

Social Assistance in China:

The Minimum Living Standards Guarantee Scheme

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Abstract

China's transition from a planned to market economy has been facing challenges in many directions. In attempting to establish a social security system that would function to smooth the transition, government has made efforts for most of the time in the past two decades to reconstruct for the urban residents work-related social insurance programs. Since the early 1990s, urban poverty resulting from reforming the state owned enterprises has become a source of social instability. In response to this, its emphasis shifted to the implementation of a means-tested social assistance benefit, the Minimum Living Standard Scheme (MLSGS). Evolving from a locally initiated program in the early 1990s, MLSGS is one of the few social programs in China financed alone by government. However, its implementation has left many problems unsolved, and the role of social assistance needs to be redefined with a view to the overall social protection system.

A brief account of China's social security reforms

During the planned economy period, state owned enterprises (SOEs) provided full and life-long employment for their employees with various employment-related benefits, such as old-age pensions and free education and health care, known as the “from cradle to grave” welfare system. With few people being outside the formal work-units, the need for social assistance was negligible. There were a few categorical social assistance programs, which catered only for a very small number of people in need¹. Following economic reforms that started in the early 1980s, an immediate and urgent issue confronting the government was to provide pensions for an increasing number of retirees emanating from many economically constrained SOEs and benefits for workers who were laid off or became unemployed in the course of reforming SOEs. Therefore, for most of the time since economic reforms started, the major efforts of the government have been focused on the establishment of social insurance schemes for retirees and workers in SOEs such as old-age pensions, unemployment benefits, and medical insurance (Chow & Xu, 2001; Leung, 2003; Bloom and Tang, 2004). On the whole, the reforms take the approach of “crossing the river by grouping stones”, relying on experimentation first and promotion later. Policies are made or adjusted

¹These schemes were established during the 1950s, which provided temporary relief in cash or kinds for mainly three types of people: victims of natural disaster, “three-no’s” households (e.g., no sources of income, no work ability, and no family caregivers), and other people receiving special preferential treatments (MCA, 2001).

based on a learning-by-doing approach. Below is a brief description of the major social insurance schemes developed since the reforms.

Pension reforms in China were initially intended to relieve SOEs of pension burdens through social pooling across SOEs². In the early 1990s, the objective of the reform was mainly to increase fund revenues through the establishment of provincially based unified pension schemes with the aim to cover all types of employees and enterprises. However, it soon proved difficult in practice to extend the schemes to the non-public sector, particularly those working in the private enterprises and the self-employed³. One problem was that enterprises or employees outside the public economy are also out of the effective control of the government. Another was that employees in the non-public sector generally lack the motivation to participate in the system because of uncertainties about the promised pension they would receive when they retire (Chow and Xu, 2002). Since the mid-1990s, reforms have been focused on the transformation of the system from a pay-as-you-go to partially funded scheme: social pooling plus individual accounts, which are managed separately. This change is intended to resolve the problems of providing pensions for a rapidly ageing population. Contributions by employers and employees are adjusted annually. Since 2000, individuals contribute 8 percent of the wage into their individual accounts, and enterprises 20 percent of the total wages into social pooling. Benefits consist of a basic pension and an individual account pension, taking into consideration both the wage and the accumulated savings in the individual account.

Currently, the pension system in China is faced with two major problems: inadequate funds and narrow coverage. Official statistics showed that by 2006 a total number of 141.31 million urban employees had participated in the old-age insurance programs, accounting for around 50 percent of urban employees, and over 46 million retirees were covered by the schemes (Ministry of Labor and Social Security, 2007).

Unemployment insurance reforms in China started as early as in the mid-1980s. The term “unemployment”, however, was not used in official statistics in China until 1994. Indeed, unemployment in the sense that a worker lost his job was a rare phenomenon during the pre-reform China, when government guaranteed employment was a typical feature of the planned economy. Entering the 1990s, unemployment began to increase rapidly along with the restructuring of SOEs, which introduced a series of measures to invigorate SOEs for making profits and increasing efficiency. The traditional socialist commitment of life-long employment or job security was gradually removed through the introduction of contract work, dismissal procedures and bankruptcy law. Workers may be unemployed as a result of dismissal, bankruptcy or termination of contract

² Between 1978 and 1985, the number of retirees in the state sector increased fivefold, and overall pension costs rose from 2.8 percent of total wages for urban employees to 10.6 percent, giving rise to the then widely known phenomenon of “pension crisis” (World Bank, 1997).

³ China’s economic reforms have also been accompanied by the emergence of a pluralistic economy and liberalized employment structure, in which increasing numbers of labor force have been shifting from the state to the non-state sector. By 2005, only 31% of urban employees worked in SOEs, compared with 76.2% in 1980 (China.org.cn, 2007).

(Chow and Xu, 2002; Leung, 2003, 2006).

To facilitate reforms of SOEs, between 1986 and 1999 the central government issued three major regulations on the establishment of unemployment insurance schemes. In the 1986 Regulations, unemployed workers were referred to as “employees waiting for jobs”, and the scheme covered only a few categories of laid-off workers in SOEs. With further reforms of SOEs, the number of involuntarily laid-off workers increased rapidly. In the 1993 Regulations, the name of “employees waiting for jobs” continued to be used, but coverage was extended to all workers in SOEs who lost jobs, except for temporary workers and workers who resigned on a voluntary basis. It was in the 1999 Regulations that the term unemployment was formally used and coverage was further extended to employees in all types of enterprises, with employers contributing 2 % and employees 1 % of the wage.

As such, unemployment emerged in China first in the form of laid-off employees. The laid-off employees were not counted as unemployed because their labor relations were still maintained in the enterprises, which continued to be responsible for providing them with a basic living allowance for a maximum period of three years⁴. This benefit was jointly funded by individual SOEs, local governments and unemployment insurance funds, each bearing one third of the funds, and was delivered through the reemployment service centers required to be established in SOEs. If a laid-off worker failed to find a job after receiving the living allowances for three years, he would then be eligible for unemployment benefits for a maximum period of 24 months, with benefit levels ranging from 50-75 percent of the wage depending on the number of years in previous employment. Therefore, China’s unemployment rates were kept at around 3% throughout the 1990s, which were quite low by international standards. If the laid-off employees and those who did not register at the employment offices were included, however, the figures would be much higher. By the end of 2006, the official urban unemployment rate was 4.1%, representing 8.5 million people, with around 40% of urban employees participating in the unemployment insurance schemes and a total of 3.3 million benefit recipients (Ministry of Labor and Social Security, 2007).

China’s health care system in the cities includes two separate schemes which were set up in the early 1950s. One is a public scheme financed out of government budgets, which covers employees and retirees from government organs and institutions such as universities. Another is a labor insurance scheme, covering employees and retirees from enterprises. Since economic reforms started, China’s health care reforms have been mainly on the labor insurance scheme, while the public one has undergone only some modest cost-contain adjustments such as reduced reimbursement rates. Reforms of the labor insurance scheme were first experimented in the mid 1990s in a number of cities, and expanded throughout the country since 1999. The basic approach was

⁴ Levels varied markedly across localities based on either the local poverty lines or the minimum wage. The official guideline for the benefits was between 120 and 150% of the local poverty line, but in some places, it is actually 70-80% of the local minimum wage (Leung, 2003). Since 2001, this tier has been gradually merged into the unemployment insurance scheme, and the laid-off employees began to be treated as the unemployed.

similar to the old age insurance schemes, which took the form of social pooling plus individual accounts, with enterprises contributing 6 percent and individual employees 2 percent of the wage. In 2006, the medical insurance schemes covered 41% of the urban working population and 42 million retirees (Ministry of Labor and Social Security, 2007).

The above brief review of China's social insurance reform shows that social insurance schemes benefit mainly those in the formal labor markets, contributing to increased social and income inequality. It is particularly with reforms of the medical care system that have turned medical services into the exclusive privilege of the rich.

The emergence of urban poverty

Since the early 1990s urban poverty in China has become a prominent issue. Apart from rapid increases in the size of unemployment and laid-off employees, the incomes of current employees and retirees were also affected due to generally poor economic performance in SOEs. Many SOEs had difficulty in delivering pensions for retirees and financial assistance for laid-off employees, and in some SOEs even wages for current employees could not be guaranteed. People may fall into poverty even though they were employed or had a pension or other benefits. Despite strong pressures by the central government for SOEs and local governments to deliver both timely and in full amount pensions for retirees and financial assistance for laid-off employees⁵, a sizable segment of urban residents was left into poverty. In addition, due to continued shifts of labor force from the state to non-state sector, an increasing proportion of the urban population in the non-state sector was not covered by the insurance schemes.

The size of urban poor in China was estimated variously based on different methods, ranging from 12 million to 30 million (Hong & Wang, 2002; Tang et al., 2003; Guan, 2003). Baffled by the different estimates, the Ministry of Civil Affairs, which is in charge of social assistance, made a national investigation of poor households in 2002. The investigation identified a total number of 19.38 million urban poor with per capita income below the locally defined poverty lines⁶. The crux of the problem is, however, that the majority of the poor consisted of retirees, the unemployed, laid-off employees and current employees from SOEs, for whom benefits or wages could not be delivered timely and sufficiently (Ministry of Civil Affairs, 2002), which became a source of social instability. Obviously, the social insurance schemes have failed to function as expected. Thus, around the turn of the century the attention of the central government was drawn to the needs of this rather demanding group, and a means-tested assistance scheme, known as the Minimum Living Standard Guarantee Scheme (MLSGS) began to be promoted throughout the country.

⁵ In 1999 the Ministry of Labor and Social Security implemented the "Two Guarantees" policy, which was to insure that pensions for retirees and benefits for laid-off employees have to be delivered timely and sufficiently. In the following years this remained a top issue for the central government.

⁶ Because China does not have a national poverty line, the actual size of urban poverty remains contested.

The implementation of MLSGS

The current MLSGS was a means-test social assistance program initiated in Shanghai in 1993, and was extended to all cities in 1999. Financed out of government revenues, the program provides cash assistance for households with per capita incomes falling below local poverty lines (or social assistance lines), which were determined mostly through the budget standards methods with adjustments to the local contexts and often availability of funds. In practice, covered items include mainly food, clothing and a few daily necessities such as fuel, electricity, and water. In the following years, a number of supplementary social assistance schemes were also implemented for MLSGS recipients to deal with the multi-dimensional problems of poverty, including assistance in medical care, housing, education for children, and a variety of other preferential policies. With broad guidelines from the central government, the schemes have relied mainly on local governments particularly local civil affairs for design and implementation, which are usually done through a learning-by-doing approach. The major characteristics and performance of the schemes are described as follows.

Coverage

MLSGS caters to a mixed group of people in both chronic and temporary poverty, including the unemployed, elderly, children, the sick and the disabled under the same umbrella. Table 1 provides information on the size and profile of MLSGS recipients between 2001 and 2007.

Table 1: Size and Profile of Urban MLSGS Recipients (2001-2007)

Year	Count (10,000)	Percent of Non-agricultural Population	Profile of MLSGS beneficiaries (%)					
			Low-income Employees	Lay-offs	Retirees	Unemployed	Three nos ⁷	Others
2001	1170	3.5%	-	-	-	-	-	-
2002	2065	5.86%	9%	27%	5%	17%	4%	38%
2003	2247	6%	8%	23%	4%	18%	4%	43%
2004	2205	5.63%	6%	21%	3%	19%	4%	47%
2005	2234	5.46%	5%	19%	3%	18%	4%	51%
2006	2241		4%	16%	2%	19%	4%	50%
2007	2238							

Source: Ministry of Civil Affairs, *China Civil Affairs Development Report* (various years).

As Table 1 shows, nationally around half of the recipients consist of low-income employees, laid-offs, and the unemployed, and the traditional social assistance targets, the “three nos”, has been only 4 percent. The size of recipients varied markedly across provinces and cities, concentrating mainly in the middle and western regions and the

⁷ It refers to households with no sources of income, no work ability, and no family caregivers. They are the traditional recipients of social relief in China.

north-eastern region. In 2006 the largest numbers were found in Hubei (1.67 million), Helongjiang (1.59 million), Jilin (1.46 million), Sichuan (1.46 million) and Hunan (1.43 million). There were over ten provinces in which the size of MLSGS recipients amounted to over 1 million and another over ten provinces in which the number reached over 0.5 million. In wealthier cities and provinces the size of recipients is relatively small. For instance, in Beijing which has over 15 million urban population in 2007, the number of MLSGS recipients has been between 150,000-160,000 in the past few years, significantly lower than the national average.

Financing

Before 1999 the schemes were financed solely by local governments. Since 1999 the central government has been subsidizing local governments, with proportions increasing dramatically in the following years. Subsidies by the central government varied across localities based on the reported number of poor people to be assisted by local governments and local financial capacity. Several wealthier localities including Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Shandong and Jiangsu have been excluded for central subsidies, while others have received central transfers in different proportions. Table 2 provides information on MLSGS expenditures between 1998 and 2006.

Table 2: MLSGS expenditures between 1998 and 2006 (in 100 million yuan)

Year	Total	Central government	Percent of central transfer
1998	12	0	0
1999	19.7	4	5%
2000	27.2	8	29.6%
2001	42.7	23	53.9%
2002	108.1	46	42.5%
2003	150.5	92	61.1%
2004	172.8	102	59%
2005	191.9	112	58.4%
2006	222	136	61%

Sources: Ministry of Civil Affairs, unpublished internal documents.

Matching funds from local government are usually shared between the provincial, municipal and county or district governments in different proportions, which vary also considerably across localities.

Eligibility requirements

MLSGS benefits are paid based on the household as a unit. According to the 1999 Regulations on MLSGS, only urban residents with local non-agricultural household registration status within an applicant's household would be eligible for the assistance. Spouses or other members from rural areas or other provinces or cities without local

household registration would not be counted in calculating the benefits. Under this premise, all households with a per capita income below the locally defined poverty line are eligible for MLSGS payments, with no limits on either age or length of benefit receipt. That is, a household can receive the benefits as long as it passes the income test for the assistance line. The eligibility of a household is subject to regular review for continuation, usually done annually in most localities. Sources of incomes taken into account for assessing eligibility of a household include all members registered in the same household, regardless of family relations or the actual living arrangements. Thus, family members living under the same roof and sharing a common budget may be registered as different households in the “household registration card” and would be treated as separate households for income test. Similarly, people who live separately but are registered in the same household are treated as one household. This sometimes gives rise to the phenomenon of claimants regrouping their household composition for a favorable income test.

In the test for eligibility, there have been debates on whether and what types of household assets should be taken into consideration, and complaints from program administrators for people using a mobile phone or wearing a gold necklace to come to the office to apply for assistance. However, these have remained unsettled questions. Many cities have set ceilings on the value of household equipments that claimants can possess or use. In practice, however, these conditions are simply not enforceable due to many practical problems. Thus, assets are usually not included in the eligibility test, except for owning a car.

In general, eligibility requirements for households with able-bodied members are getting increasingly stringent. In all cities, those who are able to work are required to register at the employment agencies for jobs and retraining, and the general practice is that they cannot reject job offers for three times. Failure to do so will lead to their benefits being immediately reduced or terminated. Another measure used widely in many cities is that the able-bodied recipients are required to participate in voluntary community work, ranging from 40 to 80 hours per month and usually with exact time schedules. Extension of assistance is conditional on the satisfactory participation in community work (Ministry of Civil Affairs, 1999; Li, 2004). This method is used mainly to discourage recipients with incomes from jobs but unreported for income test. Indeed, households may apply for and receive assistance without reporting incomes from informal jobs which are out of the control of government employment agencies. The rationale for the community work practice is that, if the recipients are employed somewhere, they may fail to show up for the community work and therefore will have to decide to give up the assistance and retain the job.

More recently, in a few cities such as Beijing, new measures have been taken to make hidden incomes of recipient households explicit: households with able-bodied members would be first assigned a job with a specified amount of wage when they come to apply for assistance, and then their eligibility would be assessed and benefits set by including the wage into the sources of household incomes.

Benefit levels

MLSGS provides cash benefits to poor households with per capita incomes below the locally determined poverty lines (assistance lines). A household that qualifies for assistance can receive the difference between the total eligible benefits and the total incomes of the household (the local poverty line times the number of persons in the household). As such, the amount of benefits that a household receives depends on the poverty line and the resources taken into account when measuring household income.

China does not have a national poverty line. In the 1999 Regulations on MLSGS, the central government stipulated that benefits should be able to provide for recipients what is necessary for them to maintain a minimum standard of living appropriate for the local situation, and listed such items as food, clothing, housing, gas and children's educational needs for consideration. However, it did not provide guidelines on how this "minimum standards of living" should be calculated. In several documents by the central government "local contexts" are emphasized and local governments are given the discretion over the final decision over both the level of benefits and the methods of calculation. As a result, local policy makers differed widely over what constituted a "minimum living standard" and the criteria of need, and tended to make the decision based on their financial affordability or local priorities.

In the calculation of poverty lines, most localities have used the budget standards approach which was first developed by Rowntree at the end of the 19th century. By this method, local officials would first develop a list of "necessities" for an individual to maintain a subsistence level of living through field observations and interviews with the poor households and then seek opinions from experts. To take Shanghai for an example, in 1993 when it initiated the scheme, a list of monthly necessities for an individual was first developed based on a survey of the daily consumption patterns of the 10 percent lowest-income households in the city. Then, the market retail price of 1992 was used to calculate the costs of each necessity, and the poverty line was thus determined as the sum of the costs of the 8 necessity items: 75.22 yuan (food) + 6.89 yuan (clothing) + 4.62 yuan (housing) + 3.09 yuan (gas) + 3.66 yuan (utilities) + 13 yuan (medical expenses) + 6.5 yuan (education) + 7.9 yuan (services) = 120.88 yuan. Thus, the poverty line in Shanghai in 1993 was 120 yuan per person per month. In the following years nearly all localities defined their poverty lines based on this method. Main differences were only in the types and details of the necessity items. In Zhejiang which implemented the scheme in 1999, for instance, a list of 13 necessities was first developed for calculating the poverty line, in which food was further classified into grain, vegetable, meat, oil, seafood and etc. Other methods such as the local average income and Engles' Coefficient have been also used in some localities, but they were mainly to test the budget standards method. Table 3 gives information on national averaged benefit levels.

Table 3: Average poverty lines and actual benefits received by recipients (2003-2007)

Years	Average poverty lines	Actual benefits received
2003	149	58
2004	152	65

2005	156	72.3
2006	169.2	82.9
2007	179.2	95

Actual poverty lines vary markedly across provinces, cities, districts and counties, ranging from less than 150 Yuan (20US\$) in six provinces to 330 Yuan in Beijing in 2007. In 2006, there were 12 provinces with poverty lines between 140 and 169 Yuan, and 13 provinces between 170 and 300 Yuan. The lines are adjusted annually. Again, local governments have the discretion over whether and how much the line should be adjusted. Most localities are conservative not only in setting the poverty line but also in making adjustments because they worry that central transfers may be unavailable in the future (Wang, 2002). In Beijing for instance, the poverty lines were 273 Yuan in 1999, 280 Yuan in 2000, 285 Yuan in 2001, 290 Yuan between 2002 and 2004, 300 Yuan in 2005, 310 Yuan in 2006 and 330 Yuan in 2007. Other provinces and cities have followed a similar rate for benefit adjustments over the years.

The local poverty lines are determined also with consideration of the minimum wage, pensions and unemployment benefits. For example in Beijing, in 2007 the minimum wage per month was 730 yuan, unemployment insurance benefits were 422-531 yuan, and minimum pension benefits were 620 yuan, and the MLSGS benefit was 330 yuan (Beijing Labour and Social Security Bureau, 2007).

In recent years, a number of localities have made adjustments to the previous flat rates by taking into consideration household structure or characteristics of members on assistance. This is called “assistance according to categories”. For instance, in Beijing different benefit coefficients are used in calculating household incomes. For an able-bodied member in the household, the coefficient is 1. If the person is employed, 80 percent of the assistance line (e.g. 330 Yuan) would be subtracted from his income when calculating his household incomes. For other groups, the coefficients are 1.15 for the “three-nos” households and people disabled due to official duty; 1.1 for old people aged 70 and above, children aged below 16 and people with disabilities; and 1.05 for other recipients. In addition, gradual reduction of benefits is also used to encourage recipients to exit assistance and get jobs. If the incomes of a household exceed the assistance line due to incomes from employment, benefits would be the same in the first month, reduced for 50 percent in the second month, and terminated starting from the third month. However, they can come back to apply for assistance if their incomes fall below the line again.

Apart from cash assistance, in most cities there are also a variety of preferential policies designed for MLGS recipients such as food stamps, reduction or exemption of heating fees, and assistance for medical care, housing and education for children, among others.

Administration

The Ministry of Civil Affairs and its local departments are responsible for designing and administering MLSGS as well as other assistance schemes. The actual operation of the programs, however, is carried out by the Street Office, which is the lowest branch of the municipal government, and the Residential Committee, which is a grass-root self-governing organization supervised by the Street Office. An applicant

first makes his application to the Committee, showing all the relevant documents. In Beijing, required documents include four categories: 1) the application form; 2) household registration card and personal identity card of each member; 3) income and benefit receipt verifications by employers or relevant agencies; and 4) verifications for employment or unemployment status if the claimant is able to work and disability certificate if he or she is disabled, marriage certificate if a spouse has an agricultural household registration or not a permanent resident in Beijing, divorce certificate if he or she is divorced, and others⁸. Then, workers in the Social Security Centre under the Street Office would carry out the investigations by visiting the household with the support of the Residential Committee, and then make recommendations including the amount of benefits to the district civil affairs bureau for approval. After approval, the money would be directly sent into the account of the recipients on a monthly basis.

Problems

Along with the rapid rolling out of the various social assistance programs, problems have also emerged in both the design and operation of the programs. Based on local reports and investigations by the Department of Social Assistance of the Ministry of Civil Affairs, some of the major problems have fallen mainly into the following five areas:

- 1) Low benefit rates. Although the budget standards methods have been used for determining the poverty line, many cities tend to use a spending-by-income approach in deciding coverage and the actual amount of benefits for recipients. This is mainly due to financial constraints for providing the required matching funds. As such, benefits are available to only the poorest poor and levels are generally too low to lift the poor out of poverty. As table 3 shows, the actual amount of benefits averaged only 95 Yuan per month in 2007. Compared with the national or local average wage and the per capita disposable income of urban residents, the poverty lines are extremely low. Only in some rich cities such as Shanghai and Beijing where the poverty lines are higher than the per capita US\$1 a day poverty line used by the World Bank. Largely due to the vast numbers of low-income or the marginal poor households, both the central and local governments are wary of increasing the benefits, which may lead to substantial increases in the size of MLGS beneficiaries and heavy burdens on government revenues. In the course of China's social security reforms, there has been a deep-rooted worry of the government for work disincentives and financial burden on state revenues, largely learned from the welfare reforms in the western welfare states where government has been retreating from its role in welfare responsibility.
- 2) The issue of "welfare dependency" and work disincentives. Unlike in many developed nations where stigmatization is considered by policy makers and program administrators in the design and implementation of social assistance, in China low-income and poor households tend to struggle for program coverage and are reluctant to exit assistance even though their incomes become higher than the threshold. This is often interpreted and complained as "welfare dependency" or program "helping the lazy". While this is real, it is

⁸ An applicant, irrespective of where he or she lives, should apply to the residents' committee of the street office where his or her household registration belongs, and receives the benefits from that street office accordingly. In general, the MLSGS is portable, and a recipient can still receive benefits even though he or she has moved to another district under the same city administration.

certainly not because the benefits are so high that the recipients can depend on them for a living. Instead, one major reason is that receipt of MLSGS benefits is associated with many other related benefits such as medical and educational assistance and a variety of other preferential policies. If a recipient loses the MLSGS benefit, he will lose all other related subsidized services, implying the absence of a social security system for a wide segment of the population, particularly for those with low incomes. Nevertheless, the concentration of social assistance benefits and subsidized services on MLSGS recipients has turned the beneficiaries into a 'privileged group'. Households would be entitled to a new 'iron rice bowl' once they are brought under the schemes, leading to the widely worried issue of 'welfare dependency'. Thus, the design and implementation of adequate benefits that can balance adequacy and incentives for work in the absence of social protection for the low income and marginal poor is a big challenge.

- 3) The marginal poor problem. With the absolute poor households being brought under the coverage of MLSGS, the near or marginal poor households begin to draw the attention of the government as it relates to program efficiency and equity. Current programs have concentrated benefits mostly on the absolute poor, while the marginal poor may be disqualified for MLSGS for a small amount of money but are not eligible for other benefits such as subsidized medical care and education of children. In some rich localities there have been attempts to extend benefits to the marginal poor for subsidized medical care and educational assistance, but in the less developed places particularly the middle and western regions social assistance is limited only to those living in destitute, and households with low income but above the poverty lines are not covered. This has not only led to high administrative costs for targeting or keeping off the "non-poor", but also widely acknowledged social inequity.
- 4) The application of the means-test method. Currently, local governments rely on two major methods to target the poor households: means-test followed by community screening. However, the assessment of actual household incomes has proved to be almost an impossible task for local program administrators. Incomes of applicants are easily subject to fraud, and hidden incomes from informal employment are widespread. Reports and studies have indicated that means-test has led to not only high administrative costs, but frequent conflicts and complaints, and disincentives on work because this would affect their conditions for receiving the benefits (Xu et. al., 2007). Obviously, reliance on means test for social assistance poses problems in both program management and effectiveness.

Conclusion

Being a residual and means-tested social assistance program, MLSGS has emerged in China as an integral part of its social protection system, filling the gaps created by the reforms in the social insurance programs. It is administratively decentralized, and local governments have substantial discretion to determine eligibility and benefits. All benefits are means-tested, low level and stigmatized. Although it has performed the vital role of facilitating economic reforms and maintaining social stability through offering protection to the unemployed and laid-off employees, there have been many

problems surrounding both its design and operation.

As such, there is the need to redefine the role of social assistance in China within its overall social protection framework. Reliance on social assistance as a major tool to deliver social security and combat poverty seem to be a less effective solution. In developed nations particularly in many European countries, universal health care and old age pensions, and free education, complemented by generous and highly universalistic disability and family benefits, and substantial unemployment benefits, are the primary tools for social protection. Social assistance is only a last-resort option in terms of the entire social protection system; it steps in when all other social benefits have been exhausted (Adema, 2006; Saraceno, 2002). Therefore, the number of people in need of social assistance is small. In China where formal social protection and social services have been limited to only a small portion of the population, usually those in the formal labor market particularly the state owned sector, social assistance plays the front-line role of social protection for the majority of the population.

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