatives, all of which are increasing pressure to accelerate industrial upgrading. In response, the provincial authorities are pressing to restructure the economy and move up the global value chain so as to maintain growth and competitiveness. As a result, growth in knowledge-based and innovative sectors has been relatively faster than in labor-intensive sectors. The export of high- and new technology products has increased to 37 percent in 2011 from 23 percent in 2001. The traditional low-end and labor intensive industries have been shifted to non-Pearl River Delta areas within or outside Guangdong.

The shifting of the Guangdong economy to production of more knowledge-intensive goods and services has resulted in a growing demand for skills in the workforce and a dynamic adjustment in the labor market. The proportion of job vacancies for skilled workers with training, certificates and professional titles has increased from 42 percent in 2003 to 62 percent in 2011. Empirical studies show that returns to additional years of schooling (including technical education and training) in urban China have increased in response to demand dynamics. In addition to the efficiency gains from public investments in skills development, the authorities also see wider access to training opportunities for both new entrants and existing workers as an important tool for addressing inequalities of opportunity and outcomes in the province.

In addition to the human capital dimension of structural transformation, the Guangdong authorities are aiming to reduce labor market rigidities resulting from current hukou and social insurance policies. At present, movement across prefectural boundaries within the province and beyond incurs significant welfare costs, as pension portability cannot be assured, the mechanism for reimbursement of insured health services is inefficient, and access to employment and other

services may be limited. The inefficiencies from such a system are compounded by the inequity of the system, with migrant and other mobile workers substantially less likely to be covered by social insurance programs and other social services (e.g. only around one quarter of migrant workers participate in pension schemes for example, against around 80 percent of local hukou workers).

Overall then, Guangdong places a growing premium on workers who are more highly skilled, are adequately incentivized to follow productive job opportunities wherever they arise, and who have access to a basic set of social insurance and labor market services that enhance the welfare gains from work and provide a basic level of protection against shocks. Reforms of the TVET system, and social security and employment services are thus at the heart of wider efforts to promote equality of opportunity for workers and enhanced productivity for the economy.

Sectoral and institutional Context

The commitment of the Guangdong provincial leadership to reforms of social security and migrant worker education and training is reflected in the provincial decree on Equalization of Basic Public Services of 2009, and in detail for social security in the draft Plan on Social Security Integration. The social security plan has a number of ambitious targets which would – if effectively executed – put Guangdong at the forefront of reforms nationally, and at the level of mature MIC economies. They include full portability of pension benefits within the province by 2015, total coverage of the rural pension scheme by 2013, full integration of NCMS and urban residents' health insurance, and increased health insurance protection. The authorities have also prioritized skills development programs as one of the basic public services that will be equalized across the province. Huge public resources have been allocated in recent years to promote the development of education and training. Investment in education has more than doubled from 57.6 billion RMB in 2007 to 122.9 billion RMB in 2011, accounting for over 22 percent of revenues in the same period.

9. While the policy directions for social security integration and labor transfer and skill enhancement of migrant workers are clear, there is a challenging implementation agenda to realize the goals and achieve both great equality of opportunity and enhanced labor market efficiency. In the social security area, current systems are fragmented in a number of ways, both across individual social insurance programs, and spatially across and within provinces even within individual programs. This has many elements:

- The first is policy fragmentation, with different categories of workers, and rural and urban workers under distinct policy frameworks in most cases.
- The second is that the flow of information on beneficiaries, finances, service usage and other elements remains localized, with information systems that are unable to communicate across jurisdictions and/or SI programs, or do so inefficiently and not in a timely or client-friendly manner.
- The third relates to funding of the SI system, with pooling of resources still largely at city (or even in some cases, below city) level, reducing the insurance pool and resulting in disparities in benefit levels and health service packages across localities.
- Fourthly, while service delivery has gradually improved, there are a range of challenges remaining, including outreach of SI services for rural populations below the county and township level, relatively limited facilitation of access to services for program participants through applications of the most modern ICT applications and web-based platforms, etc. This impedes effective and timely flow of information and funds within the system, and complicates the lives of workers who wish to move from rural to urban areas, across municipalities, or even between sectors within municipalities.

While policy progress towards greater integration and portability across social insurance schemes and across administrative boundaries has made some progress, the absence of an inter-operable MIS for social insurance and employment services across the provinces is proving a growing constraint to realizing the policy goals of integration and entitlement portability in practice. While a number of cities in Guangdong have invested significant resources in social insurance and employment services IT systems and infrastructure, there still remain a number of challenges. Despite such systems fragmentation, there is increasing consolidation of institutional management arrangements in social insurance in Guangdong. Various forms of social insurance are managed by the Social Insurance Fund Administration (SIFA), which oversees administration, coordinates revenue collection for most social insurance programs. This falls under the overall management of the Department for Human Resources and Social Security (DHRSS), which in turn operates a provincial level Data Centre which is responsible for employment services and HR management information and is coordinating recent efforts to develop a provincial MIS for social insurance, employment services and HR management. Achieving the goal of an effective provincial MIS which allows for inter-operability across prefectures and business lines will require enhance coordination between SIA and the DHRSS Data Centre as the system is developed and deployed. It will also require close cooperation with prefectures, which have diverse starting points, and will need fully to buy into the model of provincial MIS chosen for it to function well in practice.

There is also a detailed framework and draft Feasibility Study for a provincial level database and MIS for integrated social security, employment services and HR management. This is a critical element in realizing the policy goals on expansion coverage, integration and benefit portability. Guangdong is committed to being a leading province in making this goal a reality, though there are significant coordination challenges to be overcome, and realization of an integrated provincial social insurance MIS with full geographic coverage will take a number of years to realize in a phased manner.

In Guangdong, vocational and technical education is playing an increasingly important role in the drive for skills. The province has issued a series of policy initiatives to strengthen its education and training systems in recent years, and tremendously increased public investment in training programs for rural and migrant workers. Enrollments in vocational secondary and technical schools have increased from 2.7 million in 2000 to 8.5 million in 2010, and their graduates from 2.6 million to 5.0 million in the same period. On the other hand, policy makers have increasingly paid attention to several key issues related to training and skills development. Those issues include: (i) the quality and relevance of training, (ii) equitable access to training programs; (iii) the efficiency of training resources allocation. Low-skilled, labor-intensive manufacturing and services have been becoming more knowledge-intensive and demanding workers with higher skill levels.

Current policies focus on the provision of pre-job training for rural workers and training capacity at school levels. As more people receive pre-job training, the policy emphasis is shifting towards quality, relevance, access and efficiency of training programs, and how to develop delivery models that are more suited to in-service training and skills upgrading of adult workers. Guangdong is exploring on-job and in-service training for rural workers through providing tax and subsidy incentives for enterprises to organize in-service training. At vocational and technical school level, schools are: (i) investing in developing competency-based modular curriculum and teachers training; (ii) strengthening the linkage and cooperation with enterprises through school-enterprise partnership, labor market and employer surveys, and informal channels to open new specialties and

determine enrollment size; (iii) taking proactive measures to target students with agricultural hukou (household registration permit) and female students.

Against this background, pressures are growing to expand in-service training and in doing so to change the patterns and methods of instruction to meet the needs of adult learners that are known to be different from those of younger workers. Making this shift, however, is proving difficult and requires significant new investment. A number of constraints are present to the restructuring of DHRSS schools that the project is expected to help overcome. Schools and industry will need to develop new working relationships for in-service training, and define their respective roles and responsibilities. Curricula and instructional capacity will need to be updated for more advanced skills and reaching adult learners in rural communities. School management will need to be enhanced, as will facilities and equipment serving new learners. Counseling and placement services are needed to promote greater efficiency in training outcomes. Learning from these new investments and disseminating lessons will be important to other DHRSS schools.

II. Project Development Objectives

The Project Development Objectives are to enhance portability of social security data and beneficiary entitlements, and to strengthen the skills base and employment prospects of rural hukou workers in Guangdong.

III. Project Description

Component Name

Social Security MIS Component

Rural Worker Training Component

IV. Financing (in USD Million)

Total Project Cost:	149.71	Total Bank Financing:	80.00
Total Cofinancing:		Financing Gap:	0.00
For Loans/Credits/Others			Amount
Borrower			69.71
International Bank for Reconstruction and Development			80.00
Total			149.71

V. Implementation

Implementation and institutional arrangements:

The proposed institutional and implementation arrangements for the project would be to have a Project Implementation Leading Group headed by the Director-General of Guangdong DHRSS to facilitate coordination with the Provincial Finance Department (PFD) and the Provincial Development and Reform Commission (PDRC), as well as inter-Divisional coordination within DHRSS, and to provide substantive guidance to the Project. Beneath this oversight Group would be a Project Management Office (PMO) housed in the Division of Finance and Planning within DHRSS. Under the PMO, there would be sub-units for each component: the first housed in the Data Center of DHRSS for the social security component and the second in the Technical Education Division of DHRSS for the rural worker training component. The units in the two divisions will report to the PMO Director and the Leading Group. The provincial PMO is expected to identify

specific needs for technical assistance during the project, assess investment decisions, develop terms of reference, review and evaluate consultant proposals, monitor project progress, assist in the dissemination of the lessons and experiences, and assess project outputs.

For the training component, there are further Project Implementation Units (PIUs) in each of the three schools. The PIUs will be fully staffed with technical experts and administrators in charge of school reform, procurement, financial management, disbursement, M&E and coordination. The PIUs will support the implementation of school activities. In the project schools, the Presidents will be the directors of the school PIUs and also the Deputy Project Directors of the provincial PMO. The Project Directors at school level will be responsible for project management and implementation. The provincial PMO will coordinate with the three project schools and provide project management support.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

VII. Contact point

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