Anti-Poverty in China: Minimum Livelihood Guarantee Scheme

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ANTI-POVERTY IN CHINA: MINIMUM LIVELIHOOD GUARANTEE SCHEME

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Poverty Alleviation and the Minimum Livelihood Guarantee Scheme or “Di Bao”

One of the most outstanding achievements of modern China is lifting millions out of poverty via various institutional reforms and poverty alleviation policies after the 1980s. It was estimated that between 1981 and 2004, the number of absolute poor in China had been drastically reduced from 652 million to 135 million.

In terms of the size of the urban poor, however, it has increased dramatically since the 1990s. In 1990, the number of urban poor was only about one million. It was estimated that there were over 70 million urban residents in poverty in 2003.

Two major reasons accounted for the increasing urban poverty. First, the laying off of many workers in the 1990s following the restructuring of many state-owned enterprises (SOEs). Second, the dissolution of the urban social welfare system following the SOE reform and the commercialization of many public services. Many urban households were negatively impacted by the financial shock and fall into poverty.

The most important government program to address urban poverty is the Minimum Livelihood Guarantee Scheme or “Di Bao”, which was initiated in 1999. “Di Bao” is a national means-tested program to provide cash transfers to the urban poor based on a locally set minimum income level.

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It is part of a comprehensive anti-poverty framework that includes traditional development oriented programs, social insurance programs, social assistance schemes as well as other social policies.

“Di Bao” program is overseen by the Ministry of Civil Affairs and jointly funded by central and local governments. Compared to social insurance programs in which enrollees as well as their employers fund most of the expenditure, “Di Bao” is a social assistance program financed by government budget.

The objective of the “Di Bao” program is to reduce absolute poverty by covering basic expenditure including food, clothing and housing. In principle, “Di Bao” offers lower benefits than what unemployment insurance, minimum wage as well as pension offer. Only urban residents with household registration status are eligible for this program.

Government budget expenditure on the “Di Bao” program has increased dramatically in the last decade. The outlay of the “Di Bao” program in urban China increased from RMB2.2 billion in 2000 to RMB71.1 billion in 2011 (i.e. over 37% of average annual growth).

Since 2007, the “Di Bao” program has expanded to rural areas and the number of recipients of “Di Bao” in rural areas reached 53 million in 2011. Total government expenditure on “Di Bao” in both urban and rural areas reached RMB134 billion in 2011.

In the report of the 17th Party Congress released in 2007, the “Minimum Livelihood Guarantee Scheme” together with health insurance and social security system was highlighted as one of the core components of the social safety net. Other social assistance schemes in education assistance, health assistance and housing assistance are set to complement “Di Bao”.

For the new leadership, poverty alleviation continues to top its policy agenda. Issues to be addressed for the “Di Bao” program include firstly, the low financial coverage.
Secondly, a fragmented “Di Bao” program that results in the lack of coordination across ministries and departments which in turn leads to ineffective policy implementation and regional inequality issue.

Third, due to institutional and information constraints, “Di Bao” did not cater to many poor households while many who are not poor benefited. Fourth, the increasing attractiveness of the “Di Bao” program may act as a disincentive for the poor to work in the future.

**Urban Poverty and Development of the “Di Bao” Program**

Before the 1980s, poverty issue was extremely serious in China. It is estimated that the incidence of consumption poverty was over 85% in 1981. This translates to over 848.2 million people, mostly rural residents, in poverty. Poverty reduction could be a result of economic growth.

Since the 1980s, the Chinese economy has experienced a very successful three decades of an annual average GDP growth rate of 10%. In the 1980s, through a range of institutional reforms in rural areas, in particular the household responsibility system, rural residents’ income level had increased dramatically. The annual average income growth in rural areas in the first half of the 1980s was 15%.

At the same time, the Chinese government has also taken enormous efforts to launch poverty alleviation programs. Since the 1980s, poverty alleviation programs have been introduced to increase people’s income in poor rural regions. The central government has designated poor counties as the basic unit for poverty reduction. The major policy instrument was to increase intergovernmental transfers to poor counties.

In 1994, the Chinese government initiated the “8-7 Poverty Alleviation Plan” and dramatically increased the transfers to poor counties in the rural areas. Since the 2000s, the strategy to reduce poverty has been directed at poor villages and over 148,000 poor villages were identified in 2001.
However, urban poverty has gradually become an important issue since the 1990s. The number of urban poor was around one million in 1990. It was estimated that the number of urban poor in 2003 could be as high as 72 million.

There are two major reasons for the increase in urban poverty. First, since the 1990s, following the restructuring of many state-owned enterprises (SOEs), workers who had been laid off fall into poverty as many of them were not equipped with sufficient skills to work in the private sector.

Second, the urban social welfare system had been dissolved following the SOE reform. Benefits from in-kinds transfers (via work units) were reduced from 21% of total household income in 1998 to 0.7% in 2002 in urban China. It implies that many urban households have to pay a bigger share of the expenditure on education, housing as well as healthcare. Many poor urban households may have difficulties financing their basic needs after being hit by negative external shocks such as serious diseases.

At the same time, the increasing urban poor also raised concerns of social unrest after the dissolution of the urban social welfare system. To maintain social stability without impeding economic growth, government intervention was necessary in this context by providing financial coverage for people affected by economic restructuring.

The most important government program for poverty alleviation in urban areas is “Di Bao”. In 1993, the Shanghai municipal government started a means-tested program of “Di Bao”, setting the poverty line then at RMB120 per month and covering 7,680 people in Shanghai.

In 1999, “Di Bao” was initiated nationwide to provide a safety net for the urban poor. By the end of 2002, over 19 million people were included in the “Di Bao” program. A total of 9.8 million former SOE employees and 5.5 million of their family members accounted for about 80% of total beneficiaries of “Di Bao”.

In the report of the 17th Party Congress released in 2007, “Di Bao” together with basic health insurance and basic social security system had been highlighted as the three core components of the social safety net. Complementary social assistance
schemes, such as medical assistance, education assistance as well as housing assistance schemes, have been initiated since the 2000s.

Since 2007, a rural version of “Di Bao” has expanded dramatically and the number of beneficiaries in rural areas increased from 15 million in 2006 to 53 million in 2012 (Figure 1). In 2011, total government expenditure for “Di Bao” in urban and rural areas reached RMB65.99 billion and RMB66.77 billion respectively.

![Figure 1: Recipients for Minimum Living Standard Scheme in Rural Areas (Million)](image)

Source: *China Civil Affairs Statistical Yearbook*, various years.

Figure 2a shows the number of recipients of “Di Bao” programs in urban areas between 1999 and 2012. The number of beneficiaries in urban areas varies slightly between 20 million and 22 million people in the last decade. In 2012, the total number of recipients of “Di Bao” in rural and urban areas was over 74 million. Figure 2b shows the composition of “Di Bao”: most of the recipients were unemployed.
Figure 2A: Number of people claiming "Di Bao" (in Million)

Source: China Civil Affairs Statistical Yearbook and China Statistical Yearbook, various years.

Figure 2b the composition of Recipients of “Di Bao”:

Source: China Civil Affairs Statistical Yearbook and China Statistical Yearbook, various years.
Implementation of “Di Bao” Program

“Di Bao” is a means-tested and individual-based social assistance program limited to households with local household registration status. “Di Bao” allocates cash benefits to the poor so that their income could reach a locally defined level. “Di Bao” is overseen by the Ministry of Civil Affairs and jointly funded by central and local governments. Central government’s share of total expenditure for “Di Bao” is estimated to be over 50%. However, it is the local government that manages “Di Bao” program and sets the “Di Bao” line.

The “Di Bao” line as a percentage of average disposable income per person in urban areas is about 20%. For example, the minimum livelihood standard in Tibet amounted to over 26% of average disposable income in 2011, which was the highest in all provinces. In Guangdong, the minimum livelihood standard in Guangdong amounted to about 12% of average disposable income, which was the lowest of all provinces. The “Di Bao” line as a percentage of average disposable income per person in rural areas was about 24%, slightly higher than the case of urban areas.

The focus of “Di Bao” is absolute poverty. The “Di Bao” line is set based on local minimum livelihood costs for “the basic needs of food, clothing, and housing, and expenditures on children’s compulsory education”. Figure 3 shows that the “Di Bao” line in national average was RMB3,450 per year in 2011 while the average expenditure for the poorest 5% households in urban areas on food, clothing and housing was RMB3,785. Food expenditure for the bottom 5% household amounted to about 76% of “Di Bao” line in 2011.

Only residents with local household registration status are eligible for the “Di Bao” program. Consistent with the objective to reduce absolute poverty, the “Di Bao” line in principle yields lower benefits than that of unemployment insurance, minimum wage as well as pension.

While local government sets the policies, central government takes a large portion of the financial responsibility for “Di Bao”. The central government’s share in “Di Bao” expenditure is relatively high compared to other social programs.
In the recent five years, the share of central government in total expenditure for “Di Bao” had rapidly increased from 55% in 2000 to over 75% in 2011 (Figure 4). In 2011, the central government spent over RMB100 billion for “Di Bao”. The shares of central government in urban and rural “Di Bao” were over 70% each in 2011.

Source: *China Statistical Yearbook.*

![Figure 3: Ratio of Subsistence Expenditure and Di Bao Line](image)

Source: *China Civil Affairs Statistical Yearbook* and Statistical Communiqué of the People's Republic Of China on the 2011 development of social service, various years.
Other social assistance programs complementing “Di Bao” include medical assistance, education assistance and housing assistance, etc. Recipients of “Di Bao” are eligible for medical assistance programs. The premiums for social health insurance programs are subsidized by the government. “Di Bao” recipients are also eligible for public housing programs (i.e. housing assistance). Similarly, for the education assistance scheme, subsidy for tuition fee for higher education is allocated to recipients of “Di Bao”.

“Di Bao” is now a part of the comprehensive poverty reduction framework in China. This framework includes traditional development oriented programs, social insurance programs, social assistance as well as other social policies such as nine-year free compulsory education.

The “Di Bao” program is different from traditional poverty reduction programs in three aspects. First, the “Di Bao” program is individual-based and benefits are directly allocated to the poor. For the earlier poverty reduction programs, it is the local government who receives the transfers. Second, local government sets local social assistance policies and manages social assistance programs while in traditional poverty reduction programs, it is the central government who sets the poverty line and decides which county should receive the benefits.

Third and most importantly, the traditional poverty reduction programs employ the regional based “development oriented poverty reduction” strategy which focuses on promoting local economic development by increasing investment on local physical and human capital (i.e., training local labor and investment in infrastructure). The “Di Bao” program is to address absolute poverty by covering household expenditure for basic needs.

The “Di Bao” program is also different from social insurance schemes. “Di Bao” is the most important social assistance scheme. Both social insurance and social assistance programs are part of China’s social safety net. Social insurance programs,
which provide enrollees with financial protection from negative shocks by pooling risks, include unemployment insurance, social security as well as health insurance.

Beneficiaries of these programs are mainly from the formal sector. Employees as well as their employers register with these programs and contribute to these programs regularly. Social assistance programs target vulnerable groups including retired, ex-serviceman, the disabled and people in the informal sector, etc. Most of the expenditure of social assistance programs is funded by the government budget. Table 1 compares these two groups of programs.

### TABLE 1  TWO TYPES OF SOCIAL PROGRAMS IN URBAN CHINA

<table>
<thead>
<tr>
<th></th>
<th>Social Assistance Programs</th>
<th>Social Insurance Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td>Poverty reduction</td>
<td>Risk pooling and financial protection from negative shocks</td>
</tr>
<tr>
<td><strong>Target groups</strong></td>
<td>Poor, disabled, ex-serviceman, people who suffered from natural disaster</td>
<td>Unemployed, patients, retired</td>
</tr>
<tr>
<td><strong>Ministry</strong></td>
<td>Ministry of Civil Affairs</td>
<td>Ministry of Human Resources and Social Security</td>
</tr>
<tr>
<td><strong>Management entity</strong></td>
<td>Local government</td>
<td>Local government</td>
</tr>
<tr>
<td><strong>Individual Contribution</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Source of Funding</strong></td>
<td>Government budget</td>
<td>Social insurance funds</td>
</tr>
<tr>
<td><strong>Year</strong></td>
<td>Since the 1990s</td>
<td>Since the 1990s</td>
</tr>
</tbody>
</table>

Source: compiled by the author

**Achievements of the “Di Bao” Program**

“Di Bao” now covers most of the poor. In 2012, there were over 21 million people in urban areas and 53 million people in rural areas who were recipients of “Di Bao“.

The minimum income level guaranteed by the program (i.e. “Di Bao” line) has increased steadily in recent years to accommodate economic conditions. The average “Di Bao” line in urban areas increased from a monthly of RMB156 in 2005 to RMB287 in 2011. The average “Di Bao” line has increased even more quickly in
rural areas. Figure 5 shows that the “Di Bao” line in rural areas had doubled between 2006 and 2011 (i.e. from RMB70 to RMB143 per month).

Cash transfer amount under “Di Bao” is determined by the difference between “Di Bao” line and (pre-transfer) income level of the poor. Average cash transfer allocated for a beneficiary in urban areas in 2011 was about RMB240 while the transfer for a rural recipient of “Di Bao” was about RMB106.1 per month on average. Transfers account for 13% of average disposal income in urban areas and 18% in rural areas.

![FIGURE 5 “DI BAO” LINES IN BOTH URBAN AND RURAL AREAS](image)

Source: *China Civil Affairs Statistical Yearbook*, various years.

Notably, “Di Bao” coverage in rural areas shows rapid improvement. The gap between rural and urban “Di Bao” standard has been decreasing since 2007. Figure 6 shows that the ratio between urban and rural “Di Bao” standard had increased from 38% in 2007 to 49% in 2011.
In 2011, the Ministry of Civil Affairs released a guideline to suggest methods for adjusting the “Di Bao” line. This guideline highlights the importance of the rigorous measurement of “Di Bao” line and how “Di Bao” line can be adjusted dynamically.

Three methods have been suggested: define the “Di Bao” line by basic household expenditure including food, clothing, facility and transportation; recover by food expenditure and Engel coefficient for the poorest household; and adjust on the basis of the ratio of the “Di Bao” line and total household expenditure in the previous year.

A guideline for the social safety net during the 12th Five-Year Program was released in June 2012. In this guideline, the thresholds for the urban and
rural “Di Bao” will increase by at least 10% annually between 2012 and 2015. An integrated social safety net will be built whereby social assistance schemes such as education, health and housing assistances will complement the “Di Bao” program.

Unemployment insurance
There are two major phases of development for unemployment insurance in China since 1980’s. The first phase of development of unemployment insurance is closely related with State Owned Enterprise (SOE) reform in 1980’s. In 1986, State council released a document “Interim Provisions on Workers’ job-waiting Insurance in State Owned Enterprises” to provide insurance for workers in SOEs.1

This version of unemployment insurance program was financed jointly by employers’ contributions, interest earnings and government subsidies. Employees did not contribute to this insurance program. Workers of bankrupted SOEs and laid-off workers in SOEs were eligible for claiming benefits. Benefits were set on the basis of workers’ salary and length of services.2

Critical Issues of the “Di Bao” Program

In 2011, a new (absolute) poverty standard was set at RMB2,300 per year per person compared to an earlier standard of RMB1,274 in China. Based on this standard, 128 million people are now classified as poor compared to 26.8 million under the old standard.

As the number of poor people is still significant, poverty reduction is thus very relevant. The “Di Bao” program, as a core component of social safety net, is set to become a very important component of the policy agenda. There are several issues to

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1 The document is available in http://news.xinhuanet.com/ziliao/2005-02/06/content_2553784.htm

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be addressed to improve the effectiveness of the “Di Bao” program. First, financial coverage provided by the “Di Bao” program is relatively narrow. The benefits are inadequate in covering other basic expenditure such as transportation, education, health and other basic needs.

Second, fragmented management results in the unequal access and ineffective policy implementation of “Di Bao”. Inequality between different regions, rural and urban areas as well as different social groups exists in the “Di Bao” program.

Recent research shows that “Di Bao” lines vary considerably with local fiscal capacity, taking into account the differences in living costs. For example, though both Suzhou city and Suqian city are located in Jiangsu province, Suzhou’s fiscal revenue was nine times higher than Suqian’s in 2010. In 2012, the “Di Bao” line in Suzhou was set at RMB576 per month (highest in China) while that in Suqian city was set at RMB310 per month. The ratio between “Di Bao” lines in these two cities is 190%.

The fragmented management of “Di Bao” policy is also the result of coordination failure among ministries. The Ministry of Civil Affairs is in charge of medical assistance, while the Ministry of Housing and Urban-Rural Development is responsible for housing assistance. Education assistance is managed by the Ministry of Education.

The lack of coordination among different departments and ministries, as well as among different local governments may lead to ineffective policy implementation. Crowding out different social programs may exist after the expansion of the “Di Bao” program. For example, a recent research shows that people are less likely to take up unemployment insurance after the expansion of “Di Bao”, which implies that “Di Bao” is crowding out unemployment insurance.

More importantly, the fragmented management of different poverty reduction programs reduces the policy effectiveness. Traditional poverty reduction programs in rural areas address the poverty trap by adopting the “development oriented poverty reduction” strategy.
Poverty traps refer to the mechanism that poor people will remain poor because they face severe capital constraints, which imply that it is difficult for them to fund basic nutrition needs or to invest in human capital and are therefore most likely to remain poor in the future. Traditional poverty reduction programs highlight the improvement of human capital and local infrastructure.

“Di Bao”, which focuses on absolute poverty, cannot do much about the poverty trap issue to lift the poor out of poverty permanently unless it is complemented by the traditional poverty reduction programs, which covered 592 poverty-stricken counties nationwide in 2012. Poverty reduction policies will be more effective if “Di Bao” accommodates policies of traditional poverty reduction programs.

Third, the target groups of “Di Bao” programs are a concern. Many poor households are not included in the “Di Bao” program and many beneficiaries of “Di Bao” are not poor. An example is migrant workers who are not included in the local “Di Bao” since only those who have local household residential status (i.e. “Hukou”) are eligible.

In 2010, the National Audit Office reported that 62,900 households in 194 counties who received “Di Bao” benefits were not poor. The Ministry of Civil Affairs’ report in February 2013 indicated that 4% of households or three million people who were receiving “Di Bao” were not poor.

In a recent survey conducted by the Chinese Academy of Social Sciences between 2010 and 2011 in 15 counties in five provinces, over 80% of poor households with income below national poverty line did not receive “Di Bao”. Over 60% of beneficiaries of the “Di Bao” program are not qualified as poor households.

The misallocation of “Di Bao” is due to institutional and information constraints. The hukou system is the institutional reason for the exclusion of migrant workers. Local governments may not have the capacity to gain accurate information of residents’ income and assets, particularly those who are flexibly employed and self-employed.

There is also a lack of tracking mechanisms to keep tab of recipients’ income; many recipients, who used to be poor, now earn more than the poverty line. An information
tracking system for recipients’ income and asset and a well-designed exit mechanism for “Di Bao” would need to be developed.

Fourth, the disincentive to work after receiving “Di Bao”. The overall benefits of “Di Bao” are increasing. “Di Bao” lines have been raised and will continue to be raised in the future. The “Di Bao” program is now bundled with other social assistance programs, making it even more attractive. By 2015, the “Di Bao” line will be raised by at least 10% annually. The increasing benefits of “Di Bao” may reduce the incentives of beneficiaries to look for jobs.

Figure 7 shows the ratios between “Di Bao” line and the minimum wage standard across provinces in 2012 and the ratio of local “Di Bao” line and minimum wage increases with “Di Bao” line. In some provinces, “Di Bao” line is set as high as over 40% of minimum wage. With a 10% annual increase of “Di Bao” line in the next three years as stated in the 12th Five-Year Program, the disincentive to work is a concern in the future.

FIGURE 7 RATIO BETWEEN “DI BAO” LINE IN URBAN AREAS AND MINIMUM WAGE LEVEL IN 2012

Source: Ministry of Civil Affairs and minimum wage standard in different provinces.
To encourage the poor to work, Singapore’s Workfare Scheme and the US’ Earned Income Tax Credit provide cash transfers for the poor based on their employment status and wage earnings. Recently in Jiangsu province, “Di Bao” benefit will be ceased if a beneficiary rejects job offers three times from 2013. In Dongguan, Guangdong province, a beneficiary of “Di Bao” can continue to claim benefits for one more year if his wage income surpasses the “Di Bao” line.