

Extending Social Assistance in China:
Lessons from the Minimum Living
Standard Scheme

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Abstract

Facing rapid demographic, social and economic transformation, China has taken steps to extend and strengthen the urban Minimum Living Standard Scheme (MLSS). The MLSS is a social assistance programme initially focused on the chronically poor, but later extended to the long-term unemployed. The extension of the MLSS led to a rise in the number of beneficiaries from 2.6 million in 1999 to 20.6 million in 2002, although long-term poor migrants remain excluded. There has also been a broadening of the MLSS, focused initially on mainly income transfers, but later including education and health exemptions, community work, and housing. This paper outlines these trends and discusses what lessons other developing countries could learn from the extension of social assistance in China.

Key words: social assistance, urban poor, poverty line, social protection

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1. Introduction

By the mid 1990s, urban headcount poverty in China was low, certainly when compared with the situation in rural areas, or with countries at a similar level of development. Official statistics estimate that the share of the population in urban areas with incomes below the poverty line was 4.4 percent in 1995, and showed a steady declining trend to 3.1 percent in 1999. The protection provided by state- and collectively-owned-enterprises (SOEs and COEs) together with family support proved sufficient to keep urban poverty at low levels, but concerns about the plight of those households falling through these sources of protection led to the piloting of a Minimum Living Standards Scheme (MLSS or *Dibao*) in Shanghai in 1993, later extended to other cities. The MLSS targeted traditional forms of poverty, 'old poverty', mainly households with no stable income, no capacity to work, and no family support, and was expected to provide them with a transfer equivalent to their poverty gap. The MLSS was planned as the last line of defence against poverty, a residual income support scheme for households disadvantaged by the 'three noes'.¹ Rapid social and economic transformation, especially urbanisation and the rise in unemployment following the restructuring of state- and collectively-owned-enterprises, has created new forms of poverty. 'New poverty' is mainly associated with unregistered migrants, long-term unemployed, and those for whom the protection from state enterprises has proved insufficient. As a last line of defence against poverty, this has led to a large-scale extension of the MLSS, in terms of the number of beneficiaries, which grew from 2.6 million in 1999 to 20.6 million in 2002; and the level and scope of support, with retraining, community work and exemptions from education and health fees supplementing income transfers. This is probably the largest ever extension of social assistance in such a short time period, from a residual programme focused on the chronically poor to a large scale programme increasingly covering the non-chronically poor.² The main objective of this paper is to consider the implications of this rapid extension for the scope and effectiveness of the MLSS, and to extract lessons for other countries.

There is growing recognition that strengthening social assistance is an urgent task in developing countries. Social assistance is that component of social protection systems that addresses poverty and vulnerability through securing minimum living standards for poor households. In developed countries, social protection includes social insurance, which is normally employment-based; social assistance, normally tax financed; and labour market regulation. In developed countries, social assistance has a residual role and relies on income support. This is due to the presence of strong public service infrastructures, comprehensive social insurance covering pensions, health expenses and disability, and low levels of informality and strong labour regulation. In developing countries, with limited public service provision, low coverage of social insurance schemes, and a high incidence of informality, social assistance becomes a key component of social protection. Compared with developed countries, social assistance in developing countries should in theory support a greater share of the population, combine income transfers with other forms of support addressing the multidimensional nature of poverty, and take the household, and not the individual as the main unit of support. The reality is that social assistance in most developing countries is under-resourced and underdeveloped. Despite of the specific conditions in China, the large scale extension of the MLSS could provide important lessons on how developing countries can strengthen their social assistance.

Accounting for the specifics of China's experience is important. There is a growing literature examining urban poverty in China, a shift from earlier dominant concerns with rural poverty.

¹ They were referred to as "civil relief targets" [*sanwu*] which was a slightly derogative term during the pre-reform era (Wong, 1998).

² The absence of longitudinal studies in urban China makes it difficult to distinguish between the duration and structural elements of chronic poverty. Here the chronically poor are, admittedly very roughly, defined as those living in households without the necessary resources to escape from poverty.

The terms urban and rural have a different connotation in China because they refer to the administrative registration of households rather than residence. Large scale migration from *rural areas* to *urban areas* renders estimates of poverty among the registered non-agricultural population less accurate and, because unregistered migrants have limited entitlements, this extends to the analysis of the coverage and effectiveness of the anti-poverty programmes such as the MLSS. The main focus of this literature has been on estimating urban poor headcount rates (Knight and Li, 2001; Hussain, 2003; Meng *et al.*, 2005), the distribution of urban poverty (Chen and Zhou, 2002; Fang *et al.*, 2002) and the relation between urban economic reform and urban poverty (Gustafsson and Wei, 2000; Meng *et al.*, 2005). Notwithstanding this literature, differences remain among researchers and policy-makers on both the level and trends in urban poverty (Appleton and Song, 2004). There is increasing attention being paid to policy responses (Hussain, 2003; CHK, 2004, Cook, 2000). The latest urban income research, *The Study of Chinese Urban Income Gap* (Li *et al.*, 2002), contains some discussion of policy responses and. Li Yanchang's *Studies on Urban Poverty and Social Relief* make an important contribution to the microanalysis of urban poverty and covers poverty alleviation in Beijing, but otherwise the literature does not provide a detailed analysis of the MLSS.

Assessment of the effects of the rapid extension of social assistance on its effectiveness raises a number of concerns (Cook, 2000). The coverage of the MLSS increased eightfold between 1999 and 2002. This is a significant achievement. However, even with this extension of coverage, the programme cannot meet the basic needs of the poor, such as housing, education and health care; and reaches at best between a quarter and a third of the poor, with the vast majority of migrants explicitly excluded. The rapid scaling up of the programme has placed huge pressures on the public agencies charged with delivering the programmes. The mean level of benefits paid initially was very low, but a substantial upgrade occurred in the late 1990s as an increasing number of retrenched workers and their families joined. Regional disparities in poverty incidence and depth combined with a decentralised approach to defining the parameters of the programme and its financing, ensure that poor households with similar characteristics would fare very differently in different cities. Financial constraints imply that disadvantaged cities and districts actively manage the number of beneficiaries through adjusting the requirements for entitlement.

To date, discussion of the linkages between social assistance and the other components of social protection is scarce. There are both political and technical issues involved. It is widely acknowledged that a key driver of the extension of social assistance in China was the threat of social unrest related to rapid economic transformation. There is also an underlying concern with maintaining solidarity values associated with socialism, at least this is an important factor among local officials and more generally among the population (Nielsen *et al.*, 2005). A competitive labour market in an increasingly global economy creates insecurity and the demand for protection. The central question is what will be the shape of the political settlement allowing a co-existence of the imperatives of the market and parallel solidarity institutions.³

An issue of special concern for this paper is the extension in social assistance from the 'old poor' to the 'new poor', or from the chronically poor to the non-chronically poor. This somehow inverts the kind of dynamics many researchers and policy-makers hope for in developing countries. Broadly, anti-poverty programmes, including social assistance, are focused on the non-chronically poor, and the issue is how to extend these to the chronically poor. Put differently, the assumed dynamics for the extension of social protection was 'from the strong to

³ See, for example, Polanyi's description of the market and social protection as reflecting "the action of two organizing principles in society, each of them setting itself specific institutional aims, having the support of definite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the establishment of the self-regulated market...the other was the principle of social protection aiming at the conservation of man and nature as well as productive organizations" (1957, p.138-9)

the weak' which is held to reflect the experience of developed countries. China's extension of social assistance suggests, at the very least, that there are alternative options for developing countries.

These are the issues addressed in this paper. The paper is divided into five sections. Section One outlines and discusses trends in urban poverty in China. Section Two focuses on the MLSS, tracing its development, and assessing coverage, adequacy and finance. Section Three examines the main features of the MLSS in Hefei, with a view to examining the role of local government in the delivery of the MLSS. Section Four draws out the key lessons from the extension of the scheme. The final section summarises the main conclusions of this study.

2. Trends in urban poverty headcount rate

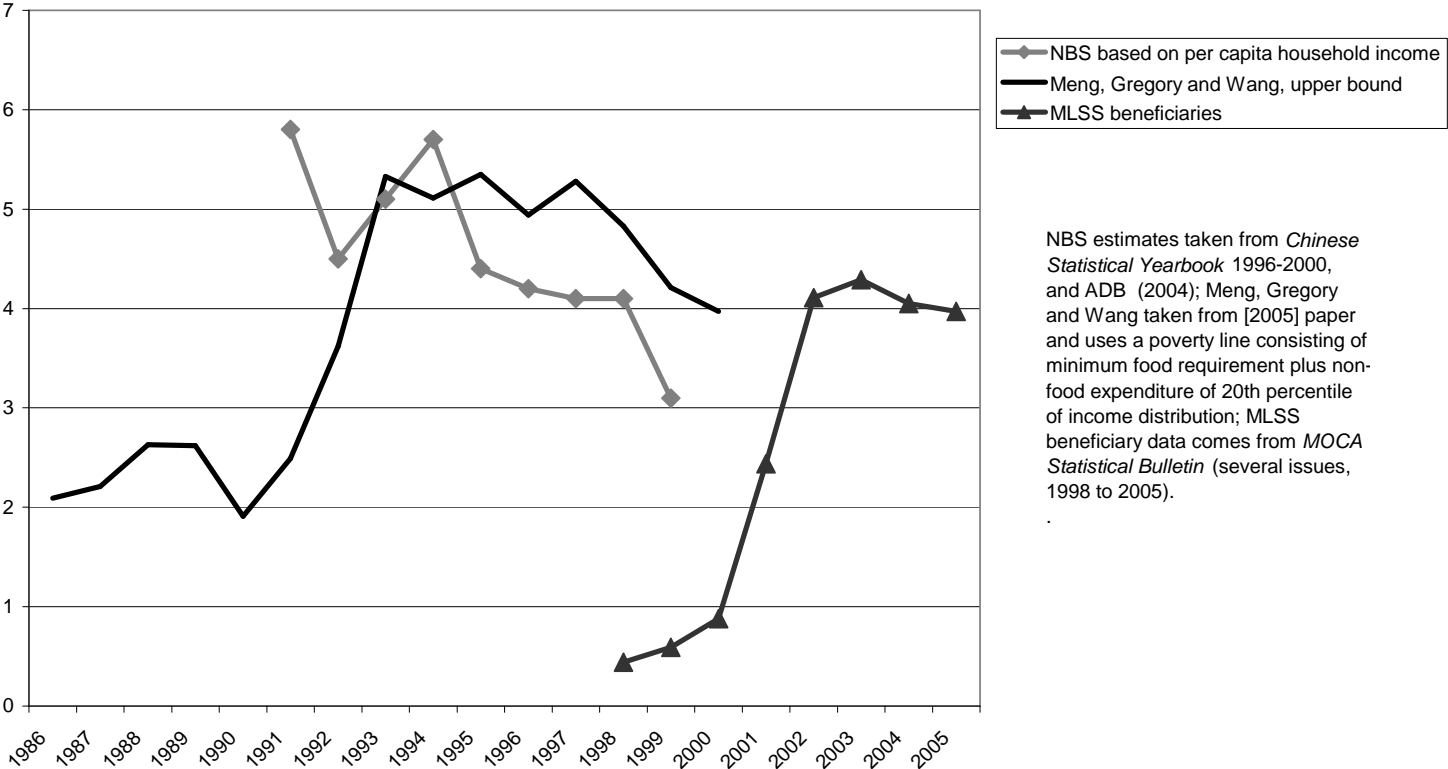
There is some debate and disagreement about the estimation of the proportion of the population in poverty in urban China. Mainly, disagreements centre on the limitations of available household survey data, the determination of the poverty line, and the impact of social exclusion. The National Statistical Bureau's Urban Household Income and Expenditure Survey (UHIES) is the strongest tool for measuring changes in poverty and inequality over time. It uses a stratified sample with random selection of households at the lowest level. Selected households are expected to keep a detailed diary of expenditure over a year. There are important issues about the representativeness of the sample and the complexity of the survey instrument (Bramall, 2001; Hussain, 2003). The sample excludes households without urban household registration, and as a consequence excludes migrants who are both quantitatively significant and more likely to be poor. It also excludes illiterate respondents. The survey instrument is also very complex, and there are about 1500 entries for each household to record daily income and expenditure for a 12 month period. Enumerators visit each household every two months to review records. The general concern is that estimates based on these data will underestimate poverty.

Poverty is normally measured with reference to either expenditure or income required to meet basic needs. Different approaches to setting a poverty line naturally result in differing estimates of the poverty rate (Chen and Wang, 2001; Fang *et al.*, 2002; Chen and Zhou, 2002; Hu, 1999; Hussain, 2003; Khan, 1999; Zhang and Li, 1992; Zhang and Wei, 1999; Li and Gustafsson, 1996). Conventional approaches set the poverty line by costing a local basket of goods capable of delivering a minimum nutritional requirement (a 2100 calories per person per day is commonly used in the literature).⁴ This provides an estimate of the monetary value of minimum food consumption. An estimate of non-food consumption needs to be added to arrive at a poverty line. A useful approach is to estimate the non-food expenditure of the poor, but different methodologies are in use. An important issue in the context of China is that rising costs of healthcare and education make the accurate calculation of non-food expenditure crucial to setting the poverty line. Another key issue is how to account for large differences in prices across regions and localities. The geographical coverage of a poverty line is problematic in a country such as China covering a territory that is as heterogeneous as it is extensive. One option is to have a line that applies uniformly to the whole urban population regardless of the particular characteristics of the locality. The issue with a single poverty line is that consumption patterns, prices and prevalent living standards vary as widely across regions in China as they may do across countries. In the Chinese context, a national poverty line is a highly unreliable instrument for identifying targets for anti-poverty policies. For instance, the minimum living expenditure in Shenzhen is over twice that of most cities in the west of China. The choice of having one or several poverty lines is usually down to a trade-off between more detail and keeping computation within a manageable limit.

⁴ Meng *et al.* (2005) note that this has been endorsed by the Chinese Academy of Preventive Medicine.

Figure 1 shows three different estimates of the urban poverty headcount rate over time. The National Bureau of Statistics (NBS) estimates use a national poverty line and take non-food expenditure as 60 percent of food expenditure. The estimates in Meng et al. (2005) construct a poverty line using local price indices and applying the share of non-food expenditure of those around the official poverty line. Figure 1 also shows the share of the population that is registered with the MLSS. For the purposes of this paper, the main interest is in identifying broad trends in the data series. The longer time trend provided by the Meng *et al.* series show a step increase in urban poverty between 1990 and 1993, which preceded the introduction of the MLSS, then a stabilisation and gradual decline at the end of the 1990s. This is also reflected in the NBS estimates. The gap in the series leaves us without any reliable estimates of the trend in urban poverty since 1999, when the pace of economic reforms increased.

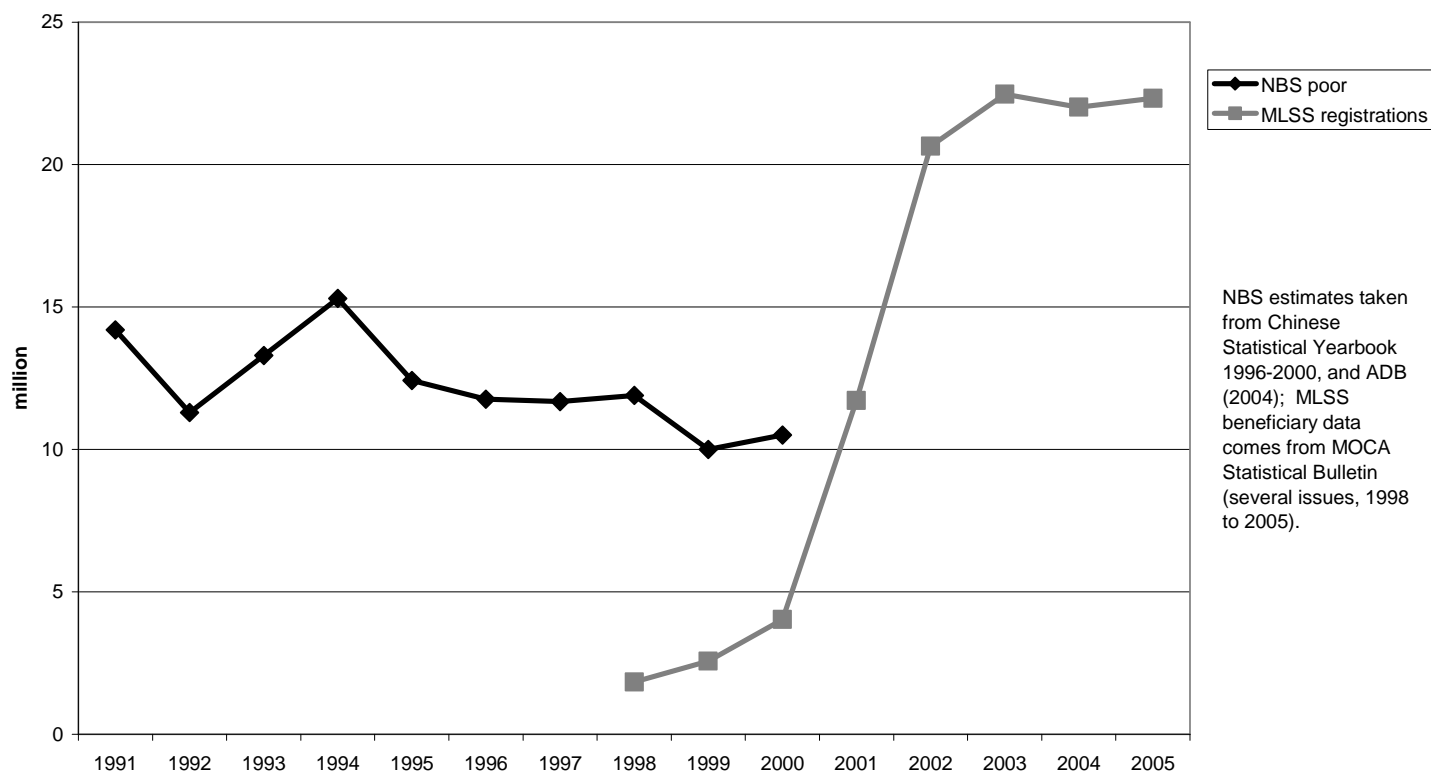
Figure 1. Estimates of headcount urban poverty in China



The MLSS registration estimates show initially how the scheme was extended, and it was only in 2002 that MOCA estimated that the target population had been reached. It is important to note changes in the numbers of the urban poor.⁵ Figure 2 shows the numbers of urban poor in the NBS and MLSS registration data.

⁵ A further issue around the headcount rates estimates is the rapid growth of the urban population and the role of migration. To the extent that migration flows are a significant component of the urban population growth, they contaminate the trends in the measured headcount rate.

Figure 2. Estimates of the number of urban poor in China



The MLSS registration estimates provided by the Ministry of Civil Affairs (MOCA) are on the basis of the registered number of people whose income falls below the local minimum living standard. Survey data collected in August-September 2000 and June-July 2002 by MOCA, confirms the trends in the registration numbers. MOCA registration estimates of the urban poor estimated that around 14 million urban residents had an income below the local poverty line. The figure for urban poverty estimated by MOCA in June 2002 skyrocketed to about 19.4 million. This figure underestimated real urban poverty incidence, as it excluded unregistered urban people and rural to urban migrants. In addition, local minimum living standards are constrained by local financial budgets, and there are indications that some poor areas underestimate their poverty lines intentionally to meet financial constraints (this issue will be covered further below). According to MOCA, all urban poor were covered in July 2002, with the implication that registration numbers only provide a full measure of urban poverty from 2002 onwards.

3. The Urban Minimum Living Standard Scheme (MLSS)

3.1 The MLSS and the strengthening of social assistance

In the last decade and a half, a number of measures have been implemented in China aimed at strengthening the social protection system. As noted in the introduction, family support and the enterprise-based schemes constituted the cornerstone of social protection in urban China, but demographic change, migration and economic reforms required structural changes. These included the consolidation and extension of employment-based social protection schemes, through the introduction in 1997 of a unified old age pension scheme, followed by the establishment of a basic health insurance in 1998; an unemployment insurance scheme in 1999, and a work injury insurance scheme in 2003. These should eventually cover all workers in urban enterprises, but progress towards this objective has been slow. By 2003, 45 percent of all urban employees were covered by the pension scheme, 31 percent by the health insurance

scheme; 40 percent by the unemployment scheme; and 14 percent by the work injury insurance scheme (Statistic Yearbook of China, 2003). The pension and health insurance schemes involve a mix of pooled and individualised saving components.

The MLSS constitutes the social assistance component, responsible for ensuring minimum living standards for poor and vulnerable households. The MLSS is intended as a residual component of the social protection system, providing a safety net (Hussain, 2003).⁶ The MLSS was first piloted in Shanghai in 1993, and was later extended to other large cities. By the end of May 1995, six cities, including Shanghai, Xiamen, Qingdao, Dalian, Fuzhou and Guangzhou, had set up their MLSS. The scheme was coordinated by the Ministry of Civil Affairs (MOCA), but the regional and city authorities had considerable scope for adjusting the main parameters. After a review of the roll out of the scheme in 1995, MOCA decided that the MLSS should be gradually spread to other cities. By the end of 1996, the MLSS covered 116 cities and had further extended to 206 cities by July 1997. Endorsement by the Chinese State Council facilitated a rapid expansion of the scheme, which was reaching 581 cities and 1121 counties by the end of 1998.

In 1999, MOCA laid down a broad regulatory framework for the MLSS which left much of the detailed implementation parameters of the scheme, such as the setting of the minimum living standard and the exact method of financing, to be determined by sub-central, mostly city, governments. In 2000, MOCA specified the basic requirements of an information system for the MLSS for local governments to set up within three years. Local governments have issued supplementary regulations to implement the scheme in line with their circumstances. As a result, the financing and operation of the scheme vary from city to city (Asian Development Bank, 2004). The coordination role of MOCA includes the collection and dissemination of relevant statistics, the monitoring and supervision of the implementation of the scheme, and the collection of complaints.

3.2 Coverage

The initial target group of the MLSS was households without stable income, capacity to work, or family support. They can be described as chronically or structurally poor, in the sense that these households already find themselves in poverty and have no resources to support themselves in overcoming their situation. Chen and Zhou (2002) estimated that poverty due to disability, orphanhood or old age affected about 150,000 households and 0.5 million people. For some in this category, social welfare institutions run by civil affairs departments provide some support. In 2003 there were approximately 428,000 people protected by different social welfare institutions. Stigma attached to welfare institutions is an issue, especially given that in Chinese society family and work status have been the benchmarks of social identity. Social welfare enterprises also play a very important role in providing employment opportunities for disabled workers. Social welfare enterprises are collectively owned enterprises enjoying exemption from state taxes. There are about 0.7 million disabled workers engaged in social welfare enterprises, amounting to around 45 percent of total employment in these enterprises. However, unemployment is common among disabled people and an estimated 1 million disabled workers remain unemployed.

Economic reforms have led to a large rise in the number of redundant workers who are unable to find employment due to their age or skill levels. Males over 50 years of age, and females over 40 years of age, who lose their jobs are referred to as “40/50”. The Cultural Revolution happened when they were young, and disrupted their formal education. Most of them found employment in SOEs or COEs who were responsible for maintaining full employment, but once they lose their jobs they have little chance of finding another one. Laid-off workers receive the support of their enterprises for up to three years, but if they are unable to find a job after that

⁶ The allowance is usually referred to as “life saving money”.

period, their only source of support is the MLSS. A survey by the Hubei Statistical Bureau found that approximately 20 percent of the urban unemployed belong to the “40/50” group. Wang (2004) estimated that there were about 3 million older unemployed who had very little prospect of re-employment. It is very likely that conditions in the labour market have deteriorated over time, and that older workers are at a particular disadvantage. Whereas before 2000 about 50 percent of laid-off workers would find new work opportunities, Cai (2005) points out that only 15 percent of laid-off urban workers were able to find new jobs in 2002. A rough estimate of these two categories of urban structurally or chronically poor would suggest their numbers to be approximately 4.5 to 5 million, or around 20 percent of the urban poor.

As the result of SOEs and COEs reforms, the number of laid-off workers has increased rapidly since 1992. UNDP (1999) estimated that the number of laid-off workers increased from three million in 1993 to approximately 18 million in 1998. In line with the data from the Ministry of Labour and Social Welfare,⁷ the number of registered unemployed had increased from 2.36 million in 1984 to 8.27 million in 2004. Including the “registered unemployed” and “laid-off employees”, the total number of unemployed urban workers (those without a full time job) amounted to 14.6 million in 2000 (Hussain, 2003).

The increase in the flows out of employment combined with the paucity of new jobs being created, has the effect of lengthening average unemployment spells, and therefore the chances that the unemployed will need to fall back on the MLSS. Tang Jun, vice-director of the Social Policy Research Centre under the Chinese Academy of Social Sciences, points out that 75 percent of impoverished urban residents are laid-off workers, unemployed people and employees in troubled enterprises. They constituted a growing majority of MLSS beneficiaries. Table 1 indicates that the unemployed and their relatives covered by the MLSS comprised 73.32 percent of the urban poor estimated by MLSS in 2002 and 79.4 percent in January of 2006.

Table 1. The unemployed and their relatives covered by MLSS (unit: million person)

Year	Total urban poor covered by MLSS	MLSS beneficiaries qualifying through unemployment	Percentage
2002	20.65	15.14	73.32
2003	22.47	16.63	74.01
2004	22.01	17.04	77.42
2005	22.33	17.71	79.33
2006	22.41	17.81	79.47

Notes:

1. The data from 2002 to 2005 come from the Bulletins of MOCA from 2002 to 2005.
2. The data for 2006 come from the Monthly Statistical Reports of MOCA Jan of 2006.
3. The data of column (2) come from the author’s re-calculation based on the Bulletins of MOCA from 2002 to 2005 and the Monthly Statistical Reports of MOCA Jan of 2006.

It is also important to note those excluded under MLSS regulations. Eligibility for support under the MLSS extends to all urban households, based on the *hu kou* system (people registration system), with a per capita income below the locally set poverty line. The *hu kou* system divides the population into the “non-agricultural” and “agricultural”. Despite significant modifications since the early 1980s, the functions of the *hu kou* system remain unchanged. The key function

⁷ (<http://www.molss.gov.cn/gb/zwxx/ghytj.htm>)

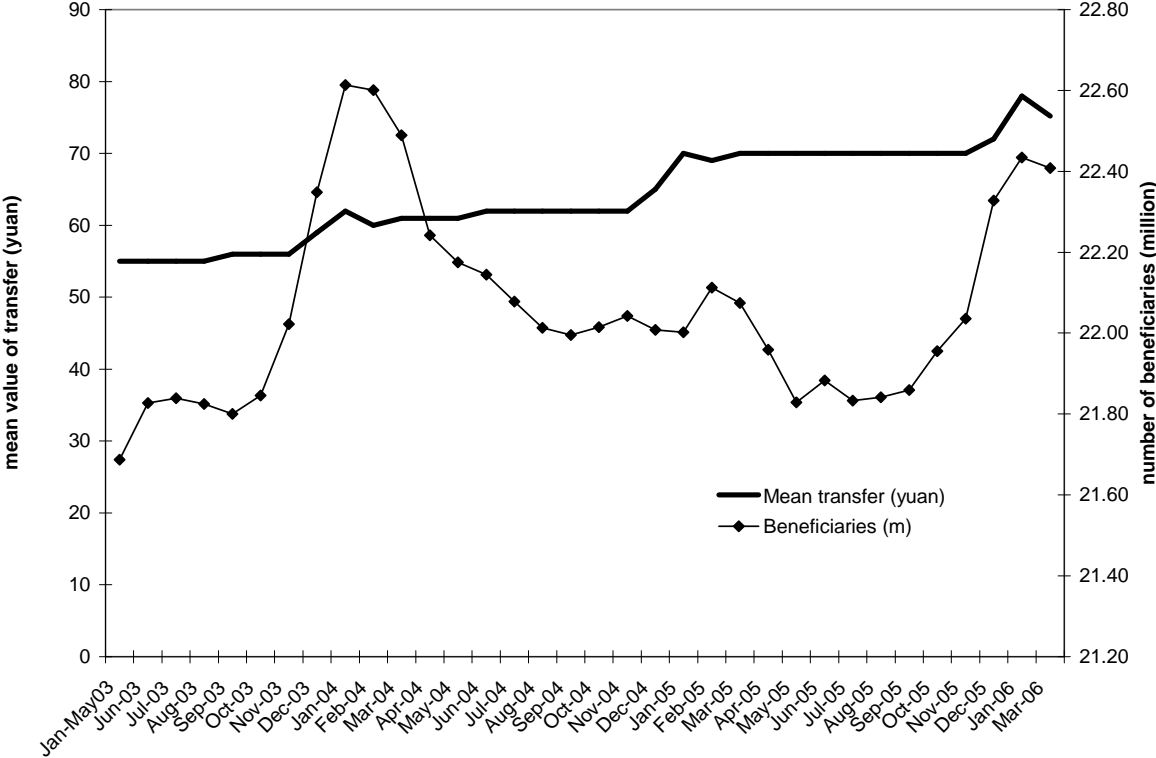
of the *hu kou* system is to designate a legal place of residency and work for the entire population, thus restricting the provision of welfare exclusively to households with urban registration status. Unless inherited from the mother, urban registration is difficult to acquire, no matter how long migrants stay in the city. Non-registered migrants are therefore excluded from entitlement through the MLSS.

It is difficult to estimate the numbers of poor migrants excluded from the MLSS, and from the estimates of urban poverty, but it is straightforward to conclude that current estimates of urban poverty, and therefore coverage of the MLSS, underestimate the target population. The China Rural Household Statistics Yearbook 2004 suggests that there were 170 million rural to urban migrants settled in cities at the end of 2003. Hussain (2003) states that poverty incidence among unregistered migrants is 1.5 times the poverty incidence among the officially recognised urban poor. Wang Yuzhao, the president of China's Foundation for Poverty Alleviation, pointed out in 2003 that there are still around 150 million rural surplus workers in rural area, with the implication that the exclusion of unregistered migrants under the *ho kou* system is likely to be a larger problem for the MLSS in the future.

3.3 Benefit adequacy

The transfer under the MLSS is supposed to cover the difference between per capita household income and the local poverty line. Figure 3 shows the monthly number of people receiving transfers and the mean value of the transfer during the period May 2003 to January 2006. The number of beneficiaries peaked in late 2003 and again at the end of the period illustrated. Overall, the number of beneficiaries is reasonably stable between these two peaks. The mean value of the transfers shows a gentle rise from 2003 to 2006, which is mainly caused by changes of the expenditure price index in urban areas.

Figure 3. Number of beneficiaries and mean value of transfer (MLSS March 2003 to March 2006)



Data Source: Monthly Statistical Reports, MOCA

For the practical purposes of providing social relief or assistance to poor urban households, each city sets its own minimum living standard. These are basically budgetary poverty lines, which are determined by local financial capability and are generally arbitrary and without a research base. Local officials in charge of the scheme recognise this as a serious problem, as a widespread response to fiscal constraints is to reduce the number of potential beneficiaries by tightening the qualification for receiving MLSS assistance (Hussain, 2003). Table 2 shows the minimum living standards set for provincial capitals in 1995 and 2005. As the figures in the Table show, minimum living standards ranged from 161 yuan per month to 330 yuan per month in 2005. The minimum living standards in eastern areas are much higher than those in the middle and western areas, demonstrating the link between them and local government financial budgets.

Table 2. The minimum living standards set by provincial capitals in 1999 and 2005

Eastern areas			Middle areas			Western areas		
City	Year		City	Year		City	Year	
	1999	2005		1999	2005		1999	2005
Beijing	273	300	Taiyuan	155	183	Hohhot	143	190
Tianjin	241	265	Changchun	169	169	Chongqing	156	210
Shijiazhuang	182	220	Harbin	182	200	Chengdu	156	195
Shenyang	195	220	Hefei	195	230	Guiyang	156	170
Shanghai	280	300	Nanchang	143	190	Kunming	182	210
Nanjing	180	230	Zhengzhou	169	200	Lhasa	169	200
Hangzhou	215	300	Wuhan	182	220	Lanzhou	156	190
Fuzhou	200	220	Changsha	180	200	Xining	156	165
Jinan	208	230	Xian	156	200	Yinchuan	143	180
Guangzhou	281	330				Ürumqi	156	161
Nanning	195	210						
Haikou	221	221						
<i>Average</i>	<i>223</i>	<i>254</i>	<i>Average</i>	<i>170</i>	<i>199</i>	<i>Average</i>	<i>157</i>	<i>187</i>

Data source: 1999 data from the Disaster Relief Department of Ministry of Civil Affairs, 2000. 2005 data from Ministry of Civil Affairs of P. R. China (MOCA). http://www.mca.gov.cn/artical/content/SDB_BZ/0051125172845.html.

Many cities set the minimum living standard by costing 20 essential items of goods and services for basic subsistence. Healthcare and schooling costs, which have risen sharply in recent years, are not systematically included but constitute a heavy burden for low-income urban households with children. Some cities have set up a special organisation to determine the minimum living standard, and have undertaken special surveys to identify the incidence of poverty. However, such surveys are sporadic and highly variable in methodology and coverage (Hussain, 2003). Other cities rely on an informed guess in setting the minimum living standard.⁸

⁸ The next section will consider this in some detail in the context of Hefei.

In addition to adjusting the local minimum living standard, rationing can be implemented through supplementary rules, for example Xiamen' MLSS (1996) in the past stipulated families who break the one-child-family rule would lose entitlements, and some local governments dictate that people who receive relief must work on public projects one or two days a week.

According to the Ministry of Civil Affairs the country's average per capita monthly transfer was 55 yuan (US\$6.63) in 2003. The 231 yuan (US\$27.80) mean transfer issued in Beijing was the highest of all provinces, municipalities and autonomous regions. Shanghai ranks second with 138 yuan (US\$16.63), while the lowest figure was 35 yuan (US\$4.22) in North China's Hebei Province (China Daily, 2003-07-24). Childless and elderly citizens can receive annual per capita allowances of 1000 yuan (US\$120) in Guangdong, one of the richest provinces. The figure is 240 yuan (US\$29) to 600 yuan (US\$72) in the hinterland, especially in the western regions. There is therefore considerable variation in the level of transfers, with richer regions, with more resources and fewer poor, able to set higher poverty lines; and poorer regions setting low ones.

Fiscal constraints are also responsible for regional differences in the proportion of the poor that are covered by the MLSS. For the country as a whole, 17.9% of people estimated to be below the national minimum living standard did not receive MLSS transfers in 2002, most of them were located in western China. Table 3 contains information on the share of the poor that receive MLSS support across regions and cities.

Table 3. Distribution of the poor and MLSS beneficiaries by Province 2002

Province	Numbers in poverty	Number of poor persons not receiving MLSS	Percentage
Beijing, Tanjin, Shanghai, Jiangsu, Zhejiang, Guangdong, Chongqing, Hebei, Jilin, Guangxi and Ningxia	4,711,142	0	0
Shandong	631,231	30,631	4.9
Shanxi	582,932	33,765	5.8
Anhui	883,704	59,304	6.7
Xinjiang	490,000	36,000	7.3
Fujian	153,079	13,079	8.5
Sichuan	1,262,755	199,325	15.8
Hainan	84,342	15,000	17.8
Hubei	1,261,077	268,632	21.3
Liaoning	1,497,691	352,991	23.6
Henan	1,114,747	271,620	24.4
Yunnan	550,027	159,850	29.1
Jiangxi	1,079,876	314,876	29.2
Heilongjiang	1,530,973	467,973	30.6
Hunan	1,526,877	536,877	35.2
Qinghai	167,866	66,066	39.4
Gansu	473,258	227,558	48.1
Inner Mongolia	652,970	325,970	49.9
Construction corps	99,628	51,628	51.8
Tibet	37,612	34,642	92.1
Total	19,379,609	3,466,609	17.9

Data source: Ministry of Civil Affairs, <http://www.mca.gov.cn/news/dibao/xinwen2002062001.html>.

3.4 Finance

The MLSS is financed from general government revenue with the cost split between various tiers of government. The total expenditure on the MLSS at the national level was extremely low in its early stages. In 1998, it amounted to only 0.15 per cent of consolidated government expenditure. The total investment in MLSS has increased continuously since 1999, to 15.05 billion yuan in 2003 and 19.19 billion yuan in 2005. Of the total 15.05 billion yuan spent in 2003, around 9.2 billion yuan came from central government; and 5.9 billion yuan came from local government. In 2005, expenditure on the MLSS increased to 0.57 per cent of consolidated government expenditure (see table 4). The level and coverage of the MLSS therefore depends crucially on achieving growth targets, and the state of public finances. This implies a trade off between the level of entitlements and coverage, at least in the short term, as noted by Cook (2000).

Table 4. The expenditure in MLSS from 2001 to 2005

Year	The expenditure in MLSS (unit: billion yuan)	The expenditure in MLSS to total consolidated government expenditure
2001	8.03	0.28%
2002	10.87	0.45%
2003	15.05	0.57%
2004	17.28	0.61%
2005	19.19	0.57%

Data sources: Data source: Ministry of Civil Affairs, <http://www.mca.gov.cn/artical/index.asp?currentid=128&parentid=21>

The discussion above has covered the main features of the urban minimum living standard scheme. As noted, the implementation of the scheme varies significantly from city to city and even across different districts. The next section investigates how the scheme is implemented in Hefei, as a means of providing some insights into the impact of decentralised implementation on the effectiveness of the scheme.

4. The MLSS in Hefei

Hefei is located in central Anhui Province, lying between the Yangtze River and the Huaihe River. Hefei is a hinterland city, close to the coastal area, and has 4 districts and 3 counties. Its total population was 4.26 million of which 1.25 million were urban residents (based on the *hu kou* system) in 2003. Around a quarter of the 123,700 MLSS beneficiaries in 2005 could be considered to be chronically or structurally poor. The Hefei Civil Affairs Bureau has the responsibility for coordinating and monitoring the implementation of the MLSS, and for setting the poverty line.

A Tentative discussion on Hefei's MLSS (Hefei Civil Affairs Bureau, 1996), discusses how the minimum living standard was set. The Bureau employed four methods to calculate the minimum living standard: (a) the minimum living expenditure method; (b) the lowest wage method; (c) the costs of basic needs approach; and (d) the relative poverty line method. These are briefly reviewed. The minimum living expenditure method for calculating a minimum living standard sets a basic fixed food and non-food bundle, on the basis of the typical expenditure of the poorest 5 percent, after removing non-essential expenditures. The food bundle, described in Table 5, is insufficient to guarantee 2100 cal/day, and reflects the deprivations of everyday life for the poor. Salted vegetables are a traditional food in Hefei, as most local inhabitants prepare salted vegetables in autumn given the lack of fresh vegetables in winter. Coal is the

main material for cooking, gas is rare. 5 kWh per month for electricity can only support less than 3.5 hours per day of a 50W bulb let alone other white goods. The house rental price of 0.7 yuan per m² was impossible to find in urban districts, even in the early 1990s.

Table 5. Basic basket of essential expenditures of the poorest 5 percent households in Hefei

Items	Minimum living requirements	Unit	Price (yuan)	Expenditure (yuan)
Grain	14	Kg	2.4	33.6
Vegetable oil	0.5	Kg	8.0	4.0
Pork	1	Kg	12.0	12.0
Eggs	0.5	Kg	7.0	3.5
Aquatic products	0.5	Kg	6.0	3.0
Vegetables	10	Kg	1.2	12.0
Beans	3	Kg	2.4	7.2
Salted vegetables				4.0
Condiments	Per person			2.0
Fuel (coal)	40	Kg	0.3	12.0
Water	2	Ton	0.55	1.1
Electricity	5	kWh	0.4	2.0
Medical services	Per person			8.0
House rental	10	Sq. m.	0.7	7.0
Clothing and quilt	Per person			10.0
Total estimated expenditure				121.4

Note: The price at 1995 levels is provided by the Hefei Commodity Price Bureau based on *A Tentative Discussion on Hefei's MLSS, 1996*

The lowest wage approach is the local lowest wage multiplied by the average number of employed persons per household then divided by the average household size. This was approximately 119.5 yuan per month in 1996. The 'cost of basic needs' minimum living standard takes the basic food basket described in Table 4 and adds non-food expenditure measured for the poorest 5 percent of households, which was estimated in 1994 to be about 62 percent of food consumption, resulting in a figure of 131.1 yuan per month. The final method follows a very simple calculation, setting the minimum living standard as one third of the average monthly income, 129.4 yuan per month. The Hefei Civil Affairs Bureau then took the average of the figures yielded by the four methods, arriving at a minimum living standard of 125.4 yuan per month. However, concerns about the fiscal impact led to setting this initially at 120 yuan per month, with the intention of adjusting annually in the light of economic growth, public revenue and commodity prices.

Small variations in the minimum living standard are significant because of potentially large changes in the number of beneficiaries to comparatively small shifts in the standard. In line with estimations by the Hefei Urban Household Survey Team, approximately 7500 people's monthly incomes were below 120 yuan, and accounted for 1.05% of the city's population in 1995. Raising the minimum standard to 156.67 yuan per month (an increase of 30.6 percent), increased the number of beneficiaries entitled to support to 40,000 persons. A concentration of households with incomes around the minimum living standard implies a high elasticity for scheme outlays to small changes in the level of the minimum standard. In this case a 1 percent change in the minimum living standard would result in a 17 percent increase in the number of

beneficiaries.⁹ The level of the minimum living standard is therefore a very sensitive policy variable, with large fiscal implications.

Total MLSS expenditure in 1996 in Hefei was 3.45 million yuan, amounting to 5.92 percent of the city’s budget (the 118th document (1995) Hefei Civil Affairs Bureau). Approximately 70 percent of this expenditure came from Hefei finances, with the rest from each of its districts (the 164th document (1996), Hefei Financial Bureau and Civil Affairs Bureau). A sustained rise in MLSS beneficiaries, a rise in the poverty gap, and a small rise in the minimum living standard from 195 yuan in 1999 to 210 yuan in 2004 led to a substantial rise in expenditure to 101 million yuan in 2005. Table 6 shows the trends in MLSS beneficiaries. In considering these figures it is important to keep in mind that poor agricultural workers are not entitled to MLSS support, regardless of how long they have lived in cities.¹⁰

Table 6. Coverage rates of the MLSS in Hefei 2001-2005

Year	MLSS beneficiaries	Coverage rate (% of population)
2001	60,600	4.39
2002	99,200	6.77
2003	102,000	6.54
2004	106,600	6.52
2005	123,700	7.06

Data Source: *Hefei Economy and Social Development Statistical Bulletin 2001 to 2005, and Monthly Statistical Reports of MOCA from May 2003 to January 2005*

The fact that the level of the minimum living standard is a policy variable is acknowledged by local officials. The Hefei Civil Affairs Bureau in its *Additional Explanation on Implementing <<Hefei Urban Inhabitants MLSS Provisions>>* (1996) stresses that that the MLSS must be financially sustainable. In line with this constraint, poorer areas have reduced the minimum living standard, or failed to upgrade it in line with changes in prices.¹¹ Central government paid out 9.2 billion yuan and was responsible for nearly 61% of total spending on the MLSS in 2003. However, some local governments did not pay out from their own budgets but solely from the centre government allocation.

Additional pressure on the setting of the minimum living standard will increasingly come from an increasing disparity in the wage distribution; wage accounts for a major share of urban inhabitants’ income. From 1999 to 2003, the average income of Hefei urban inhabitants increased by 34 percent, whereas the average income of the lowest 5% income group increased by only 8 percent (Hefei Statistical Yearbook, 2000 to 2004). For those at the bottom of the wage distribution, it is likely that the minimum living standard could well overlap with earning levels. As shown by Table 7, in 2000, the lowest wage in Hefei was 310 yuan per

⁹ This also applies at the national level, where the elasticity of the number of beneficiaries to changes in the national poverty line was estimated at 7.7 in 1998 and 6.86 in 1999.

¹⁰ However, some rich areas have gradually changed the hu kou system, *Implementation Methods for Xiamen Inhabitants’ MLSS* (2004) indicates that the MLSS covers all Xiamen’s inhabitants and the relevant clauses will be legislated. Due to different living expenditures, Xiamen’s MLSS sets three different poverty lines for cities, towns and the countryside separately.

¹¹ The Minister of Civil Affairs, Li Xueju, urged local civil affairs departments to keep a close watch on the impact of price fluctuations on beneficiaries of the minimum living allowance. The ministry further insisted that local civil affairs departments should raise the allowances appropriately in accordance with local economic development, and changes in consumption patterns and prices, so as to ensure that basic living standards for poor urban residents do not fall.

month. Taking a family with two lowest wage earners and a child, their total income was 620 yuan per month. If entitled to the MLSS, they would have received 585 yuan per month. The gap between the lowest wage and minimum living line is important for work incentives, and this is another factor in setting its level.

Table 7. The unemployment rate and the lowest wage in Hefei

Year	2000	2001	2002	2003
Unemployment ratio (%)	3.8	4	4.2	4.4
The lowest wage (yuan)	310	340	370	410

Data sources: Hefei Labour and Social Welfare Bureau (2000-2003) *Hefei Labour and Social Welfare Development Statistical Bulletin*, <http://www.ahhfld.gov.cn/demand.asp>

In line with the rest of the country, there are indications that the Hefei MLSS is expanding beyond income transfers to cover the basic needs of urban poor households, especially to housing, education and healthcare. In an effort to help low-income families, the government has moved to provide more low-rent housing units. The problem is a growing one, especially for poor urban families who sometimes find themselves living in out-of-date, low-quality homes, often without running water or bathrooms. The government's new plans took effect on March 1, 2004 in Hefei. Under the new plan, every poor urban household will receive subsidised housing units that are up to 60 per cent the size of the local average. Central and local governments will set aside enough funds to run the new housing system. To qualify for the low-rent housing, poor households must be: (a) non-agricultural hu kou and living in Hefei over five years; (b) have per capita income below the minimum living line over a six month period; and (c) demonstrate substandard living conditions. The local government provides a subsidy for market rent if low-rent housing is not available (Hefei City Council, 2003).

The urban poor with children face a difficult choice between providing proper education for their children or cutting down on daily necessities (Solomon *et al.*, 2004). Current rules allow for education fees for children of poor families to be cut or waived. However, many local governments fail to implement this, a situation made easier by the limited information on entitlements and the fact that children hide the information from their families because of stigma. Hefei City Council [70th (2000), Hefei City Council] provides 100 yuan per term for students from poor families in primary school, and 250 yuan per year for senior middle school students.

Medical treatment is also an important issue for the urban poor, as the price of health care has skyrocketed since the early 1990s. Even a normal urban inhabitant cannot afford serious illness. The Public Health Bureau and Trade Union of Hefei [the 88th (2003), Public Health Bureau and Trade Union of Hefei] issued preferential health care cards for poor employees and the unemployed, which guarantee reductions of between 30 and 40 percent in the costs of different treatments. These reductions are unlikely to be sufficient to ensure poor households have adequate access to healthcare.

5. Lessons for developing countries

The extension of social assistance in China provides several important lessons for other developing countries, especially as it is essentially a policy response to rapid demographic, social and economic transformation. The implications of the one child per family policy, urbanisation and economic restructuring for existing social protection are far reaching. Families and employment-based forms of protection will be put under severe pressure as a

result of these changes. It makes sense to strengthen and extend social assistance within the existing social protection system. The rapid extension of the MLSS is in this context an effective policy response. This would have been much more difficult to achieve if the MLSS had not been in place, and this is the first important lesson from the experience of China. It confirms what many concluded from the assessment of social policies in the wake of structural adjustment, namely that safety nets must be in place before rapid transformation or economic crises occur. It is much more difficult to establish safety nets anew in the midst of crises or transformation. Providing that social assistance programmes are embedded in stable and permanent institutions, with flexibility in responding to crises, these have a better chance of minimising the adverse social impacts from crises or transformation.

The system of household registration, and the absence of a similar social assistance extension to rural areas is problematic, both in terms of generating large scale social exclusion in urban areas but also because strengthening social assistance in rural areas could be an effective means of stemming migration flows without increasing exclusion.

The extension of the MLSS beyond income transfers to cover education and health expenses, housing and active labour market policies is an interesting development, and more analysis is required before trends can be reliably identified. This is in line with developments in social assistance elsewhere in the developing world where the multidimensional nature of poverty, vulnerability and exclusion are pushing towards more integrated interventions. In the case of urban China, where basic social service infrastructure is in place, integrated interventions are more to do with coordinating the work of different agencies to ensure access by poor households. This can be seen in the context of education and health exemptions, but also in ensuring that the entitlements of retrenched workers are delivered by their work units. The main issue here is that developing countries require both the extension of social assistance in terms of coverage of poor households, but also the broadening of its scope and purpose. Income transfers are central to an effective policy response, but perhaps not enough by themselves to ensure poor households are able to overcome their situation.

A unique feature of the MLSS in the context of developing countries' experience with social assistance is the fact that the stated objective of the income transfer is to fill the gap between measured household per capita income and the minimum living standard. This is important because it pays due attention to the depth of poverty among beneficiary households. Again, more research is needed to establish how this operates in practice, especially in the context of the decentralised management of the scheme. The rapid growth in the number of beneficiaries between 1999 and 2002 and thereafter suggests that accurate identification and measurement of the poverty gap for individual households is perhaps beyond the administrative resources available to MOCA. Qualitative studies point to the widespread use of presumptive rather than actual household income in setting the level of the transfer for individual households, the likelihood of errors in the process, and the power this grants to street and district officials. It is hard to assess how significant these concerns are, and whether they are sufficient in the round to redress the orientation of the programme in addressing the differential depth of poverty. The lesson for developing countries from the MLSS is that addressing the depth of poverty in setting transfer levels should be a priority. The potential difficulties in ensuring accurate, but also operational, measures of the poverty gap are accepted all too easily by policy designers, with the consequence that uniform benefits are adopted instead.¹²

A key feature of the MLSS is the extension in social assistance from the 'old poor' to the 'new poor', or from the chronically poor to the non-chronically poor. As noted in the Introduction, this somehow inverts the kind of dynamics for social protection many researchers and policy-makers assume will be the case, or hope for, in developing countries. Instead of an

¹² Moreover, in discussion of social assistance in developing countries some fall into the trap of assuming that universal social protection is synonymous with uniform support.

extension of social *protection* 'from the strong to the weak', we appear to have a dynamic of social *assistance* 'from the weak to the strong', or stronger at any rate. It can be argued that this reflects a policy response to growing poverty and vulnerability, although this is not fully supported by the trends in urban poverty rates outlined at the beginning of the paper.¹³ In developing countries the extension of social assistance, and new forms of social assistance, is partly a response to the focus on poverty brought about by the MDGs, and that it is conceivable at least that these could be extended to the moderately poor and eventually the vulnerable non-poor.

Whatever the factors driving these trends, it will be interesting to explore the effects of this extension on the chronically poor. In its initial phase, the MLSS was planned as a residual safety net for households in persistent poverty, understood as lacking the resources to move out of poverty without support, defined by the 'three noes'. Economic reforms are likely to have added further groups to this category of the poor, such as the '40/50' group, older farmers who lost their land and livelihoods as a result of urbanisation, workers with long term sickness and work related injuries and disability who have no support from their work units, and pensioners in similar circumstances. Beyond these groups the long-term unemployed and underemployed could be classified as non-chronically poor. This paper has documented that the latter group is dominant among the official poor and MLSS beneficiaries. The inclusion of the long-term unemployed in the MLSS and the consequent extension of the programme have shifted it beyond a residual role, and has made social assistance a key component in the social protection mix. This shift poses some interesting questions in the context of the sustainability of the scheme. For example, the extent to which this shift has contributed to reducing the stigma associated with the 'three noes'. It is also to be expected that the extension of the MLSS has improved the long-term sustainability of the programme. Whether the broadening of the scope of the programme has improved the range of public support for the chronically poor is an interesting issue. A further issue is the extent to which the additions to income transfers have been rationed in any way for the chronically poor. These are important questions for future research. At the very least, a lesson for developing countries is that social assistance programmes focused on the chronically poor can be extended to include the non-chronically poor, suggesting alternative dynamics for the extension of social protection.

6. Conclusions

This paper traces the rapid extension of the urban MLSS in China from 1999, and its transformation from a programme focused on securing minimum income standards for the chronically poor to one combining income transfers and other interventions and covering the long-term unemployed. The extension of the MLSS signals an important shift in the role and scope of social assistance in China, and it represents a response to rapid demographic, social and economic transformation.

The paper discusses the main features of the MLSS, but also provides a case study of Hefei to illuminate the extent to which the decentralised implementation of the scheme results in differences in scope, coverage and entitlements across cities and provinces. The rapid extension of the scheme has underlined its limitations along a number of dimensions. The current MLSS is highly constrained by local government budgets, generating significant variation from region to region. Fiscal considerations enter into the determination of local poverty lines, with the implication that entitlements cover only part of the poverty gap. The MLSS does not cover all urban poor, some groups are explicitly excluded due to the household registration system (*ho kou* system). The MLSS excludes the population registered as agricultural. The determination of the minimum living standard on the basis of fiscal

¹³ Hao argues that the growth in the MLSS responds to the change 'from no poverty to poverty' in urban areas (undated). But it could be argued that there was also a re-discovery of urban poverty (Appleton and Song, 2004).

considerations may also serve to exclude the moderately poor. Small changes in the minimum living standard can produce large changes in the number of households entitled to support, especially given that large numbers of households have incomes around the minimum standard and poverty lines. The rapid extension of the MLSS has also put significant pressure on the public agencies responsible for implementing it.

Economic restructuring has led to a rapid rise in the numbers of long-term unemployed, some of whom, like the '40/50' group are likely to become chronically poor. The majority of beneficiaries, over 70 percent according to MOCA, are long-term unemployed. The shift in the composition of the beneficiary population has important implications for the role and scope of social assistance in China. This paper has sought to identify these implications and to draw lessons for other developing countries. The MLSS provides an example of a different dynamic in the process of extending social assistance and protection, the scheme is no longer a residual component of social protection. Its extension shows the importance of having social assistance schemes in place before the full effects of economic and demographic transformations unfold. The MLSS has enabled a rapid response to a very significant rise in vulnerability and poverty. The scheme has the important feature of aiming to cover the poverty gap of beneficiaries, as opposed to fixed level transfers common in other countries. There are indications that the MLSS is also responding to the multidimensional nature of poverty by expanding the scope of support, to include education, health, training, etc. Future research will need to consider in more detail the political economy issues associated with the extension of a scheme targeting the chronically poor to the non-chronically poor. It will be interesting to consider whether this shift from a residual role for social assistance improves its medium term effectiveness and sustainability, and whether the potential benefits from this extend fully to the chronically poor.

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