



# Welfare, targeting, and anti-poverty effectiveness: The case of urban China

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## ABSTRACT

Using data from the China Household Income Project (CHIP) 2002 and 2007 data, this article provides a thorough examination of the targeting performance and anti-poverty effectiveness of urban China's primary poverty reduction program, Dibao. We found that Dibao participation rate increased during this period, but its mis-targeting rate also increased. In both years, the Dibao benefit gap remained substantial, accounting for about one quarter of the potential full post-Dibao income of all eligible families. Using a propensity score matching method to identify non-participating families comparable to participating families, we found that Dibao had significant poverty reduction effects in both years, and the effect was larger in 2007 than in 2002. However, Dibao was unable to eliminate poverty among its target population, with notable poverty rate, gap, and severity remaining in both years. Future policy reforms should focus on the improvement of Dibao's anti-poverty effectiveness by better targeting, narrowing the benefit gap, and addressing not only the poverty rate but also the poverty gap and severity.

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## 1. Introduction

All developed countries and most developing countries have some form of safety net programs. These programs are designed to target those most in need and alleviate extreme poverty. By nature, such programs are means-tested, residual, and stigmatizing because they focus only on a small proportion of the population who are unable to earn a sufficient living and would fall below the minimum livelihood level if without the social safety net. A growing body of research has been devoted to the evaluation of the targeting performance and anti-poverty effectiveness of safety net programs in the developing world. Grosh, del Ninno, Tesliuc, and Ouerghi (2008) conducted an extensive review of safety net programs in 72 developing countries. They found targeting of these programs to be underachieved and poverty alleviation effects to be

limited in most cases. Nonetheless, they argue that such safety net programs not only reduce inequality but also enable low-income families to invest in children and manage risks. Such programs are also important for maintaining political stability, increasing human security and social cohesion, and ultimately promoting productivity and growth at the society level (Garfinkel, Rainwater, & Smeeding, 2010).

Alongside the remarkable economic growth during the past three decades, China has institutionalized and rapidly expanded its urban safety net program to address the needs of the emerging urban poor and quell political tension. Named the Minimum Livelihood Guarantee (MLG or Dibao), the program was launched nationwide in 1999 and aims at providing a last resort for the urban poor. By the end of 2012, the total number of urban Dibao recipients reached 21.4 million and the total Dibao expenditures reached 67.4 billion yuan (Ministry of Civil Affairs [MCA], 2012). Earlier empirical research has identified Dibao to be the only progressively distributed social benefit in urban China, highlighting its non-negligible role in redistributing toward the poor and reducing poverty and inequality (Gao & Riskin, 2009).

How effective is the urban Dibao in reaching its target population and alleviating poverty? Despite the increasing number of

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relevant studies, the lack of national household survey data has limited empirical investigations on this topic (Leung, 2006). Most existing studies used data from selected cities and that are somewhat dated. For example, Ravallion, Chen, and Wang (2006) used household survey data from 35 large cities in 2003 and 2004. Du and Park (2007) used data from five big cities (Shanghai, Wuhan, Shenyang, Fuzhou, and Xi'an) in 2001 and 2005. Wang (2007) used the 2004 Urban Employment and Social Protection Survey in 14 cities of various sizes. Two studies (Gao, Garfinkel, & Zhai, 2009; Gustafsson & Deng, 2011) used the national China Household Income Project (CHIP) 2002 data. Findings from these earlier studies show that Dibao's targeting performance is not perfect but still quite good according to international standards. Dibao has had modest poverty alleviation effects, especially when poverty depth and severity instead of poverty rate alone are considered.

Building on this existing body of research, this article uses the China Household Income Project (CHIP) 2002 and 2007 urban data to investigate the targeting performance of Dibao and its anti-poverty effectiveness among eligible families. We first examine the extent to which Dibao reached its targeting population, calculating the exclusion and inclusion error rates and compare them across 2002 and 2007. Second, we examine to what extent Dibao beneficiaries received the full amount they were entitled to and the depth of the benefit receipt gap among those not receiving the full amount entitled. Third, we run a series of regression models to explore the individual, household, and provincial level determinants of Dibao participation and benefit amount received. In doing so, we focus on two particular predictors—city Dibao generosity as measured by provincial price-adjusted Dibao lines and household entitled benefit amount. Lastly, we analyze Dibao's anti-poverty effectiveness by estimating the extent to which Dibao reduced poverty rate, depth, and severity among eligible families. To more accurately estimate the “treatment effect” of Dibao, we use a propensity score matching (PSM) method to identify non-participating families that are similar to the participating families among the eligible sample and then compare the poverty reduction results across the matched samples. Throughout the analysis, we compare the results for 2002 and 2007 to detect whether Dibao was performing better or worse in 2007 as opposed to 2002 after the series of expansions in Dibao during this period.

This article makes several contributions. First, enabled by the rich information on family income and program participation contained in CHIP and the newly available CHIP 2007 data, this article updates the earlier results based on CHIP 2002 (Gao et al., 2009; Gustafsson & Deng, 2011) and evaluates whether Dibao is performing better or worse in 2007 in reaching its full coverage and delivery goal after some significant program expansions (Gao, 2013).

Second, this study focuses on a unique sample of eligible families to assess the effectiveness of Dibao among its target population. Because our sample is drawn from the CHIP urban sample which is known to have good national representativeness (Gao, Yang, & Li, 2013; Li, Sato, & Sicular, 2013), it can capture the huge variation of the Dibao program across different provinces and cities and ensure a certain level of representativeness.

Third, this article estimates Dibao's anti-poverty “treatment effect” through matching participating and non-participating families on a wide array of family demographic and socioeconomic characteristics and then comparing the poverty outcomes of the two groups. This approach helps us to gain a more accurate estimate of Dibao's anti-poverty effectiveness among its target population—the eligible families.

The rest of the article is structured as follows. Policy background and a review of previous research are provided separately in the next two sections. In Section 4 we introduce our data and methods. Section 5 assesses the targeting performance of Dibao and explores

the determinants of Dibao participation and actual amount of benefit received. In Section 6 we estimate the anti-poverty effectiveness of Dibao among eligible families through matched comparisons. The final section concludes and discusses the policy implications.

## 2. Policy background

To provide a basic safety net for the urban poor and to improve social stability, Shanghai was the first city to establish its urban Dibao program in 1993. Based on the successful experience in Shanghai and a few other pioneering cities, the State Council issued “Announcement on the Establishment of National Urban Residents' Minimum Livelihood Guarantee Program” in 1997 and “Regulations on Urban Residents' Minimum Livelihood Guarantee” in 1999 to require the expansion of this social assistance program to all cities nationally and regulate its implementation across the country. By October 1999, all 668 cities and 1689 counties in urban China had implemented the Dibao program (Information Office of the State Council [IOSC], 2004).

The central government stipulated all city governments to set up local minimum living standards (also called Dibao lines) to support people's minimal livelihood. The local Dibao lines are set as a monthly amount in yuan. In principle, the line should be computed according to the local minimum standard of living, which is based on local average per capita income and basic consumption needs. Because of its “minimum” nature, local Dibao lines are almost always set to be lower than the local minimum wage and unemployment subsidies. According to the Regulation, the assistance should cover basic food, clothing, and shelter needs, taking into consideration utility, medical care, and tuition expenses (Hong, 2005). In reality, however, the determination of the Dibao lines is often restricted by local governments' financing capacity (Du & Park, 2007; Guan, 2005). The central government requires local governments to commit a budget to the Dibao program, but also provides financial support to cities with difficulty (IOSC, 2004; Leung, 2006). The Dibao lines have been adjusted annually according to changes in consumer prices and local and central governments' financial capacities.

As a strictly means-tested program, the Dibao conducts two tests for families' eligibility (Hong, 2005). The first is a financial investigation. The value of an eligible family's total financial resources, including income and assets, must be below the local Dibao line. This program adopts a very inclusive income definition to decide each family's eligibility. Household income is measured as cash income from any source, including earnings, social benefits, private transfers, savings and stocks. However, due to difficulties of income measurement, some other indicators, such as financial assets, employment, health status, and housing conditions, are also considered (Du & Park, 2007; Ravallion et al., 2006). Many cities also take into account ownership of durable goods such as a vehicle or motorcycle (Hong, 2005). The second eligibility test concerns residency status and family formation. Only members who have official local urban residency status are eligible, excluding rural-to-urban migrants from this program (Hong, 2005).

There are mainly two groups of beneficiaries. First, the traditional “Three Without” households (i.e., without income source, working capability, or legal guardian or supporter) can receive the full amount of benefits offered by the local Dibao line. Second, the newly emerged urban poor, including families with financial difficulties due to unemployment or illness, are entitled to the benefit amount equal to the difference between their per capita household income and the local Dibao line.

The urban Dibao program has had significant expansions during the past two decades, especially since the national adoption in

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