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

IAMO Policy Brief 31 identifies problems in the allocation of social transfers

Halle (Saale), 20 February 2017 – Despite large achievements in poverty reduction, a certain fraction of the Chinese rural population is still living in absolute poverty. A state-run social assistance program aims at reducing poverty by providing a minimum income to the most destitute rural households. Unfortunately, various implementation problems lead to ineffective use of program funds: In a nationally representative sample, 79 percent of households living below the poverty line do not receive the necessary assistance while 89 percent of recipient households are considered ineligible according to poverty levels. These conclusions are drawn by the researchers Lena Kuhn and Dr. Stephan Brosig of IAMO in cooperation with Prof. Linxiu Zhang from the Center of Chinese Agricultural Policy, Chinese Academy of Science, in a research project examining the targeting of transfer recipients and the allocation of transfer payments.

Last year, the government of the People's Republic of China published the 13th Five-Year Plan which sets as one of its main goals the complete eradication of absolute poverty by 2020. Since its launch in 2007, the "Rural Minimum Living Standard System" provides financial assistance (so-called social transfers) to rural households falling below a local poverty line. These social benefits are distributed in an imprecise manner and often fail to reach those actually targeted by the program. In some regions in China, the number of recipients or the program funds available are determined by higher governmental levels. In poorer areas this can lead to a lack of funds and the exclusion of needy households while in richer areas funds are allocated to households living above the poverty line.

Further possible reason for the misallocation of transfer funds lies in the poor implementation of national regulations. The lower administrative levels in structurally weak regions often lack financial and human resources to assess the eligibility status of applicants based on their household income. Furthermore, connections between applicants and local officials lead to irregularities in the distribution of social benefits at village level.

A greater contribution of the central government to administrative costs involved in implementing the program could lead to better targeting of social transfer recipients. Particularly in structurally weak areas this support could contribute to improving the reviewing and monitoring processes with which local administrations are too often overstrained. Due to insufficient income documentation in rural China, more refined granting and monitoring procedures and thus higher administrative efforts will be required in the near future. The researchers recommend further discussion on implementing a step by step replacement of social transfers with health and pension benefits in the mid-term and in the short-term, better coordination of current social benefits.

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Further information

IAMO Policy Brief 31 'Social transfers in rural China: Do they contribute to poverty reduction?' is available to read and download free of charge on the IAMO webpage: www.iamo.de/en/publications/iamo-policy-briefs.

IAMO Policy Briefs

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About IAMO

The Leibniz Institute of Agricultural Development in Transition Economies (IAMO) analyses economic, social and political processes of change in the agricultural and food sector, and in rural areas. The geographic focus covers the enlarging EU, transition regions of Central, Eastern and South Eastern Europe, as well as Central and Eastern Asia. IAMO works to enhance the understanding of institutional, structural and technological changes. Moreover, IAMO studies the resulting impacts on the agricultural and food sector as well as the living conditions of rural populations. The outcomes of our work are used to derive and analyse

strategies and options for enterprises, agricultural markets and politics. Since its founding in 1994, IAMO has been part of the Leibniz Association, a German community of independent research institutes.

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