

Kuhn, Lena; Brosig, Stephan; Zhang, Linxiu

Research Report

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Lena Kuhn
Stephan Brosig
Linxiu Zhang

Social transfers in rural China: Do they contribute to poverty reduction?

In order to combat absolute poverty in rural China, the "Rural Minimum Living Standard System" was launched nationally in 2007. The program provides direct monetary transfers to rural households living below the poverty line.¹ A recent research project working with a sample of around 5000 households found that monetary transfers were being misallocated to a considerable extent, which greatly reduced the effectiveness of the program: 89 percent of the recipient households were not eligible according to their (reported) income while 79 percent of households assessed to be eligible according to their reported income were unable to receive the necessary assistance. Qualitative investigations revealed that these misallocations were often caused by a lack of human resources among local administrations within structurally weak regions. Additional financial aid provided by the central government towards the cost of the program's implementation could lead to considerable improvement in targeting, i.e. the identification of households eligible to receive transfers. However, due to an inability to accurately measure and document income, the implementation of a closely supervised system such as those found in central Europe does not appear to be suitable in the near future. In the mid-term, a step by step replacement of social transfers with health and pension benefits should be discussed in order to alleviate the high administrative cost engendered by targeting based on income.

Poverty reduction and social assistance receiving more attention from Chinese domestic policy

The recently published 13th Five-Year Plan of the People's Republic of China is the Chinese government's most important policy paper and presents among other issues the main socio-economic goals to be reached by 2020. One of the key components of the current plan is the complete eradication of absolute poverty by 2020. Since 2007, rural households falling below a local poverty line receive financial assistance through a social transfer program, the "Rural Minimum Living Standard System" (also Rural Dibao). Nationally around 8 percent of the population, and more than 20 percent in underdeveloped regions in the west of the country, receive transfers (see figure 1). In order to reach its

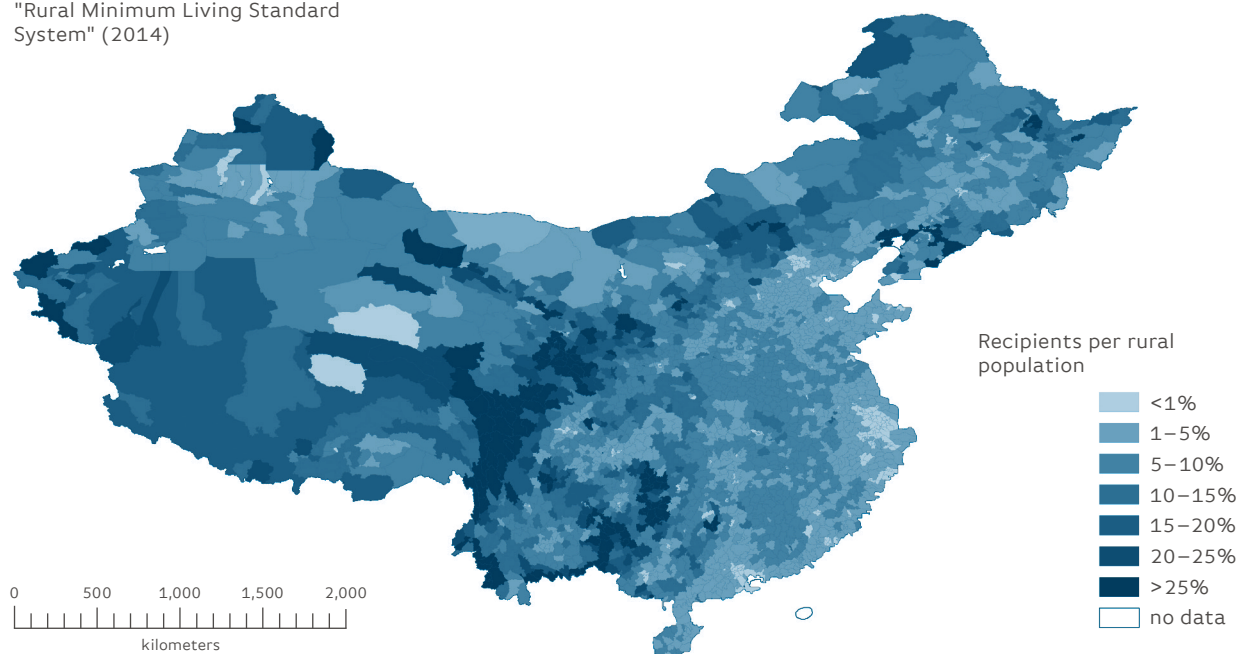
poverty reduction goals, the five-year plan stipulates a further expansion of this program (Xinhua News Agency 2016).

The current Policy Brief is based on a study by the authors² and primarily deals with the financial and logistic challenges in the implementation of the directives of the five-year plan. The focus here is on the extent to which: a) an increase in transfer payments and b) more accurate selection of transfer recipients can contribute to poverty reduction.

¹ The national poverty line for rural areas is currently settled at an annual per-capita income of 2300 RMB, equivalent to 610 US dollars (at purchasing power parity (PPP)).

² For more comprehensive information on the study see Kuhn et al., 2016.

Figure 1: Coverage of the "Rural Minimum Living Standard System" (2014)



Source: Own computations and graph based on Ministry of Civil Affairs (2014) and National Bureau of Statistics (2010) data.

Key requirements of the five-year plan

One of the key requirements of the five-year plan is to increase transfer payments foremost by lifting the official poverty line. The poverty line acts as a basic measurement for the level of social benefits to be received. Therefore, raising this poverty line does not only increase the number of recipients, but also per capita transfers. Initially rather low transfers have increased by more than 50 percent between 2010 and 2015 (inflation-adjusted). In 2014, the level of average per-capita transfers was just below the global poverty line of 1.25 US dollars (PPP). The majority of transfer funds are provided by the central government. However, in 47 percent of the 62 villages visited within the scope of the project, local administrative workers reported that either the absolute number of recipients or the funds available through higher governmental levels were limited. In some regions the problem seemed to be due to the way the central budget was distributed between lower-level administrative regions. In many cases, this distribution was based on the region's total population and not on the number of eligible applicants. Due to the regionally varying share of eligible applicants, this practice can lead to scarcity of funds in poor regions and to allocation of funds to households above the poverty line in richer regions. In 69 percent of those villages that were affected by limited funds, village administrations reported having to pass over some needy households due to lack of funds.

Another objective of the five-year plan is higher accuracy in the selection of recipients, i.e. better targeting. In a representative sample of 4924 households examined within the framework of the project, very high rates of mistargeting were observed for the year 2010. The survey data indicate that

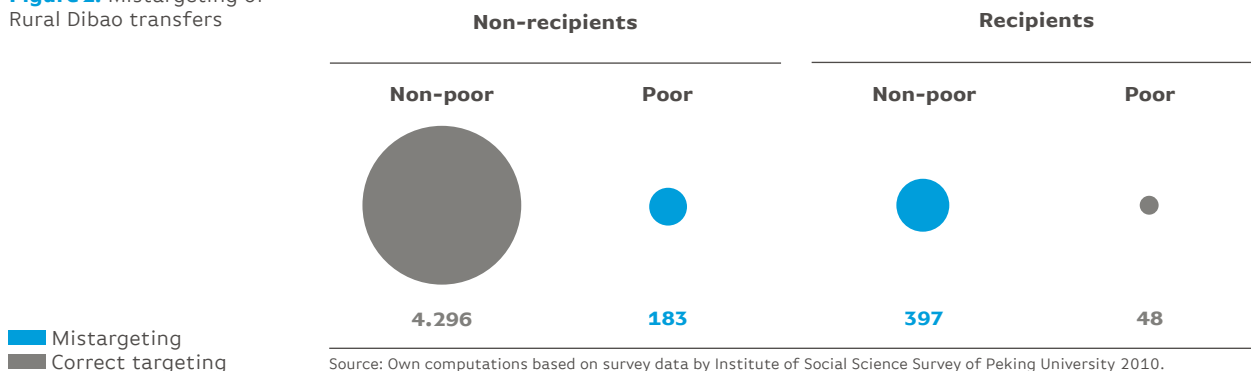
379 (=89 percent) of the total 445 recipient households were not eligible as their income was above the local poverty line. While such large proportion of funds flowed to ineligible households, 183 (=79 percent) of the 231 eligible households below the local poverty line were unable to receive assistance (see Figure 2). The program funds would have been sufficient to allow payment of rural Dibao at the average per capita grant level to all households living under the poverty line. However the program clearly failed to reach the actual target group of the program and thus achieved only a very meager poverty reduction.

Financial and human resource deficits are the fundamental challenges of rural social assistance

One possible cause of the observed mistargeting is the poor implementation of national regulations. Indeed, an internal report from the National Audit Office found deficits in 2012: in around 9 percent of the 8101 villages surveyed, deviations from the official application and selection protocol were found, while 2.6 percent of village administrations distributed transfer funds in an unauthorized manner (National Audit Office 2012). In response to pervasive misimplementation of granting regulations, the five-year plan calls for higher administrative authorities to carry out more intensive checks in order to determine the actual eligibility of recipient households.

In industrialized countries, household income information as a control for eligibility is based on a generally adequate documentation of all income components. However, a large proportion of rural income in China does not come from well-documented

Figure 2: Mistargeting of Rural Dibao transfers



employment, but from agriculture, seasonal migrant work, independent business activity and private transfers, all of which are difficult to measure. Income data must therefore be individually collected and checked, a costly process with a high demand for trained personnel.

The lower administrative levels in structurally weak regions often have inadequate financial and human resources and are dependent on budget transfers from higher administrative levels. While the transfer funds themselves are largely covered by the central government, regional governments do not receive any program-specific funds for program administration. As a result, in many underdeveloped regions, income measurement is far from exhaustive: in 2013, out of a sample of 119 Dibao households, one-third had not had their eligibility status checked by municipal authorities. The mandatory retrospective monitoring of households' eligibility during the reception period was not carried out in 56 percent of the recipient households. Instead, some community and district level authorities in charge eventually cooperated with village leaders when evaluating applications and screening recipients.

Decentralized implementation leads to inaccuracies in the selection of transfer recipients

The strong involvement of administrators at the village level in the implementation of rural social assistance is beneficial on the one hand as these municipal forces have a better insight into local social conditions. On the other hand, however, the decentralized implementation is problematic due to local dependencies and nepotism, especially because conflicts can arise from the limited availability of social services. For example, respondents from various village communities complained of severe irregularities in the distribution of Dibao transfers due to differing relations between applicants and local officials. As such, 68 percent of the questioned 1240 household representatives named "lack of connections" as a reason for the exclusion of certain needy households from receiving transfers. Conversely, 90 percent of respondents viewed nepotism as the main reason for an outflow of funds to non-needy

households. But system-inherent factors can also lead to disadvantages for poorly networked households: Community assessment at the village level is a particularly important component of the official application procedure. During this assessment however, well-networked households had greater chances of a favorable assessment by the village community and thus were rather to receive a positive decision.

Conclusion

Empirical studies reveal an urgent need for action, particularly regarding higher accuracy of social transfer targeting. In order to improve the poverty-reducing effect of social transfers in rural China major reforms are necessary. Two short-term approaches have been identified to meet requirements mentioned in the five-year plan. Firstly, a greater contribution of the central government to administrative costs in structurally weak areas would improve the reviewing and monitoring processes, with which local administrations are too often overstrained. Higher involvement of party cadres and administrative staff at the village level, or of the village community in fulfilling these tasks, is not recommended due to persistent nepotism at the village level. Secondly, funds need to be distributed between administrative regions based on the number of qualified applications rather than proportional to the number of inhabitants of each region.

However, further improvement of targeting by way of more refined granting and monitoring procedures is problematic due to the high administrative efforts incurred. Formal labor conditions becoming more widespread would ease the assessment of households' income and welfare levels, but this is only to be expected in the long term. In view of the program's target group (the sick, the disabled and the elderly without capacity to work), health, disability and pension insurance schemes represent a clear alternative towards reducing poverty. Therefore, in the mid-term, the successive replacement of existing income transfers by expanding these social security systems, or at least the integration of social assistance with social insurances and other existing anti-poverty programs should be considered to generate synergies and reduce administrative cost.

Further Information

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Contact

Lena Kuhn
kuhn@iamo.de
Tel.: +49 345 2928-323
Fax: +49 345 2928-299

Leibniz Institute of Agricultural Development in Transition Economies (IAMO)
Theodor-Lieser-Str. 2
06120 Halle (Saale)
Germany
www.iamo.de/en

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