

EXECUTIVE SUMMARY

In fiscal year 2009, ERIA completed a research project entitled: “Social Protection in East Asia – Current State and Challenges”. Thirteen country experts on social protection were brought together to provide an overview, and to discuss challenges in social protection in their respective countries. The project highlighted the current state of social protection, and identified broad avenues to strengthen it. Eventhough the project provided useful overviews and broad directions for reforms, various thematic issues and impacts were not analyzed. These are gaps that the current research attempts to fill.

As a starting point, the focus of this study is an analysis of the impacts of unconditional and conditional cash transfers (programs which provide households with cash payments so long as they make use of public services) on income distribution and poverty in Cambodia, the Lao PDR, and Vietnam. Existing formal social protection systems normally exclude some important vulnerable groups. In developing countries, supports often fall short of providing assistance to those such as the elderly who have recently fallen into poverty, or are poor for a transient period, such as farmers during the lean season or victims of natural disasters. In order to address these gaps, assistance could be provided by expanding and improving existing social assistance and other types of social transfer programs in the selected areas. There are a number of countries (such as Mexico, South Africa, and Bangladesh) that have achieved considerable success with conditional cash transfers. Learning from this success, it is worth considering incentive-based cash transfer schemes.

The objectives of this research are as follows: (i) to show the income distribution and poverty implications of providing cash transfers to vulnerable households; and (ii) to provide cost estimates and practical policy implications for introducing such programs. Main findings from respective country’s paper can be summarized as follows:

Giang Thanh Long, in his paper on Vietnam, attempts to quantify the potential impacts of various cash transfer programs on poverty in old-age in Vietnam by using the Vietnam Household Living Standards Survey (VHLSS) of 2008. Given current

characteristics of the elderly population in terms of poverty and vulnerability, three programs are considered: (i) a universal program for all elderly people; (ii) a program for only female elderly; and (iii) a program for only rural elderly. In general, the simulation results indicate that, given the same fiscal costs, the program for rural elderly would be the most effective in terms of poverty reduction. Also, with the same fiscal costs, programs providing lower benefits to a wider group of beneficiaries would be more effective in poverty reduction than programs providing higher benefits to a more limited number of beneficiaries. The paper argues that it would be financially affordable for Vietnam to expand the current cash transfer program to wider groups of the elderly, so as to reduce their poverty and vulnerability.

The second paper by Vathana Sann and Sothea Oum presents the complexities of designing a pilot CCT (Conditional Cash Transfer) scheme in Cambodia, focusing on the benefit level, potential selected beneficiaries, and tentative costing in different scenarios. The paper argues that high school dropout rates and a high incidence of child labor are serious outcomes of the vulnerability affecting children. They also have a profound effect on the likelihood of future generations moving out of poverty. Programs intended to fight child labor and keep children in school (in-kind transfers including school feeding and take-home rations, cash scholarships) should be not only expanded but also harmonized. While addressing demand constraints that prevent parents from sending their children to school, it is equally (if not more) important to also improve the quality of education. Cash transfers help poor households to access services and can provide incentives to change behavior. Given the importance of behavior in determining nutrition outcomes, a cash transfer program, in particular, could be used to address demand constraints in fighting chronic malnutrition, the main source of vulnerability among infants and small children. Such a program would fulfill the dual objectives of alleviating chronic poverty while combating maternal mortality and malnutrition. The paper provides clear evidence of favorable income distribution and poverty impacts with affordable fiscal costs.

The paper also discusses the better allocation of the very limited resources that are available, so as to ensure coverage of main sources of vulnerability and of the most vulnerable groups. Coherence rather than competition between sectors needs to be strengthened, as investments in social protection without adequate investments in basic

social services, including health, education, water supply and housing, would remain ineffective. Better targeting plus coherence between current sector investments in social protection, and a gap analysis-driven identification of priorities for scaling-up across sectors, will ensure maximum coverage and provision for the poor and vulnerable. Existing health equity funds, school feeding, scholarships and public works are already addressing most of the major sources of vulnerability faced by the poor, and already have, to various extents, a strong presence in Cambodia. However, coordination and expansion are needed to ensure appropriate coverage and sustainable financing of programs.

Finally, Phouphet Kyophilavong studies the impacts on income distribution and poverty in the Lao PDR of introducing conditional cash transfer programs to the poor. As the country has poor social protection, especially for poor people, and the economy is vulnerable to external shock, especially from the Global Financial Crisis, it is important to consider cash transfer programs for the poor, applying a Computable General Equilibrium (CGE) model- and Micro-simulation. This study focuses on cash transfers to poor households with children who live in rural and urban areas. The simulation result shows that cash transfer has a significant impact on poverty, and improves income distribution. Especially, poverty reduced more in rural rather than urban areas. It is therefore important for government to consider establishing social support programs for the poor in order to reduce poverty and mitigate external shocks, such as the recent crisis and rising food prices.

It is clear that cash transfer to poor families with children would require a small budget, but also that it would have a significant impact on poverty and income. However, this result might be affected from changing the poverty line, and it is important to choose right target (poor families with children).

Since empirical results show that cash transfers could reduce poverty and improve income distribution, it is clearly important for the Lao government to consider establishing comprehensive social support programs for reducing poverty in Laos. However, in order to establish social support programs, it needs to consider appropriate program design, including target groups, revenues and capacity of institutions. However, the study has several weaknesses requiring future improvement. First, it does not consider conditions during cash transfer in the model, nor the cost effectiveness of

programs. Secondly, this study focuses only on poor families with children, and it needs to consider wider perspectives such as rural areas without roads, health care or schools. Thirdly, it is necessary to consider the administrative cost and effect on prices of the program. Fourthly, the transfer program modeled does not distinguish the number of children per household. We transfer the same amount to a poor family with children under 12 years old, irrespective of the actual number of children in the family. In addition, we do not set conditions for cash transfer.

What emerged from the three studies is that cash transfer programs (both conditional and unconditional) could play very important roles in mitigating gaps in income distribution and reducing poverty in these dynamic and emerging economies. The initiatives could be managed effectively through the existing institutional arrangements without putting too much strain on the national budgets.

The studies also provide some lessons for developing Asian countries in considering social pensions for older people and the vulnerable. First, a universal social pension can work in low-income countries. Given limited funding, targeting the most vulnerable groups, such as rural older people, would help reduce the incidence of poverty substantially. Second, in countries where the incidence of poverty, among older people, is a significant issue, a universal social pension scheme providing low benefits to a large number of beneficiaries would be more beneficial in terms of poverty reduction than a universal social pension scheme providing higher benefits to a small number of beneficiaries. Third, the vulnerable aging and older people should not be ignored in any development strategies.

However, cash transfers are not the sole solution for fighting poverty and should be considered merely as an instrument to help reduce poverty. It is necessary to prepare well for an aging population from now on, by promoting robust and inclusive growth, education and health for children and mother, and youth, which in turn will guarantee older, healthier, and wealthier nations.

As economic growth pushes up income and urbanization proceeds, shifts from traditional types of social protection to modern official types of social protection become inevitable. The latter becomes essential even to political stability along the path of economic development; otherwise, economic development cannot be sustainable. When countries reach a middle-income level, issues to be tackled include the

development of pension system for ageing, unemployment insurance that backs up rapid transformation of industrial structure, health insurance for nation-wide health management, and others. In countries where poverty reduction is still of importance, effective and efficient wealth redistribution mechanism is called for. Because social protection is often accompanied with huge fiscal burden, the development of efficient system with proper prioritization and scheduling is needed.