

Pro-employment budgeting in China:

Linking employment to national and local budgets

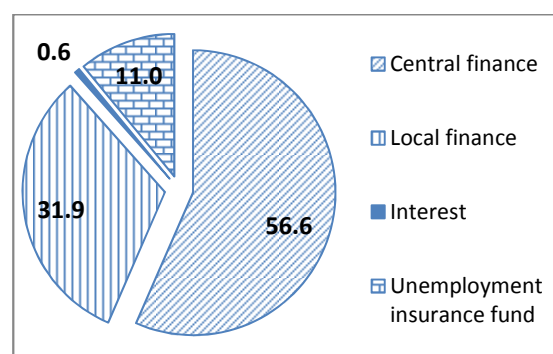
Many countries have made significant progress in mainstreaming employment in national development frameworks, but employment targets and policies are not sufficiently integrated into the national budget. This has, therefore, affected the implementation of the national employment policies.

In China, a national employment policy was initially developed to address the mass of laid-off workers from state-owned enterprises (SOEs) in 2002. It was subsequently improved and scaled up in response to the youth unemployment issue which emerged in 2004 and the international financial crisis in 2008. In order to support the implementation of the NEP, a financing system was established in 2002, and stipulated in national and local budgets by the Employment Promotion Law in 2008.

The simultaneous evolution of employment policy and budgeting

To integrate employment into the budget, it is important to consider financing as an integral part of the employment policy. In China, the employment financing system was created simultaneously with the employment policy. In 2002, the NEP included subsidies for salaries, social insurance, interest on micro-credit, and vocational training and employment services, which need substantial budget support for implementation. A special employment fund (SEF) was discussed by the former Ministry of Labour and Social Security (MOLSS) and the Ministry of Finance (MOF), and written into the NEP issued by the State Council. Documents on how to prepare, allocate and manage the SEF were issued by the MOF and MOLSS. The sources of the Fund are the central budget, local budgets and the unemployment insurance fund (see figure 1).

Figure 1. Source of the special employment fund allocations in 2012 (%)



Source: Ying, Z., L. Xiangwei and Z. Yutian (2014)

The size of the Fund depends on the size of the national and local budgets, as well as the labour market situation.

Embedding employment budget issues into law

However, integrating policy financing into employment policies is not sufficient in itself to advocate for funds to implement the NEP, because employment policies will be adjusted and changed in different periods. Some employment policies might be terminated once the specific unemployment issues are resolved in a certain period. For example, over 90 per cent of the laid-off workers from SOEs were re-employed during 2002–2005, and in 2005, a debate was sparked off on the necessity of having the SEF. Therefore, the sustainability and adaptability of the SEF remained a big challenge in the mid-2000s in China. Embedding employment budgeting into law has been accepted as a good solution. In 2008, linking employment to the national and local budgets was stipulated by the Employment Promotion Law (see box 1). As a result, the employment budget is supported and guaranteed by law. In some provinces, the Employment Promotion Regulations stipulate that 1 per cent of the local annual budget should be invested in employment promotion.

Linking local employment budgets with the national budget

The NEP is rooted at local level. Provinces and cities have to translate the NEP into local policies in their specific context. With this in mind, local employment targets and policies have to be linked to local budgets. But the central government has a big role to play in implementing the NEP. The local governments which actively implement the NEP, or which are unable to self-finance it due to poor economic conditions, will be supported by the national employment budget. Therefore, the

local employment budget is linked not only with the local budget itself but with the national employment budget. This means that if a local government needs to advocate for more funding from the national employment budget, the preconditions would be to actively link employment to the local budget and maximize the effectiveness of NEP implementation.

Box 1

Employment Promotion Law

Chapter II - Policy Support

Article 15

The State shall implement fiscal policies which are conducive to the promotion of employment, increase financial input and improve the employment environment to expand employment.

The people's governments at or above the county level shall, in light of the employment situation and the goal set for the work concerning employment, appropriate from their budgets special funds for employment promotion.

The special employment fund shall be used as subsidies for job placement, vocational training, posts serving the public good, verification of occupational skills, specific employment policies, social insurance, as a guarantee fund for micro-loans and discounted interest on small guaranteed loans for minimum-profit projects, and be used for supporting public employment services. The measures for management and use of the special employment fund shall be formulated by the finance department and the administrative department of labour of the State Council.

Source: People's Republic of China (2008)

National and local coordination mechanisms

A well-functioning coordination mechanism plays a critical role in management and use of the SEF. The members of the coordination mechanism include the MOF, Ministry of Human Resources and Social Security (MOHRSS) and National Audit Office (NAO). They are responsible for budget preparation, allocation, monitoring and evaluation. Local governments are invited to participate in the mechanism at national level, where the local labour market situation, employment targets and policy results will be discussed between the province and the MOF and MOHRSS. The NAO provides information about the management performance of the employment fund of each province in the previous year, before the budget proposal is submitted to the State Council. The social partners, including the All-China Federation of Trade Unions, China Employers' Association, All-China Youth Federation, All-China Women's Federation, etc., have their voices at the Inter-ministerial Meeting, the employment policy coordination mechanism which comprises 21 departments and the social partners, on the management and use of the employment fund. Similar mechanisms and structures are also set up at provincial and city levels.

Linking the annual employment budget with employment targets and policy results: A system of sanctions and incentives

The size and allocation of the employment budget links closely with employment targets and employment policy results. The total annual employment budget is determined by the employment challenges to be addressed in the year, which are calculated based on four main indicators: new jobs, number of re-employed persons, number of re-employed disadvantaged persons and unemployment

rate. Four ministries – the MOHRSS, MOF, National Development and Reform Committee (NDRC) and National Statistical Bureau (NSB) – work together to set the employment targets, based on anticipation of the following year's macro-economic and labour market situation, and discuss these with provincial governments. The MOHRSS and MOF then prepare the budget, taking into account the additional indicators of the NEP's effectiveness in the previous year. In general, a province with greater unemployment challenges would receive more budget support. However, the effectiveness of target achievement and policy implementation, in a larger sense, has key impacts on the budget for the following year (see box 2).

Box 2

Formula for calculation of SEF allocation at national level, 2013

Employment budget for one province =
total budget
× distribution coefficient of the province
in 2012
× adjusting coefficient of the province.

The adjusting coefficient of the province =
coefficient of fund expenditure
performance × 30%
+ coefficient of fiscal difficulty × 20%
+ coefficient of results of employment
policy × 15%
+ coefficient of vocational training × 20%
+ coefficient of labour supply and demand
× 15%.

Source: Ying, Z., L. Xiangwei and Z. Yutian (2014)

Special Employment Fund monitoring and evaluation

In light of the low effectiveness of policy implementation, caused by abuse of the employment budget and bad performance by

governments and other service providers, a pilot programme was launched in 2011 by the MOF and MOHRSS. Sixteen indicators in two categories were introduced into the evaluation system, which reflect the NEP results and SEF governance and service delivery. The incentives/sanctions system will be improved, based on the piloted monitoring and evaluation system, to further ensure that public spending is pro-employment and that it is applied towards achieving the nationally/locally agreed employment targets and effective implementation of the NEP.

Improving governance of the Special Employment Fund

The major challenge in management and use of the SEF is embezzlement and abuse. To address this challenge, the Chinese Government established a security system for the SEF, which includes strengthening management, more strict supervision and inspection, improving the statistical and reporting system, etc. A clear division of responsibilities between the MOF, MOHRSS, NAO and local governments in management and use of the SEF is in place. Special inspection has been conducted every year since 2011. The monitoring and evaluation system also helps identify embezzlement and abuse. Although the security system has been operating for several years, the challenge to address embezzlement and abuse remains daunting.

The effective implementation of the NEP has allowed China to successfully respond to several unemployment crises in the last decade, the mass of laid-off workers from SOEs, the youth unemployment crisis, the global financial crisis, and unemployment caused by a few earthquakes which had extensive impact. Pro-employment budgeting has been the key actor in the growth of urban new jobs, amounting to 11.68 million in 2011 and 12.66 million in 2012.

References:

- People's Republic of China. 2008. Employment Promotion Law of the People's Republic of China (Presidential Order No. 70 of 2007).
- Ying, Z., L. Xiangwei and Z. Yutian. 2014. "Pro-employment budgeting in China: Linking employment to national and local budgets", *Employment Working Paper*, forthcoming (Geneva, International Labour Organisation)