



Poverty Reduction and Social Safety Net (SSN)

March 22, 2010

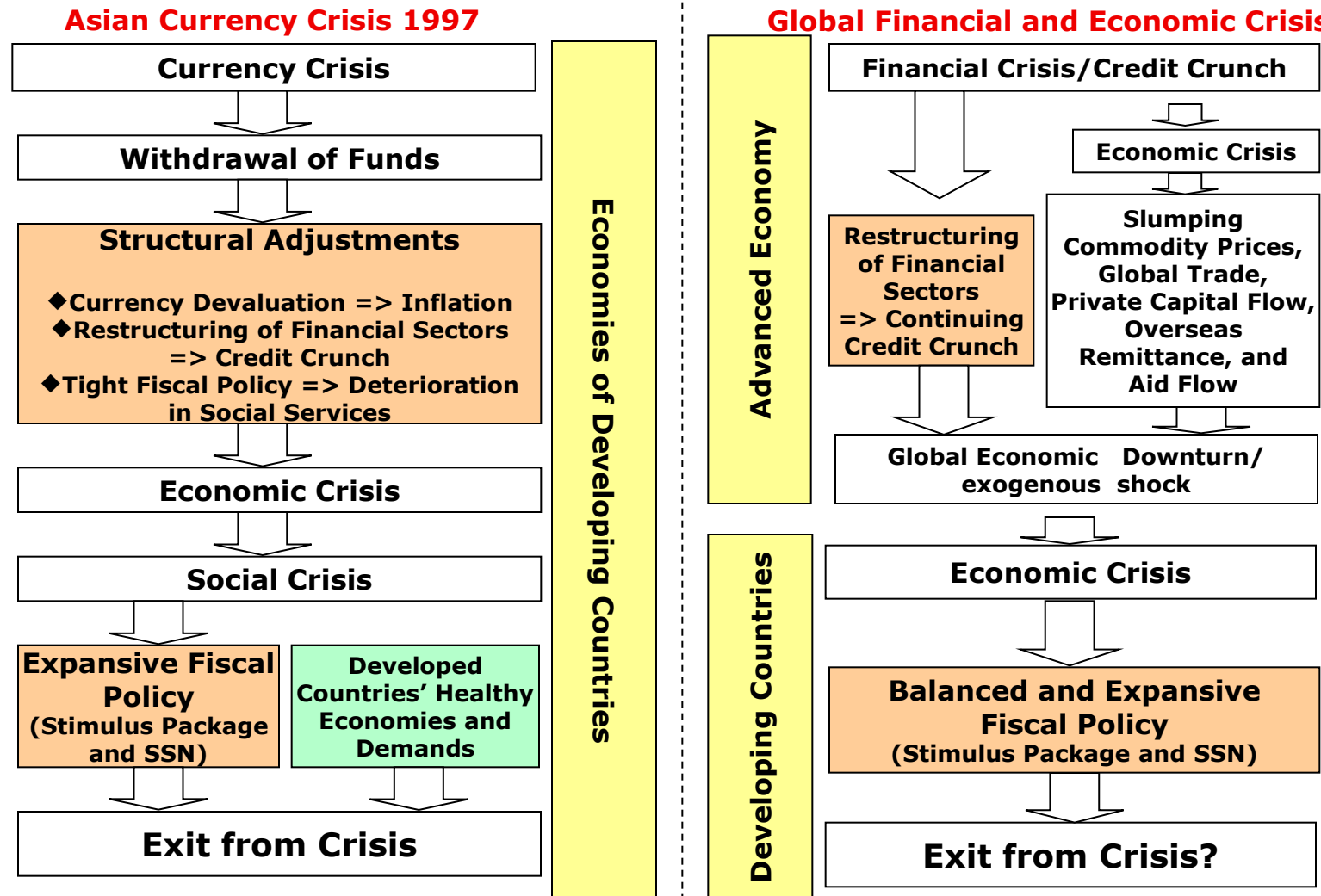
Hiroto ARAKAWA



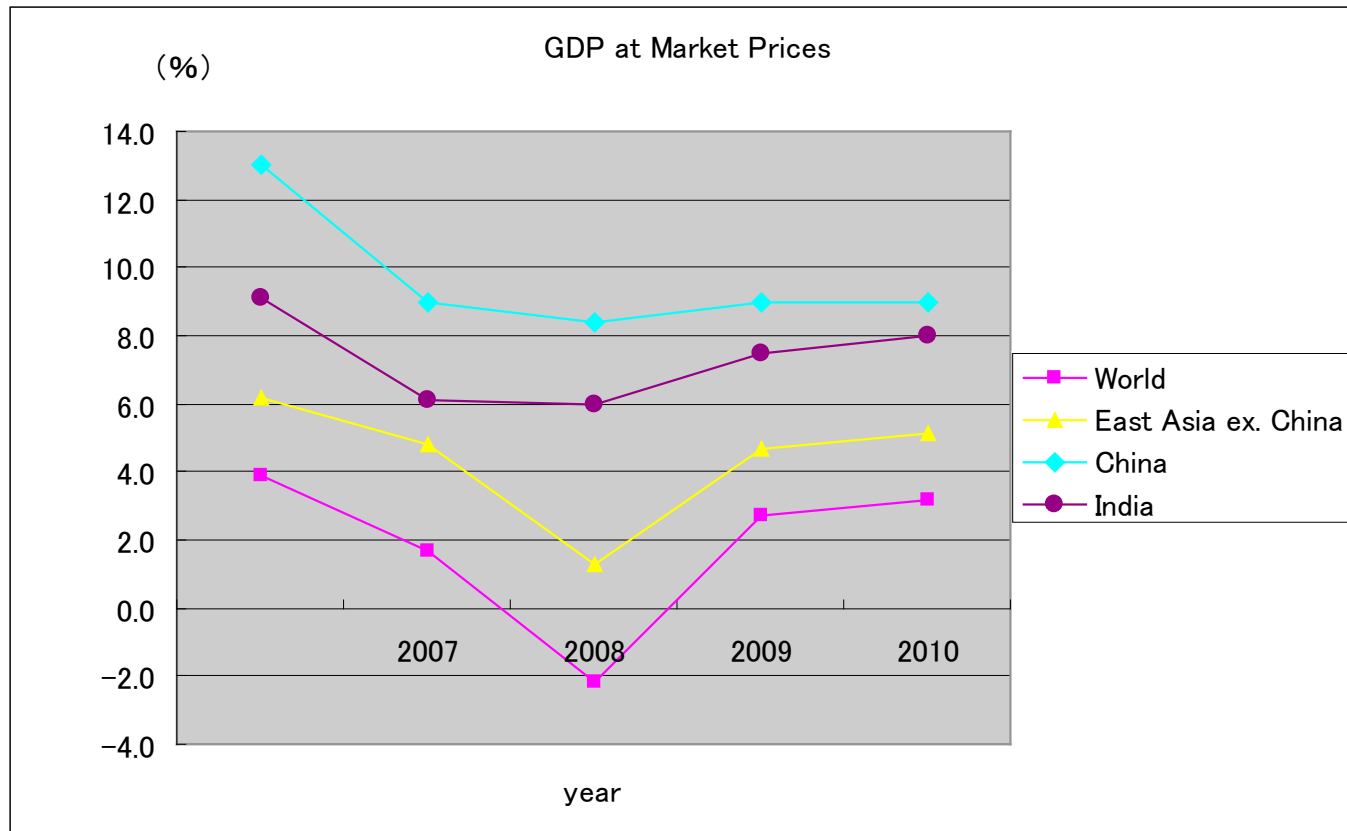
Japan International Cooperation Agency

Review of the Two Crises:

Different Responses by International Community and Shared Awareness of Social Safety Net (SSN)



Relation between growth projection and poverty reduction in Asia and other region

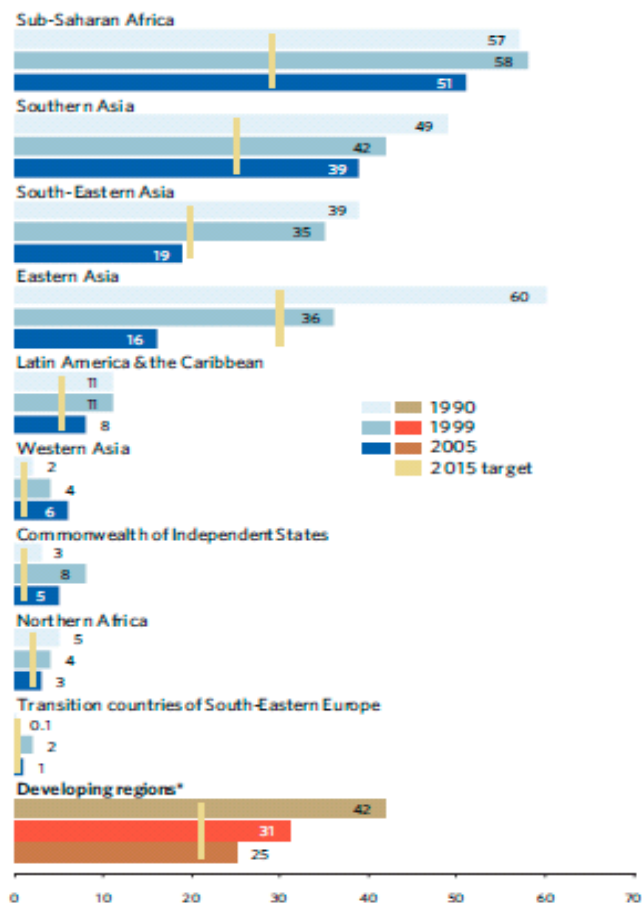


Forecasts were prepared on December 10, 2009, by the World Bank, Development Prospects Group.

Relation between growth projection and poverty reduction in Asia and other region

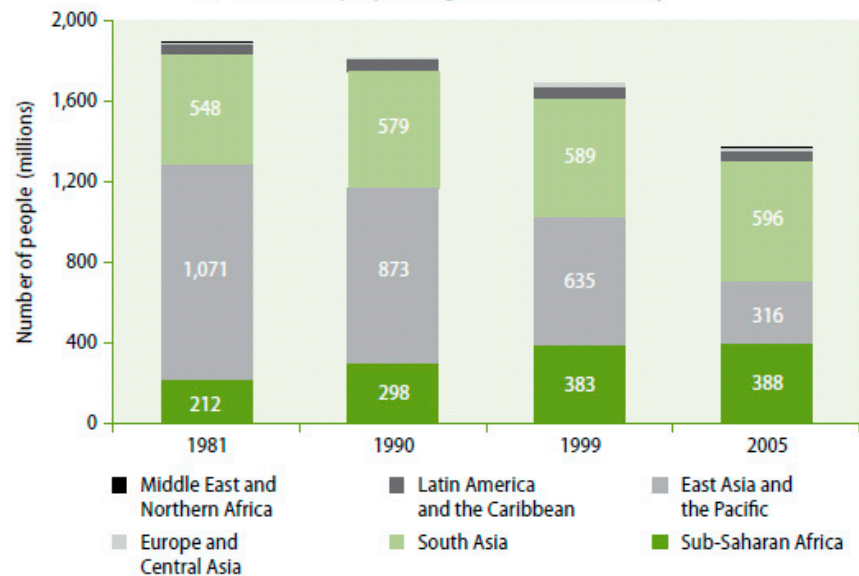
The global economic crisis derails progress against poverty

Proportion of people living on less than \$1.25 a day, 1990, 1999 and 2005 (Percentage)



*Includes all developing regions, the Commonwealth of Independent States and transition countries of South-Eastern Europe.

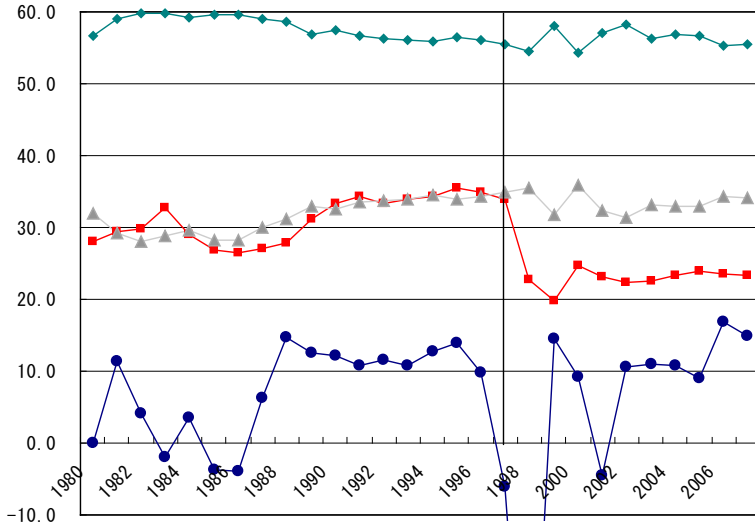
A. Number of people living on less than \$1.25 a day



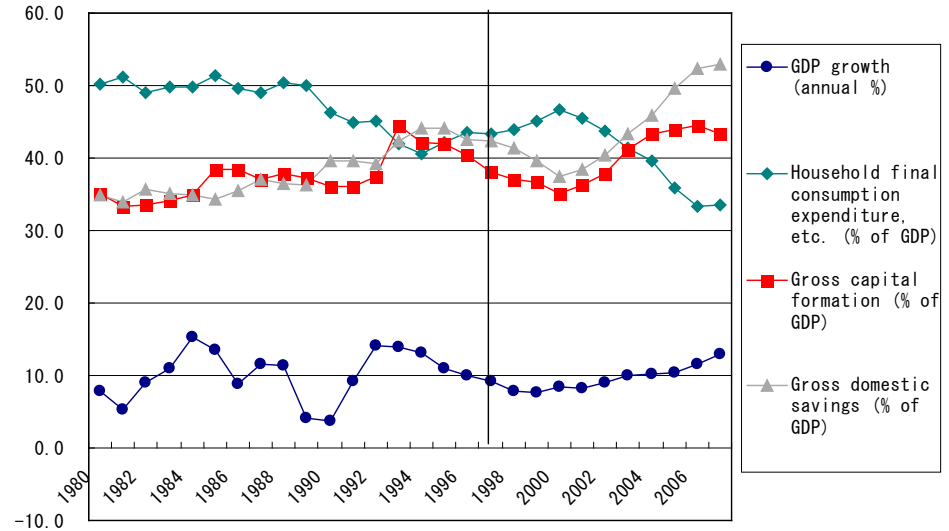
Source: World Bank, Development Research Group (2009).

Trend of Investment, Saving and Consumption structure since 1997 in Asia

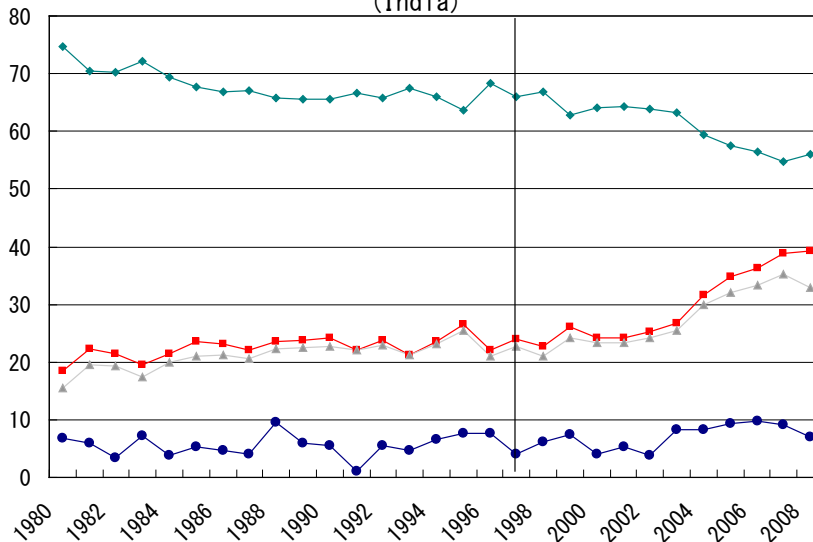
Macroeconomic Environment in ASEAN
(excluding Myanmar, Cambodia, Lao PDR, and Vietnam)



Macroeconomic Environment of China



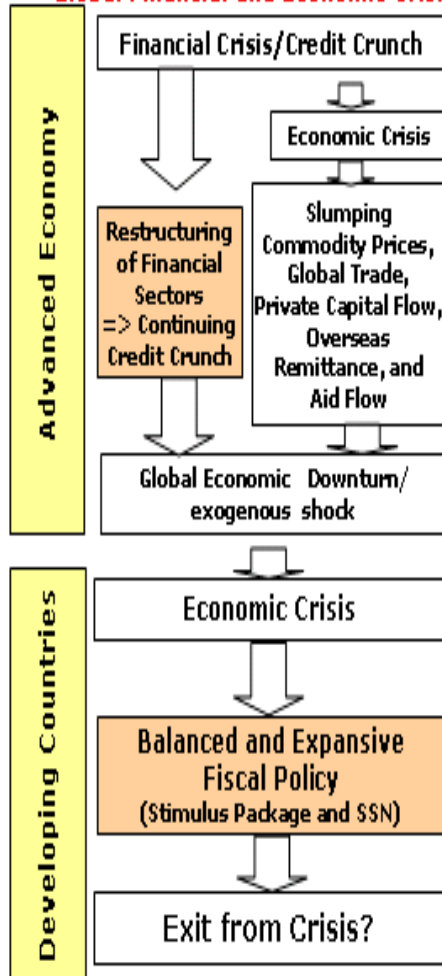
Macroeconomic Environment
(India)



Source: World Bank, World Development Indicators (Dec, 2009)

Policy options against exogenous shock (Fiscal Automatic Stabilizer)

Global Financial and Economic Crisis 2008



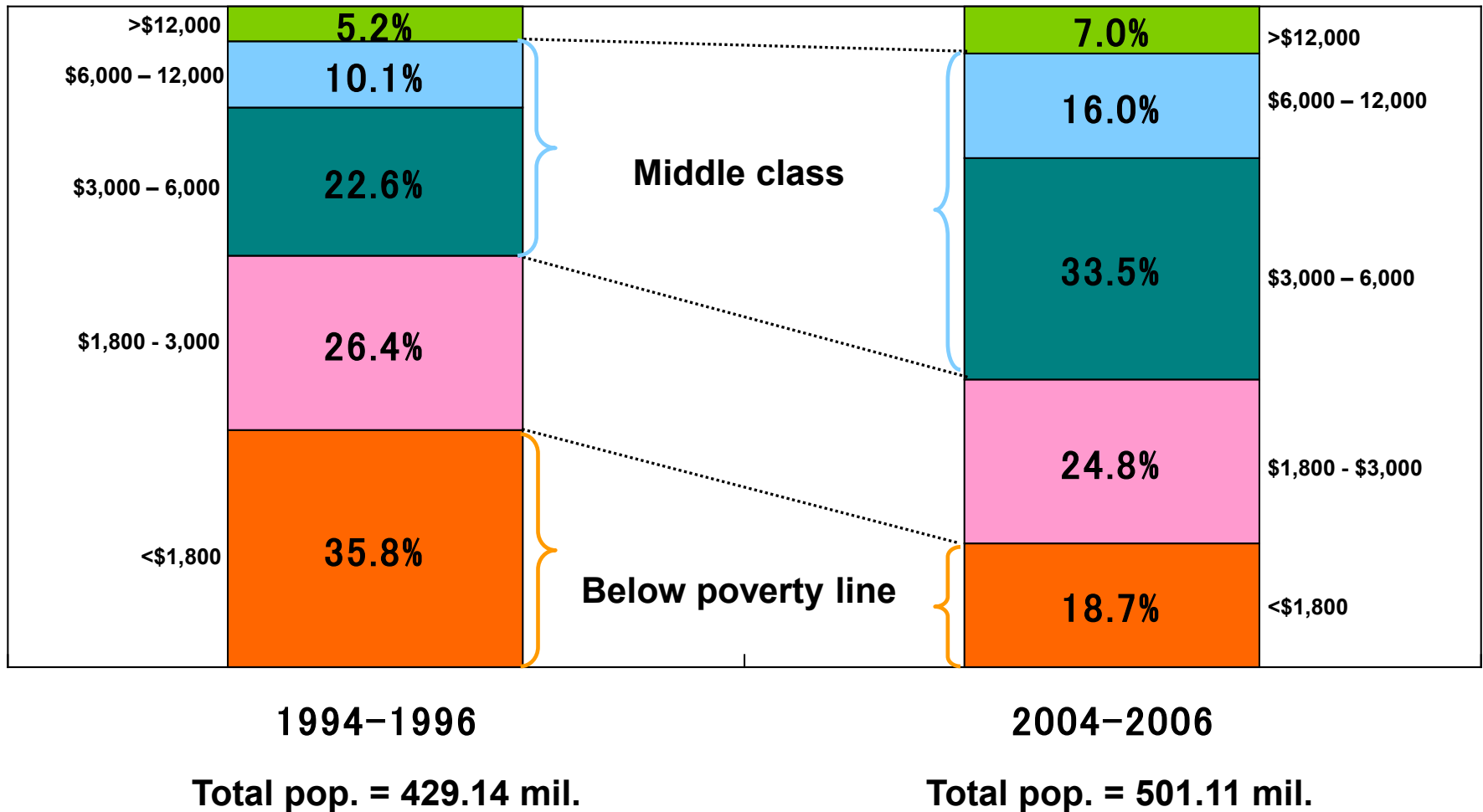
	Sector	SSN as Policy		SSN in Informal Sector
		Social security system	Other Public Policies	
Impact on Income	Employment	Unemployment insurance, workers' compensation insurance	Employment placement, vocational training, public works projects as to creating jobs, and community job creation program	surplus labor absorbed in the agricultural sector
Impact on Social Service	Healthcare	Health Insurance	Public Health Medical services for the poor	Mutual assistance within families and local communities Assistance by philanthropy organizations such as NGO and religious groups
Impact on Income and Price	Income Guarantee	retirement pension, endowment insurance, elderly care insurance	Welfare benefits (public assistance), social allowance including child care, food subsidy, fuel subsidy (price curb by giving allowance in kind and/or cash subsidy), <u>(conditional) cash transfer</u>	Mutual assistance by family and local community
Impact on Social Service	Social Welfare		Social services to disables, elderly, mother and child, and child	Mutual assistance by family and local community Assistance by philanthropy organizations such as NGO and religious group

Source: Hiroi and Komamura (2003) "Asia's social security" (Edited by author)

Change of Development Needs for Social Safety Net according to Economic Development

Demographic and Family Structures	Industrial Structures	Health and Medical Care		Pension	Employment and Labour
Mainly mutual assistance system within families and local communities	Pre-industrialisation	Group 1 Infectious disease	<u>policy and framework</u> <ul style="list-style-type: none"> Public health policies (public goods) 		
			<u>service delivery</u> <ul style="list-style-type: none"> Medical service through private doctor and health centre (primary care) 		
Emergence and increase of urban workers, dissolution of mutual assistance systems in communities Social security system targeting corporate and nuclear family	Beginning of industrialisation	Group 2 Chronic disease	<u>Policy and framework</u> <ul style="list-style-type: none"> Developing medical care insurance for civil servants and soldiers Expanding coverage to corporate workers 	<u>Policy and framework</u> <ul style="list-style-type: none"> Developing system for civil servants and soldiers Expanding coverage to corporate workers 	<u>Policy and framework</u> <ul style="list-style-type: none"> Developing income guarantee system for civil servants and soldiers Developing minimum wage, unemployment insurance, lay-off compensation etc) for corporate workers
	In the middle of industrialisation		<u>Service delivery</u> <ul style="list-style-type: none"> Providing medical service through hospital Building advanced technology by referral system and private medicines 		<u>Other measures</u> <ul style="list-style-type: none"> Job creation for informal sector workers by labour-intensive public investment, rural development, promotion of SME enterprises Developing employment replacement framework
Aging, women's participation in society, increase in employment mobility Social security system targeting individual	Transition to service economy society	Group 3 Degenerative disease	<u>Policy and framework</u> <ul style="list-style-type: none"> Restructuring comprehensive medical insurance system 	<u>Policy and framework</u> <ul style="list-style-type: none"> Restructuring comprehensive framework and maintaining sustainability 	<u>Policy and framework</u> <ul style="list-style-type: none"> Restructuring comprehensive framework Introducing systems for new challenges
			<u>Service delivery</u> <ul style="list-style-type: none"> Providing medical service at home or through community Starting welfare and nursing care services 		

Development of Asia and Poverty Reduction Emergence of Middle Class in ASEAN

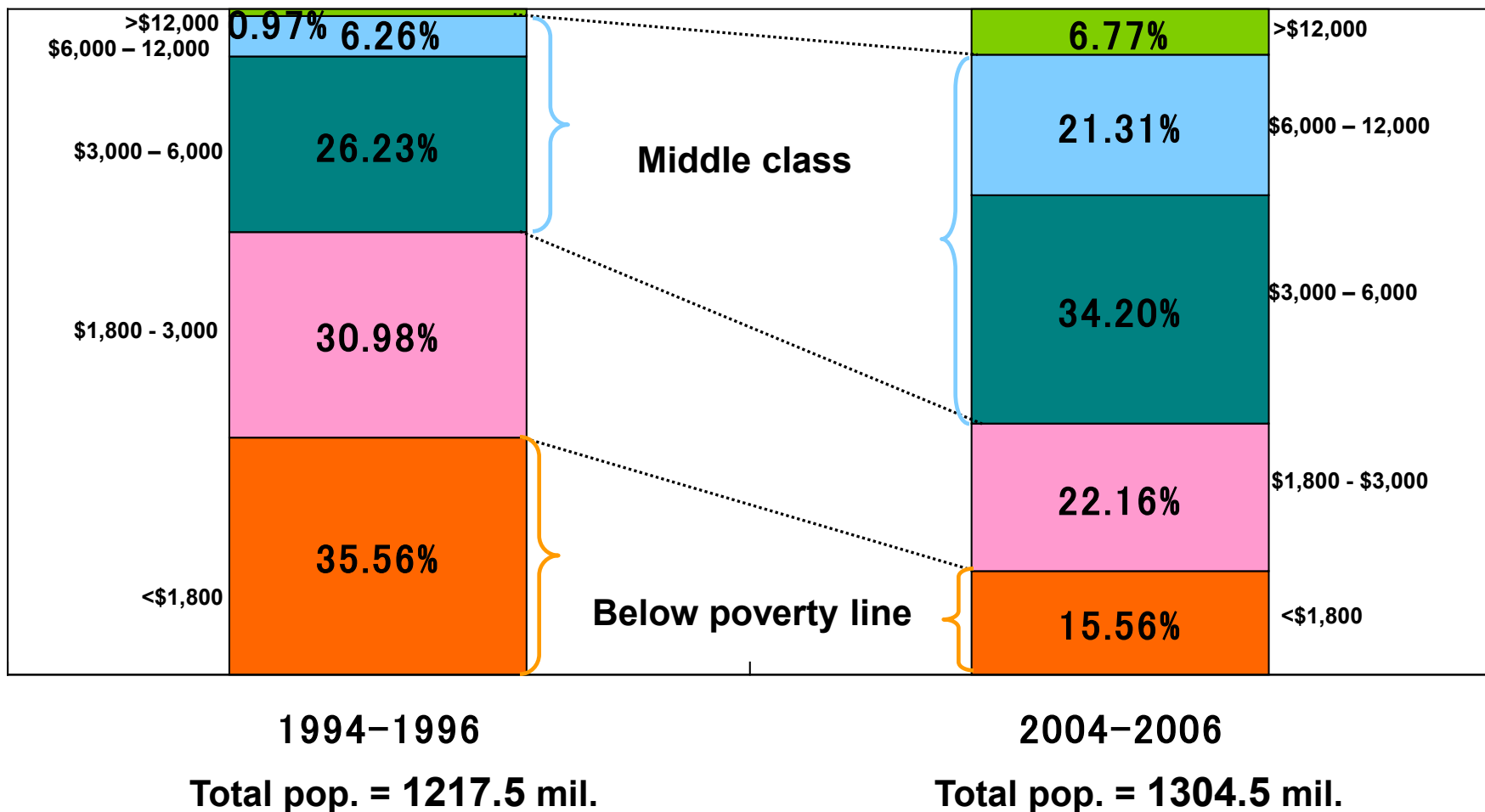


Note: (1) ASEAN countries except Brunei, Myanmar, and Singapore. (2) In US dollars on the 2005 PPP basis.

(3) For a family with 4 persons.

Date Source: The World Bank PovcalNet (<http://go.worldbank.org/NT2A1XUWP0>).

Development and Poverty Reduction Emergence of Middle Class in China

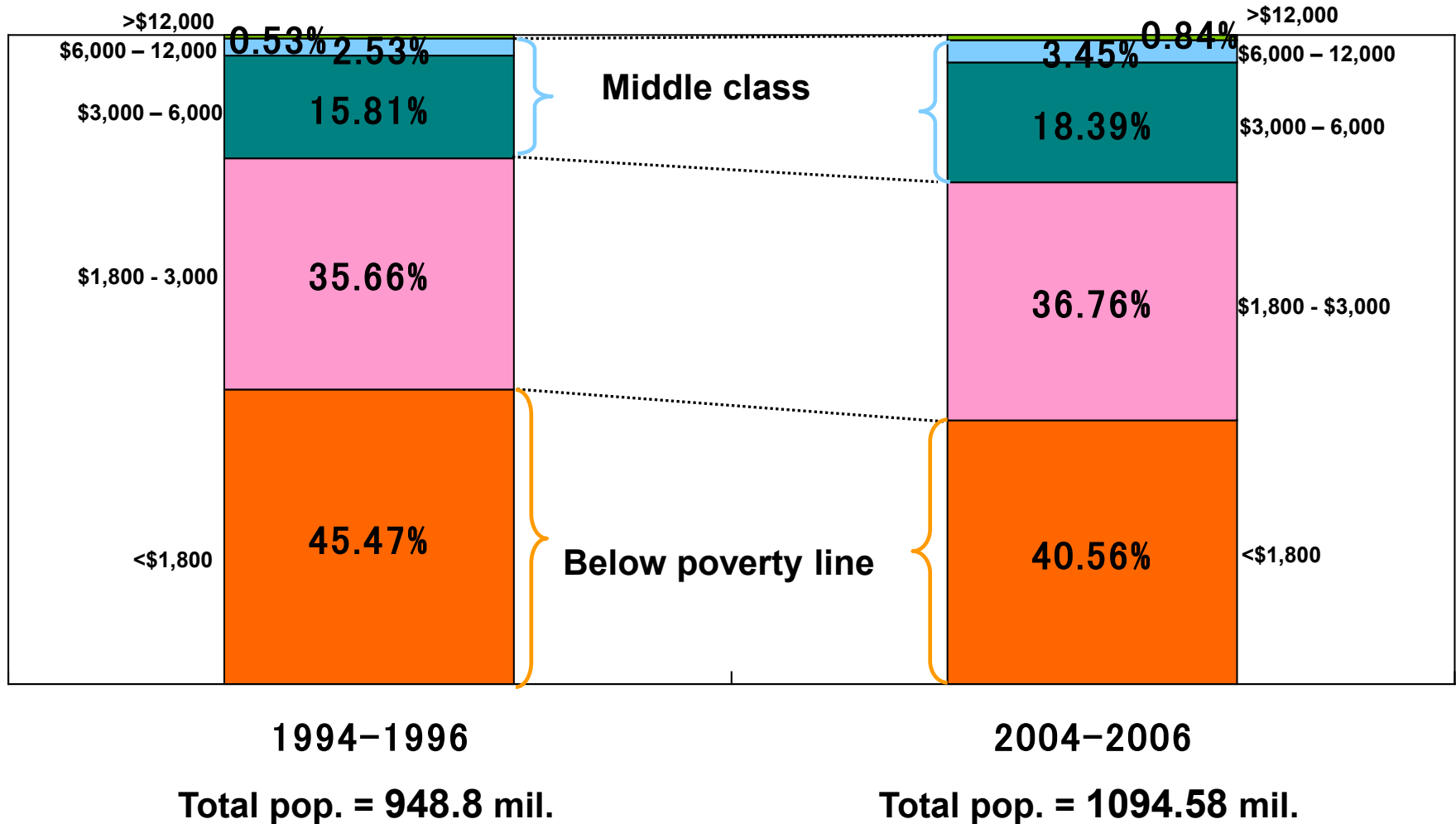


Note: (1) In US dollars on the 2005 PPP basis. (2) For a family with 4 persons.

Date Source: The World Bank PovcalNet (<http://go.worldbank.org/NT2A1XUWP0>).

Development and Poverty Reduction

Emergence of Middle Class in India



Note: (1) In US dollars on the 2005 PPP basis. (2) For a family with 4 persons.

Date Source: The World Bank PovcalNet (<http://go.worldbank.org/NT2A1XUWP0>).



Improvement of Social Safety Net under fiscal- constraints

- Employment Policy (which can alternate and supplement the following policies under the environment where the government strengthens economic growth and has fiscal-constraints)
 - Small and Medium Enterprise Promotion, Labor intensive public investment

- Safety Net to the Poor (provide incentives for sustainable human capital development)
 - From unconditional cash transfer to conditional cash transfer

- Safety Net for Economic Growth (provide incentives for promoting high level human capital development)
 - Social security system for formal sector

-An Emerging Issue-
Aging speed in East and Southeast Asia

	Aging Ratio		Years for redoubling
	7%	14%	
Japan	1970	1994	24
Korea	1999	2017	18
Hong Kong	1983	2014	31
Singapore	2000	2016	16
Thailand	2005	2027	22
Malaysia	2019	2044	25
Indonesia	2019	2041	22
Philippines	2026	2049	23
China	2001	2026	25
India	2024	2051	27

Source: Statistics from United Nations Population Fund, JICA “Looking for Aging in Developing Countries”

-An Emerging Issue- climate change

Impacts of sea level rise: East Asia

	1m	2m	3m	4m	5m
Area (Total = 14,140,767 sq. km.)					
Impacted area	74,020	119,370	178,177	248,970	325,089
% of total area	0.52	0.84	1.26	1.76	2.30
Population (Total = 1,883,407,000)					
Impacted population	37,193,888	60,155,640	90,003,580	126,207,275	162,445,397
% of total population	1.97	3.19	4.78	6.70	8.63
GDP (Total = 7,577,206 million USD)					
Impacted GDP (USD)	158,399	255,510	394,081	592,598	772,904
% of total GDP	2.09	3.37	5.20	7.82	10.20
Urban extent (Total = 388,054 sq. km.)					
Impacted area	6,648	11,127	17,596	25,725	34,896
% of total area	1.71	2.87	4.53	6.63	8.99
Agricultural extent (Total = 5,472,581 sq. km.)					
Impacted area	45,393	78,347	121,728	174,078	229,185
% of total area	0.83	1.43	2.22	3.18	4.19
Wetlands area (Total = 1,366,069 sq. km.)					
Impacted area	36,463	56,579	79,984	110,671	130,780
% of total area	2.67	4.14	5.86	8.10	9.57

Source: World Bank Policy Research Working Paper 4136, February 2007



Policy Implications

1. Improvement of social safety net can contribute to rebalance through promotion of direct/indirect investment and consumption
2. Considering fiscal constraints and social capital, policy makers should combine high quality and adequately targeted cash transfer, social security and employment policy which can be supplement of the social security.
3. Improvement of social safety net can contribute to economic growth through human capital accumulation.
4. It is necessary to develop social safety net with considering the speed of aging.
5. Adequate improvement of social safety net can also contribute to diminish vulnerability of the poor caused by emerging issues such as climate change.

Poverty Reduction and Social Safety Net (SSN)



A Case of Indonesia
(as an example of Group 2)


Current SSN in Indonesia

Major Challenges



- Public security system covers less than 20% of workforce, leaving 70% in informal sector (where low-wages are prevalent) almost uncovered.
- Vocational education is needed for those in informal sector both for poverty eradication and economic growth.
- Farmers tends to rely on non-farm activities and remittances to cope with risks of price volatility of crops.

Targeting on spots of vulnerability in the short term, as well as growth-oriented strategy in the medium-long term is needed.



On-going Household Survey by JICA Research Institute

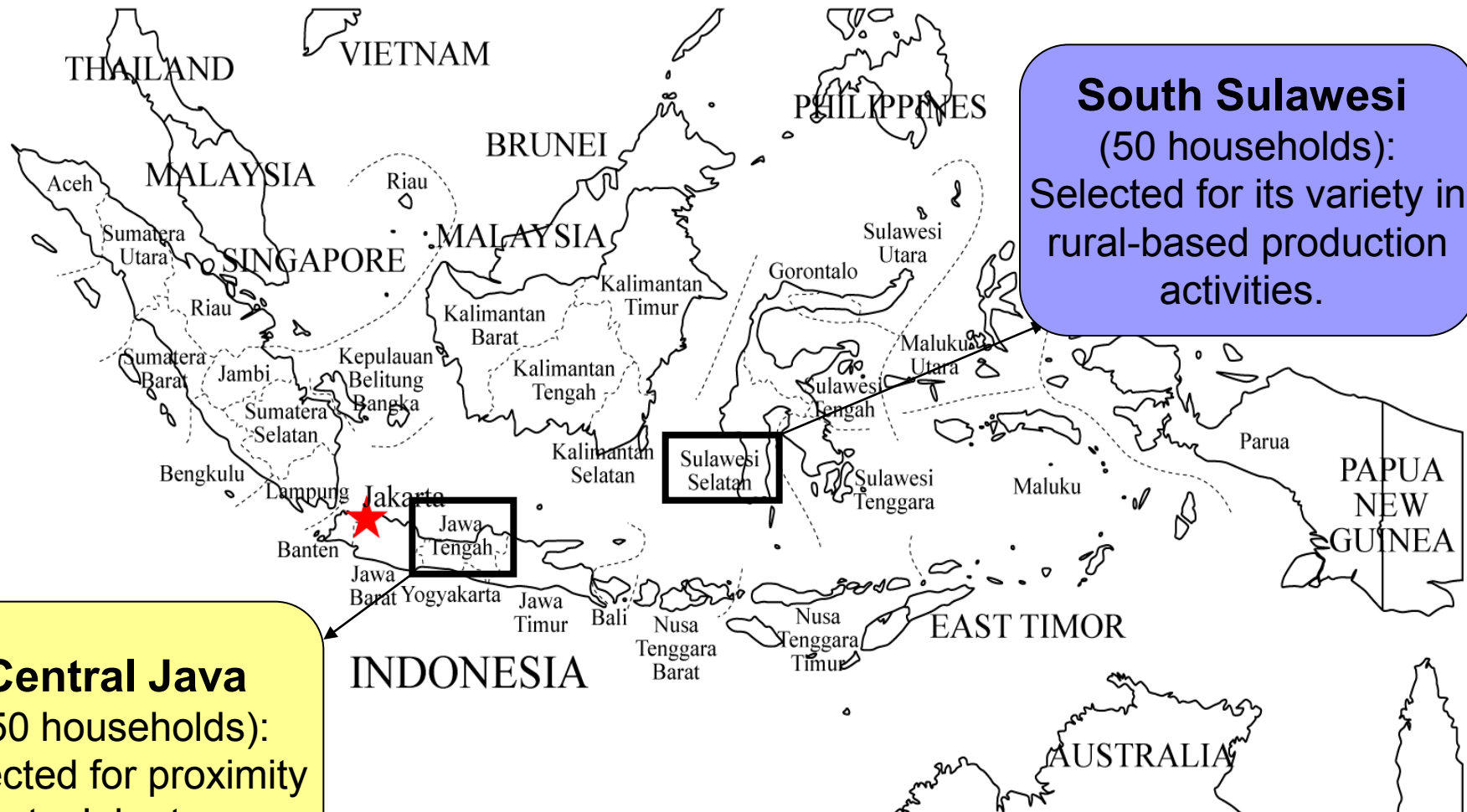
■ Research Objective (Overall)

- To analyze the determinants of growth and poverty reduction in rural Indonesia.
- General household survey: more than 2,000 households in 98 villages in 7 provinces (2007 and 2010 (April) panel).

■ Quick Survey (Quarterly, using part of overall sample)

- To analyze the impact of current global economic crisis on rural areas in Indonesia.
- Unique quarterly dataset of 100 rural households in 2 provinces. From October 2009, expanding to 300 households in 3 provinces.

Location of Two Provinces surveyed



South Sulawesi
(50 households):
Selected for its variety in
rural-based production
activities.

Central Java
(50 households):
Selected for proximity
to Jakarta.



Results(1)

Number of households with decreased/increased total household income per capita (2007 and 2009)

	All Samples	Central Java	South Sulawesi
Decreased total income	39	28	11
Increased total income	61	22	39
Total	100	50	50

We will follow up more than 2,000 households in 7 provinces by April 2010 full survey.

Results(2)

Change in breakdown of household income from 2007 to 2009 (%)

	All samples		Central Java		South Sulawesi	
	2007	2009	2007	2009	2007	2009
Agriculture income	40.7	32.6	31.6	12.0	68.4	64.6
Agricultural employment income	3.2	3.4	2.5	1.7	5.1	6.0
Nonagricultural employment income	21.5	10.8	24.3	13.4	12.9	6.7
Self employment income	32.9	49.8	40.6	70.4	9.7	17.6
Remittances	1.7	3.4	1.0	2.4	3.9	5.1

Results(3)

Relationship between export price and agricultural income

Dependent variable:	Change in agricultural income (2007-2009 panel)	
Rice	+	+
Corn		
Cassava		
Cabbage	+	
Shallot		
Tobacco	-	-
Coffee	+	
Cacao		
South Sulawesi		N/A
Central Java	omitted	N/A
Province dummies	yes (above)	
Village dummies	N/A	yes
R squared	0.3256	0.3377
Number of observations	98	98

Identified “spots of vulnerability” are :
 those households that produce crops sensitive to export price volatility, and try to offset negative impact by an increase of remittance (in South Sulawesi) or self-employment income (in Central Java).



Results (4)

- Number of absent days from school due to illness

Preliminary Findings:

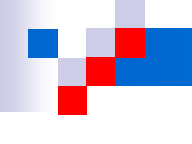
1. **Central Java**

- 2.17 days/3 months in income-decreasing households
- 1.45 days/3 months in income-increasing households

2. **South Sulawesi**

- 2.17 days/3 months in remittance-decreasing households
- 0.16 days/3 months in remittance-increasing households
- Change in income did not result in difference in absent days.

We will follow up under the full scale household survey (7 provinces) in April 2010.



Policy Implications (e.g. in designing conditional cash transfer)

- In contrast to the prevailing macro-image of Asia as “global economy’s engine for growth,” the impacts of the Global Crisis at the micro level is so heterogeneous and intricate.
- For the purpose of designing effective as well as sustainable “conditional cash transfer mechanism” under severe fiscal situations, it is vital to pin-point on the hardest-hit “spots of vulnerability,” based on the results of well-designed research results.



THANK YOU.