

ANNEX 1

of the Commission Implementing Decision on the EU-China Social Protection Reform Project (SPRP)

Action Fiche for EU-China Social Protection Reform Project (SPRP)

1. IDENTIFICATION

Title/Number	EU-China Social Protection Reform Project (SPRP) CRIS number: DCI-ASIE/2013/023-119		
Total cost	Total estimated cost: EUR 7 million Total amount of EU budget contribution: EUR 7 million <i>Beneficiary contribution in kind (estimated EUR 1 million)</i>		
Aid method / Method of implementation	Project Approach Direct centralised management – grants – direct award		
DAC-code	16010	Sector	Social/welfare services

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

The EU-China Social Protection Reform Project (SPRP) will assist the Chinese central Government in its efforts to further develop social equity throughout its society, by contributing to a more inclusive and harmonised social protection system nationwide.

Specifically, and as provided for in the Commission-approved China MIP 2011-13 (ref. Part III, 3.1.2), the SPRP project will enhance the institutional capacity and policy effectiveness of the leading National Development and Reform Commission (NDRC) and strengthen coordination of policymaking among government agencies (Component 1). It will cooperate with the Chinese Ministry of Finance (MoF) to establish an appropriate management and supervision mechanisms for fiscal support (Component 2). It will assist the Chinese Ministry for Civil Affairs (MoCA) in upgrading the legal framework regulating social security delivery and policy enforcement for social assistance (Component 3).

2.2. Context

2.2.1. Country context

2.2.1.1. Economic and social situation and poverty analysis

Social protection reform in China was initiated in 1984 and has made major progress since. The first national audit report on the social security system by the National Audit Office in August 2012 stated that China has established a social security system based on three pillars, being 1) social insurance, 2) social assistance and 3) social welfare. By the end of 2011,

more than 1.3 billion people were covered by social insurance; full coverage of subsistence allowances existed for urban and rural people living in poverty and (3) 2.38 million elderly, disabled people and children were supported by social welfare institutions.

The income of social security funds in 2011 was RMB 2.84 trillion, while expenditure reached 2.11 trillion.¹

China's new Social Insurance Law promulgated in 2010 has made the Government responsible for basic social protection throughout the country².

2.2.1.2. National development policy

In China's 12th Five Year Economic and Development Plan (FYEDP) (2011-2015), eight targets relate to resource use and environment, and nine to human and social development. The strong emphasis on resource, environmental and social development indicators signals the Government's determination to shift towards more inclusive, balanced and sustainable growth. Among the objectives, one finds: "To translate growth into improved material living standards and levels of welfare for all urban and rural residents through job creation, more equal income distribution and the provision of comprehensive social welfare insurance". The FYEDP includes plans for a major expansion of health and pension coverage among urban and rural residents. The various initiatives under the FYEDP – including extended social insurance provision, job creation and higher wages, increased subsidies and a rising share of services in GDP – are expected to contribute to a significant increase in household consumption.

2.2.2. Sector context: policies and challenges

Partner government policies and strategies

China's 12th Five Year Economic and Development Plan (FYEDP) (2011-2015) prioritises on better livelihood and social benefits for the Chinese people. The plan foresees the roll-out of the social protection system to the whole population through a) expanding the rural pension scheme to 100% of the counties; b) increasing the coverage of pension schemes for urban residents by an additional 100 million participants to a total of 357 million participants; c) pooling the basic pension fund at national level; d) reforming the pension schemes for employees of public institutions and civil servants; e) pushing forward actively and steadily the investment and management of social security funds; f) improving the urban and rural minimum living social assistance system; g) expanding the coverage of health insurance from currently 94 to 97% of the total population; and h) actively and steadily pushing forward the urbanisation process from a current urbanisation rate of 47.5 to 51.5% by 2015³.

Recently, past President Hu Jintao committed to China "making efforts" to phase in a system for ensuring social equity that will feature "equal rights, equal opportunities and equal rules". A major challenge will be the provision of an equitable social protection system to the rapidly growing number of new urban residents and ageing population. The excluded groups are and will continue to be a major policy concerns for maintaining social stability and for promoting social justice throughout the country

¹ http://news.xinhuanet.com/english/china/2012-08/02/c_131756413.htm

² <http://www.lawinfochina.com/NetLaw/display.aspx?db=law&sen=rLdDdW4drhdDdWEdrdd5dWnDr>

³ <http://wenku.baidu.com/view/b3e61d13a2161479171128dc.html>

Problems encountered

The present social security system of China encounters a number of problems, including:

- significant disparities between rural and urban areas and between/within regions,
- steady growth of ageing population,
- separate social insurance schemes applied to different social groups,
- inappropriate supervision and management of the social security funds,
- weak and partial legal framework in social assistance system, and
- unbalanced, multi-layer social protection system, notably underdeveloped 2nd and 3rd pillars.

Due to rural and urban disparities as well as between and within regions, China has been experiencing a process of rapid urbanisation, with a massive urban influx of migrant workers (230 million by the end of 2011 or 17% of total population, of which 80% are from rural areas). Managing this urbanisation process remains a major challenge, in particular in view of the difficulty for rural residents to enjoy the same treatment in social security, public services and employment as urban residents.

Population aged 60 years and over is 185 million, or 13.7% of total population, and it will reach a projected 487 million in 2053, or 35% of total population⁴). This trend will raise significantly the needs for old age support and social care, and challenge the sustainability of pension fund and public finance. China could face a pension fund shortfall of RMB 18.3 trillion by 2053. The pressure of pension funding shortfall is growing because of the increasing life expectancy (from 73.2 in 2010 to 77 in 2020) and a shrinking workforce, resulting from the rigid family planning policy⁵. Accordingly, the reform of the current pension system has become a necessity.

To date, various separate social insurance schemes exist for different social groups. The social insurances schemes for the employees of public institutions and for the civil servants (ca. 8 million civil servants and more than 30 million employees in public institutions) are separated from the general contribution scheme, relying instead on state finance. Its reform has become a priority of the government during the period of the 12th FYEDP, in order to mitigate social injustice among various social groups. .

In China, the financial volume of the five social security funds (pension, health, unemployment, working injury and maternity insurances) has increased rapidly, to RMB 2.7 trillion at the end of 2011. It is however estimated by the China Academy of Social Science (CASS) that approximately RMB 900 billion of those funds have been lost during the past 10 years due to the increased inflation rate (annual rate: 2.4%) and unduly restrained investment options (only bank saving accounts and purchase of national debt).⁶ Moreover, the basic pension contributions (RMB 1.95 trillion by the end of 2011) are managed in a fragmented manner, at lower government levels (counties or cities) across more than 2000 units. These are too small to provide sufficient risk pooling to ensure adequate sustainability of social security schemes. Finally, the lack of appropriate centralised supervision and management of the social security funds in China has increased the risk of misuse or embezzlement.

⁴ Zhu Yong, Vice president of China National Committee on Ageing, at the Symposium on "Ageing in the Twenty-first Century, 22 Oct. 2012

⁵ China Daily, 27/09/2012

⁶ <http://www.eeo.com.cn/2012/1029/235308.shtml>

The weakness of the legal and regulatory framework has a negative impact on the effective functioning of the social assistance scheme. Inappropriate mechanisms for the identification of social assistance target groups and the lack of unified standards for the estimation and calculation of social assistance benefits, negatively affect all recipients of social assistance. Moreover, there have been serious problems in the management of the large government assistance funds involved (RMB 180 trillion) in 2011⁷.

Social protection schemes are operated mainly by government while private-public partnership in the delivery of social protection services is underdeveloped and non-governmental organizations also play a very limited role (only 1% substitution rate of the enterprise's annuity/occupational pension⁸). Complementary schemes for an appropriate multi-layer social protection system do not yet exist.

2.3. Lessons learnt

The proposed project will build on the achievements of, and lessons learned from, the EU-China Social Security Reform Project (EUCSSP, 2006 to 2011) and relevant projects of other donors. Through the EUCSSP, the EU has significantly contributed to strengthen China's institutional capacity for social insurance policy development and administration, and to the drafting of China's new Social Insurance Law. The proposed project will build on these solid foundations and high visibility to address other essential issues in the area of social security.

Given the limited budget available, the results/impact of the proposed project that can be made on national level will be more significant and cost-effective than the ones that can be reached with limited funds at the local level. While being a project of strategic, policy and even political importance, at national level, pilot activities related to policy/strategy development at local, subordinate, levels are useful.

Social protection reform is by its very nature multifaceted, having broad ranging fiscal and policy implications. It covers interrelated aspects and cuts across a number of departments within different ministries. Broadening the knowledge and building the capacity of the key stakeholders at strategic level, which have policy decision-making power to coordinate among other relevant line ministries, will be key for the success of the project.

2.4. Complementary actions

Three Memoranda of Understanding (MoU), between the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) of the European Commission with China's Ministry of Human Resources and Social Security (MoHRSS), the China Academy of Social Science (CASS) and the State Administration for Work Safety (SAWS), respectively, have put in place annual EU-China dialogues on labour, employment, human resource development and occupational health & safety issues. The on-going EU-China Project on Occupational Health and Safety (OHS) aims at developing China's capacity to design and enforce an effective OHS strategy, which is closely linked to the implementation of social protection schemes, notably work injury prevention, insurance and rehabilitation.

⁷ <http://NPC.PEOPLE.COM.CN/N/2912/1028/C14576-19411003.HTML>

⁸ <http://view.news.qq.com/a/20120316/000023.htm>

There are also synergies and complementarities with the China-Europe Public Administration – Phase II (CEPA-II) project, which supports the Chinese Government in its transition towards an efficient, service-oriented, government, based on the rule of law. Synergies and complementarities will be also pursued with a number of projects financed by the European Commission's thematic budget line for Non-State Actors and Local Authorities (NSA-LA).

Finally, several EU Member States, notably France, Germany, Sweden, UK, Denmark and Belgium signed MoUs with China on labour, employment, and social protection. While funding for bilateral projects has been declining rapidly over the last years, the UK is still carrying out an Urban Health and Poverty Reduction project in several Chinese provinces while the French Government finances a project to improve training for professionals on pension, health insurance, and social insurance.

Under the “Investing in People”, EU thematic, programme, the EU recently set up an 'EU Expert Facility on Social Protection' with a global/multi-regional scope, complementing the efforts made through other EU initiatives. The EU Expert Facility will be implemented through a service contract with a consortium of Specialized Bodies of EU Member States. The overall objective of this action is to contribute to the development and expansion of inclusive social protection systems in partner countries. The specific objective is to enhance the capacities of partner countries to better design, manage and monitor inclusive, efficient and sustainable social protection systems through peer-to-peer short-term technical assistance. There will be a number of synergies and complementarities between the Facility and this new action. It will be all the more straightforward to exploit those synergies and complementarities when the same Member States' bodies are involved. The objective of the Expert Facility is similar to the proposed action, which requires the resources from the EU Member States' specialised bodies to provide experts in the field of Social Protection. The implementation method and horizon are different.

2.5. Donor coordination

The engagement of international donors in China in the field of social protection has a limited scope and has been implemented mainly at the local provincial or even municipal level. The proposed project will focus on policy development at the central government level and cover diverse aspects of the nation's social security system.

During the identification and formulation phase, consultations have taken place with the EU Member States, international donors and NGOs in China. The EU Member States have shown interest in the proposed project and have confirmed that it has no overlap with their own actions in China. Following further consultations with the members of the EU Social Protection Committee (SPC), Specialized Bodies from a representative number of EU Member States have expressed their preliminary interest in the joint implementation of the proposed project. All of them are interested in the social protection policy development and administration. Interests in the social security funds supervision & management, on the one hand, and the social assistance policy development & enforcement, on the other, are shared roughly equally between those Member States.

The implementation of the project through a consortium of Specialized Bodies of the EU Member States will contribute to improve coordination and complementarity of donor activities in this field (refer also to section 4: Implementation Issues).

This project firmly complies with the principle of ownership, alignment and harmonization of the Paris Declaration on Aid Effectiveness: it will support China's reform agenda in the social protection sector and contribute to enhanced donor coordination, particularly between the EU and EU Member States.

3. DETAILED DESCRIPTION

3.1. Objectives

The **overall objective** is furthering social equity and inclusiveness of economic development throughout Chinese society.

The **project's specific objectives are:** (1) Greater effectiveness and inclusiveness of China's social security system through strengthening the institutional capacity for developing policies; (2) implementation of appropriate legal and regulatory frameworks and for enhanced and sustainable financial management of the social security system; and (3) improvement of the policy and legal framework and policy enforcement of social assistance.

The project will contain the following three components:

Component 1 will support the National Development and Reform Commission (NDRC) in **strengthening institutional capacity for social protection policy development and reforms.**

Component 2 will support the Ministry of Finance (MoF) to **enhance institutional capacity for financial management and supervision concerning social security funds.**

Component 3 will assist the Ministry of Civil Affairs (MoCA) in **improvement of legal framework and policy enforcement for social assistance.**

3.2. Expected results and main activities

Expected results:

Horizontal

1. Mechanism for EU-China high level policy dialogue on social protection reform is established and partnerships between Specialized Public Bodies of EU Member States and the National Development and Reform Commission (NDRC), the Ministry of Finance (MoF) and the Ministry of Civil Affairs (MoCA) on social protection have been set up and are active.

Component 1

2. Under the leadership of NDRC, coordination of policy making among government agencies in areas related to social protection reform is strengthened.
3. Capacity of NDRC in policy development and implementation, notably establishing and enforcing a national policy evaluation technique in the area of social protection, is enhanced.
4. National policy framework for a full coverage of old-age insurance system throughout China is consolidated by strengthening the interface of various schemes, pension funding pooling, old-age insurance scheme for civil servants/the employee of public agencies and the existing multi-layer pension system.
5. Reform efforts in response to urbanization trends, in particular the harmonization/integration of the various basic social protection systems for different

groups of beneficiary, the portability of social insurances and better suited assistance schemes.

Component 2

6. Capacity of MoF in management and supervision of fiscal support to social security is consolidated by the establishment of a unified statistic index system and the development of an appropriate performance assessment model.
7. National actuarial analysis model of old-age insurance is developed by MoF and the skills and knowledge of provincial administrators in risk control of fiscal support to basic pension fund are upgraded.
8. Reform efforts of the MoF in the management of social insurance funds, focusing on fiscal support budgeting, accounting system, investment techniques and adjustment mechanisms for pension benefits are strengthened.

Component 3

9. Capacity of MoCA for promulgating and enforcing the Social Assistance Law and the regulations on rural and urban minimum standards of living are strengthened; the skills of local officials in policy transmission and implementation are upgraded.
10. The legal frameworks on a) formulation of unified standards for the estimation and calculation of social assistance benefits, b) recognition of social assistance target groups and c) identification of low-income families are consolidated.
11. Efforts of MoCA in improved care for poor rural people and disabled people are strengthened, and public information and transparency of social assistance policies are raised at provincial level.

The Consortium Leader will be requested, when writing the proposal in close consultation with Specialized Bodies from EU Member States as well as with NDRC, MoF and MoCA, to update, prioritize, and further specify, as appropriate, the results and activities in the proposal, in accordance with the overall objective and the purpose of the project.

Main indicative activities:

1. Exchange of best practices and experience in the social protection field of the EU Member States.
2. Base-line study/situation analysis of existing progress, practices, status quo of the corresponding aspects to identify the issues to be addressed by the project and to set up targets as well as the monitoring and evaluation indicators.
3. Technical studies and research conducted by the EU and Chinese experts on introducing relevant EU experience/best practices, analyzing key challenges of the social protection reform in China and assessing the on-going pilot reforms related to the project, aiming at providing proposals/solutions for improving Chinese policies accordingly.
4. Limited number of well-focused, and subsequently followed-up, study assignments to Europe for high level policy makers at both central and provincial levels to exchange and discuss with European policy makers on topics and themes related to the scope of the project.
5. A small but relevant number of tailor-made, specialized, trainings in Europe for government officials, who are responsible for initiating policy design, including work with European institutions and the possibility to engage in person with European counterparts.
6. Seminars, workshops and conferences to present the outputs/suggestions of studies/research and discuss the value added for Chinese policy-making, regulatory/administrative adoption and implementation.

7. Annual high level EU-China Round Tables on social protection jointly held by the EU and NDRC, MoF or MoCA in China and selected EU Member States.
8. Piloting of project activities related to policy/strategy development at provincial level. Monitoring and stimulating replication of such pilot activities.
9. Policy trainings on relevant subjects in China to enhance the institutional capacity both at central and local levels.

3.3. Risks and assumptions

Assumption for the sustainability of the proposed project

- The Chinese government remains devoted to develop its social protection systems and the relevant government agencies remain committed to achieve the stipulated targets in the 12th FYEDP, as scheduled and the goal of building of a moderately prosperous society in all respects.
- China remains very keen in learning from EU's diverse and extensive experience in order to continuously improve its own social security system.
- A representative number of EU Member States are willing to participate in the project implementation, to set up a consortium and to identify a Consortium Leader.
- The project's intervention strategy is spelled out, in close consultation with NDRC, MoF and MoCA, so as to be firmly aligned on the Chinese government's social protection reform agenda and the system's sustainability.

Risk	Level	Mitigation
Changes in economic parameters for China affecting the proposed policy design are accounted for.	L	Contact closely with the government partners to predict duly the possible factors, resulting from a change of economic parameters during relevant policy design.
Lack of requisite coordination between project partners among three components.	L/M	Establish a supervision, monitoring and coordination mechanism among the three components by the Grantee.
Difficulty in accessing necessary information by project experts for conducting the activities.	M	Making the key stakeholders aware of this issue in advance for an appropriate facility within the scope prescribed by Chinese regulations

3.4. Cross-cutting issues

Gender equality – Various forms of discrimination against women exist in China's social security system including unemployment, retirement age, social insurance coverage etc. The proposed project will make recommendations especially for some key policy debates in relation to gender issues (e.g. reforming retirement age of women, social protection schemes for female family members of migrants, social impact of unbalanced sex ratio of ageing population and survivor pension). Furthermore, the project aims at establishing a monitoring system from the client perspective including gender-disaggregated dates to analyse gender discrepancies, with a view to drawing policy conclusions.

Disability – The proposed project will pay special attention to improving social protection benefit for disabled people under component 3.

Good Governance – The project will contribute to enhancing the institutional capacity of the government in social protection reform by promoting governance and the rule of law in social protection policy development as well as transparency and accountability in policy implementation.

Human rights – Vulnerable groups, including disabled people, that are supposed to be addressed by the project, either live in poverty now or are at risk of falling into poverty, if their social protection cannot be ensured. An improved social protection system will further reduce poverty and develop social equity by improving social benefits and living standards of the vulnerable people, consequentially contributing to further improving the overall human rights situation.

3.5. Stakeholders

The **National Development and Reform Commission (NDRC)** is China's “super ministry” and comprehensive policy making agency, responsible for strategic overview of the national social and (macro) economic development of China. It supervises the implementation of the FYEDPs on behalf of the central government. The Department of Employment and Income Distribution of NDRC will be responsible for Component 1 activity design, implementation and monitoring. The Department is responsible for comprehensively analyzing the situation of social protection; putting forward strategies, national policies and suggestions to encourage and improve the coordinated development of social protection; pushing forward related systematic reforms; and coordinating the solutions related to key issues. It also coordinates the social protection policies developed by relevant operational ministries, which are responsible for social insurance, social assistance and public services respectively as outlined in the following

The Ministry of Finance (MoF) is responsible for China's economic and public finance policy, the central government's annual budget and for public finance legislations. MoF will be the key beneficiary of Component 2 under the proposed project. The Department of Social Security is the main project counterpart. This department is responsible for the central social security budgets and sectional budgets of MoHRSS, MoCA and the Ministry of Health (MoH); budget auditing of national social insurance funds; allocation of social assistance fund; and the relevant financial policies and the fiscal expenditures of social security, employment and medical care.

The Ministry of Civil Affairs (MoCA) is responsible for policy development in the area of social assistance and the operation of the social assistance/welfare system. MoCA has engaged in drafting the Social Assistance Law. MoCA will be the key beneficiary of the Component 3 and its Department of Social Assistance will be responsible for project implementation. The department takes responsibility of studying social assistance policies; operating rural-urban social assistance schemes; supervising the fiscal social insurance funds and managing MIS for social assistance countrywide.

The above-mentioned government agencies play essential roles in the design of policies/system concerning social protection for more than 1.3 billion population, but they have needs with regard to:

- required experience, capability and lessons learnt in terms of policy making, enforcement and administration related to Social Protection, and
- adequate coordination mechanism between the relevant government departments.

In view of the priorities and needs of the Chinese stakeholders driven by the national FYEDP, China wishes to pursue a long-term cooperation with their counterpart bodies of EU Member States to share European practices, experience, expertise, and their national diversity, in the social protection area. This proposed action is a response to this Chinese expectation and need.

The involvement of other government stakeholders and provincial/local governments will also contribute to the impact of the proposed project:

- 1) **Ministry of Human Resources and Social Security (MoHRSS)**, the main beneficiary of the EUCSSP, is responsible for the operation of the social insurance schemes and the development of social insurance policies/regulations.
- 2) **Ministry of Agriculture (MoA)** will be involved in the project activities in related to rural pension scheme and social protection for migrants.
- 3) **Chinese Insurance Regulatory Commission (CIRC)** is a sector supervision body on insurance companies.
- 4) **All-China Women's Federation (ACWF)** is a semi-government institution which is fully devoted to gender protection.

Beneficiaries: The direct project beneficiaries will be officials of NDRC, MoF, MoCA and other relevant public agencies at both central and local levels as well as other administrations holding responsibilities in the proposed project objectives.

Ultimate beneficiaries will be the Chinese people, including also vulnerable groups such as migrant workers, rural landless householders, women and informal employees and non-employed urban residents.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a single financing agreement with the partner country, referred to in Article 184(2)(b) of the Financial Regulation.

The project will be implemented through "direct centralized management" by the European Commission, through the EU Delegation to China, following the signature of a Financing Agreement with the Government of the People's Republic of China, through the Ministry of Commerce (MoFCOM). All contracts and payments are made by the European Commission on behalf of the Beneficiary.

The EU Delegation to China will launch a Call for expression of interest open to all EU Member States with a suspension clause before the adoption of the Commission decision. The EU Delegation to China will award a single grant contract to a consortium of public authorities and mandated bodies, specialized in social protection as delivered in the EU Member States.

The relevant Chinese ministries attach very high importance to the project. They have already applied the fiscal matching funds for this project. In particular one of the three ministries has already the funds available which must be partially spent before the end of 2013. If the funds are not spent within this year the risk is that in future the Ministry of Civil Affairs (MoCA) may not provide further funds for the implementation of this project. The EU Delegation to China will launch the procedure for the Call with a suspension clause, before the adoption of the Commission decision, so that contracting and activities could start immediately after the signature of the Financing Agreement and before the end of the year.

4.2. Indicative operational implementation period

As to be provided for in the financing agreement, the indicative operational implementation period of this action during which the activities described in sections 3.2 and 4.3 will be carried out is 60 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements. The action will be implemented through a grant contract, which will have an operational duration of 48 months.

4.3. Implementation components and modules

4.3.1. Grant: direct award (direct centralised management)

(a) Objectives of the grant, fields of intervention, priorities of the year and expected results

Given the scope of the objectives of the proposed action and the involvement of at least three Chinese Ministries, a consortium of EU Member States with the broadest possible expertise with respect to the 3 components is crucial to the success of the project. Recourse will be had to a grant contract because it puts those Chinese ministries and European public bodies in a position of stewardship and ownership of this multi-faceted undertaking. It will also help ensure the relevance and impact of the project results, and contribute to a long term EU-China social protection partnership.

The objective of the grant is to bring the expertise from the EU Member States' specialized bodies that have the administrative power and technical expertise in the area of Social protection to contribute to the reform and development of current China Social Protection System

The EU Member States' specialized bodies will bring together their best practices and will contribute to the improvement and inclusiveness of China's social security system through strengthening the institutional capability for developing policies, for implementing legal & regulatory frameworks and for supervising systems of social insurances, social assistance and financial management in the area of social security.

Following a Call for expression of interest open to all EU Member States, the EU Delegation to China will award a single grant contract to a consortium of public authorities(leading applicants) and mandated bodies (co-applicants), specialized in social protection as delivered in the EU Member States.

The project's purpose will be pursued through the following three grant's fields of intervention:

- 1. Strengthening institutional capacity for social protection policy development and reforms.**
- 2. Enhance institutional capacity for financial management and supervision concerning social security funds.**
- 3. Improvement of legal framework and policy enforcement for social assistance.**

Expected results

The EU Member States' specialized bodies have brought to China the best practices to develop the necessary reforms in the area of Social Protection. It is expected that the Consortium Leader will, when writing the proposal in close consultation with of specialized bodies from EU Member States as well as with NDRC, MoF and MoCA, update, prioritize, and further specify, as appropriate, the results and activities in the proposal, in accordance with the overall objective and the purpose of the project.

Main indicative activities:

1. Exchange of best practices and experience in the social protection field of the EU Member States.
2. Base-line study/situation analysis of existing progress, practices, status quo of the corresponding aspects to identify the issues to be addressed by the project and to set up targets as well as the monitoring and evaluation indicators.
3. Technical studies and researches, conducted by the EU and Chinese experts on introducing relevant EU experience/best practices, analyzing key challenges of the social protection reform in China and assessing the on-going pilot reforms related to the project, aiming at providing proposals/solutions for improving Chinese policies accordingly.
4. Limited number of well-focused intensely prepared, and subsequently followed-up, study assignments to Europe for high level policy makers at both central and provincial levels to exchange and discuss with European policy makers on topics and themes related to the scope of the project.
5. A small but relevant number of tailor-made, specialized, trainings in Europe for government officials, who are responsible for initiating policy design, including work with European institutions and the possibility to engage in person with European counterparts.
6. Seminars, workshops and conferences to present the outputs/suggestions of studies/research and discuss the value added for Chinese policy-making, regulatory/administrative adoption and implementation.
7. Annual high level EU-China Round Tables on social protection jointly held by the EU and NDRC, MoF or MoCA in China and selected EU Member States.
8. Piloting of project activities related to policy/strategy development at provincial level. Monitoring and stimulating replication of such pilots.

9. Policy trainings on relevant subjects in China to enhance the institutional capacity both at central and local levels.

(b) Justification of a direct grant

Under the responsibility of the authorising officer by delegation, the recourse to an award of a grant without a call for proposals is justified on the basis of Article 190 1. F) of the RAP: *"For actions with specific characteristics that require a particular type of body on account of its technical competence, its high degree of specialisation or its administrative power, on condition that the actions concerned do not fall within the scope of a call for proposal"*

The EU Delegation to China will award a single grant contract to a consortium of public authorities and mandated bodies, specialized in social protection as delivered in the EU Member States.

The Chinese Government has expressed strong preference for, and interest in, establishing direct cooperation with the specialised public or semi-public institutions of the EU Member States.

A grant contract agreement will ensure the design of the intervention strategy by the specialised and technically competent public authorities and mandated bodies of the EU Member States in the area of social protection and the three key Chinese counterpart agencies. This will help to ensure relevance and ownership of project results by the Chinese partners and their sustainability, as well as longer-term EU-China social protection policy partnerships

Based on the above, the specialized bodies of the EU Member States -ministries, agencies in charge of social affairs, and mandated bodies (public or semi-public) with responsibilities in the field of social protection, have the characteristics required for the successful implementation of the action. Moreover, they are in the best position to provide the degree of specialisation and administrative power to build a long-term cooperation with the Government of China in the proposed area of cooperation. As a matter of fact the EU Member States have a long history and experience in diverse social protection schemes. Three EU Member States will be the minimum requirement to form a successful consortium. The intention is to pool together maximum relevant and diverse expertise and experience from EU Member States.

A Call for proposals would lead to a situation where leading applicants and the relevant expertise may split between alternative consortia and eventually not make available the required expertise and diversity into any single consortium.

In consideration of the fact that the grant will be awarded on the basis of the grantee's technical competence, the action should be mainly carried out through civil servants employed by the Member States' administration and specialised bodies participating in the Consortium. Therefore, use of external experts will be limited to few exceptional cases and will follow the provisions of Annex IV to the Grant Contract.

Management structure

The beneficiaries of the grant will be fully responsible for the implementation of the project and will set up a project implementation team in Beijing.

The beneficiaries of the grant will implement the project in very close and continued cooperation and consultation with NDRC, MoF, MoCA and other relevant stakeholders, and be in consultation with the relevant services of the Commission, EU Member States as well as international and domestic agencies responsible for social affairs.

The three project components, focusing on three different strategic areas, require the participation of different Ministries (NRDC, MoF, and MoCA, etc.). In order to achieve the overall project objectives and to facilitate the coordination of the different components, a horizontal, cross-component, consultation mechanism will be put in place. Accordingly, a **Project Advisory Committee (PAC)** will be set up to supervise and support the implementation of the project, in accordance with the implementation modalities of a grant contract and to ensure effective coordination among the key Chinese stakeholders of the three project components.

A representative of MoFCOM and of the EU Delegation will chair the PAC. Membership will include at least one representative of each Chinese partner institution, namely of NDRC, MoF and MoCA, other relevant Chinese Government agencies and at least two representatives of EU institutions and/or EU Member States. Other stakeholders, including the representative of Grantee, will be invited to participate as observers. The PAC will meet at least once a year. Other formal or informal gatherings of the PAC will be organized as needed by consent among co-chairs.

The management structure foresees that there will be full-time managers for the implementation of each of the three project components, who will also assist NDRC, MoF and MoCA in the horizontal coordination between those components.

NDRC, MoF and MoCA will each nominate a Coordinator or Liaison Officer, who will be the regular contact point for the project and in charge of coordinating intra-agency management and implementation for each of the three project components. A full time overall Coordinator shall be nominated, who could be one of the above.

The EU Delegation and MoFCOM will supervise the interconnections and overall direction of the three components. The detailed management structure is presented in the Financing Agreement (TAPs).

(c) Eligibility conditions

The Delegation to China will launch a Call for expression of interest open to all EU Member States with a suspension clause before the adoption of the Commission decision. The EU Delegation to China will award a single grant contract to a consortium of public authorities (leading applicants) and mandated bodies (co-applicants), specialized in social protection as delivered in the EU Member States

A mandated body is defined as a public or semi-public body to which the Member State mandate to implement the project under the same conditions as they were part of the administration.

Other public or semi-public bodies (identified by Member States' administrations) can be considered eligible as co-applicants provided that they fulfil the following 5 criteria:

- 1) having proven competence in the project's relevant field of administrative co-operation,
- 2) being a non-profit structure, having non-commercial business purpose,

- 3) public ownership,
- 4) being under the permanent and structural supervision of a government authority, and
- 5) having a sufficient and proportionate level of permanent staff, commensurate with the requirements of the project so as to avoid the need to subcontract or temporarily hire experts for carrying out assignments related to the action

The fulfilment of these criteria will be assessed during the evaluation by the Evaluation Committee. The action should be mainly carried out through Member States' public bodies experts, and minimise sub-contracting. Semi-public co-applicants should not be used as umbrella organisations to include the participation of private sector experts (or experts of NGOs) into the implementation of the project through limited contractual assignments.

The guidelines for the call of expression of interest will stress that the consortium will take the measures to avoid double payment of public sector staff assigned to the action for whom special provisions will be outlined in detail in the guidelines for expression of interest.

In line with the provisions of Art 124 of the Financial Regulation the mission expenses for the EU short term experts from the EU Member States will be paid on the basis of Lump Sums. The lump sum allocated to each expert will cover a fixed rate of EUR 250 (as defined in the Twinning Manual in force, available at the following link http://ec.europa.eu/enlargement/tenders/twinning/index_en.htm) as reimbursement rate per day worked and the Per Diem (maximum per diem in force at the time of signature of the contract). The final breakdown of the Lump Sum will be detailed in the Guidelines for expression of interest. A maximum of EUR 1 million will be financed using Lump Sums. Travel costs will be considered reimbursable costs estimated in the budget and invoiced at the actual incurred rate.

The members of the Consortium will need to cover the cost of the staff based in Europe as this cost will not be covered by the grant contract.

Due to the full financing of the action, no indirect cost will be eligible for financing under the grant contract.

(a) (d) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(e) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 100%.

The maximum possible rate of co-financing may be up to 100 % in accordance with Articles 192 of the Financial Regulation if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

The derogation for full financing will be applied to this action due to the following reasons:

(1) the best way to implement this project is via a consortium of public authorities and mandated bodies specialized in social protection as delivered in the EU Member States. This consortium could be composed of relevant entities from public administration of EU Member States, relevant line ministries, Member States agencies in charge of social protection and mandated bodies, which will be the in the best position to implement such a project on account of their institutional authority, degree of specialisation and administrative power to build a long-term cooperation with the Government of China;

(2) these bodies do not have the authority to raise and allocate public funds to support this initiative:

(3) it is in the interest of the EU to be the sole donor of this action to ensure the visibility of the action.

Although full financing will be granted, the Members of the Consortium will need to cover the cost of the staff based in Europe as this cost will not be covered by the grant contract.

(b) (f) Indicative trimester to contact the potential direct grant beneficiary

The Call for Expression of Interest will be launched in the third trimester of 2013 and the identified grant beneficiary is expected to be contacted in the 4th Trimester of 2013.

4.4. Indicative budget

Module	Amount in EUR thousands	Third party contribution
41 Grant contract (direct award - direct centralised)	6 700	0
2 – Evaluation and audit (Services – Direct centralised)	300	0
Totals	7 000	0

Although full financing will be granted, the Members of the Consortium will need to cover the cost of the staff based in Europe as this cost will not be covered by the grant contract.

The Chinese Government will provide an in-kind contribution, with a counter value estimated at EUR 1 million to cover the costs of participation of their officials and staff in the different project activities and normal operation costs in China.

4.5. Performance monitoring

1. Without prejudice to the autonomy of the Grantee in project implementation, day-to-day technical and financial monitoring will be a continuous process as part of Grantee's responsibility. To this aim, the Grantee should establish an internal,

- technical and financial monitoring system to the project, which will be used to elaborate the progress reports.
2. The responsibility for monitoring rests with the Delegation of the European Union to China. The monitoring framework will be based on the project indicators as defined in the logical framework (annex to the Financing Agreement).
 3. Independent consultants recruited directly by the European Union on specifically established terms of reference will carry out external monitoring Results-Oriented Monitoring (ROM) which in principle will start from the sixth month of project activities, and will be finalised at the latest 6 months before the end of the operational implementation phase.

4.6. Evaluation and audit

Evaluations (mid-term review, final, ex-post) and audit arrangements are an integral part of the contractual arrangement with the beneficiaries. They may also be carried out by independent consultants recruited by the European Commission in accordance with EU rules and procedures.

The European Commission may carry out external evaluations as follows:

One mid-term evaluation after the second year of implementation to assess overall progress and to identify, where appropriate, adjustments. The EU Delegation to China will launch a request for services under the framework contract during the first semester of 2016.

One final evaluation to assess project outputs compared against initial targets, impacts achieved institutional and financial sustainability and management efficiency. The EU Delegation will launch a request for services under the framework contract before the closure of grant contract.

The Beneficiary country and the EU shall analyse the conclusions and recommendations of the mid-term evaluation and jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

In addition to the contractual requirements in terms of audit, the European Union will reserve the right to conduct one external audit during the implementation period.

4.7. Communication and visibility

Public relations and awareness raising actions will be designed to increase the visibility, and thus the effectiveness, of the programme. They will also serve to give the European Union cooperation maximum visibility. The project has to follow the latest Communication and Visibility Manual for EU External Actions (currently version from July 2011): http://ec.europa.eu/europeaid/work/visibility/index_en.htm . All documentation and events connected with the programme shall carry the EU-China cooperation flag and mention that the programme is financed with the contributions of the Government of China and the European Union. A communication and visibility strategy will be elaborated by the Grantees with the advice of the PAC and will be implemented during the project.

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